

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KITUI CENTRAL CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Kitui Central Constituency set out on Pages 18 to 50, which comprise the statement of assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation - recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the National Government Constituencies Development Fund - Kitui Central Constituency as at 30 June, 2020 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

### Basis for Qualified Opinion

#### 1. Un Balanced Statement of Cash Flows

The statement of cash flows reflects cash and cash equivalents balance at end of the year amounting to Kshs.337,981 and as disclosed in the statement of assets and liabilities. However, the net decrease in cash and cash equivalents reflected in the statement of cashflows reflects an amount of Kshs.32,479,580 which is erroneous since the correct figure is Kshs.32,179,580 resulting to unexplained difference amounting to Kshs.300,000.

Consequently, the completeness and accuracy of the statement of cash flows could not be confirmed.

## **2. Unbalanced Statement of Assets and Liabilities**

The statement of assets and liabilities as at 30 June, 2020 reflects net financial assets balance of Kshs.37,981 and a net financial position balance of Kshs.337,981 resulting to unexplained variance amounting to Kshs.300,000.

In the circumstances, the accuracy and completeness of the Fund's financial position as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Kitui Central Constituency Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

### **Other Matter**

### **Budgetary Control and Performance**

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis amount of Kshs.170,185,285 and Kshs.100,817,561, respectively, resulting to an under-funding of Kshs.69,367,724 or 41% shortfall of the budget. Similarly, the Fund expended Kshs.100,479,580 against an approved budget of Kshs.170,185,285 resulting to an under-expenditure of Kshs.69,705,705 being 41% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

## **Basis of Conclusion**

### **1. Project Implementation**

As disclosed in Note 6 and Note 7 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.23,800,00 and Kshs.54,460,948 in respect of transfers to other Government units and other grants and transfers respectively. The following issues were noted: -

- i. As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.54,460,948 in respect of other grants and transfers. The expenditure includes a balance of Kshs.43,190,000 which was disbursed bursaries to Secondary Schools and Tertiary Institutions. The application forms lacked evidence of vetting by the National Government Constituencies Development Fund Committee and none of the forms had the official rubber stamp of the Fund. In addition, minutes of the Vetting Committee and the details of the successful and unsuccessful applicants were not provided for audit.
- ii. Review of the project implementation documents reflects that the Fund had budgeted for implementation of seventy-five (75) projects worth Kshs.86,747,948 during the year. However, only twenty-eight (28) projects with a total allocation amounting to Kshs.35,236,948 were completed while the remaining forty-seven (47) projects worth Kshs.51,511,000 not implemented.
- iii. As disclosed under Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other Government units amounting to Kshs.23,800,000 which includes transfers to Secondary Schools balance of Kshs.5,400,000. The Fund disbursed an amount of Kshs.1,700,000 to Project Management Committee (PMC) of St. Stephen Mutulukuni Secondary School for construction of a boys' dormitory. However, physical verification of the project which was carried out on 28 January, 2021 revealed that, five (5) flash doors worth Kshs.25,000 and (15) fifteen window seals worth Kshs.7,500 were not done. It was also noted that the drainage system for the bathrooms was poorly done and had only one outlet leading to pooling of water in the bathroom.
- iv. The Fund disbursed an amount of Kshs.1,500,000 to the Project Management Committee (PMC) of Kamandio Primary School for rehabilitation of seven (7) classrooms (roofing, shutters, plastering, painting and flooring). However, physical verification which was carried out on 28 January, 2021 revealed that only six (6) classrooms were renovated instead of seven (7) classrooms as per the approved project code list.

In addition, the plastering and flooring was poorly done and corridors to the classrooms were not done. Also, big cracks were observed on the floors while the window fasteners had already come off. Further, one classroom did not have a door and the Head Teacher explained that it fell off three (3) days after it was fixed which is indicative of poor workmanship. Despite these anomalies, the Contractor was paid in full including the retention money.

The Fund disbursed an amount of Kshs.1,200,000 to the Project Management Committee (PMC) of Katyethoka Primary School for rehabilitation of four (4) classrooms with the scope being; roofing, shutters, plastering, painting and flooring. However, physical verification of the project which was done on 28 January, 2021 revealed that flooring for two classrooms was poorly done as big potholes and cracks had developed. The painting works were also observed to be poorly done and it appeared like only one coat of paint was applied. Notwithstanding the anomalies , the contractor was paid in full and no retention money was deducted.

- v. The Fund disbursed an amount of Kshs.800,000 to the Project Management Committee (PMC) of Katia Primary School for rehabilitation of five (5) No. of classrooms. However, physical verification which was done on 28 January, 2021 revealed that; cracks had developed on the wall, the windows were of poor quality and the plastering was poorly done. This notwithstanding, the contractor was paid in full without deduction of retention money to guard against future defects and liabilities.
- vi. The Fund disbursed an amount of Kshs.1,300,000 to the Project Management Committee (PMC) of Mukuku Primary School for renovation of 5 No. classrooms and the contract was awarded at a sum of Kshs.1,235,000. However, it was noted that despite the contract agreement having been signed on 01 August, 2019, the contractor had commenced works earlier since a request for payment and accompanying invoice was submitted on 27 July, 2019. It was not clear how work was commenced before the contract award which is indicative of irregularities in procurement process.
- vii. During the year under review, an amount of Kshs.1,000,000 was disbursed to Kaumba Secondary School for the repair of a science laboratory. However, documents supporting the payments and procurement process such as; payment vouchers, request for quotations, evaluation report and award letter were not presented for audit. Further, requisition letter for funding from the school management was not provided for audit and it was therefore not clear how the need for the project was identified and prioritized.
- viii. The Fund disbursed an amount of Kshs.500,000 to Katia Primary School under emergency allocation for the construction of toilets at a contract sum of Kshs.480,000. However, audit reflects that the contractor was paid a total of Kshs.500,000 which was over the awarded contract sum. Further, physical verification of the project revealed that the Contractor did not install steel doors and eight other doors as stated in the Bills of Quantities. In addition, the letter requesting for funding from the School Management to National Government Constituencies Development Fund was dated 11 December, 2019 which was later than the date of approval by the NG-CDF Committee of 19 September, 2019. This implies that, approval for emergency funding was given before the emergency occurred.

No satisfactory explanation was provided by the Fund Management for the anomalies.

Consequently, value for money for the expenditure amounting to Kshs.23,800,00 and Kshs.54,460,948 in respect of transfers to other Government units and other grants and transfers respectively could not be confirmed.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain its services, disclosing matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to abolish the Fund or cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are

in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how the it monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Fund's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi.**

**08 February, 2022**