

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

---

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Matayos Constituency set out on pages 21 to 52, which comprise the statement of financial 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 effects of the matter 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 - Matayos 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.

### **Basis for Qualified Opinion**

#### **1.0 Presentation of the Financial Statements**

The progress on follow up of auditor recommendations included in the financial statements is not signed by the accounting officer contrary to the Public Sector Accounting Standard Board (PSASB) template issued in June, 2020 which requires the same to be signed by the accounting officer.

In the circumstances, the accuracy of the financial statements is in doubt.

#### **2.0 Cash and Cash Equivalents - Stale Cheques**

The statement of assets and liabilities shows a cash and cash equivalents balance of Kshs.848,731. The bank reconciliation statement provided in support of this balance shows total unrepresented cheques of Kshs.658,720 which include stale cheques totalling Kshs.550,535 which are not payable and have not been reversed in the cash book as at 30 June, 2020. This means that the cash and cash equivalents balance is understated by a similar amount.

In the circumstances, it was not possible to ascertain the accuracy and completeness of the cash and cash equivalents balance as at 30 June, 2020.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituency Development Fund - Matayos 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

### 1. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined for the year ended 30 June, 2019 shows that the Fund had budgeted receipts of Kshs.199,676,060 against actual receipts of Kshs.126,008,337. This shows that the Fund had under-collection of receipts of Kshs.73,667,723 or 37% of budgeted receipts.

Further, during the year under review, the Fund had an approved expenditure budget of Kshs.199,676,060 against actual total expenditure of Kshs.124,017,606 resulting to an under absorption of Kshs.75,658,455 or 62% of the budgeted amount.

The under-collection of receipts and under expenditure is an indication that services and approved projects/programmes were not delivered to the residents of Matayos Constituency and therefore the budget did not meet the intended objectives of improving the service delivery or the management may have over budgeted on its activities.

### 2. Project Performance

Review of the project implementation status report revealed that the Fund had planned to implement a total of 55 projects/programmes at a cost of Kshs.118,305,298 across different sectors during the financial year. However, further analysis noted that one (1) project with a budgeted cost of Kshs.2,000,000 had not started, thirty-six (36) projects budgeted at Kshs.54,042,960 were still on-going while eighteen (18) projects valued at Kshs.62,262,338 had been completed as at the time of audit in February, 2021 as tabulated below:

Sector	Budgeted Projects		Not Started		Ongoing		Completed	
	No.	(Kshs.)	No.	(Kshs.)	No.	(Kshs.)	No.	(Kshs.)
Primary School Project	27	20,379,210			18	15,160,310	9	5,218,900
Secondary School Project	12	33,535,550			11	32,535,550	1	1,000,000
Tertiary School Projects	2	10,627,197	1	2,000,000			1	8,627,197
Security Projects	9	7,647,100	-		7	6,347,100	2	1,300,000
Sports Activities	1	1,500,000	-	-			1	1,500,000

*Report of the Auditor-General on National Government Constituencies Development Fund - Matayos Constituency for the year ended 30 June, 2020*

Environmental Activities	1	960,000	-	-	-	1	960,000
Emergency Activities	1	7,198,241			-	1	7,198,241
Bursaries	2	36,458,000	-			2	36,458,000
<b>Total</b>	<b>55</b>	<b>118,305,298</b>	<b>1</b>	<b>2,000,000</b>	<b>36</b>	<b>54,042,960</b>	<b>18</b>

In the circumstances, the Fund failed to implement all its planned projects as approved and subsequently did not achieve its set goals and programs for the benefit of the residents of Matayos Constituency.

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

### Conclusion

As required by Article 229(6) of the Constitution, based on the 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 for Conclusion

#### 1.0 Incomplete and Stalled Water Project at Daniel Wako Technical Training Institute

As disclosed in Note 4 to the financial statements, the statement of receipts and payments shows an amount of transfers to other government entities of Kshs.79,689,364 which includes an expenditure on transfers to tertiary institutions totalling to Kshs.8,627,197. Among the projects implemented by the Fund was the construction of an elevated water tank and community water kiosk at Dr. Daniel Wako Technical Training Institute at a total cost of Kshs.1,746,092. However, a physical verification carried out, revealed that the water project had not been completed as expected with one water tank with a 10,000-liter capacity not installed, and the community water Kiosk had not been constructed.

In the circumstances, it was not possible to ascertain whether value for money was achieved from the expenditure of Kshs.1,746,092 on the project.

#### 2.0 Stalled Construction of an Administration Block at Mundika Secondary School

Further, included in the reported amount of transfers to other government entities of Kshs.79,689,364 as disclosed in Note 4 to the financial statements is transfers to secondary schools totalling to Kshs.46,054,707 for various projects. Among the projects being implemented by the Fund was the construction of an administration block at Mundika Secondary School at a contract sum of Kshs.32,603,087. The contract commenced on 15 December, 2016 with no specified expected completion date. The contractor had been paid a total of Kshs.22,558,042 and the last certificate was dated 03 January, 2020. However, a physical verification carried out and interviews with the relevant Fund officials, revealed that no construction works had been undertaken since

January, 2020. It was also noted that there was no valid performance bond contrary to section 142 (1) of the Public Procurement and Asset Disposal Act, 2015 which states that subject to the regulations, a successful tenderer shall submit a performance security equivalent to not more than ten per cent of the contract amount before signing of the contract. In addition, it was noted that the contract did not have an enforceable contract duration.

In circumstances, it was not possible to confirm whether the resources were applied in an effective, way and whether value for money was attained on the expenditure of Kshs.32,603,087.

### **3.0 Non-Remittance of Statutory Deductions**

Review of the Fund's bank reconciliation statement for June, 2020 revealed that a total of Kshs.364,220 being unremitted statutory deductions comprising of National Hospital Insurance Fund deductions of Kshs.113,552, National Social Security Fund (NSSF) deductions of Kshs.44,000 and of Pay as You Earn (PAYE) deductions of Kshs.78,140, and on withholding Value Added Tax (VAT) of Kshs.128,528 thus not complying with;

- Section 10(1) of the National Social Security Fund (NSSF) Act, 2010 which requires a contributing employer shall, to pay every month to the Fund the standard contribution specified in the Third Schedule in respect of that person
- Section 6(1) of the National Hospital Insurance Fund (NHIF) Act, 1998, which requires a contributing employer to pay every month to the Fund the standard specified contribution.
- Deduction of employment income tax is done in accordance with Section 5 Income Tax Act, 2010 and remittance of monthly PAYE made in line with Section 37(1) of the Income Tax Act, 2010.
- Section 42A(1) of Tax Procedures Act no. 29 of 2015 which requires the appointed agent to withhold six per cent of the taxable value on purchasing taxable supplies at the time of paying for the supplies and remit the same directly to the Commissioner.

Consequently, the Management was not in compliance with the law.

### **4.0 Irregular Procurement in Acquisition of School Buses**

The statement of receipts and payments shows an amount of transfers to other government entities of Kshs.79,689,364. Further, Note 4 to the financial statements indicates that included in this amount are transfers to secondary schools totalling Kshs.46,054,707 for various projects and purchase of school buses.

Review of payment records provided revealed that the Fund disbursed Kshs.7,557,107 to various schools as co-funding for the purchase of school buses through hire purchase/asset financing, a method not specified under Part IX - Methods of Procurement of Goods, Works and Services of the Public Procurement and Asset Disposal Act, 2015. Further, Section 91(1) of the Act states that open tendering shall be the preferred procurement method for procurement of works and services. Further, the Management

contravened the directive by NG-CDF board which advised that a bus project is purchased on a one-off basis and not through asset financing and any amount allocated is exclusive of insurance premiums or any other recurrent cost.

The school buses being purchased were as detailed below: -

<b>Institution</b>	<b>Description</b>	<b>Amount (Kshs.)</b>
Murende Secondary School	Co-funding for Purchase of a school bus	770,512
St. Peter's Budokomi	Co-funding for Purchase of a school bus	976,648
Mabunge Secondary School	Co-funding for Purchase of a school bus	3,104,747
Burumba Secondary School	Co-funding for Purchase of a school bus	2,705,200
<b>Total</b>		<b>7,557,107</b>

Consequently, the schools buses risks being repossessed which would result to wasteful expenditures of Kshs.7,557,107 on the project.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit so as 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 procedures performed, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### Basis for Conclusion

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.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue sustain services, disclosing, as applicable, 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 to 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how the entity 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 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 to cease 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**

**01 February, 2022**