

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MWATATE 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 - Mwatate Constituency set out on pages 13 to 41, 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 the 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 - Mwatate 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

### Basis for Qualified Opinion

#### 1.0 Use of Goods and Services

The statement of receipts and payments reflects Kshs.16,886,316 in respect to use of goods and services as disclosed in Note 5 to the financial statements. The following unsatisfactory observations were made in regard to use of goods and services:

#### 1.1 Unsupported Committee Allowances

Note 5 to the financial statements reflects Kshs.14,650,000 in respect to committee allowances. However, schedules provided in support of the expenditure amounted to Kshs.14,510,000 resulting to unexplained and unreconciled variance of Kshs.140,000.

Further, included in the Kshs.14,650,000 balance is Kshs.5,650,000 incurred in respect to allowances paid to committee members while undertaking project inspection, monitoring and evaluation activities. However, evidence of attendance, travel to project sites, list of projects inspected and monitoring and evaluation reports were not provided for audit review.

In addition, included in the Kshs.14,650,000 balance is Kshs.5,067,800 in respect to allowances paid during ward forum proposal collection and bursary forums. However, evidence of travel to and from the venue and minutes or reports of deliberations were not provided for audit review.

In the circumstances, the accuracy, propriety and validity of committee allowance balance of Kshs.14,650,000 for the year ended 30 June, 2020 could not be confirmed.

## **1.2 Unsupported Fuel, Oil and Lubricants**

Note 5 to the financial statements reflects Kshs.200,000 in respect to fuel, oil and lubricants out of which fuel worth Kshs.102,513 was consumed by motor vehicles not owned by the Fund. However, evidence to confirm that the vehicles were being used on activities related to the Fund was not provided for audit verification.

Consequently, the propriety of fuel, oil and lubricants amounting to Kshs.102,513 for the year ended 30 June, 2020 could not be confirmed.

## **2.0 Transfers to Other Government Units**

Note 6 to the financial statements reflects Kshs.75,877,586 in respect to transfers to other government units which includes Kshs.67,577,586 in respect to transfers to primary schools out of which Kshs.19,350,000 was transferred to Dembwa Primary School. However, budget execution by programmes and sub-programmes for the year ended 30 June, 2020 reflects actual expenditure of Kshs.18,350,000 in respect to Dembwa Primary School, resulting to unexplained variance of Kshs.1,000,000.

Consequently, the accuracy of transfers to primary schools of Kshs.19,350,000 for the year ended 30 June, 2020 could not be confirmed.

## **3.0 Other grants and other payments**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects Kshs.26,471,780 in respect to other grants and other payments which includes Kshs.12,460,588 and Kshs.2,581,270 relating to bursaries to secondary schools and tertiary institutions respectively. Review of documents provided for audit review revealed the following regarding the bursaries:

- i. Fifty-three (53) students in national secondary schools were awarded bursaries amounting to Kshs.2,490,000. However, details of how the Fund Management identified, vetted and awarded the bursaries were not provided for audit review.
- ii. Further, the students were awarded different bursary amounts, however, the criteria used and bursary applications register showing applicants' names, identification details, schools/colleges attended and the criteria used for vetting and awarding the bursary were not provided for audit review. This is contrary to the Constituencies Development Fund Board Circular/VOL1/111 dated 13 September, 2010 which requires the bursary committee to vet, identify and categorise needy students according to established criteria.
- iii. In addition, bursaries totalling to Kshs.9,489,695 was not supported with acknowledgment receipts from the beneficiary institutions.

- iv. Moreover, bursaries amounting to Kshs.11,620,604 awarded to three hundred and seventy-nine (379) beneficiaries but whose admission numbers were not availed for audit review.

Consequently, the accuracy, completeness, propriety, validity of bursaries amounting to Kshs.15,041,858 for the year ended 30 June, 2020 could not be confirmed.

#### **4.0 Bank Reconciliation Inaccuracies**

The statement of assets and liabilities reflects Kshs.1,618,167 in respect to bank balance. Audit review of the respective bank reconciliation statement for June, 2020 indicated payments in cash book not in bank statement (un-presented cheques) of Kshs.1,532,449, out of which cheques amounting to Kshs.28,604 had been outstanding for more than six (6) months and were, therefore, stale. However, no explanation was provided as to why the stale cheques had not been reversed.

Consequently, the accuracy of cash and cash equivalents balance of Kshs.1,618,167 as at 30 June, 2020 could not be confirmed.

#### **5.0 Unutilized Funds**

Note 17.3 to the financial statements reflects Kshs.68,785,891 in respect to unutilized funds as at 30 June, 2020. However, Annex 3 does not provide details of the approved budget items whose funds had not been utilized with a brief description as required by the Public Sector Accounting Standards Board reporting format.

Under the circumstances, the accuracy and completeness of unutilized funds balance of Kshs.68,785,891 as at 30 June, 2020 could not be confirmed.

#### **6.0 Summary of Fixed Assets**

Annex 4 to the financial statements reflects summary of fixed assets historical cost of Kshs.4,875,964. However, detailed assets register schedule availed for audit review indicated a total historical cost of Kshs.4,670,350 resulting to a variance of Kshs.205,614 which has not been explained and/or reconciled.

Further, detailed fixed assets schedule provided for audit review reflected Kshs.3,105,500 in respect to old and not in use assets. However, Fund Management did not provide evidence that a disposal committee had been formed to dispose of the assets as required by Section 163(1) of the Public Procurement and Assets Disposal Act, 2015 which states that, 'An accounting officer shall establish a disposal committee as and when prescribed for the purpose of disposal of unserviceable, obsolete, obsolescent, or surplus stores, equipment or assets'. The obsolete and unserviceable assets continue depreciating, resulting in losses to the Fund.

In addition, the detailed fixed assets register indicated a historical cost of Kshs.750,000 in respect of the one storeyed NG-CDF Mwatate Constituency office. However, the Fund Management did not provide the construction contract and a schedule of payments as evidence to support this cost.

Consequently, the accuracy and completeness of summary of fixed assets register balance of Kshs.4,875,964 as at 30 June, 2020 could not be confirmed.

## 7.0 Unsupported Project Management Committee Bank Balances

Annex 5 to the financial statements reflects Kshs.7,790,186 in respect to sixty-six Project Management Committee bank balances of as at 30 June, 2020. However, the supporting certificates of bank balances were not provided for audit review.

Further, the following observations were made;

- i) Regulations 15(10)(b) of the National Government Constituencies Development Fund Regulations, 2016 requires the Fund Manager to table a quarterly report to Constituency Committee on the status of the Project Management Committee. However, quarterly reports prepared and tabled before the Constituency Committee in accordance with Regulation 15(10)(b) were not provided for audit review.
- ii) Eight (8) projects with nil bank balances as at 30 June, 2020 related to completed projects. However, no evidence of closure of the bank accounts and handing over of the projects to the Constituency Committee was provided for audit review.
- iii) Five (5) Projects Management Committee bank accounts were duplicated with different closing balances as indicated below:

| No. | Project Name            | Bank | Account    | Balance 1 (Kshs.) | Balance 2 |
|-----|-------------------------|------|------------|-------------------|-----------|
| 1   | Kishau Primary School   | KCB  | 1135939071 | 374               | -         |
| 2   | Manoa Primary School    | KCB  | 1176836714 | 6,425             | -         |
| 3   | Mazola Primary School   | KCB  | 1208555154 | 398,542           | -         |
| 4   | Mrughua Primary School  | KCB  | 1118978234 | 2,174             | -         |
| 5   | Mwawache Primary School | KCB  | 1134778813 | 1,298,313         | -         |

- iv) One project had two bank accounts, one in Kenya Commercial Bank and the other in Cooperative Bank of Kenya. However, bank statements to confirm existence of the Cooperative Bank of Kenya account were not provided for audit review.

Consequently, the accuracy and completeness of the Project Management Committee bank accounts balances of Kshs.7,790,186 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 - Mwatate 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 reflects final receipts budget and actual on comparable basis of Kshs.192,195,955 and Kshs.123,410,064 respectively resulting to an under-funding of Kshs.68,785,891 or 36% of the budget. Similarly, the Fund expended Kshs.123,410,064 against an approved budget of Kshs.192,195,955 resulting to an under-expenditure of Kshs.68,785,891 or 36% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Mwatate Constituency.

### 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 for Conclusion

##### 1.0 Projects Implementation

The Fund's projects implementation status report as at 30 June, 2020 availed for audit review reflected budget allocations of Kshs.96,745,912 to thirty (30) projects. Audit review of the projects implementation status report revealed the following:

| <b>Project Status</b> | <b>Count</b> | <b>Budgeted Cost<br/>(Kshs.)</b> | <b>Disbursement<br/>(Kshs.)</b> |
|-----------------------|--------------|----------------------------------|---------------------------------|
| Complete and in use   | 18           | 74,411,089                       | 74,411,089                      |
| On-going              | 4            | 20,276,112                       | 20,276,112                      |
| Not Started           | 1            | 11,200,000                       | 0                               |
| <b>Total</b>          | <b>17</b>    | <b>83,716,033</b>                | <b>29,937,346</b>               |

However, three (3) of the ongoing projects with a disbursement of Kshs.6,606,588 were indicated as requiring extra funding for completion. However, details of the extra amount required and evidence of request for the funding was not provided for audit review.

Further, two (2) projects with a cumulative disbursement of Kshs.1,550,000 did not have implementation status indicated.

Failure to implement projects on time and as planned may have negatively affected delivery of the desired development projects to the residents of Mwatate Constituency.

## **2.0 Projects Verification**

Physical verification of projects in February, 2021 revealed that construction of Assistant County Commissioner's Office was awarded at a contract sum of Kshs.2,906,588. As at the time of the audit, the project was complete but not in use and the building plan indicated that the office block was supposed to have an armory. However, the armory constructed did not have a reinforced security door and shelves as provided for in the bill of quantities(BOQs). Further, original BOQs provided for tiled floor finishing while screed floors were done and louvered window was replaced by casement while mortice locks had not been installed.

Under the circumstances, the value for money, propriety and lawfulness of Kshs.2,906,588 spent on the project during the year ended 30 June, 2020 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 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 overall 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, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

Management is also responsible for the submission of Fund's 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 Fund's 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 Fund's financial reporting process, reviewing the effectiveness of how the Fund 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 overall 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 Fund's 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 Fund's 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 overall 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 judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the Fund's 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 Management.
- Conclude on the appropriateness of 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 entity to 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**

**10 February, 2022**