

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SUNA WEST 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 - Suna West Constituency set out on pages 20 to 70, 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 - Suna West Constituency as at 30 June, 2020 and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and comply with the National Government Constituencies Development Fund Act, 2015.

### **Basis for Qualified Opinion**

#### **1. Understatement of Cash and Cash Equivalents Balance – Stale Cheques**

The statement of assets and liabilities as at 30 June, 2020 reflects cash and cash balance of Kshs.1,288,216 which includes an amount of Kshs.91,367 in respect of stale cheques. Management did not provide reasons for failure to reverse these cheques in the in the cash book thereby understating the bank balance.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.1,288,216 as at 30 June, 2020 could not be ascertained.

#### **2. Other Grants and Transfers**

##### **2.1 Unsupported Bursary Disbursements**

The statement of receipts and payments for the year ended 30 June, 2020 reflects under other grants and transfers an expenditure of Kshs.53,369,884. This amount includes an amount of Kshs.23,750,446 paid in respect of bursary to secondary schools and other tertiary institutions which further includes Kshs.6,610,000 that were not supported by relevant documentation such as copies of the beneficiaries' identity cards, fee statement balances and admission letters. Further, the bursary sub-committee failed to give remarks on the status of the applicants as required under Section 31(2) of National Government Constituencies Development Fund Act, 2015.

Consequently, the accuracy, validity and completeness of the expenditure totalling Kshs.6,610,000 for the year ended 30 June, 2020 could not be confirmed.

## **2.2 Unsupported Security Expenditure**

Included in the other grants and transfers amount of Kshs.53,369,884, as disclosed in Note 7 to the financial statements for the year ended 30 June, 2020 is an amount of Kshs.17,950,000 in respect of security projects. A review of payment vouchers, project Management Committee project files and physical verification of the of the six (6) security projects amounting to Kshs.11,300,000 did not contain minutes of tender opening, evaluation and award of the contract to the winning bidder and there was no sign board indicating the parcel number, NCA approval certificate for construction and the contractor registration number was not erected within the project site. Further the Project Management Committee (PMC) did not avail payment schedules indicating how cash withdrawals from the bank paid as allowances were utilized.

Consequently, the accuracy, completeness and validity of Kshs.11,300,000 expenditure for the year ended 30 June, 2020 could not be confirmed.

## **2.3 Sports Expenditure**

Included in the other grants and transfers amount of Kshs.53,369,884 is an amount of Kshs.1,609,775 in respect of sporting activities. A review of the payment vouchers revealed that a supplier was awarded the contract to organize the sports tournament in Suna West constituency. Review of project management committee project files further revealed the following anomalies:

- i. The chairman of the tender committee happens to be one of the directors of the firm awarded the contract which is clear a case of interest and related party transaction in the management of the Fund.
- ii. The invoice attached shows items valued at Kshs1,419,596 supplied vide invoice number 262 dated 17 September, 2020 which differs with the financial statements figure of Kshs.1,609,775 resulting to an unexplained overpayment and/or variance of Kshs.190,179.

Consequently, the accuracy, completeness and propriety of Kshs.1,609,775 expenditure for the year ended 30 June, 2020 could not be confirmed.

## **3. Non-Filing of Expenditure Returns by Project Management Committees**

The statement of receipts and payments for the year ended 30 June, 2020 reflects under transfers to other government units an expenditure of Kshs.94,787,356 which includes an amount of Kshs.15,700,000 disbursed to six (6) secondary schools of Kshs.11,400,000 and three (3) primary schools of Kshs.4,300,000. The Management did not provide expenditure returns including cash books, payment schedules for cash withdrawals, stores records, minutes of tender proceedings, certificates of practical completion for the projects undertaken and reports of inspection and acceptance committees approving the payments.

Consequently, the validity, completeness and accuracy of the expenditure of Kshs.15,700,000 relating to disbursements made to the PMCs during the year ended 30 June, 2020 could not confirmed.

#### **4. Project Management Committees' Bank Balances**

Annex 5 to the financial statements shows Projects` Management Committees (PMC) bank balances amounting to Kshs.4,774,872 as at 30 June, 2020. However, relevant documents such as bank reconciliation statements, confirmation certificates, cash books and payment vouchers were not provided for audit review.

Consequently, the accuracy and completeness of the PMC bank balances of Kshs.4,774,872 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 - Suna West 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 statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.199,083,161 and Kshs.163,715,438 respectively resulting to an under-funding of Kshs.35,367,723 or 18% of the budget. The Fund's expenditure was limited to the amount realized.

Based on the approved estimates, under funding and expenditure affected the planned activities and may have impacted negatively on service delivery to the constituents of Suna West Constituency.

##### **2. Projects Implementation Status**

A physical verification of four (4) projects with a total funding of Kshs.8,200,000 carried out in the month of January 2021 revealed that some projects were complete but with unsatisfactory issues, some were complete but not in use, while others were incomplete and contractors were not in site as detailed below:

<b>Payee</b>	<b>Activity</b>	<b>Amount (Kshs.)</b>	<b>Remarks</b>
Kitabaye Mixed Secondary	Construction of science laboratory	2,000,000	Science laboratory completed but not put to intended use.
Ngochone Anti-stock Theft	Construction of 10 number staff units, purchase and installation of 10,000L water tank and fencing of the compound	2,500,000	Ten staff units constructed, 10,000 litres Ken tank installed, fencing appears to be old and worn out an indication of poor workmanship
Oruba Police Post	Construction of 5 staff units, fencing of compound, purchase and installation of 10,000L roto water tank	1,300,000	The construction of 5 staff units, fencing of compound, purchase and installation of 10,000 litres roto water tank completed and in use. Fencing appears old and worn out an indication of poor workmanship
Ragana Girls	Construction of one modern science laboratory.	2,400,000	Construction of laboratory complete. Facility not put to intended use, there are no equipment and tables. Chairs and lockers purchased but not labelled.
	<b>Total</b>	<b>8,200,000</b>	

The incomplete projects were expected to be completed by 30 June, 2020 but had not been completed as at the time of the audit in January, 2021. The slow pace of projects implementation may negatively affect service delivery to the residents of Suna West Constituency and the intended purpose of the projects may not be actualized.

## 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**

### **Unsupported Payment for the Construction of Science Laboratory at St. Celestino Nyangubo Secondary School**

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.94,787,356 in respect of transfers to other Government entities which includes an amount of Kshs.2,000,000 paid to the Project Management Committee account of St. Celestine Nyagubo Secondary School being part payment for the construction of a storey science laboratory with work stations and drainage.

A physical verification carried on 14 January, 2021 revealed that the one storey laboratory is yet to be completed. The Management did not avail the Bills of Quantities (BQs) and interim payment certificate indicating the value of work done as compared to total payments made.

In circumstance, the accountability and value for money of Kshs.2,000,000 for the year ended 30 June, 2020 could not be ascertained

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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

## **Basis for Conclusion**

### **Lack of Updated Fixed Assets Register**

The summary of fixed assets register under Annex 4 to the financial statements discloses the value of fixed assets reflected Kshs.10,117,689. However, a review of the fixed assets register revealed that the register is not updated as it lacked identification or serial numbers, acquisition date, description of asset, location, class, and cost of acquisition, accumulated depreciation, and net book value of the assets.

In circumstance, the accuracy, completeness, valuation and existence of assets at historical cost of Kshs.10,117,689 as at 30 June, 2020 could not be ascertained.

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 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 the 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 governance.

In preparing the financial statements, Management is responsible for assessing the ability of the Fund to 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 resources are applied in an effective way.

Those charged with governance are responsible for overseeing the 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 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 noncompliance. 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 ability of Fund 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 sustaining 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**

**03 February, 2022**



