

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - GANZE 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 - Ganze Constituency set out on pages 18 to 54, which comprise of the statement of assets and liabilities as at 30 June, 2020, 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 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 - Ganze 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 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Inaccuracy in Bank Balance**

As disclosed in Note 9A to the financial statements, the statement of assets and liabilities reflects a bank balance total of Kshs.35,315,672. The bank reconciliation statement as at 30 June, 2020 reflected stale cheques amounting to Kshs.516,394. However, the cheques had not been written back in the cash book as at 30 June, 2020.

Consequently, the accuracy and completeness of cash and cash equivalents balance of Kshs.35,515,672 reflected in the statement of assets and liabilities as at 30 June, 2020 could not be confirmed.

## 2. Unsupported Outstanding Imprest

As previously reported, Note 10 to the financial statements, the statement of assets and liabilities reflects outstanding imprest amount of Kshs.3,129,360 which has been outstanding for more than six (6) years. The Management has explained that the imprests have since been surrendered. However, surrender documents were not provided.

In addition, as previously reported, the statement of assets and liabilities as at 30 June, 2016 reflected opening outstanding imprests totalling to Kshs.3,129,360 while the audited balance for the year 2014/2015 reflected a sum of Kshs.3,270,500, resulting to an unreconciled and unexplained variance amount of Kshs.141,140.

Consequently, the accuracy, completeness and validity of outstanding imprests amounting to Kshs.3,129,360 reflected in the statement of assets and liabilities as at 30 June, 2020 could not be ascertained.

## 3. Unsupported Prior Year Adjustment

As disclosed in Note 12 to the financial statements, the statement of assets and liabilities reflects prior year adjustment amount of Kshs.1,037,803. However, supporting journal was not provided.

In the circumstances, the accuracy, completeness and validity of the statement of assets and liabilities as at 30 June, 2020 could not be confirmed.

## 4. Unsupported Use of Goods and Services

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects use of goods and services amount of Kshs.4,589,196. However, analysis of this amount revealed that an amount of Kshs.3,214,009 was not duly supported by relevant documents as detailed below:

Item	Amount (Kshs.)	Observation
Domestic Travel and Subsistence	1,720,100	Lack of invitation letters and approval for travel
Office and General Supplies and Services	449,319	Lack of local purchase orders/service orders, delivery notes and S.13
Committee Allowances	1,131,000	The schedule amount of Kshs.1,011,000 differed with the financial statements amount of Kshs.1,131,000 by Kshs.120,000
Other Committee Allowances	140,100	The financial statements amount of Kshs.140,100 was in variance with the schedule's amount of Kshs.1,102,740 resulting to an unexplained variance amount of Kshs.962,640. Further, Management has not explained the difference between committee allowances and other committee allowances.
<b>Total</b>	<b>3,440,519</b>	

Consequently, the accuracy, completeness and validity, of use of goods and services amount of Kshs.3,440,519 for the year ended 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 - Ganze 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 reflects final receipts budget and actual on comparable basis totalling to Kshs.250,865,601, and Kshs.103,550,035 respectively, resulting to an under-funding of Kshs.147,315,566 or 59% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.252,500,181 and Kshs.67,180,560 respectively, resulting to an under expenditure of Kshs.185,319,621 or 73% of the budget.

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

#### **2. Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised. However, the Management has not resolved them or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

## **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. Delay in Project Implementation**

The Project Implementation Status Report as at 30 June, 2020 provided reflected ninety-five (95) projects with a total budget of Kshs.137,367,724 which were on-going as at 30 June, 2020. According to the Report, projects that were planned to be completed by 30 June, 2016, 30 June, 2017, 30 June, 2018, 30 June, 2019 and 30 June, 2020 had not been completed by the time of audit in January, 2021. In addition, one project costing Kshs.1,536,207 planned to start in 2015/2016 financial year and other seventy-one (71) projects with a total budget of Kshs.66,481,681 had not started by the time of audit in January, 2021.

Management did not explain why projects which had been allocated money in their respective financial years had not started as at 30 June, 2020.

In the circumstances, I am unable to confirm whether the public will obtain value for money for the delayed projects.

### **2. Irregular Committee Bank Balances**

Note 17 to the financial statements reflects Project Management Committee bank balances amounting to Kshs.27,701,423, out of which funds totalling to Kshs.8,163,114 were held in bank accounts whose projects were completed.

This is contrary to Section 12(8) of National Government Constituencies Development Fund Act, 2015 which states that all unutilized funds of the Project Management Committee shall be returned to the constituency account.

Therefore, the Management is in breach of the law.

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 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 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 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 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 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 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**04 November, 2021**