

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – IGEMBE NORTH CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Igembe North Constituency set out on pages 6 to 39, which comprise the statement of assets and liabilities as at 30 June, 2019, 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 – Igembe North Constituency as at 30 June, 2019, 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

### Basis for Qualified Opinion

#### 1.0 Accuracy of Financial Statements

#### 1.1 Variances in the Summary Statement of Appropriation; Recurrent and Development Combined

The Fund's summary statement of appropriation: recurrent and development combined for the year under review reflects balances on four (4) items that are at variance with balances in the budget execution by programmes and sub-programmes as detailed below:

<b>Item</b>	<b>Summary Statement of Appropriation: Recurrent and Development Combined (Kshs.)</b>	<b>Budget Execution by Programmes and Sub-Programmes (Kshs.)</b>	<b>Variance (Kshs.)</b>
<b>Final Budget</b>			

Transfer to Other Government Units	122,892,060	102,671,693	20,220,367
Other Grants and Other Transfers	37,767,776	31,805,129	5,962,647
<b>Actual Amounts</b>			
Transfer to Other Government Units	80,303,872	61,083,507	19,220,365
Other Grants and Other Transfers	25,515,499	20,814,910	4,700,589

In the circumstances, the accuracy of the statement of appropriation: recurrent and development combined and the budget execution by programmes and sub- programmes for the year under review could not be confirmed.

## 1.2 Unreconciled Unutilized Funds

The summary statement of appropriation: recurrent and development combined for the year under review reflects Kshs.78,544,258 in respect to adjustments for the year being the unspent funds in the previous year. However, the audited 2017/2018 financial statements reflects unspent funds totalling Kshs.76,359,259 therefore resulting to unreconciled and an unexplained variance of Kshs.2,184,999.

In the circumstances, the accuracy of the Kshs.78,544,258 in respect to budget adjustments for the year ended 30 June, 2019 could not be confirmed.

### 1.2.1 Unexplained Variances in Unutilized Fund

Note 15.3 reflects Kshs.76,359,259 in respect to comparative unutilized funds balance. However, re- casting of the respective figures resulted to a balance of Kshs.76,099,258 leading to unexplained and unreconciled variance of Kshs.260,001. Further, included in Kshs.76,359,259 is Kshs.38,827,348 in respect to amounts due to other Government entities. However, the audited 2017/2018 financial statements reflects Kshs.39,827,348 in respect to the same item resulting to unexplained variance of Kshs.1,000,000.

In the circumstance, the accuracy, validity and completeness of the Kshs.76,359,259 in respect to comparative unutilized funds balance reflected in the financial statements for the year under review could not be confirmed.

## 2.0 Unreversed Stale Cheques in Bank Reconciliation Statement

Note 10A to the financial statements for the year ended 30 June, 2019 reflects Kshs.16,048,780 in respect to cash and cash equivalents as at 30 June, 2019 which includes Kshs.7,332,455 in respect to unrepresented cheques as at 30 June, 2019. However, included in the Kshs.7,332,455 is Kshs.165,485 in respect to stale cheques which had not been replaced or reversed in the cashbook as at 30 June, 2019 resulting to an understatement of the cash book balance by the same amount.

Further, the bank reconciliation statement for the year under review reflects Kshs.3,000 in respect to cash received in the bank but not recorded in the cashbook and therefore understating the cash and cash equivalents as at 30 June, 2019 by the same amount.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.16,048,780 as at 30 June, 2019 could not be ascertained.

### **3.0 Unsupported Bursary Funds**

Note 7 to the financial statements for the year ended 30 June, 2019 reflects Kshs.25,515,499 in respect to other grants and other payments which includes Kshs.9,623,960, Kshs.9,908,950 and Kshs.182,000 in respect to bursaries disbursed to secondary schools, tertiary institutions and special schools respectively all totalling Kshs.19,714,910. However, out of the Kshs.19,714,910 bursaries disbursed during the year, only Kshs.13,771,513 (70%) was acknowledged by the respective beneficiary institutions while the difference amounting to Kshs.5,943,397(30%) was not acknowledged by the respective institutions.

In the circumstances, the validity and completeness of Kshs.19,714,910 bursaries disbursed secondary schools, tertiary institutions and special schools could not be confirmed.

### **4.0 Unsupported Project Management Committees (PMC) Bank Balances**

Note 6, 7 and 8 to the financial statements for the year ended 30 June, 2019 reflects Kshs.80,303,872, Kshs.25,515,499 and Kshs.6,950,000 in respect to transfers to other Government entities, other grants and other payments and acquisition of assets respectively all totalling Kshs.112,769,371 which was disbursed to various institutions to implement projects through Project Implementation Committees (PMC). Included in the Kshs.112,769,371 is Kshs.20,541,830 reflected at annex 5 at pages 34 and 35 to the financial statements as PMC bank balances being the unspent project funds during the year under review.

However, the respective supporting documents including bank reconciliations statements, cash books and bank balance confirmation certificates were not availed for audit review.

In the circumstances, the accuracy and validity of the Kshs.20,541,830 in respect to PMC bank balances as at 30 June, 2019 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund – Igembe North 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**

### **1.0 Budgetary Control and Performance**

The summary statement of appropriation: recurrent and development reflects final receipts budget and actual on comparable basis of Kshs.187,585,134 and Kshs.138,544,238 respectively resulting to an under-funding of Kshs.49,040,876 or 26% of the budget. Similarly, the Fund spent Kshs.122,495,478 against an approved budget of Kshs.187,585,134 resulting to an under-expenditure of Kshs.65,089,655 or 35% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Igembe North Constituency.

## **2.0 Project Implementation Status**

### **2.1 Budgeted Projects**

The Fund's project implementation status (PIS) report availed for audit reflects Kshs.152,776,836 in respect to amount budgeted for development projects. However, the statement of appropriation: recurrent and development combined reflects a development budget of Kshs.167,459,836 comprising of Kshs.122,892,060, Kshs.37,767,776 and Kshs.6,800,000 in respect to transfer to other government entities and other grants and other payments and acquisition of assets respectively resulting to unexplained and unreconciled variance of Kshs.14,683,000.

### **2.2 Delay in Project Implementation**

A review of the project implementation status report reflected that, one hundred and thirty (130) projects with a total budget of Kshs.152,776,836 were budgeted to be implemented during the year. Out of the one hundred and thirty (130) projects, seventy-seven (77) projects worth Kshs.90,366,436 were completed, thirty-six (36) projects worth Kshs.30,689,859 were ongoing while seventeen (17) projects worth Kshs.31,720,541 were not started as at 30 June, 2019.

In view of the foregoing, the residents of Igembe North Constituency did not obtain the expected services equivalent to the Kshs.30,689,859 ongoing projects and the Kshs.31,720,541 being projects not started all totalling Kshs.62,410,400 for the year ended 30 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 procedures performed, except for the matter described in the Conclusion on Report on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing 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. Presentation of the Financial Statements**

The financial statements provided for audit review reflects the following presentation anomalies.

- i) The Fund's financial statements for the year ended 30 June, 2019 did not include separate summary statements of appropriation for recurrent and development as required by the Public Sector Accounting Standards Board (PSASB).
- ii) The statement of receipts and payments, statement of cash flows and the statement of comparison of budget: recurrent and development combined and actual amounts do not indicate that the same is for the 'year ended 30 June 2019', while the statement of assets and liabilities does not indicate that it is 'as at 30 June 2019'.
- iii) Note 15.4 and annex 5 to the financial statements reflects balances in respect to Project Management Committee PMC accounts that reflects decimals contrary to the best accounting practices which requires financial statements be rounded off to the nearest integer (whole number).
- iv) The Fund accountant did not include his Institute of Certified Public Accountants of Kenya (ICPAK) membership number in the financial statements contrary to the PSASB reporting template issued in June 2019.
- v) Pages 1 and 14 to 17 to the financial statements are repeated contrary to the PSASB requirements.
- vi) The Funds financial statements have not reserved any space where the report of the Auditor-General will be affixed PSASB reporting template issued in June 2019.
- vii) Progress on follow up of auditor recommendations report in pages 36 to 39 of the financial statements indicates that all issues raised by the Auditor-General in year 2017/2018 were resolved. However, no documentary evidence was availed for audit review to show how and when the issues were resolved.

In the circumstances, the presentation of the financial statements for the year ended 30 June, 2019 is not in accordance with the PSASB prescribed format.

### **2. Irregular Procurement of Motor Vehicle**

Note 8 to the financial statements for the year under review reflect Kshs.6,950,000 in respect to acquisition of assets which relates to purchase of a motor vehicle. However, the motor vehicle was procured using request for quotation contrary to the first schedule of the Public Procurement and Disposal (Amendment) Regulations, 2013 which limits the maximum amount at Kshs.500,000 for procurement using request for quotation.

Further, the approved budget for procurement of the motor vehicle was Kshs.6,800,000. However, the actual cost of the motor vehicle was Kshs.6,950,000 resulting to an over expenditure of Kshs.150,000 without approval contrary to Section 44(2) of the Public Finance Management (National Government) Regulations, 2015 which states that National Government entities shall execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan with the exception of unforeseen and unavoidable spending dealt with through the Contingencies Fund, or supplementary estimates In addition, the log book for the vehicle procured was not availed for audit .

In the circumstances, the Fund Management is in breach of the law and the ownership of the motor vehicle worth Kshs.6,950,000 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.

### **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 the Management is aware of the intention to terminate 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 Management 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 National Government Constituencies Development Fund – Igembe North Constituency’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 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**

**21 December, 2021**