

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MASINGA 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 - Masinga Constituency set out on pages 17 to 50, 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 - Masinga 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. Inaccuracies in Comparative Balances

The statement of receipts and payments reflects comparative balances on use of goods and services totalling to Kshs.10,401,900 and other payments totalling to Kshs.4,677,027 respectively. However, these balances differ from use of goods and services totalling to Kshs.6,909,250 and other payments totalling to Kshs.8,169,678 as per the 2018/19 financial year audited financial statements. No explanation or reconciliation was provided for the anomaly.

Consequently, the accuracy, completeness and validity of the comparative balances on use of goods and services totalling to Kshs.10,401,900 and other payments totalling to Kshs.4,677,027 reflected in the statement of receipts and payments for the year ended 30 June, 2020 could not be confirmed.

#### 2. Inaccuracies in the Summary Statement of Appropriation

The summary statement of appropriation - recurrent and development combined reflects receipts from the NGCDF-Board totalling to Kshs.83,614,566 whereas the statement of

receipts and payments reflects receipts from the NGCDF-Board totalling to Kshs.74,700,000 resulting to an unreconciled variance amount of Kshs.8,914,566.

In the circumstances, the accuracy, completeness and validity of balances reflected in the summary statement of appropriation - recurrent and development combined for the year ended 30 June, 2020 could not be confirmed.

### **3. Inaccuracies in Bank Balances**

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities reflects bank balances totalling to Kshs.5,618,280. The bank reconciliation statements revealed stale cheques amounting to Kshs.34,410 as at 30 June, 2020. However, the cheques had not been written back into the cashbook.

Consequently, accuracy, completeness and validity of the bank balances totalling to Kshs.5,618,280 reflected in the statement of assets and liabilities 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 - Masinga 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.150,468,146 and Kshs.83,652,566 respectively, resulting to an underfunding amounting to Kshs.66,815,580 or 44% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.150,468,146 and Kshs.78,034,287 respectively, resulting to an under expenditure amounting to Kshs.72,433,859 or 48% 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 the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury and Planning Circular reference No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

### **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**

Physical verification of projects revealed that the Fund had allocated an amount of Kshs.78,474,761 for implementation of seventy-one (71) projects. However, twenty-eight (28) projects with funding allocation totalling to Kshs.29,316,520 had not commenced. No satisfactory explanation was provided for the non-commencement of the projects.

Consequently, I am unable to confirm whether value for money will be realized from the delayed projects.

##### **2. Unsatisfactory Implementation of Projects**

###### **2.1. Science Laboratory at Luuma Secondary School**

The Management disbursed an amount of Kshs.950,000 for completion of a science laboratory at Luuma Secondary School. The contract was awarded on 5 March, 2020 at a sum of Kshs.949,996. However, physical verification of the project in January, 2021 revealed that although the contractor had been paid in full, the project had not been completed as per the Bill of Quantities (BQ). Terrazzo had not been fitted on the worktops as per the BQ while the drainage was covered with timber instead of concrete. In addition, only twenty-six (26) laboratory sinks were installed instead of twenty-eight (28) as per the BQ.

In the circumstances, it was not possible to confirm if value for money was realized from the expenditure of Kshs.949,996 which was incurred on the Project.

## **2.2. Pit-latrine at Kyeeteni Primary School**

The Management disbursed the amount of Kshs.750,000 to Kyeeteni Primary School for construction of a four (4) doors pit-latrine. Tender was awarded on 7 November, 2019 at contract sum of Kshs.749,470 and the contractor was paid in full including retention money. However, physical verification of the project on 20 January, 2021 revealed that the toilet floor was poorly done and the latrines had not been put to use.

In the circumstances, it was not possible to confirm if value for money was realized from the expenditure of Kshs.749,470 which was incurred on the Project.

## **2.3. Renovation of Classrooms at Ikaatini Primary School**

The Management disbursed the amount of Kshs.750,000 to Ikaatini Primary School for renovation of two (2) classrooms and a contract for the same amount awarded. The final payment amounting to Kshs.746,576 was made to the contractor on 4 February, 2020. However, physical verification of the project on 20 January, 2021 revealed that painting of the walls and floor works valued at Kshs.60,000 were poorly done.

In the circumstances, it has not been possible to ascertain if value for money was obtained from the above unsatisfactory implemented projects.

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.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**06 January, 2022**