

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MWINGI NORTH 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 - Mwingi North Constituency set out on pages 16 to 52, 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 - Mwingi North 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 the Summary Statement of Appropriation**

Statement of receipts and payments reflects other grants and transfers totalling to Kshs.62,070,321 and acquisition of assets totalling to Kshs.4,002,000. However, the expenditures differ from other grants and transfers totalling to Kshs.62,544,321 and acquisition of assets totalling to Kshs.3,528,000 reflected in the summary statement of appropriation - recurrent and development combined. The resultant variances amounting to Kshs.474,000 each on the two accounts were not explained.

Consequently, the accuracy, completeness and validity of the summary statement of appropriation for the year ended 30 June, 2020 could not be confirmed.

#### **2. Inaccuracies in the Statement of Budget Execution by Programmes and Sub-programmes**

The statement of budget execution by programmes and sub-programmes reflects primary and secondary schools projects adjustments totalling to Kshs.52,721,088. However, the verified balance totalled to Kshs.50,971,088 resulting to an unreconciled variance amounting to Kshs.1,750,000.

Further, the grand total under adjustments totalling to Kshs.72,654,314 differs with the re-computed total of Kshs.72,354,314 resulting to an unreconciled variance amounting to Kshs.300,000. The actual on comparable basis column reflects a balance for primary schools, secondary schools and security projects totalling to Kshs.65,662,194, whereas casted balance totalled to Kshs.59,563,194 resulting to unreconciled variance amounting to Kshs.6,099,000.

In addition, the grand total under actual on comparable basis totalling to Kshs.113,817,983 differs with a recomputed total of Kshs.135,911,994 and also differs with the total of Kshs.136,711,994 reflected in the summary statement of appropriation - recurrent and development combined. Budget utilization difference totalling to Kshs.75,310,044 differs with the re-computation total of Kshs.76,139,942 resulting to an unexplained variance amounting to Kshs.829,898.

In the circumstances, it was not possible to confirm the completeness and accuracy of the statement of budget execution by programmes and sub-programmes for the year ended 30 June, 2020.

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

### **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.210,022,039 and Kshs.137,240,875 respectively, resulting to an under-funding amounting to Kshs.72,503,931 or 35% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.210,022,039 and Kshs.136,711,994 respectively, resulting to an under expenditure amounting to Kshs. 73,310,045 or 35% of the budget.

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

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

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## 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. Non-compliance with the Public Sector Accounting Standards Board Requirements

The Accountant has not signed the statement of assets and liabilities and details of ICPAK membership were missing. In addition, the financial statements did not indicate page numbers under significant accounting policies and Notes to the financial statements from pages 30 to 43.

Further, the Management did not disclose prior year recommendations in the provided format. This is contrary to Public Sector Accounting Standards Board (PSASB) reporting template.

In the circumstances, the presentation of the financial statements for the year under review is not in accordance with the prescribed PSASB format.

### 2. Unapproved Expenditure

During the year, Management overspent on items as shown below:

Item	Actual Amount (Kshs.)	Budgeted Amount (Kshs.)	Variance (Kshs.)
Use of Goods and Services	8,262,002	5,776,820	2,485,182
Compensation of Employees	4,150,477	3,656,084	494,393
Purchase of a Generator	874,931	400,000	474,931
Construction of the Fund Office Building	13,901,796	13,056,871	844,925
<b>Total</b>			<b>4,299,431</b>

Further, during the year under review, the Fund disbursed an amount of Kshs.1,060,000 to Nzanzeni Primary School for construction of a classroom. However, physical verification of the project on 3 February, 2021 revealed that the Project Management Committee changed the works from construction of a classroom to re-roofing of four (4) classrooms, an office and a store without approval of the Board. This is contrary to the NGCDF regulations, 2016. The project was also not branded.

Consequently, the Management is in breach of the law.

### 3. Unexplained Increase in Compensation of Employees

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During the year under review, expenditure on compensation of employees was more than the total of Kshs.2,363,760 incurred in the previous year representing a total of Kshs.1,786,717 or 76% increase. Management did not explain the huge increase in the expenditure considering that the activities of the Fund remained unchanged in the two years.

Consequently, I am unable to confirm whether the public obtained value for money on increase totalling to Kshs.1,786,717 on compensation of employees for the year ended 30 June, 2020.

#### **4. Unaccounted for Office Furniture**

The Management purchased office furniture and general equipment totalling to Kshs.1,500,000 during the year. Review of records and physical verification of the assets revealed that assorted items valued at Kshs.215,900 comprising of; two (2) executive visitors chairs costing Kshs.79,000, a mahogany coat hanger costing Kshs.17,500, two (2) Mahogany office desks costing Kshs.79,600 and one (1) waiting lobby link chairs costing Kshs.39,800 were delivered to the Member of Parliament's Constituency Office instead of the NGCDF Offices. Further, a five-seater lounge leather sofa set valued at Kshs.235,000 could not be accounted for.

Consequently, regularity and value for money on the expenditure of furniture items all valued at Kshs.450,900 for the year ended 30 June, 2020 could not be confirmed.

#### **5. Delay in Project Implementation**

The Fund had allocated a total of Kshs.127,620,370 for implementation of sixty-nine (69) projects under the 2019/20 budget. However, review of the project implementation documents revealed that, only sixteen (16) projects worth Kshs.14,500,000 were completed during the year while twelve (12) projects with allocation total of Kshs.63,976,945 were on-going. The remaining forty-one (41) projects, with allocation total of Kshs.49,143,325 were not commenced.

In the circumstances, I am unable to confirm whether the public will obtain value for money for the delayed projects during the year ended 30 June, 2020.

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**

**15 November, 2021**