

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SIRISIA 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 - Sirisia Constituency set out on pages 1 to 20, which comprise the statement of assets and liabilities as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows, 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 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 - Sirisia 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 the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

### Basis for Qualified Opinion

#### 1. Variances in Compensation of Employees

- a) The statement of receipts and payments for the year under review reflects compensation of employees expenditure of Kshs.4,098,941 .However, the expenditure figure of Kshs.4,098,941 includes gratuity of Kshs.1,406,622 which differs with expenditure returns schedule figure of Kshs.1,696,562, resulting to unreconciled variance of Kshs.289,940. In addition, according to the standard chart of accounts approved by the National Treasury, the gratuity of Kshs.1,406,622 should have been accounted for under social security benefits which, according to the chart of accounts, is a distinct item of expenditure in the financial statements and not compensation of employees.
- b) A review of the Funds payrolls for the year under review, revealed unreconciled differences with other records as follows:

Item	Amount as per Payrolls (Kshs.)	Amount as per Financial Statements (Kshs.)	Amount as per Expenditure Returns (Kshs.)	Recomputed Amount from Payrolls (Kshs.)
Net Pay	1,753,365	N/A	2,028,866	1,536,826
Basic Salary	1,500,952	2,182,319	N/A	N/A

Item	Amount as per Payrolls (Kshs.)	Amount as per Financial Statements (Kshs.)	Amount as per Expenditure Returns (Kshs.)	Recomputed Amount from Payrolls (Kshs.)
House Allowance	231,000	252,000	N/A	N/A
Commuter Allowance	231,000	252,000	N/A	N/A
Leave Allowance	0	6,0000	N/A	N/A
Gross Salary	1,795,175	2,692,319	2,402,379	1,962,952
NHIF	226,992	N/A	52,600	N/A
NSSF	5,738,484	N/A	167,460	N/A
PAYE	127,914	N/A	153,453	N/A

In the circumstances, it was not possible to confirm completeness and accuracy of Kshs.4,098,941 incurred on compensation of employees in the year under review.

## 2. Unreconciled Use of Goods and Services

The use of goods and services figure of Kshs.18,980,200 differs with the ledger balance of Kshs.15,935,412, resulting to an unreconciled figure of Kshs.3,044,788.

Further, examination of records and documents relating to use of goods and services revealed that an expenditure of Kshs.700,000 incurred on fuel, oil and lubricants was inappropriately charged to item 2210100 for utilities, supplies and services, instead of item 2211200 for fuel, oil and lubricants as required by the approved standard chart of accounts.

In the circumstances, it was not possible to confirm accuracy of Kshs.18,980,200 incurred on use of goods and services in the year under review.

## 3. Unreconciled Transfers to Other Government Units

The statement of receipts and payments reflects transfers to other government units amount of Kshs.65,971,448 which differs with expenditure returns amounts of Kshs.73,971,448 by Kshs.8,000,000 which was not explained or reconciled.

In the circumstances, it was not possible to confirm the correctness of the expenditure of Kshs.65,971,448 incurred on transfer to other Government units in the year under review.

## 4. Unreconciled Other Grants and Transfers

The other grants and transfers figure of Kshs.37,174,117 differs with the ledger balance of Kshs.39,006,113 resulting to an un-reconciled expenditure of Kshs.1,831,997.

In the circumstances, the validity of other grants and transfers expenditure of Kshs.37,174,116 could not be confirmed.

## 5. Unsupported Acquisition of Assets

The statement of receipts and payments reflects acquisition of assets figure of Kshs.931,180 under Note 8 to the financial statements which could not be traced in the expenditure returns. No explanation was provided for such omission.

In the circumstances, it was not possible to ascertain completeness, validity and correctness of the acquisition of assets figure of Kshs.931,180 incurred in the year under review.

## 6. Unreconciled Other Payments

The statement of receipts and payments reflects other payments figure of Kshs.3,700,000 which differs with an amount of Kshs.7,677,027 reflected under Note 9 to the financial statements by un-reconciled variance of Kshs.3,977,027. Further, the amount of Kshs.3,700,000 which relates to expenditure on strategic plan, should have been accounted for as other operating expenses under use of goods and services.

Consequently, the validity and completeness of the other payments figure of Kshs.3,700,000 could not be confirmed.

### 6.1 Variances in Budget Execution by Programmes and Sub-Programmes Figures

The report on budget execution by programmes and sub-programmes for the year ended 30 June, 2019 reflects adjustments, final budget, actual on comparable basis and budget utilization difference amounts whose totals differ with corresponding totals shown in the summary statement of appropriation - recurrent and development combined as tabulated below. The variances have not been explained or reconciled:

Column	Total as per Budget Execution by Programmes and Sub-programmes (Kshs.)	Total as per Summary Statement of Appropriation (Kshs.)	Variance (Kshs.)
Adjustments	47,126,119	94,575,014	(47,488,895)
Final Budget	156,866,995	203,615,890	(46,748,895)
Actual on Comparable Basis	87,203,395	130,855,886	(43,652,491)
Budget Utilization Difference	87,999,727	72,736,003	15,239,724

In the circumstances, the accuracy and completeness of the report of budget execution by programmes and sub-programmes for the year ended 30 June, 2019 could not be confirmed.

## 7. Inaccuracies in Cash and Cash Equivalents Balances

The statement of assets and liabilities as at 30 June, 2019 reflects cash and cash equivalents balance of Kshs.3,395,110. However, this balance was arrived at after deducting an amount of Kshs.3,993,481 which includes statutory deductions of

Kshs.997,190 relating to 239 long outstanding cheques, some dating as far back as May, 2015, which were drawn but not presented to the bank for payment. However, all the cheques were stale as at 30 June, 2019, and should have been reversed in the cashbook. The Management indicated that the stale cheques were reversed in the cashbook in the months following the end of the financial year 2018/2019, but no evidence for reversal was provided.

Further, although monthly bank reconciliation statements were properly prepared, they were not approved by the Accounting Officer (Fund Account Manager) and, therefore, were not submitted to the National Treasury with copies to the Auditor-General, contrary to the requirement of Section 90(1) of the Public Finance Management (National Government) Regulations, 2015. The Fund Account Manager has since countersigned the reconciliation statement for June, 2019 submitted at the time of audit, but did not indicate the date of countersigning.

Consequently, the accuracy of the cash and cash equivalents balance of Kshs.3,395,110 as at 30 June, 2019 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 Constituency Development Fund - Sirisia 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 reflects final receipts budget and actual on comparable basis of Kshs.203,615,889 and Kshs.134,250,996 respectively resulting to an under-funding of Kshs.69,364,893 or 34% of the budget. Similarly, the Fund spent Kshs.130,855,886 against an approved budget of Kshs.203,615,890 resulting to an under-expenditure of Kshs.72,760,004 or 36% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Sirisia Constituency.

#### **2. Under Disbursement of Funds by the National Government Constituencies Development Fund (NGCDF) Board**

Included in the transfers from NGCDF Board under the statement of receipts and payments under Note 1 to the financial statements is Kshs.95,784,483 received during

the year under review, compared to the approved budget allocation figure of Kshs.109,040,876, resulting into a deficit of Kshs.13,256,393. Further, excluded in Kshs.95,784,483 is an amount of Kshs.97,807,929 being accumulated undisbursed funds from the Board.

In the circumstances, the under disbursement of funds by the Board may affect ability of the Fund to provide required services to the residents of Sirisia constituency.

### **3. Project Implementation Status**

#### **3.1. Projects for the Year Under Review**

The Fund was to implement a total of 66 projects/programmes under security, education, sports, and environment sectors during the financial year under review. Further analysis indicated that 21% of the projects had not started, 21% of the projects were still on going and 58% of the project had been completed as at 30 June, 2019.

#### **3.2. Projects for Prior Years**

The Project Implementation Status Report submitted for audit review reflects that 58 projects with total estimated cost of Kshs.60,922,879, which were to be implemented during the 2013/2014 to 2017/2018 financial years had still not been completed as at 30 June, 2019.

Consequently, the Fund may not have achieved its projects completion targets and could therefore not provide its constituents with all the services planned and budgeted for, in the last six years to 30 June, 2019. Further, Management may not be prioritizing on-going projects when allocating funds as required by Section 46(2) of the National Government Constituencies Development Fund Act, 2015.

## **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 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. Failure to Insure Fixed and Movable Assets**

Annex 2 – Summary of fixed assets register for the year under review reflects total fixed assets of Kshs.29,600,180, which have not been insured, contrary to Section 36(3) of the National Government Constituencies Development Fund Act, 2015 which stipulates that all fixed and movable assets, including equipment bought under this Act for use by the Constituency Committee shall be the property of the Board and shall be insured in the name of the Board.

The Fund Management is therefore in breach of the law.

## **2. Low Survival Rate of Planted Trees- Environment Project**

Included in the other grants and transfers amount of Kshs.37,174,116 and as disclosed in note 5 to the financial statements is an expenditure of Kshs.1,659,180 on environment projects. Available information showed that the amount of Kshs.1,659,180 was paid to the Project Management Committee to utilize for planting trees at various sites within Sirisia Constituency. Additional information obtained from minutes of the meeting that approved the expenditure indicates that out of the figure of Kshs.1,659,180, Kshs.1,650,000 was spent on planting trees at the following sites:

However, physical verification carried out in March, 2020 and information provided by the staff of the Fund revealed that the survival rate of the planted trees was about 50% to 65% and that this was occasioned by inadequate rainfall, difficulties in watering all the planted trees and theft of some trees in some locations. However, it was not explained why appropriate measures were not put in place to ensure improved survival of the trees and protection from theft.

Consequently, the Fund may not have obtained full value for money in the expenditure of Kshs.1,659,180.

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, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report 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**

### **Weaknesses in Internal Controls of Accounting Records**

A review of the Fund annual expenditure returns for the year ended 30 June, 2019 revealed a number of transactions which were charged to the wrong project/item code ,casting doubt on whether the Fund has checks and balances to ensure accuracy and reliability of accounting records.

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

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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**

**05 November, 2021**