

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KITUTU MASABA 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 - Kitutu Masaba Constituency set out on pages 19 to 47, which comprise the statement of assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and a 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 - Kitutu Masaba Constituency as at 30 June, 2020, 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

### **Basis for Qualified Opinion**

#### **1.0 Variance between Statement of Receipts and Payments and Statement of Appropriation**

As disclosed in Note 1 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.122,228,807 in respect of Transfer from National Government Constituencies Development Fund Board while the Summary Statement of Appropriation- Recurrent and Development combined for the year ended 30 June, June 2020 reflects Kshs.152,321,412 for the same item resulting to an unreconciled variance of Kshs.30,092,605.

In the circumstances, the accuracy and completeness of the transfers from National Government Constituencies Development Fund board of Kshs.122,228,807 for the year ended 30 June, 2020 could not be confirmed.

## **2.0 Purchase of School Buses**

The statement of receipts and payments for the year ended 30 June, 2020, and as disclosed in Note 6 to the financial statements, reflects transfers to other government entities of Kshs.51,180,000 which includes Kshs.37,300,000 being transfers to Secondary schools out of which an amount of Kshs.22,400,000 was incurred in purchase of four (4) school buses to four schools from a local dealer. However, the ownership documents for the buses were neither made available for audit nor been delivered to the schools.

Consequently, ownership of the buses costing Kshs.22,400,000 for the year ended 30 June, 2020 could not be confirmed.

## **3.0 Construction of Toilet at St. Mary's Ekerubo Secondary School**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects an amount of Kshs.21,900,779 in respect of other grants and other payments out of which Kshs.6,884,750 relates to emergency out of which Kshs.430,000 was transferred to St Mary's Ekerubo secondary school for construction of a toilet. However, the Project Management Committee (PMC) returns were not provided for audit to account for the funds.

Consequently, the accuracy and completeness of Kshs.430,000 for the year ended 30 June, 2020 could not be confirmed.

## **4.0 Unaccounted Expenditure- Environment Projects**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects an amount of Kshs.21,900,779 in respect of other grants and other payments which includes an amount of Kshs.3,476,206 for environmental projects out of which Kshs.1,739,998 was incurred for the purchase of assorted tree seedlings distributed to eighteen (18) schools across the constituency. However, the payments vouchers were not provided for audit.

Consequently, validity and completeness of the expenditure of Kshs.1,739,998 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 National Government Constituencies Development Fund - Kitutu Masaba 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 for the year ended 30 June, 2020 reflects an approved final receipts budget and actual on comparable basis of Kshs.221,689,136 and 152,321,412 respectively resulting to receipts budget shortfall of Kshs.69,367,724 or 31% of the budget.

Similarly, the statement reflects an approved final expenditure budget and actual on comparable basis of Kshs.221,689,135 and Kshs.84,671,800 respectively resulting to an overall under expenditure of Kshs.137,017,335 or 38% of the approved budget.

The underfunding may be an indication that some programs and activities that had been planned were not implemented and hence denied the constituents of Kitutu Masaba the would be benefits.

## **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**

#### **1.0 Non-adherence to budget ceiling -Environmental Projects Expenditure**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments as at 30 June, 2020 reflects an amount of Kshs.21,900,779 in respect of other grants and other payments which includes an amount of Kshs.3,476,206 for environment activities against an allowable amount of Kshs.2,444,576 being 2% allowable threshold prescribed by section 25(10) of the National Government Constituencies Development Fund, 2015 which states that environmental activities may be considered as development projects for purposes of this Act provided that the allocation to such activities does not exceed two per centum of the total allocation of the constituency in that financial year.

Consequently, the over expenditure of Kshs.1,031,630 for the year ended 30 June, 2020 could not be confirmed.

## **2.0 Non- Branding of Projects**

As disclosed in Note 6 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.51,180,000 in respect of transfers to other Government entities. During the year under review, sixteen (16) projects costing Kshs.10,250,000 implemented by the various Project Management Committees.

A Physical verification conducted in the month February, 2021 revealed that all the projects were complete and in use but not labelled as required by National Government Constituencies Development Regulations (2016) section 11(1)(cc) which requires the Constituency Committee to ensure projects are labelled in accordance with the guidelines issued by the Board.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS**

### **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.

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 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 governance.

In preparing the financial statements, Management is responsible for assessing the ability of the Fund to sustain 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 abolish 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 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 governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

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.

### **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 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 Fund'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**

**10 February, 2022**