

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – MWEA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020**

---

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Mwea Constituency set out on pages 13 to 39, 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 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 - Mwea 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 National Government Constituencies Development Fund Act, 2015.

### **Basis for Opinion**

#### **1.0 Accuracy of the Financial Statements**

##### **1.1 Variance in Summary Statement of Appropriation and the Approved Budget**

The summary statement of appropriation - recurrent and development combined for the year ended 30 June, 2020 reflects final receipts and expenditure budget of Kshs.240,349,221. However, the approved receipt budget made available for audit reflects Kshs.137,367,724 in respect of receipts and expenditure and an unsupported adjustment of Kshs.102,981,497 and whose approval was not provided for audit.

##### **1.2 Variance with the Notes to the Financial Statements**

The summary statement of appropriation - recurrent and development combined reflects Kshs.102,981,497 in respect of budget adjustments. However, Note 15.3 to the financial statements reflects Kshs.24,740,621 in respect of unutilized funds comparative balance and which should have been the adjustment on the original budget of Kshs.137,367,724 for the year under review resulting to unexplained variance of Kshs.78,240,876.

In addition, the same statement reflects Kshs.139,224,578 in respect of budget utilization difference which relates to unutilized funds in the year under review. However, Note 15.3 reflects Kshs.69,856,854 on the same item resulting to unreconciled variance of Kshs.69,367,724.

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

### **1.3 Inaccuracy of Unutilised Funds Balance**

Note 15.3 to the financial statements reflects Kshs.24,740,621 in respect of 2018/2019 Unutilised Fund Balance. However, Annex 3 to the financial statements reflects Kshs.23,131,528 in respect of the same item resulting to unreconciled and unexplained variance of Kshs.1,609,093.

In addition, Note 15.3 to the financial statements reflects Kshs.69,856,854 in respect of unutilised funds balance as at 30 June, 2020 which includes Kshs.2,843,569 and Kshs.416,000 in respect of compensation of employees and AIA respectively both totalling to Kshs.3,259,569. However, documents provided for audit reflects Kshs.2,770,439 and a nil balance respectively both totalling to Kshs.2,770,439 on the same items resulting to an unexplained and unreconciled variance of Kshs.489,130.

Further, the same Note to the financial statements reflects Kshs.24,740,621 in respect of 2018/2019 unutilised funds comparative balance. However, the 2018/2019 financial statements reflect Kshs.94,781,497 in respect of the same item resulting to unexplained and unreconciled variance of Kshs.70,040,876.

In the circumstances, the accuracy of unutilized fund balances of Kshs.24,740,621 in the financial statements for the year ended 30 June, 2020 could not be confirmed.

### **2.0 Unsupported Expenditure - Other Grants and Other Payments**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments as at 30 June, 2020 reflects Kshs.21,019,256 in respect of Other Grants and Other Payments which includes Kshs.4,829,050 and Kshs.3,085,450 in respect of Bursary – Secondary and Bursary – Tertiary respectively both totalling to Kshs.7,914,500. However, the supporting documents including ledger, the list of bursary applicants, beneficiaries and acknowledgement letters and receipts were not provided for audit.

In the circumstances, the accuracy and completeness of the Kshs.7,914,500 in respect of bursaries for the year ended 30 June, 2020 could not be ascertained.

### **3.0 Inaccurate Project Management Committee (PMC) Bank Balances**

Note 15.4 and Annex 5 and to the financial statements and which relates to PMC bank balances did not indicate the corresponding totals for PMC bank balances contrary to Public Sector Accounting Standards Board (PSASB) financial reporting template.

However, a recast of Note 15.4 and Annex 5 and to financial statements reflects Kshs.139,135 and Kshs.1,726,680 and respectively in respect of PMC bank balances as at 30 June, 2020 resulting to unreconciled and unexplained variance of Kshs.1,587,545.

In the circumstances, the accuracy of the PMC balances included in the financial as at 30 June, 2020 could not be confirmed.

### **4.0 Stale Cheques Not Reversed in the Cash Book**

As disclosed in Note 10A to the financial statements, the statement of financial assets and liabilities as at 30 June, 2020 reflects Kshs.69,856,854 in respect of cash and cash equivalents. However, bank reconciliation statement reflects Kshs.2,579,243 in respect of unpresented cheques which includes Kshs.151,021 in respect of cheques that had gone stale as at 30 June, 2020 but had not been replaced or reversed in the cash book and therefore understating the available cash and cash equivalents as at 30 June, 2020 by the same amount.

In the circumstances, the accuracy and completeness of cash and cash equivalents of Kshs.69,856,854 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 National Government Constituencies Development Fund - Mwea 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 of my qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, 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 a final budgeted receipts against actual on comparable basis of Kshs.240,349,221 and 170,981,497 respectively resulting to a budget shortfall of Kshs.69,367,725 or 29% of the budget.

In addition, out of the received amount from the National Government Constituencies Development Fund Board of Kshs.170,981,497 the Management utilized Kshs.139,224,578 indicating an under-utilization of Kshs.31,756,919 or 19% of the available funds.

The underfunding and under absorption affected the planned activities and may have impacted negatively on service delivery to the residents of Mwea Constituency.

## **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 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.

---

*Report of the Auditor-General on National Government Constituencies Development Fund – Mwea Constituency for the year ended 30 June, 2020*

## **Basis for Conclusion**

### **1.0 Presentation of the Financial Statements**

The financial statements for the year ended 30 June, 2020 provided for audit revealed the following anomalies: -

- i) Annex 4 to the financial statements reflects a summary fixed asset register which has no details on additions during the year, disposal during the year, transfers in/(out) during the year and historical cost brought forward and carried forward. The statement of fund management responsibilities at page 9 to the financial statements is not signed by the chairman and the Fund accountant.  
The statement of performance against constituency predetermined objectives at Page 9 of the financial statements is not included in the table of contents.
- ii) The statement of cash flows for the year ended 30 June, 2020 refers to Note 9 in respect of acquisition of assets. However, the corresponding Note in respect of Acquisition of Assets indicates is 8.
- iii) The Fund's financial statements have not included a blank page where the report of the independent auditor will be affixed contrary to PSASB template issued in June, 2020.

In the circumstances, the financial statements have not been prepared in accordance with the Public Sector Accounting Standards Board prescribed format.

### **2.0 Transfers to Primary Schools - Kangondu Primary School**

As disclosed in Note 6 to the financial statements, the statements of receipts and payments for the year ended 30 June, 2020 reflects Kshs.65,933,823 in respect of Transfer to Other Government Units, which includes Kshs.40,207,027 in respect of transfers to primary schools out of which Kshs.4,250,000 was for purchase of three (3) acres piece of land at Kangondu town. However, title deed for the said land was not provided for audit.

In the circumstances, the ownership, existence, and security for the said parcel of land worth Kshs.4,250,000 could not be confirmed.

### **3.0 Project Implementation Status**

The project implementation status report as at 30 June, 2020 provided for audit indicated that two hundred and eight (208) projects worth Kshs.317,876,270 were budgeted to be implemented during the year under review. However, only one hundred and sixty-one (161) projects worth Kshs.119,129,049 were completed, eleven (11) projects worth Kshs.67,818,000 were ongoing while thirty-six (36) projects worth Kshs.130,929,221 had not been started.

In view of the foregoing, the constituents may be denied the expected services equivalent to thirty-six (36) projects not started worth Kshs.130,929,221 and the eleven (11) ongoing projects worth Kshs.67,818,000 both totaling Kshs.198,747,221. This is an indication of inappropriate project implementation, monitoring and evaluation mechanism.

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 comply, 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 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, 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 Fund's ability 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 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 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 with limited assurance as to 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 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 noncompliance. 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 judgment 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**

**08 February, 2022**