

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NDARAGWA 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 - Ndaragwa Constituency set out on pages 16 to 48 which comprise of the statement of assets and liabilities as at 30 June, 2020, and 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 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 National Government Constituencies Development Fund - Ndaragwa 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Unsupported and Omitted Project Management Committee (PMC) Account Balances**

Note 17.4 to the financial statements reflects forty-eight (48) bank accounts with a balance of Kshs.23,900,952 for Project Management Committee and as detailed under Annex 5. However, two (2) bank accounts with cumulative balances of Kshs.1,665,128 are not supported by way of bank reconciliation statements, certificate of bank balances and bank statements. Further, the comparative column for the year 2018/2019 reflects nine (9) projects with a total of Kshs.1,967,899.24 which have not been reported in the year under review. The project expenditure returns, bank statements and handover reports after completion of the nine projects were not provided for verification and the Management failed to provide evidence that the projects had been closed and handed over. This is contrary to Section 15(1) of National Government Constituencies Development Fund Regulations, 2016.

In the circumstances, the accuracy and completeness of the reported PMC bank account balance of Kshs.23,900,952 as at 30 June, 2020 could not be confirmed.

#### **2. Payment for Works not Done**

As disclosed under Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other government units of Kshs.78,066,000 which includes transfers to secondary schools of Kshs.41,066,000. However, physical verification during

the month of February, 2021 reflects that payments totaling to Kshs.5,245,595 had been transferred to Kihara Secondary School for three(3) projects which were indicated as complete and in use yet the works had either not been done or were partly done.

In the circumstances, the accuracy and completeness of expenditure of Kshs.5,245,595 incurred on transfer to other government entities 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 - Ndaragwa 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**

##### **1.1 Budget Shortfall**

The summary statement of appropriation: recurrent and development combined reflects final receipts budget and actual receipts on comparable basis of Kshs.200,224,270 and Kshs.115,540,876 respectively resulting to an under-funding of Kshs.84,683,394 or 43% of the budget. The underfunding affected the planned activities and projects which may have impacted negatively on service delivery for the constituents of Ndaragwa.

##### **1.2 Under Expenditure**

The summary statement of appropriation further reflects final expenditure budget and actual expenditure on comparable basis of Kshs.200,224,271 and Kshs.125,750,821 respectively resulting to an under-expenditure of Kshs.74,473,450 or 37% of the budget. The under expenditure resulted to delayed benefits to be derived from the projects by the constituents of Ndaragwa.

No satisfactory explanation has been given contrary to the values and principles of public service as provided for under Article 232 (1-c) of the Constitution which requires responsive, prompt, effective, impartial, and equitable provision of services.

#### **2. Incomplete Projects**

During the audit, twenty-six (26) projects with a total disbursement of Kshs.60,887,524.20 were inspected in the month of February, 2021. The following issues were noted;

- i. Incomplete projects but already put in to use,
- ii. branding or project labelling not done.

Consequently, the Fund may have failed to obtain value for money spent on the projects valued at Kshs.60,887,524.20 for the year ended 30 June, 2020. Further service delivery of goods and services to the residents of Ndaragwa Constituency may not have been achieved.

## 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 matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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. Unsupported Projects**

As disclosed under Note 9 to the financial statements, the statement of receipts and payments reflects other payments of Kshs.3,357,884;(2019-Kshs.1,869,257) on consultancy for development of a strategic plan. Review of delivery documents reflects that one hundred (100) copies of the final document were delivered to the constituency but the payment is not supported by way of contract agreement detailing the terms of engagement, scope of the assignment, terms of reference or expected deliverables.

In the circumstances, value for money of Kshs.3,357,884 incurred on development of strategic plan for the year ended 30 June, 2020 could not be confirmed.

#### **2. Emergency Projects**

As disclosed under Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers of Kshs.33,209,403;(2019-Kshs.56,548,725). This amount includes Kshs.12,364,730 incurred on emergency projects. However, transfer of Kshs.6,900,000 to four (4) institutions were used in construction of toilets, removal of asbestos from dining hall and installation of water system and the reason given was that the toilets and the roof were dilapidated and the water system works were necessary.

This was contrary to Section 8(3) of the NGCDF Act, 2015 which states that an Emergency shall be construed to mean an urgent, unforeseen need for expenditure for which it is in the opinion of the committee that it cannot be delayed until the next financial year without harming the public interest of the constituents.

In the circumstance, the Management was in breach of the law.

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, I confirm that, nothing else 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.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the Cash 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the funds financial reporting process, reviewing the effectiveness of how the entity 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 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**

**27 January, 2022**