

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - EMURUA DIKIRR 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 - Emurua Dikirr Constituency set out on pages 16 to 43, 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 - Emurua Dikirr 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. Accuracy of the Financial Statements**

##### **1.1 Comparative Balances**

The statement of receipts and payments reflects nil balance for the year 2018/2019 while Note 9 to the financial statements reflects other payments balances of Kshs.3,300,000 resulting to unreconciled variance of Kshs.3,300,000.

Similarly, Annex 5 PMC Bank balances reflects comparative figure of kshs.2,350,00 while Annex 5 PMC Bank 2018/2019 reflects Nil closing balance.

##### **1.2 Variance Between Budget and the Financial Statements**

Note 8 to the financial statement reflects nil balance on acquisition of assets while the statement of appropriation - recurrent and development combined reflect actual on comparable basis payments of Ksh.2,665,758 being acquisition of assets during the year resulting to unreconciled or unexplained variance Ksh.2,665,758.

##### **1.3 Variance Between Financial Statements and Ledger Balances**

Note 6 to the financial statements reflects Kshs.84,750,000 in respect of transfers to other government units against ledger amounts totalling to Kshs.88,250,000 resulting to unreconciled variance of Kshs.3,500,000.

## **1.4 PMC Bank Balances**

Note 17.4 to the financial statements on the PMC bank balances as at 30 June, 2020 reflects a balance of Ksh.5,700,000 held in fifteen (15) schools. However, the certificate of bank balances indicate that PMC bank accounts had a total amount of Ksh.4,999,902 as at 30 June, 2020 resulting to unreconciled variance of Kshs.700,098.

## **1.5 Fixed Assets Register**

Annex 4 to the financial statements (summary of fixed asset register) reflects that the Emurua Dikirr NG-CDF as at 30 June, 2020 had assets worth Ksh.7,824,266 against the fixed assets register amounts totalling to Ksh.6,798,299 resulting to an unexplained variance of Ksh.1,025,967. Further, the statement of appropriation - recurrent and development combined reflects total payments of Kshs.2,665,758 being acquisition of assets during the year which has not been reflected as additions during the year therefore understating the assets by equivalent amounts.

In the circumstances, the accuracy and completeness of the financial statements as prepared and presented for the year ended 30 June, 2020 could not be confirmed.

## **2. Cash and Cash Equivalents**

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities as at 30 June, 2020 reflect a balance of Ksh.3,058,748 in respect of cash and cash equivalents. However, a review of the Fund bank reconciliation statement revealed stale cheques amounting to Kshs.1,021,098 which had not been reversed in the cash book. No explanation has been provided for failure to update the cash book with the amount of stale cheques.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.3,058,748 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 Constituencies Development Fund - Emurua Dikirr 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 of Kshs.213,394,155 and Kshs.144,026,432 respectively resulting to an under-funding of Kshs.69,367,723 or 32.5% of the budget. The Project expenditure was limited to the amount realized.

Based on the approved estimates, under funding and expenditure 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**

#### **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

#### **Basis for Conclusion**

##### **1. Presentation and Disclosures in the Financial statements**

The financial statements presented for audit for the year ended 30 June, 2020 had the following errors.

- 1.1. The statement of Entity management responsibilities refers to 'Entity' instead of National Government Constituencies Development Fund - Emurua Dikirr.
- 1.2. The cover page has an inscription "Revised Template 30 June, 2020" which is a template guide.
- 1.3. The statement of receipts and payment has Title-Report of Independent Auditors on the NGCDF - Emurua Dikirr Constituency instead of title Receipt and Payments.
- 1.4. Table of contents is not consistent with the page numbers 6,14,16,21,22 in the financial statements as they are repeated and titles are different.
- 1.5. Significant accounting policies No 2 Reporting entity indicates that the financial statements are presented in Kshs. and the values are rounded to the nearest Kenya shillings which is not the case with Note 13 and 17.3 on fund balance b/fwd and unutilized fund in the financial statements.

This is contrary to the format prescribed by the Public Sector Accounting Standard Board (PSASB) in accordance with section 194(1)(d) of the Public Finance Management Act, 2012.

Consequently, the annual report and the financial statements for the year ended 30 June, 2020 as prepared and presented are not IPSAS compliant.

## **2. Late Submission of the Financial Statements**

The financial statements for the year 2019/2020 were submitted for audit on 11 February, 2021, four and a half months after the due date, contrary to Section 47(1) of the Public Audit Act, 2015 which states “The financial statements shall be submitted to the Auditor-General within three (3) months after the end of the fiscal year to which the accounts relate”.

Consequently, the management is in breach of the Law.

## **3. Transfers to Other Government Units**

### **3.1 Irregular Procurement**

Review of records revealed that, Emurua Dikirr NG-CDF implemented projects in forty-one (41) primary schools and thirteen (13) secondary schools at a total cost of Kshs.84,750,000 during the year under review. However, contract documents were not provided. Therefore, it was not possible to establish whether this contract was awarded in accordance to Article 227(1) of the constitution of Kenya, 2010.

Further, engineer’s estimates on the projects, records of contractor’s retention fees and evidence that withholding tax was being deducted by the Fund and remitted to Kenya Revenue Authority were not provided. In addition, projects did not have interim/final completion certificate contrary to Section 150 (3) of the Public Procurement and Asset Disposal Act, 2015.

### **3.2 Project Identification and Implementation**

The statement of receipts and payments for the year ending 30 June, 2020 reflects Kshs.84,750,000 in respect of transfer to other government units. The Fund implemented projects in fifty-four (54) institutions. However, no ward reports or committee minutes were provided. In addition, files for projects implemented in various institutions amounting to Kshs.29,200,000 were not provided.

### **3.3 Project Verification/Inspection**

Review of project summary confirmed fifty-four (54) projects at a total cost of Kshs.84,750,000 were implemented. However, an audit inspection carried out on 15 and 16 February, 2021 covered ten (10) projects amounting to Kshs.25,100,000 out of which three (3) projects valued at Kshs.5,900,000 revealed that the contractors were paid and work was not completed and evidence of poor workmanship observed.

In the circumstances, the Public did not realize value for money equivalent to Kshs.5,900,000.

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 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 standard requires 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 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 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 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 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 Fund 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 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**

**11 February, 2022**