

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - EMBAKASI SOUTH 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 - Embakasi South Constituency set out on pages 15 to 41, 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 provision 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 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 - Embakasi South 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. Understated Cash and Cash Equivalents**

The statement of assets and liabilities reflects bank balances of Kshs.36,016,599 and nil balance for cash in hand respectively as disclosed in Note 10A and 10B to the financial statements. However, the cash book and board of survey report for the year ended 30 June, 2020 reflects a cash in hand balance of Kshs.1,915,000 which was not included in the cash and cash equivalents balance resulting to understatement of the cash balance by Kshs.1,915,000.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.36,016,599 could not be confirmed.

#### **2. Understated Use of Goods and Services Expenditure**

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.10,584,119 as disclosed in Note 5 to the financial statements. However, an expenditure of Kshs.481,810 was incurred for execution of tenancy agreement but it was not included in the use of goods and services therefore understating the expenditure by a similar amount.

In the circumstances, the accuracy and completeness of the use of goods and services expenditure of Kshs.10,584,119 could not be confirmed.

### **3. Unexplained Variances for Use of Goods and Services**

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.10,584,119 as disclosed in Note 5 to the financial statements. However, as per the payment vouchers provided, the expenditure for use of goods and services amounted to Kshs.12,957,270 resulting to unexplained variance of Kshs.2,373,151.

In the circumstances, the accuracy and completeness of the use of goods and services expenditure of Kshs.10,584,119 could not be confirmed.

### **4. Unsupported Expenditure for Use of Goods and Services**

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.10,584,119 as disclosed in Note 5 to the financial statements. Review of records provided showed that an amount of Kshs.1,424,000 was incurred but was not supported by any payment voucher, contrary to Section 104(1) of the Public Finance Management Regulations, 2015.

In the circumstances, the accuracy and completeness of the use of goods and services expenditure of Kshs.1,424,000 could not be confirmed.

### **5. Unaccounted for Transfers to Other Government Units**

The statement of receipts and payments reflects transfers to other government units amounting to Kshs.19,500,000 which includes transfers to primary schools of Kshs.16,500,000 as disclosed in Note 6 to the financial statements. Review of payment vouchers provided for audit showed that the money was transferred to Kwa Njenga Primary PMC bank account and according to the approved project code list, the amount of Kshs.16,500,000 was meant to convert class to computer lab, purchase a 52-seater bus and rehabilitate the school field within the year ended 30 June, 2020.

However, audit inspection carried out on 22 January, 2021 showed that the project work had not been done and the amount of Kshs.15,400,000 had already been utilized leaving a balance of Kshs.1,100,000 which could not be traced in the PMC Account.

In the circumstances, the validity and regularity of the transfers to other government units expenditure amounting to Kshs.16,500,000 could not be confirmed.

### **6. Unaccounted for Compensation of Employees**

The statement of receipts and payments reflects compensation of employees amounting to Kshs.3,695,480 as disclosed in Note 4 to the financial statements. However, review of employees documents provided for audit showed that only three (3) employees were working in the constituent office despite the office paying fourteen (14) employees every month. The eleven (11) employees were not accounted for and employment contracts were not provided for audit.

Consequently, the validity and regularity of compensation of employees expenditure of Kshs.3,695,480 could not be confirmed.

## **7. Unsupported Bursary to Tertiary Institutions**

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.54,421,336 which includes an amount of Kshs.17,549,218 for bursary to tertiary institutions, out of which an amount of Kshs.15,137,000 was paid to various tertiary institutions for various training programs as disclosed in Note 7 to the financial statements. However, documents showing acknowledgment of receipt of the monies and confirmation of the beneficiaries attendance of the training and whether they gained the required skills were not provided. Further, an amount of Kshs.5,637,218 was paid to private institutions as bursaries for training various courses which could not be confirmed.

In the circumstances, the validity and regularity of bursary to tertiary institutions amounting to Kshs.17,549,218 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 - Embakasi South 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**

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis totalling to Kshs.213,537,578 and Kshs.125,139,854 respectively, resulting to an underfunding amounting to Kshs.88,397,724 or 41% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.213,537,578 and Kshs.89,123,255 respectively, resulting to under expenditure of Kshs.124,414,322 or 58% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on the delivery of services to the residents of Embakasi South Constituency.

# 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 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. Presentation and Disclosure Errors in the Financial Statements

The annual report and financial statements prepared and presented for audit had the following presentation and disclosure errors;

- i. The statement of budget execution by programmes and sub-programmes shows the financial year under actual on comparable basis and final budget columns as 30/06/2019 and 2018/2019 respectively instead of 30/06/2020 and 2019/2020.
- ii. The progress on follow up of auditors' recommendations is blank and not signed by the Accounting Officer.
- iii. The forward by the Chairman NGCDF Committee indicates that the Fund was allocated a total allocation of Kshs.137,367,274. However, the summary statement of appropriation - recurrent and development combined reflects a budgetary allocation of Kshs.213,537,578 resulting to an unreconciled variance of Kshs.76,170,304.
- iv. The forward by the Chairman NGCDF Committee indicates that the Fund received an amount of Kshs.68,000,000. However, the statement of receipts and payments shows that actual receipts from the CDF board amounted to Kshs.104,010,876. The variance of Kshs.36,010,876 was not reconciled.
- v. Note 17.3 to the financial statements in other important disclosures reflects unutilized fund balance of Kshs.76,169,853 for both 2019/2020 and 2018/2019 financial years. However, Annex 3 to the financial statements reflects nil unutilized fund balances under outstanding balance for 2019/2020 and 2018/2019 columns.
- vi. Note 17.3 to the financial statements in other important disclosures reflects unutilized fund balance of Kshs.76,169,853. However, the summary statement of appropriation - recurrent and development combined reflects unutilized funds balance under budget utilization difference column of Kshs.124,414,322. The variance of Kshs.48,244,469 was not explained.

Consequently, the annual report and financial statements as prepared and presented are not in the format prescribed by the Public Sector Accounting Standards 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 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 else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

#### **Unlawful Operations of PMC Accounts by CDFC Members**

During the year under review, two PMC Accounts had CDFC members as their signatories to the accounts which was unlawful and against Section 41(1) of NG CDF Act, 2015 under which they have been appointed. As a result, there was conflict of interest amongst members and it was not clear how the National Government Constituency Development Committee was able to perform supervisory role to the Project Management Committee.

In the circumstances, the Management contravened the law.

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 Fund's ability to continue 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 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 Fund 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 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 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**