

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - IGEMBE 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 - Igembe South Constituency 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 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 - Igembe 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**

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

##### **1.1 Variances Between the Comparative and Audited Balances**

Note 17.3 to the financial statements reflects a comparative balance of Kshs.62,517,039 in respect of unutilized funds. However, the unutilized funds balance reflected in the audited financial statements for the year ended 30 June, 2019 amounted to Kshs.55,040,875 resulting into an unexplained variance of Kshs.7,476,164.

Further, the nil comparative balance with respect to Project Management Committee (PMC) bank balances reflected at Annex 5 to the financial statements, differed with the balance of Kshs.10,196,779 reflected in the financial statements for the year ended 30 June, 2019.

In the circumstances, the accuracy of the comparative balance of Kshs.62,517,039 and nil in respect to for unutilized funds and PMC balances respectively, could not be ascertained.

## 1.2 Accuracy of the Summary Statement of Appropriation - Recurrent and Development Combined.

The Fund's summary statement of appropriation - recurrent and development combined for the year ended 30 June, 2020 reflects approved budgeted receipts of Kshs.200,019,763 and actual receipts of Kshs.159,329,976 resulting into a budget utilization difference of Kshs.40,689,787. However, the utilization difference is shown as Kshs.39,367,724 resulting into an unreconciled and unexplained variance of Kshs.1,322,063.

In the circumstances, the accuracy of the summary statement of appropriation - recurrent and development combined could not be confirmed.

## 1.3 Variances between the Statement of Receipts and Payments and Notes to the Financial Statements

The statement of receipts and payments and the statement of cash flows reflect payments of Kshs.3,420,799 for compensation of employees. However, Note 4 to the financial statements reflects compensation of employees expenditure of Kshs.4,425,199 resulting into an unexplained and unreconciled variance of Kshs.1,004,400.

In the circumstances, the accuracy of the expenditure of Kshs.3,420,799 for compensation of employees could not be ascertained.

## 1.4 Variances between the Summary Statement of Appropriation - Recurrent and Development Combined and the Separate Summary Statements of Appropriation for Recurrent and Development.

The summary statement of appropriation - recurrent and development combined reflects balances on eight (8) items that are at variance with the sums of the balances reflected in the summary statement of appropriation - recurrent and the summary statement of appropriation - development for the same items as detailed below:

Items	Recurrent (Kshs.)	Development (Kshs.)	Total (Kshs.)	Combined (Kshs.)	Variance (Kshs.)
<b>Total Receipts</b>					
Original Budget	12,363,724	125,004,629	137,368,353	137,367,724	629
Adjustments	841,215	59,137,931	59,979,146	62,652,039	(2,672,893)
Final Budget	13,204,939	184,142,560	197,347,499	200,019,763	(2,672,264)
Actual on Comparison Basis	12,082,072	142,932,724	155,014,796	159,329,976	(4,315,180)
Budget Utilization	1,122,867	41,209,836	42,332,703	39,367,724	2,964,979
<b>Total Payments</b>					
Adjustments	2,228,258	60,288,780	62,517,038	62,652,038	(135,000)
Final Budget	14,591,354	185,293,409	199,884,763	200,019,763	(135,000)
Budget Utilization	2,644,282	42,360,685	45,004,967	45,139,967	(135,000)

In the circumstances, the accuracy of the summary statement of appropriation - recurrent and development combined could not be ascertained.

## **1.5 Un-Utilized Funds**

The summary statement of appropriation-recurrent and development combined reflects a budget utilization difference of Kshs.45,139,967 which represents the unutilized funds for the year under review. However, Note 17.3 to the financial statements, reflects Kshs.45,004,966 in respect to unutilized funds for the year under review resulting into an unreconciled and unexplained variance of Kshs.135,001.

In the circumstances, the accuracy of the unutilized funds balance could not be confirmed.

## **2.0 Cash and Cash Equivalents**

The statement of assets and liabilities reflects Kshs.5,772,242 in respect to cash and cash equivalents which differed with the cashbook balance of Kshs.5,592,374 by an unreconciled and unexplained variance of Kshs.179,868.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.5,772,242 as at 30 June, 2020 could not be ascertained.

## **3.0 Unsupported Project Management Committees (PMC) Bank Balances**

Annex 5 to the financial statements reflects PMC bank balances of Kshs.34,155,587 being the unspent project funds as at 30 June, 2020. However, the respective supporting documents including bank reconciliations statements, bank statements and cash books were not provided for audit.

In the circumstances, the accuracy of the balance of Kshs.34,155,587 held in PMC bank accounts as at 30 June, 2020 could not be confirmed.

## **4.0 Irregular Payment of Committee Allowances**

The statement of receipts and payments reflects Kshs.8,526,273 being payments for use of goods and services which as disclosed at Note 5 to the financial statements, includes Kshs.5,021,495 with respect to committee expenses. However, the committee expenses balance included Kshs.86,000 comprising of Kshs.20,000 in respect to airtime allowances to National Government Constituency Development Fund committee members without authority and Kshs.66,000 for staff training charged to committee expenses.

Further, the committee minutes and attendance registers provided for audit revealed that the Committee including the Sub-committee met twenty-six (26) times during the financial year under review contrary to Section 11 of the National Government Constituencies Development Fund Act, 2015 which provides that the Constituency Committee shall meet at least six (6) times in a year but the committee shall not hold more than twenty-four (24) meetings in the same financial year, including sub-committee meetings. According to documents provided for audit, the committee was paid Kshs.922,845 for the extra and irregular two (2) meetings.

In the circumstances, the accuracy and regularity of the reported committee expenses could not be confirmed.

## **5.0 Un-Acknowledged Bursary Disbursements**

The statement of receipts and payments reflects other grants and transfers balance of Kshs.43,271,723 which as disclosed at Note 7 to the financial statements, includes Kshs.13,923,556 and Kshs.7,565,527 being bursaries disbursed to secondary schools and tertiary institutions respectively, and both totaling to Kshs.21,489,083. However, bursaries amounting to Kshs.10,375,103 or 48% were not acknowledged by the beneficiary schools and institutions.

In the circumstance, it has not been possible to ascertain whether the bursaries amounting to Kshs.10,375,103 benefited the intended recipients.

## **6.0 Presentation of the Financial Statements**

The financial statements for the year ended 30 June, 2020 reflected the following anomalies:

- i. The Fund Accountant's Institute of Certified Public Accountants of Kenya (ICPAK) membership number is not indicated below the signature as required.
- ii. Pages 18 to 38, of the financial statements reflect part of the information on sustainability reporting, statement of entity management responsibilities and the financial statements. However, the pages containing the information on the significant accounting policies, notes the financial statements and the annexes are also numbered 18 to 38.
- iii. Note 6 and 7 to the financial statements indicate that more information is available on the items presented in the "attached lists". However, the lists are not attached in the financial statements.
- iv. Note 17.4 and Annex 5 to the financial statements reflect balances that are in decimal contrary to best accounting practice that requires figures in the financial statements to be rounded off to the nearest shillings.

In the circumstances, the Funds' financial statements are not prepared in accordance with the financial reporting guidelines issued by the Public Sector Accounting Standards Board.

## **7.0 Prior Year Adjustment**

The statement of assets and liabilities reflects a prior year adjustment of Kshs.1,322,063 relating to bank account balances as disclosed at Note 14 to the financial statements. However, Paragraph 1.5 of International Public Sector Accounting Standard - Financial Reporting under the Cash Basis of Accounting requires that errors relating to prior periods shall be reported by adjusting the cash at the beginning of the period and comparative information to be restated accordingly. The disclosure requirements with regard to correction of errors have also not been met.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Igembe 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**

#### **Budgetary Control and Performance**

The summary statement of appropriation - recurrent and development combined reflects a final receipts budget and actual receipts on comparable basis of Kshs.200,019,763 and Kshs.159,329,976 respectively, resulting into an under-funding of Kshs.40,689,787 or 20% of the budget. Similarly, the Fund expended Kshs.154,879,796 against an approved budget of Kshs.200,019,763 resulting into an under-expenditure of Kshs.45,139,967 or 33% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Igembe 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 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 Construction of a Science Laboratory at Maua Day Secondary**

The statement of receipts and payments reflects transfers of Kshs.95,750,000 to other government entities which as disclosed at Note 6 to the financial statements, includes Kshs.49,450,000 transferred to secondary schools of which Kshs.3,747,110 was transferred to Maua Day Secondary School for construction of a science laboratory.

However, audit inspection in December, 2020, revealed that the Project was complete but not in use. Further, some of the items installed were at variance with the provisions in the bill of quantities as shown below:

Items provided in the Bill of Quantities	Amount (Kshs.)	Audit Inspection Findings	Variance (Kshs.)
Bill of Quantity (BQ) provided for installation of 27 sinks @ 2,400 each.	64,800	Only 21 sinks were installed costing Kshs.50,400	14,400
Bill of Quantity (BQ) provided for installation of 27 taps @ 1,800 each.	48,600	Only 21 taps were installed costing Kshs.37,800	10,800
Bill of Quantity (BQ) provided for installation of 16 Bunsen burners stations @ 700 each.	11,200	Only 13 Bunsen burners stations were installed costing Kshs.9,100	2,100
<b>Total</b>	<b>124,600</b>		<b>27,300</b>

In addition, the floor and laboratory bench surfaces had developed cracks while the water and gas piping were exposed indicating poor workmanship.

In the circumstances, value for money for the expenditure of Kshs.3,747,110 on the Project could not be ascertained.

## 2.0 Implementation of Projects

### 2.1 Delay in Projects Implementation

According to the project implementation status report provided, seventy-one (71) projects with a combined budget of Kshs.181,344,319 were to be implemented during the financial year under review. However, fifteen (15) projects with a combined budget of Kshs.103,756,388 were still ongoing while four (4) projects allocated Kshs.7,900,000 had not started as at 30 June, 2020.

Delayed completion of projects denied the residents of Igembe South Constituency the benefits that would have been derived from the completed projects and also increases the risk of cost escalations.

### 2.2 Projects not Put to Use and Poor Workmanship

An audit inspection exercise undertaken in the month of December 2020, revealed that Management had paid Kshs.17,112,950 for three (3) projects which were complete but not in use. Poor workmanship was also noted in one of the projects as shown below:

Project Name	Budget (Kshs.)	Disbursements (Kshs.)	Observations
Rhenya Primary School - Completion of Administration Block	4,500,000	3,300,000	<ul style="list-style-type: none"> <li>Project complete but not yet in use.</li> <li>There was evidence of cracks on all the floors.</li> </ul>
Kilalai Day Secondary - Erection and Completion of a Multi-purpose hall.	10,065,840	10,065,840	Project complete but not in use.
Maua Mixed Day Secondary School – Construction of a laboratory	3,747,110	3,747,110	Project is complete but not in use.
<b>Total</b>	<b>18,312,950</b>	<b>17,112,950</b>	

In the circumstances, value for money from the expenditure on the projects could not be confirmed.

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 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 so as 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 overall 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 going concern 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 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 going concern 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 as a going concern or 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 as a going concern or 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**

**20 January, 2022**