

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MATHIRA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Mathira Constituency set out on pages 13 to 42, which comprise the statement of assets and liabilities as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows and the summary statement of appropriation 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 National Government Constituencies Development Fund - Mathira Constituency as at 30 June, 2021, 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. Mathira Youth Empowerment Project

The statement of receipts and payments reflects transfers to other government units balance of Kshs.117,408,071 which as disclosed in Note 6 to the financial statements, includes transfers of Kshs.34,427,027 to tertiary institutions. Included in the amount is Kshs.23,274,988 transferred to Mathira Youth Empowerment Project for the construction of perimeter wall, administration block and classrooms. The Project commenced in the financial year 2019/2020 and a total of Kshs.31,177,027 had been disbursed to the Project as at 30 June, 2021. A total Kshs.8,333,243 had been spent on the construction of the perimeter wall as at the time of audit in March, 2022. However, construction of the perimeter wall had not been completed and Inspection and Acceptance Committee reports for the works paid for were not provided for audit.

Further, the construction of the administration block at a cost of Kshs.22,394,818 as contained in the bill of quantities had not started. In addition, ownership documents for the parcel of land where the Project was being undertaken were not provided for audit.

In the circumstances, the ownership status of the parcel of land on which the Project was being undertaken and the regularity of the amount of Kshs.8,333,243 spent on the Project could not be confirmed. Further, delayed implementation of the Project may lead to cost escalations.

2. Misstatement of Comparative Balances

Comparative balances reflected in the statement of receipts and payments differed with the corresponding amounts reflected in the prior year's audited financial statements as analyzed below:

Item	Amount as per 2020/2021 Financial Statements (Kshs.)	Amount as per 2019/2020 Audited Financial Statements (Kshs.)	Variance (Kshs.)
Use of Goods and Services	9,996,270	9,799,710	196,560
Transfers to Other Government Units	88,155,589	82,135,039	6,020,550
Other Grants and Transfers	18,457,708	24,829,758	(6,372,050)
Acquisition of Assets	8,216,940	8,062,000	154,940

The variances were not explained or reconciled.

In the circumstances, the accuracy of the comparative balances could not be confirmed.

3. Ownership Documents for Assets

Annex 4 to the financial statements - summary of fixed assets register reflects a historical cost of Kshs.29,408,244 for assets which includes Kshs.15,660,000 for other machinery and equipment relating to the cost of a motor grader model Komatsu GD 521A. However, ownership documents for the motor grader were not provided for audit. In addition, although the motor grader was serviceable, it was not utilized during the year under review.

In the circumstances, the ownership status for the motor grader could not be confirmed. In addition, value for money on the expenditure of Kshs.15,660,000 incurred on the purchase of the grader may not have been realized.

4. Unresolved Prior Year Audit Matters

Various prior year audit issues remained unresolved as at 30 June, 2021. Management has not provided satisfactory reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues are not disclosed under the progress on follow-up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board (PSASB).

In the circumstances, the Fund's financial statements do not comply with the financial reporting guidelines provided by the PSASB pursuant to Section 194 of the Public Finance Management Act, 2012.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Mathira 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 reflects budgeted receipts of Kshs.216,902,374 and actual receipts of Kshs.170,213,495, resulting into a budget shortfall of Kshs.46,688,879 or 21% of the budget. Similarly, the Fund spent Kshs.150,459,886 against an approved budget of Kshs.216,902,374, resulting to an under-expenditure of Kshs.66,442,489 or 31% of the budget.

The under-funding and under-expenditure constrained the execution of the planned activities and delivery of services to the residents of Mathira 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. Administration Expenses Exceeding the Set Ceiling

The summary statement of appropriation reflects a final budget amount of Kshs.216,902,375 and actual expenditure of Kshs.4,935,219 and Kshs.11,539,580 on compensation of employees and use of goods and services respectively, both totalling to Kshs.16,474,799. However, this latter amount represents 8% of the budget, contrary to Section 25(6) of the National Government Constituencies Development Fund Act, 2015 which requires a maximum of six per centum (6%) of the total annual allocation for the constituency to be used for administration, recurrent expenses of vehicles, equipment and machinery.

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

2. Employment of Excess Staff

The statement of receipts and payments reflects compensation of employees amount of Kshs.4,935,219. During the year under review, the Fund had a total of eight (8) employees which exceeded the recommended number of five employees by three (3) or 60 % of the recommended staff establishment. This is contrary to National Government Constituencies Development Fund Board Circular Ref. No. CDF Board/ Circular/ Vol 166 dated 24 June, 2013 that directed the Funds not to employ more than five (5) employees in the constituency offices.

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

3. Project Management Committee (PMC) Bank Balances

Annex 5 to the financial statements reflects Kshs.53,743,067 relating to the balances held in PMC bank accounts as at 30 June, 2021 in respect of eighty (80) projects. The balance includes PMC bank balances amounting to Kshs.16,072,657 relating to projects that had been completed and were in use as per the project implementation status (PIS) report provided. However, the respective bank accounts had not been closed and the fund balances transferred to the Constituency bank account. This is contrary to the requirements of Section 12(8) of the National Government Constituencies Development Fund Act, 2015, which requires that all unutilized funds of the Project Management Committee be returned to the Constituency account.

In the circumstances, 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, 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 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, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain its 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 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 National Government Constituencies Development Fund - Mathira Constituency 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 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

29 July, 2022