

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - JOMVU CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Jomvu Constituency set out on pages 9 to 39, which comprise the statement of assets and liabilities as at 30 June, 2019, 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 effects of the matter 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 - Jomvu Constituency as at 30 June, 2019, 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 No.30 of 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

The financial statements for the year ended 30 June, 2019 presented for audit review contained anomalies as detailed below;

- i. The statement of receipts and payments for the year ended 30 June, 2019 reflects comparative figure for other grants and transfers of Kshs.15,528,293 while the audited financial statements for the year ended 30 June, 2018 reflects a figure Kshs.15,582,293, resulting to an unexplained/unreconciled variance of Kshs.54,000.
- ii. The summary statement of appropriation - recurrent and development combined for the year ended 30 June, 2019 reflects unutilized funds balance of Kshs.131,280,593 while Note 15.3 reflects unutilized funds of Kshs.47,282,822, resulting to a variance of Kshs.83,997,771 not satisfactorily explained.

Consequently, the accuracy and completeness of other grants and transfers of Kshs.15,528,293 and unutilized funds of Kshs.47,282,822 for the year ended 30 June, 2019 could not be confirmed.

2. Unsupported Adjustment

Note 7 to the financial statements for the year ended 30 June, 2019 reflects a restated comparative figure for bursary-secondary schools of Kshs.12,128,293, while Note 7 of the audited financial statements for 2017/2018 reflects Kshs.12,086,293, being adjustment of comparative figure by Kshs.42,000. However, the supporting journal entries for the same were not availed for audit review.

Consequently, the accuracy and completeness of the comparative figure for bursary – secondary schools of Kshs.12,128,293 for the year ended 30 June, 2019 could not be confirmed.

3. Unexplained Other Grants and Transfers

Note 7 to the financial statements for the year ended 30 June, 2019 reflects bursary – secondary schools amounting to Kshs.20,548,745. However, records availed for audit review reflects multiple disbursements of bursaries to students with same names and same admission numbers amounting to Kshs.505,000 as summarized below;

No.	Description	No. of students	Amount (Kshs.)
1.	Students with similar names	38	365,000
2.	Students with same admission numbers	16	140,000
Total			505,000

The Management has not explained why such anomalies took place and the remedy for the same.

In the circumstances, the regularity and completeness of bursary – secondary schools amounting to Kshs.20,548,745 for the year ended 30 June, 2019 could not be confirmed.

4. Unsupported Bursaries

Note 7 to the financial statements for the year ended 30 June, 2019 reflects bursary – secondary schools of Kshs.20,548,745 and bursary- tertiary institutions of Kshs.16,480,000 all totalling Kshs.37,028,745. However, the supporting schedules availed for audit review amounted to Kshs.36,863,000, resulting to unexplained and unreconciled variance of Kshs.165,745.

Consequently, the accuracy, validity and completeness of Kshs.37,028,745 in respect to bursaries for the year ended 30 June, 2019 could not be confirmed.

5. Understated Cash and Cash Equivalents

The statement of assets and liabilities as at 30 June, 2019 reflects cash and cash equivalents balance of Kshs.47,282,822. However, the supporting bank reconciliation statement availed for audit, reflects unpresented cheques amounting to Kshs.3,551,698, out of which Kshs.2,467,690 were over six months old, hence stale and had not been reversed in the cashbook thereby understating the cash and cash equivalent balance.

Consequently, the accuracy, validity and completeness of cash and cash equivalents balance of Kshs.47,282,822 as at 30 June, 2019 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 - Jomvu 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

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.226,660,219 and Kshs.142,662,447 respectively resulting to an under-funding of Kshs.83,997,772 or 37% of the budget. Similarly, the Fund spent Kshs.95,379,626 against an approved budget of Kshs.226,660,219 resulting to an under-expenditure of Kshs.131,280,593 or 58% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Jomvu Constituency.

2. Projects Implementation Status

The projects implementation status report as at 30 June, 2019 availed for audit review reflects that National Government Constituencies Development Fund - Jomvu Constituency, had eight (8) projects with an approved budget of Kshs.54,126,569.

However, the Management had not started six (6) projects worth Kshs.34,295,489. Delay in implementation of the projects may have denied residents of Jomvu Constituency the intended benefits or value for money since the allocated funds remain idle.

3. Projects Inspection

Audit inspection of two (2) projects with a total allocation of Kshs.19,831,080 in the month of December 2019 revealed one project with an allocation of Kshs.1 million was completed and in use. The second one with an allocation of Kshs.18,831,080 for the construction of National Government Constituency Development Fund Committee offices (second and third floors) was at work in progress phase. The office building was constructed up to first floor while phase two of the office block had not started.

Consequently, the observations on construction of the offices casts doubts on poor projects supervision and value for money amounting to Kshs.18,831,080

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 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. Unutilized Funds in Project Management Committee Bank Account

Annex 5 to the financial statements for the year ended 30 June, 2019 reflects project management committee bank balances amounting to Kshs.145,002,574, out of which Kshs.7,439,189.80 was in the projects bank accounts instead of the Constituency Development Fund (CDF) bank account.

This is contrary to Section 12(8) of the National Government Constituencies Development Fund Act, 2015 which states that “all unutilized funds of the Project Management Committee shall be returned to the constituency account”.

2. Failure to Establish Constituency Oversight Committee

As previously reported, the National Government Constituencies Development Fund - Jomvu Constituency had not constituted a Constituency Oversight Committee, contrary to Section 53(1) of the National Government Constituencies Development Fund Act, 2015 which requires establishment of a Constituency Oversight Committee for projects undertaken under this Act.

In the circumstances, the oversight role of the committee was not undertaken effectively as required by the National Government Constituencies Development Fund Act, 2015.

Basis for Conclusion

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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the 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 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 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

07 October, 2021