

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KIAMBAA 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 - Kiambaa Constituency set out on pages 9 to 29, which comprise the statement of assets as at 30 June, 2019, 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 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 - Kiambaa 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Unconfirmed Bursary Disbursements

Note 7 to the financial statements on other grants and transfers reflects payments of Kshs.26,289,206 for bursary to secondary schools. However, receipts or acknowledgement letters to confirm receipt of the bursaries from two schools which were paid a total of Kshs.188,000 were not provided for audit review.

Consequently, it could not be ascertained whether the bursary payments reached the intended beneficiaries and were properly accounted for.

2. Inaccuracy of Comparative Balances

The statement of assets reflects a comparative fund balance brought forward from 2017/2018 financial statements of Kshs.1,387,953 as disclosed under Note 13, which differs from Kshs.37,164,906 reflected in the audited financial statements for 2017/2018. The resultant variance of Kshs.35,776,953 was not reconciled or explained.

Further, Note 15.4 to the financial statements relating to other important disclosures reflect a comparative PMC account balance of Kshs.11,379,310 which differs by Kshs.68,605 from the audited account balance of Kshs.11,310,705 in 2017/2018 financial statements.

Consequently, the accuracy and completeness of these comparative balances could not be confirmed.

3. Net Liabilities

The statement of assets reflects net financial assets balance of Kshs.15,608,701 and nil financial liabilities as at 30 June, 2019. However, contrary to the guidelines issued by the Public Sector Accounting Standards Board, the statement of assets shows at the bottom net liabilities instead of net financial position of Kshs.15,608,701. No explanation was given for this anomaly.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Kiambaa 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. Budget Control and Performance

During the financial year under review, the Fund received a total of Kshs.101,810,616 from the National Government Constituencies Development Fund Board against a budget of Kshs.157,585,092 resulting in a shortfall of Kshs.55,774,475 or 35% of the budgeted amount.

Further, the total actual expenditure for the year was Kshs.86,201,915 out of a budget of Kshs.157,585,092 resulting in under absorption of Kshs.71,383,176 or 45%. Failure to absorb in full the funds disbursed and implement projects fully denied the residents of Kiambaa Constituency the benefits accruing from the planned projects, programmes and activities.

2. Delayed Project Implementation

A review of project implementation status report revealed that the CDF Committee had identified and allocated funds amounting to Kshs.137,636,140 for development projects during the year but incurred an actual expenditure of Kshs.77,658,910 as analyzed below:

Project Category	No. of Projects Budgeted	No. Completed	No. On going	Projects not started	Budget Amount Kshs.	Actual Expenditure Kshs.	Variance Kshs.
Primary Schools	14	2	1	11	56,411,609	31,592,352	24,819,257
Secondary Schools	5	2	0	3	12,398,400	4,398,400	8,000,000
Tertiary Institutions	1	1	0	0	2,100,000	2,100,000	-
Security	4	0	1	3	21,377,027	6,600,000	14,777,027
Emergency	2	1	0	1	7,438,993	3,238,950	4,200,043
Sports	1	0	1	0	3,720,000	1,720,000	2,000,000
Bursary	0	0	0	0	30,970,111	26,289,206	4,680,905
Environment	1	0	0	1	3,220,000	1,720,002	1,499,998
Total	28	6	3	19	137,636,140	77,658,910	59,977,230

Further review of the implementation report revealed that, the CDF Committee had planned to undertake twenty-eight projects. However, six projects were completed, three were on-going while nineteen had not commenced during the year under review. Failure to implement and complete planned projects impacted negatively on service delivery to the residents of the 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

Under Allocation of Bursary Fund

A review of the budget for the year ended 30 June, 2019 revealed that out of the original budget allocation of Kshs.109,040,876, the Fund Management set aside Kshs.20,941,804 or 19% for bursaries contrary to Section 21(5) of the National Government Constituencies Development Fund Regulations, 2016, thus underfunding the bursary allocation by Kshs.6,318,415.

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 to obtain assurance about whether 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 financial reporting process, reviewing the effectiveness of how the entity 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 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 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 ability of the Fund 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 sustaining 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

01 October, 2021