

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – TIGANIA EAST 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 – Tigania East Constituency set out on pages 7 to 33, which comprise the statement of assets and liabilities 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 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 – Tigania East 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, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracies of the Financial Statements

1.1 Variances Between the Comparative Financial Statements Balances and the 2017/18 Audited Balances

The comparative balances on eleven (11) items reflected in the Fund's financial statements for the year under review are at variance with the audited 2017/2018 financial statements balances as detailed below:

Items	Note	2017/18 Audited Balances (Kshs.)	Comparative Balances in the 2018/19 Financial Statements (Kshs.)	Variances (Kshs.)
Compensation of Employees	15.3	550,948	2,266,007	(1,715,059)
Use of Goods and Services	15.3	1,577,754	-	1,577,754
Amounts due to Other Government Entities	15.3	5,575,861	-	5,575,861

Amounts due to other Grants and other Transfers	15.3	8,679,064	-	8,679,064
Acquisition of Assets	15.3	-	1,200,000	(1,200,000)
Land	Annex 4	1,000,000	-	1,000,000
Buildings and Structures	Annex 4	6,500,000	5,000,000	1,500,000
Transport Equipment	Annex 4	9,864,512	10,450,000	(585,488)
Office Equipment, Furniture and Fittings	Annex 4	-	341,000	(341,000)
ICT Equipment Software and other ICT Assets	Annex 4	377,000	126,991	250,009
Other Machinery and Equipment	Annex 4	857,128	150,000	707,128

In the circumstances, the accuracy of the comparative balances for the eleven (11) items could not be ascertained.

1.2 Unutilized Funds

The summary statement of appropriation – recurrent and development combined for the year under review reflects Kshs.23,022,344 in respect to budgetary adjustments for the year being unspent funds in the previous year. However, the audited 2017/2018 financial statements reflect unspent funds totaling to Kshs.21,060,654 resulting to unreconciled and unexplained variance of Kshs.1,961,690. In addition, the statement reflects a total under-utilization of Kshs.68,221,303 on the budgeted expenditure representing the unutilized funds as at 30 June, 2019 which differed with the unutilized fund balance of Kshs.10,180,427 reflected under Note 15.3 to the financial statements and Annex 3. The resultant difference of Kshs.58,040,876 has not been reconciled or explained.

In the circumstances, the accuracy of the financial statements could not be confirmed.

1.3 Cash and Cash Equivalents - Failure to Update Cash book

The statement of assets and liabilities and Note 10A to the financial statements, reflect Kshs.10,180,427 in respect of bank balances as at 30 June, 2019. However, the June, 2019 bank reconciliation statement, reflected Kshs.922,500 in respect of receipts in the bank statements not yet recorded in the cash book and Kshs.3,778 in respect to payments in the bank statements not recorded in the cash book. No satisfactory explanation was provided for not updating the cash book and the reported receipts and payments. In addition, the reconciliation statement reflected Kshs.4,668,984 in respect to unrepresented cheques as at 30 June, 2019 of which Kshs.1,689,490 were stale and had not been reversed in the cashbook or replaced.

In the circumstances, the accuracy of the reported bank balance of Kshs.10,180,427 could not be confirmed.

2.0 Inconsistencies on Project Management Committee (PMC) Bank Account Balances

The statement of receipts and payments reflects Kshs.8,975,862, Kshs.43,050,309 and Kshs.1,200,000 with respect to transfers to other Government entities, other grants and transfers and acquisition of assets respectively all totaling to Kshs.53,226,171 being funds disbursed to various institutions for implementation of projects. Whereas Annex 5 reflects the details of various balances held in PMC bank accounts as at 30 June, 2019, Note 15.4 to the financial statements reflects a nil balance with respect to PMC bank balances .

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

3.0 Unaccounted for Bursary Funds

The statement of receipts and payments reflects Kshs.43,050,309 in respect to other grants and transfers which as disclosed at Note 7 to the financial statements, includes Kshs.35,402,723 in respect to bursaries to secondary schools. However, acknowledgement by the beneficiary secondary schools for bursaries amounting to Kshs.17,912,800 or 51% were not provided.

Consequently, the propriety of the bursaries payments amounting to Kshs.17,912,800 could not be confirmed.

4.0 Presentation of the Financial Statements

The page containing the table of contents and the one with the key constituency information and management are both indicated as Page 1 in the Fund's financial statements provided for audit. Further, the financial statements do not contain separate summary statements of appropriation for recurrent and development. In addition, the summary statement of appropriation - recurrent and development and budget execution by programmes and sub-programmes do not indicate for the year ended 30 June, 2019. Also, the net financial position of Kshs.10,180,427 is erroneously shown as net liabilities in the statement of assets and liabilities.

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

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituency Development Fund – Tigania East 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

1.0 Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.132,063,220 and Kshs.74,022,344 respectively resulting to an under-funding of Kshs.58,040,876 or 44% of the budget. Similarly, the Fund spent Kshs.63,841,917 against an approved budget of Kshs.132,063,220 resulting to an under-expenditure of Kshs.68,221,303 or 52% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the constituents.

2.0 Unresolved Prior Year Audit Matters

The unresolved prior year issues are not disclosed under the progress on follow up of auditor recommendations section of the financial statements as required by the Public Sector Accounting Standards Board. It could therefore not be confirmed whether all the prior years' audit matters had been resolved as at 30 June, 2019

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the 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

1.0 Project Implementation Status

According to the project implementation status report provided for audit, out of the sixty-nine (69) projects planned for implementation during the financial year under review at a budgeted cost of Kshs.57,880,817, one (1) project budgeted to cost Kshs.1,500,000 was on going while fifty-one (51) projects with a cost budget of Kshs.50,380,817 had not been started as at 30 June, 2019.

Consequently, the residents of Tigania East Constituency did not receive the expected benefits from the implementation of the projects

2.0 Management of Fixed Assets

2.1 Unserviceable Assets

Annex 4 to the financial statements reflects Kshs.17,267,991 in respect to historical cost of fixed assets as at 30 June, 2019 which includes Kshs.10,450,000 in respect to transport equipment which included Kshs.3,264,012 and Kshs.459,128 being the historical cost of

a grounded and unserviceable motor vehicle and motor cycle respectively. The motor vehicle was grounded in December, 2012 and no evidence was provided of any intention to repair or dispose it. Further, the two assets had been parked in the open space for over eight (8) years leading to deterioration. Management was therefore in breach of Section 160(1) of the Public Procurement and Asset Disposal Act, 2015 which provides that an Accounting Officer of a procuring entity shall manage its inventory, assets and stores for the purpose of preventing wastage and loss, and continuing utilization of supplies.

In addition, the total historical cost of Kshs.17,267,991 in respect of fixed assets included Kshs.277,800 being the value of thirteen (13) items classified as not serviceable. No explanation was provided as to why the items had not been earmarked for disposal as required under Section 163(1) of the Public Procurement and Asset Disposal Act, 2015 which provides that an accounting officer shall establish a disposal committee as and when prescribed for the purpose of disposal of unserviceable, obsolete, obsolescent, or surplus stores, equipment or assets.

In the circumstances, the Fund Management was in breach of the law and the efficient use of the assets could not be confirmed.

2.2 Failure to Tag Assets

Annex 4 to the financial statements reflects Kshs.17,267,991 in respect to historical cost of fixed assets as at 30 June, 2019. However, the assets were not coded or tagged for ease of identification and tracking as required under Regulation 139(1) of the Public Finance Management (National Government) Regulations, 2015 which provides that an Accounting Officer of a National Government entity shall take full responsibility and ensure that proper control systems exists for assets and that preventive mechanisms are in place to eliminate theft, security threats, losses, wastage, misuse, movement and conditions of assets can be tracked.

In the circumstances, the Fund Management was in breach of the law. In addition, it could not be confirmed that assets had been properly safeguarded.

3.0 Transfers to Other Government Entities

Note 6 to the financial statements reflects Kshs.8,975,862 in respect to transfer to other Government entities, which includes Kshs.700,000 in respect to transfers to secondary schools which was transferred to Kaathi Day Secondary School for construction of a classroom to completion. However, audit inspection in December 2019, revealed that the classroom was constructed at a different school, namely, Kaathi Primary School though the School had not been allocated any NG-CDF funds. Funds meant for Kaathi Day Secondary School were therefore, diverted without approval contrary to Section 6 (2) of the National Government Constituencies Fund Act, 2015 which provides that once funds are allocated for a particular project the same shall remain allocated for that project and may only be re- allocated for any other purpose during the financial year with the approval of the Board.

Consequently, the Fund 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 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 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, 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 the 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 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 review is planned and performed to express a conclusion with limited assurance as to 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 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 review 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 noncompliance. 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 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

20 September, 2021