

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – TIGANIA WEST 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 West Constituency set out on pages 9 to 41, which comprise the statement of assets and liabilities as at 30 June, 2019, 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 the National Government Constituencies Development Fund – Tigania West 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 Inaccuracy of the Financial Statements

1.1 Variances Between the Notes and the Financial Statements

The statement of receipts and payments and the statement of cash flows both reflect a total expenditure totalling to Kshs.105,788,993 which includes transfer to other Government Units and other grants and transfers amounting to Kshs.37,039,315 and Kshs.58,957,299 respectively both totalling to Kshs.95,996,614. However, Note 6 and Note 7 to the financial statements reflect amounts of Kshs.36,779,315 and Kshs.57,253,517 for the same items respectively both totalling to Kshs.94,032,832 resulting to unreconciled variance amounting to Kshs.1,963,782.

In the circumstances, the accuracy, completeness and validity of expenditure totalling to Kshs.95,996,614 for the year ended 30 June, 2019 could not be confirmed.

1.2 Inaccuracies in Comparative Balances

Note 6 and Annex 4 to the financial statements reflect a total balance of Kshs.24,856,039 comparative balances for the year under review. However, the audited 2017/2018 financial statements reflect Kshs.25,564,502 on the same items resulting to an unexplained and unreconciled variance of negative Kshs.965,815.

In the circumstances, the accuracy of the comparative balance totalling to Kshs.24,856,039 for the year ended 30 June, 2019 could not be confirmed.

1.3 Casting Errors

The summary statement of appropriation and Annex 4 reflect total balance of Kshs.78,032,019 on three (3) items. However, the re-casted balances totalled to Kshs.81,601,784 on the same items resulting to an unreconciled and unexplained variance amounting to Kshs.3,589,761 as follows;

Item	Financial statements/annex (Kshs.)	Financial Statements Balances (Kshs.)	Re-casted Balance (Kshs.)	Variances (Kshs.)
Total payments - Budget utilization difference	Summary statement of appropriation (Combined)	61,739,415	61,729,417	9,998
Project management committee (PMC) Bank balances	Annex 4	3,036,565	3,940,061	903,496
Project management committee (PMC) Bank comparative balances	Annex 4	13,256,039	15,932,306	2,676,267
Total		78,032,019	81,601,784	3,589,761

In the circumstances, the accuracy of the Kshs.78,032,019 in respect to the three items for the year ended 30 June, 2019 could not be confirmed.

1.4 Unutilized Funds

The summary statement of appropriation: recurrent and development combined reflects adjustments for the year totalling to Kshs.58,477,532 being the unspent funds in the previous financial year. However, Note 10.2 to the financial statements for the audited 2017/2018 financial statements reflects unspent funds balance of Kshs.61,103,532 resulting to an unreconciled and unexplained variance amounting to Kshs.2,626,000.

In the circumstances, the accuracy of adjustments for the year totalling to Kshs.58,477,532 for the year ended 30 June, 2019 could not be confirmed.

1.5 Stale Cheques

As disclosed in Note 10A to the financial statements, the statements of assets and liabilities reflects cash book balances amount of Kshs.6,688,540. The balance includes unpresented cheques totalling to Kshs.3,285,392. However, the balance includes stale cheques amounting to Kshs.33,000 as at 30 December, 2019 and which had not been reversed in the cashbook or replaced and therefore understating the cash book balances.

In the circumstances, the accuracy of the cash and cash equivalents balances totalling to Kshs.6,688,540 reflected in the statements of assets and liabilities as at 30 June, 2019 could not be confirmed.

2.0 Unsupported Bursaries

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and other payments totalling to Kshs.57,253,517 which includes bursaries totalling to Kshs.37,339,035. However, the Management did not provide acknowledgement and official receipts for bursaries totalling to Kshs.7,495,000 by the beneficiary institutions.

In the circumstances, the accuracy, completeness and validity of bursaries amounting to Kshs.7,495,000 for the year ended 30 June, 2019 could not be confirmed.

3.0 Unsupported Bank Account Balance

Note 15.4 to the financial statements reflects Project Management Committee (PMC) account amount of Kshs.3,036,565. However, the respective project management committee cashbooks and certificate of bank balances were not provided.

In the circumstances, the accuracy, completeness and validity of the PMC account balances of Kshs.3,036,565 as at 30 June, 2019 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund – Tigania West 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 summary statement of appropriation: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.167,518,408 and Kshs.112,477,532 respectively resulting to an under-funding of Kshs.55,040,876 or 33% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.167,518,409 and Kshs.105,788,993 respectively resulting to an under expenditure of Kshs.61,739,415 or 37% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 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 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 Non-compliance with the Public Sector Accounting Standards Board Requirements

The financial statements did not provide a page for the report of the Auditor-General, separate summary statements of appropriation for recurrent and development were missing, the financial statements did not include dates and summary of fixed assets register and the Project Management Committee (PMC) bank balances were both

referenced as Annex 4 instead of separately. This is contrary to Public Sector Accounting Standards Board (PSASB) reporting template issued in June, 2019.

In the circumstances, the presentation of the financial statements for the year under review is not in accordance with the prescribed (PSASB) format.

2.0 Irregular Funding of Projects

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and other payments totalling to Kshs.57,253,517. The balance includes an amount of Kshs.2,400,000 for Kuuru Bridge in Kianjai-Maua Road and Kionde Kamachia Drift in Kionde-Kamachia Road.

However, projects in roads sectors have been devolved to the County Government and therefore the expenditure is contrary to the Constitution of Kenya, 2010 Fourth Schedule Part 2 of Section 5(a) which states that the functions and powers of the Counties include county transport, including county roads.

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

3.0 Delay in Projects' Implementation

Review of the project implementation status report revealed that out of ninety-seven (97) projects budgeted at a cost of Kshs.138,996,668, forty (40) projects budgeted at a cost of Kshs.42,680,028 were on going at the end of financial year under review.

Consequently, the residents of Tigania West Constituency may not have received the planned benefits from implementation of the projects

4.0 Unutilized Project

During the year under review Management spent an amount of Kshs.2,500,000 for the construction of four (4) administration police staff quarters and a pit latrine for Miathene police post. However, physical verification carried out in December, 2019 revealed that though the project was complete it was not utilized.

In the circumstances, value for money for the expenditure of Kshs.2,500,000 in respect to construction of administration police staff quarters and a pit latrine has not been realized.

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 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 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 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 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

14 September, 2021