

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - ELDAS 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 - Eldas Constituency set out on pages 1 to 38, 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 - Eldas 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. Cash and Cash Equivalents

The statement of assets and liabilities reflects a cash and cash equivalents balance of Kshs.4,235,836 as at 30 June, 2019. However, the bank reconciliation statement for the month of June 2019, reflected unrepresented cheques amounting to Kshs.776,051 of which Kshs.186,837 related to stale cheques dating back to the year 2014. It was not clear why the long outstanding unrepresented cheques had not been reversed in the cashbook.

Further, receipts amounting to Kshs.62,014 were reflected in the bank statement but not in the cash book as detailed below:

Date	Details	Amount (Kshs.)
10/02/16	Inward swift	20,000
19/02/16	Inward swift	20,000
21/02/16	Inward swift	20,000
28/07/16	Cash Deposit	2,000
26/09/16	Cheque reversed	14
	Total	62,014

The nature of the inward swifts and the cash deposit was not explained. It was not clear why the items had not been included in the cashbook. In addition, an amount of Kshs.47,480 in respect of bank charges was included in the bank statement but not in the cashbook. The details of the bank charges and the period to which they related were not provided.

In the circumstances, it was not possible to confirm the accuracy of the cash and cash equivalents balance of Kshs.4,235,836 as at 30 June, 2019.

2. Unsupported Expenditure on Training

The statement of receipts and payments reflects use of goods and services of Kshs.3,214,700. As disclosed at Note 5 to the financial statements, Kshs.800,500 was spent on training of which Kshs.780,500 was incurred on monitoring and evaluation exercise, training and facilitation of workshops during the period under review. However, committee allowances amounting to Kshs.200,000 paid for the monitoring and evaluation exercise held between 27 and 31 March, 2019 were not supported with monitoring and evaluation report for the project supervised, approval for the payment and imprest warrants. Further, the contract between the Fund Management and the service provider paid Kshs.240,000 for conference facilities was not provided. In addition, imprest warrants for payments amounting to Kshs.340,500 on training were not provided.

In the circumstances, the accuracy and probity of the expenditure on monitoring and evaluation amounting to Kshs.780,500 could not be ascertained.

3. Accuracy of the Financial Statements

The summary statement of appropriation - recurrent and development combined reflects a budget utilization difference of Kshs.59,279,712 which differs with the unutilized funds balance of Kshs.59,276,711 reflected under Note 15.3 to the financial statements and Annex 3 by Kshs.3,001.

Further, the statement reflects a total budgeted expenditure of Kshs.171,570,988. However, the recomputed total budgeted expenditure is Kshs.171,567,988 resulting into a difference of Kshs.3,000 which has not been explained.

Consequently, the accuracy of the financial statements 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 - Eldas 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

According to the summary statement of appropriation - recurrent and development combined, the Fund had actual receipts of Kshs.116,527,112 against a budgeted amount of Kshs.171,567,989 resulting into underfunding of Kshs.55,040,877 representing 32% of the budget. Further, the Fund's expenditure amounted to Kshs.112,291,276 against a budget of Kshs.171,570,988 resulting into under-expenditure of Kshs.59,279,712 or 35% of the approved budget.

The Management attributed the under-utilization to the delay in disbursement of funds by the National Government Constituencies Development Fund Board. This may have caused projects that were vital to the community's welfare not to be implemented on time.

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. Delay in Implementation of Projects

The Fund had a budget of Kshs.93,629,176 for thirty-seven (37) development projects in the financial year 2018/2019. However, only Kshs.54,344,176 of the budgeted amount was spent. Fifteen (15) projects had not been completed at the end of the year.

Non-implementation of development projects negatively affected service delivery to the constituents of Eldas.

2. Procurement of Works for Projects Implemented in Secondary Schools

The statement of receipts and payments reflects transfers to other Government units of Kshs.57,274,176 which as disclosed at Note 6 to the financial statements, includes an amount of Kshs.20,373,176 transferred to various Project Management Committees

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(PMCs) of secondary schools. However, tender documents such as confidential business questionnaires, form of tender, tender questionnaires, handing over reports and certificates of practical completion for projects totaling to Kshs.10,123,176 implemented in secondary schools were not provided. Further, the bills of quantities of the winning bidders were not properly dated and were not signed and stamped by the bidders and by the tender opening committee as required under Section 78(9) of the Public Procurement and Asset Disposal Act, 2015.

In addition, the tender evaluation committee meeting minutes were not signed by the committee members while some of the contracts were awarded to contractors who did not satisfy the mandatory requirements for the award of the contracts, such as National Construction Authority (NCA) registration certificates, as required by the evaluation criteria. Also, tender opening registers were not maintained by the PMCs as required under Section 78(6) of the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, the propriety of the expenditure amounting to Kshs.10,123,176 on transfers to secondary schools, could not be ascertained.

3. Procurement of Works for Primary Schools' Projects

As disclosed at Note 6 to the financial statements, the transfers to other Government units balance of Kshs.57,274,176 includes Kshs.26,901,000 transferred to various PMCs of primary schools. However, payments amounting to Kshs.8,400,000 were not supported with confidential business questionnaires for the winning bidders and NCA certificates to confirm that the winning bidders were duly registered for the categories of works they had been contracted to execute.

In the circumstances, the propriety of the transfers of Kshs.8,400,000 to primary schools, could not be ascertained.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit so as 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 controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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 services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless Management is aware of intention to either 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 manner.

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 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 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 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 Fund's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment 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 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

01 October, 2021