

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - EMURUA DIKIRR 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 - Emurua Dikirr Constituency set out on pages 6 to 34, 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 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 the National Government Constituency Development Fund - Emurua Dikirr Constituency as at 30 June, 2019, and 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, 2012.

Basis for Qualified Opinion

1. Unconfirmed Project Management Committee Bank (PMC) Account Balances

The Project Management Committee bank account balances as at 30 June, 2019 in Note 15.4 and Annex 5 reflects Nil balances. However, certificates of bank confirmations and bank statements were not provided for audit. Further, details of unutilized funds that remained or were transferred to the constituency account after completion of the projects were also not provided for audit.

In the circumstances, the validity, accuracy and completeness of the cash and cash equivalents balance of Kshs.16,706,245 reflected in the statement of financial assets and liabilities could not be confirmed.

2. Stale Cheques in Bank Reconciliation Statement

Examination of the bank reconciliation statement in support of the bank balance of Kshs.16,706,245 revealed payments in the cash book not recorded in the bank statement (Unpresented Cheques) amounting to Kshs.4,806,771. The amount which includes stale cheques totaling Kshs.3,248,697 which had not been reversed in the cash book contrary to Regulation 90(3) of the Public Finance Management (National Government) Regulations, 2015. No reason has been given for failure to reverse the stale cheques some of which date back to 2017. The stale cheques totaling Kshs.3,248,697 understates the cash and cash equivalents.

Consequently, the validity and accuracy of the cash and cash equivalents balance of Kshs.16,706,245 as at 30 June, 2019 could not be confirmed

3. Un-Accounted for Funds - Emergency Projects

The financial Statements reflects in Note 7 other grants and transfers of Kshs.29,326,675 which includes emergency projects of Kshs.5,738,993 out of which payments totaling Kshs.4,321,103 were not supported by documentary evidence including payment vouchers, appropriate Authority and documentation contrary to Regulation 99(1) and 104(1) of the Public Finance Management (National Government) Regulations, 2015.

Further, payments of Kshs.1,417,890 includes Kshs.418,600 and Kshs.1,052,290 that were not supported by a list of beneficiaries and approval from the National Government Constituencies Development Fund Committee respectively.

Consequently, the validity and completeness of the other grants and transfers of Kshs.29,326,675 could not be confirmed.

4. Inaccurate Summary Statement of Appropriation: Recurrent and Development Combined.

The summary statement of appropriation: recurrent and development combined for the year under review reflects Kshs.60,778,991 in respect to adjustments for the year being the unspent funds in the previous year. However, the audited 2017/2018 financial statements reflects unspent funds totaling Kshs.54,784,483 therefore resulting to unreconciled and an unexplained variance of Kshs.5,994,508.

The summary statement of appropriation - recurrent and development combined reflects original and final budgeted receipts of Kshs.109,040,876 and Kshs.169,819,867 respectively against both the original and final budgeted expenditure of Kshs.86,872,747 and Kshs.86,872,126 respectively. The difference of Kshs.22,168,129 and Kshs.82,947,741 respectively between the budgeted receipts and payments has not been reconciled.

Consequently, the accuracy, completeness and validity of the summary statement of appropriation - recurrent and development combined for the year ended 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 - Emurua Dikirr 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

The summary statement of appropriation - recurrent and development reflects final receipts budget and actual on comparable basis of Kshs.169,819,867 and Kshs.97,405,173 respectively resulting to an under-funding of Kshs.72,414,694 or 43% of the budget. Similarly, the Fund spent Kshs.75,296,072 against an approved budget of Kshs.86,872,126 resulting to an under-expenditure of Kshs.11,576,054 or 13% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Emurua Dikirr 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 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. Allocation of bursaries below the required threshold

The statement of receipts and payments and Note 7 to the Financial Statements of the National Government Constituencies Development Fund - Emurua Dikirr Constituency revealed that the fund received Kshs.97,405,173 as transfers from the NG-CDF Board.

Note (7) to the financial statements reflects "Other Grants & Transfers" which includes bursaries disbursed to secondary schools, tertiary institutions and special schools amounting to Kshs.19,226,047 or 19.74% of the funds received (Kshs.97,405,173) from the CDF Board for the year under review. This is contrary to Regulation 21(5) of the National Government Constituencies Development Fund Regulations, 2016 which requires not less than twenty-five percent of the funds allocated to a constituency to be set aside for bursaries.

2. Unapproved Construction of Hostel at Kurangurik KMTTC (Transmara Campus)

The Emurua Dikirr NG-CDF Management contracted M/s Roniam Construction Limited for the construction of three hundred (300) capacity hostel in Kurangurik Kenya Medical Training College without the approval of the NG-CDF Board contrary to Section 31(2) of the National Government Constituencies Development Fund Act, 2015 at a contract sum

of Kshs.8,800,000. However, the relevant contract documents and records were not provided for audit review.

No documentary evidence was provided to confirm that the contract design drawings were available during implementation of works. Similarly, contract files including but not limited to records of site instructions, material test results, progress reports and site meeting minutes were equally not provided for audit review.

Audit inspection undertaken on 13 December, 2019 revealed that the computer laboratories and the hostels had not been completed and the contractor was not on site. Further, no returns from the Project Management Committee were provided for audit to ascertain status of the project and payments made so far.

Consequently, the regularity, validity and value for money of the expenditure incurred on construction of the college could not be confirmed.

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 and 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 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 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

21 December, 2021