

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - GALOLE 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 - Galole Constituency set out on pages 6 to 31, which comprise the statement of financial 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 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 – Galole Constituency as at 30 June, 2019 and of its financial performance and its cash flows for the year then ended, in accordance with the 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. Unsupported Adjustments in the Summary Statement of Appropriation

The summary statement of appropriation - recurrent and development combined reflects the following adjustments which represent unspent balances for the financial year 2017/2018.

Details	Adjustments as per Statement of Appropriation - 2018/2019 Kshs.	Unspent Balance - 2017/2018 Financial Statements Kshs.	Variance Kshs.
Use of Goods and Services	1,024,138	0	1,024,138
Transfers to Other Government Units	23,931,902	19,364,102	4,567,800
Other Grants and Transfers	15,972,771	8,811,133	7,161,638
Other payments	9,294,670	8,377,027	917,643
Total	50,223,481	36,552,262	13,671,219

Audit review of the summary statement of appropriation for the financial year under review revealed that unspent balances from the previous financial which is the adjustments column for 2018/2019 financial statements were not properly transferred. There are material differences noted between adjustments in the summary statement of

appropriation and the unspent balances as per audited financial statements for 2017/2018 which have not been reconciled.

In view of the above variances, it is not possible to confirm the accuracy of summary statement of appropriation: recurrent and development combined.

2. Over-Expenditure without Approval

The summary statement of appropriation - recurrent and development combined reflects an over expenditure for two components as follows;

Component	Budgeted Amount Kshs.	Actual Expenditure Kshs.	Over Expenditure Kshs.
Use of Goods and Services	8,567,120	10,226,114	1,658,994
Compensation of Employees	2,198,400	3,078,617	880,217
Total	10,765,520	13,304,731	2,539,211

The over-expenditure of Kshs.2,539,211 on the two components was incurred without the approval from the Board.

Consequently, the over expenditure of Kshs.2,539,211 as at 30 June, 2019 could not be ascertained.

3. Unsupported Training and Committee Expenses

Included in the use of goods and services figure of Kshs.10,226,114 reflected under Note 4 to the financial statements is Kshs.1,200,000 and Kshs.6,034,450 for expenditure on training and committee expenses respectively. However, audit review of the expenditure revealed that expenditure on training of Kshs.1,200,000 and committee expenses amounting to Kshs.1,965,000 were not supported with the necessary documents including training invitation letters, training programmes, travel documents and signed training attendance schedules for the participants while committee expenses were not supported with monitoring and evaluation reports and details of projects visited by committee members.

In circumstances, the probity of the expenditure on training and committee of Kshs.3,165,000 as at 30 June, 2019 could not be confirmed.

4. Unsupported Transfers to Other Government Units

The statement of receipts and payments for the year under review reflects Kshs.41,700,574 for transfers to other government units as at 30 June, 2019. However, project files for the expenditure amounting to Kshs.14,053,929 had no supporting documents. These include letters of notification of award of tender, contract agreement, inspection and acceptance committee reports, engineer's estimates, project drawings, certificates of practical completion, bills of quantities, projects management committee project hand over reports and projects management committee payment resolution minutes.

Consequently, the probity of the expenditure of Kshs.14,053,929 as at 30 June, 2019 could not be ascertained.

5. Unsupported Other Grants and Transfers

The statement of receipts and payments for the year under review reflects Kshs.50,239,179 for other grants and transfers as at 30 June, 2019. However, project files for the expenditure amounting to Kshs.13,081,726 had no supporting documents. These include letters of notification of award of tender, contract agreement, inspection and acceptance committee reports, engineer's estimates, project drawings, certificates of practical completion, bills of quantities, projects management committee project hand over reports and projects management committee payment resolution minutes.

Consequently, the probity of the expenditure of Kshs.13,081,726 as at 30 June, 2019 could not be ascertained.

6. Unsupported Other Payments

The statement of receipts and payments for the year under review reflects Kshs.8,485,408 for other payments as at 30 June, 2019. However, project files for the expenditure amounting to Kshs.3,300,200 for other payments had no supporting documents. These include letters of notification of award of tender, contract agreement, inspection and acceptance committee reports, engineer's estimates, project drawings, certificates of practical completion, bills of quantities, projects management committee project hand over reports and projects management committee payment resolution minutes.

Consequently, the probity of the expenditure of Kshs.3,300,200 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 National Government Constituencies Development Fund–Galole 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

Budget Control and Performance

Audit review of the summary statement of budget appropriation for recurrent and development combined revealed that during the year under review the Fund had an

approved budget amounting to Kshs.159,279,357 inclusive of Kshs.50,238,481 unutilized balance from the financial year 2017/2018. The unutilized funds comprised of Kshs.37,469,905 cash book closing balance, Kshs.12,753,576 undisbursed funds from the Board and Kshs.15,000 realized from interest.

The Fund attained actual receipts of Kshs.159,279,357 against budgeted amount of Kshs.159,279,357 translating to 100% realization of budgeted receipts. Further, the Fund spent an amount of Kshs.113,729,892 resulting in under absorption of the budget by Kshs.45,534,644 or 29% of the approved budget of Kshs.159,264,256.

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. Underpayment of Staff Salaries

The statement of receipts and payments and Note 3 of the financial statements reflects expenditure on compensation of employees of Kshs.3,078,617. A review of the monthly employee payment schedules revealed that the employees' gross salary did not include all the applicable allowances as per guidelines provided in National Government Constituencies Development Fund Board Circular Ref. Board/Circulars/Vol.I.I/166 of 24 June, 2013. As a result, the employees were underpaid by Kshs.311,460 during year under review.

In addition, one employee was paid a monthly gross salary of Kshs.5,800 which is below the minimum wage level applicable to their category of engagement.

In view of the above, the Fund did not comply with the National Government Constituencies Development Fund Board Circular Ref. Board/Circulars/Vol.I.I/166 and the Regulations of Wages (General) (Amendment) Order, 2017.

2. Failure to Put into Proper use the Fund's Motor Vehicle and Tractors

Physical verification of assets owned by the Fund revealed that three (3) tractors GK A616V, GK A617V GK A618V and one vehicle GK A608T all acquired at a cost of Kshs.16,000,000 as per asset register were parked at the Fund's office compound and were not in good condition. There was also no indication that they were being put in use to deliver the intended services. However, no evidence was provided in support of any

measures taken to either repair them or dispose them to avoid further deterioration in the value.

Consequently, the Fund is in breach of Section 72(1)(b) of Public Finance Management Act, 2012 which provides that the accounting officer for National Government entity shall manage assets of the entity in a way which ensures that the national government entity achieves value for money in acquiring, using and disposing of those assets.

3. Project Implementation and Management

During the financial year under review the Fund allocated Kshs.105,548,916 to fifty-three (53) projects in various sectors including education, security, sport and environment. The analysis as per the project implementation status provided for audit review revealed that thirteen (13) projects were completed, twenty-three (23) projects were on-going while seventeen (17) projects had not started as summarised below.

Sector	Project Status	Number of Projects	Project cost Kshs.
Sports	Complete	0	0
	Ongoing	1	3,680,500
	Not started	0	0
Environment	Complete	0	0
	Ongoing	7	3,180,000
	Not started	4	1,669,029
Security	Complete	1	300,000
	Ongoing	2	4,800,000
	Not Started	0	0
Primary School Projects	Complete	2	1,450,000
	Ongoing	7	5,580,000
	Not started	7	16,549,387
Secondary School Projects	Complete	10	14,800,000
	Ongoing	6	22,840,000
	Not started	3	21,000,000
Tertiary Institutions	Complete	0	0
	Ongoing	0	0
	Not started	1	1,200,000
Galole Zubaki Chief Office Hub	Not started	1	4,500,000
Strategic Plan	Not started	1	4,000,000
Total		53	105,548,916

In addition, physical verification on sampled projects implemented during the year under review revealed that projects worth Kshs.7,959,873 had not been labelled as required by Section 15(1)(f) of the National Government Constituencies Development Regulations,

2016. It was further, observed that projects worth Kshs.3,291,385 were incomplete and of sub-standards quality.

Consequently, the probity of the expenditure on projects of Kshs.11,251,258 as at 30 June, 2019 could not be ascertained.

Failure to complete the projects within the stipulated period may have denied the constituents the much-desired services.

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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Lack of Risk Management Policy and Disaster Recovery Plan

The Fund had not developed and documented risk management policy during the year under review. It was further noted that the Fund had not put in place a disaster recovery plan. This is in contravention of Section 165(1) of the Public Finance Management (National Government) Regulations, 2015.

In view of the above, it was not possible to confirm whether risk management strategies were in place.

2. Lack of a Constituency Oversight Committee

During the year under review, the Fund did not have a Constituency Oversight Committee contrary to Section 53(1) of the National Government Constituencies Development Fund Act, 2015. It was therefore not possible to confirm whether mobilization, sensitization in soliciting of views, opinions and proposals from the public were carried out effectively as required by the Act.

In the circumstances, the Fund was in breach of the law governing the Constituency Oversight Committee.

3. Weaknesses in Internal Budgeting Processes

An audit review of budget proposals provided for audit review revealed that there were no open forum public meeting minutes to show that deliberations on development matters took place in each ward. Further no programs of events for the public forums were provided to support occurrence of public meetings. In addition, list of priority projects from each ward was not provided for audit review.

Consequently, it was not possible to confirm whether public participation was carried out before implementation of the projects.

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 the 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 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 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 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

30 December, 2021