

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KACHELIBA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Kacheliba 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 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 - Kacheliba 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 Public Finance Management Act, 2012.

### Basis for Qualified Opinion

#### 1. Misstatements in the Financial Statements

The statement of receipts and payments shows total payments of Kshs.63,772,904. However, the recomputed amount of total payments is Kshs.63,574,904. Consequently, the total payments balance is overstated by Kshs.198,000 while the surplus for the year is understated by an equivalent amount.

Further, the statement of cashflows shows a cash and cash equivalents balance of Kshs.13,257,823 at the end of the year. However, the recomputed balance is Kshs.13,455,823 resulting into a difference of Kshs.198,000 which has not been explained.

In addition, the summary statement of appropriation - recurrent and development combined, reflects an actual total expenditure of Kshs.63,574,904 which differs with the total expenditure balance of Kshs.63,772,904 as per the statement of receipts and payments by Kshs.198,000.

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

#### 2. Unsupported Budget Adjustments and Variance in Unutilized Funds

The summary statement of appropriation - recurrent and development combined reflects budget adjustments of Kshs.58,149,908 and a budget utilization difference of Kshs.103,615,879. However, the details of the projects approved in the prior year for

implementation during the financial year 2018/2019 were not provided in support of the adjustments. Further, the budget utilization difference of Kshs.103,615,879 differed with the unutilized fund balance of Kshs.103,417,879 reflected under Note 15.3 to the financial statements and Annex 3 by Kshs.198,000. The variance was not reconciled.

In the circumstances, the accuracy of the budget adjustments and the unutilized funds as at 30 June, 2019, could not be confirmed.

### 3. Unsupported Expenditure on Construction

The statement of receipts and payments reflects transfers to other government units balance of Kshs.22,302,795 which as disclosed at Note 6 to the financial statements, includes Kshs.14,116,200 transferred to primary schools of which Kshs.2,740,000 was spent on construction of classrooms and a dormitory as shown below:

<b>Date</b>	<b>Payee</b>	<b>Details</b>	<b>Amount (Kshs.)</b>
07/09/2018	Mistin Primary School	Building of one (1) classroom from foundation to roofing	980,000
07/09/2018	Tarakit Primary School	Building of one (1) classroom from foundation to roofing	980,000
07/09/2018	Ng'eng'echwo Primary School	Finishing of dormitory from Lintel to roofing	780,000
		<b>Total</b>	<b>2,740,000</b>

However, the expenditure returns, procurement records, contract agreements with the contractors and the inspection reports were not provided for audit.

Consequently, it was not possible to confirm the accuracy and regularity of the expenditure of Kshs.2,740,000 transferred to primary schools.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Kacheliba 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 receipts on comparable basis of Kshs.167,190,783 and Kshs.76,265,302 respectively, resulting into an under-funding of Kshs.90,925,481 or 54% of the budget. Similarly, the Fund spent Kshs.63,574,904 against an approved budget of Kshs.167,190,783 resulting into an under-expenditure of Kshs.103,615,879 or 62% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the people of Kacheliba Constituency.

## **2. Unresolved Prior Year Audit Matters**

As disclosed under the progress on follow up of auditor recommendations section of the financial statements, some of the prior year audit issues remained unresolved as at 30 June, 2019. Management has not provided satisfactory reasons for the delay in resolving the issues.

## **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. Non - Implementation of Projects**

During the financial year 2018/2019, the Fund had an approved budget of Kshs.99,443,325 for fifty-eight (58) development projects. However, according to the project implementation status report provided, only thirty-three (33) projects with a combined budget of Kshs.24,792,795 were funded.

Due to non-implementation of the projects, the residents of Kacheliba Constituency did not receive the benefits from the projects.

#### **2. Delayed Disposal of Non-Functional Grader**

As previously reported, the Fund purchased a motor grader registration number GKA 454T in the year 2007. The grader broke down in May 2015 and the District Mechanical Officer was requested to assess and to provide mechanical services to the grader. The technical report issued on 22 June, 2016 revealed that repairing the grader would cost an estimated Kshs.3,074,500 which was un-economical.

On 12 October, 2016, the Fund wrote to the National Government Constituencies Development Fund Board requesting for the approval of the disposal of the grader. However, the grader was still lying at the Kapenguria Public Works yard at the time of audit, exposed to rust and vandalism contrary to Section 162(3) of Public Procurement and Asset Disposal Act, 2015 which provides that stores, inventory and assets that are

procured by a public entity shall not be allowed to suffer deterioration from any preventable cause.

## 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 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 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 going concern 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 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 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 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 as a going concern or 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**