

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KAJIADO CENTRAL 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 - Kajiado Central Constituency set out on pages 11 to 43, 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 - Kajiado Central 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Unsupported Grants and Transfers

The statement of receipts and payments reflects other grants and transfers balance of Kshs.45,664,801. Included in the balance and as reflected in Note 7 to the financial statements, are bursary disbursements of Kshs.29,183,000 of which Kshs.21,003,000 was disbursed to secondary schools and Kshs.8,180,000 to tertiary institutions. However, the supporting schedule reflected bursaries of Kshs.17,810,000 resulting into unexplained variance of Kshs.11,373,000.

Further, the bursary applications register showing the names of the applicants and their identification details, location of domicile and schools and colleges admitted to was not maintained. It was therefore, not possible to confirm that bursary awards were made fairly and transparently and that they were allocated to the intended beneficiaries.

In addition, as reflected at Note 7 to the financial statements, the other grants and transfers balance, included expenditure of Kshs.1,877,877 on environment which was paid to various suppliers for supply and delivery of seedlings to schools in the Constituency for a tree planting exercise. However, expenditure schedules and supporting documents showing the quantity of seedlings purchased, cost of labour,

schools where the trees were planted and other associated costs such as pitting and manuring were not provided for audit.

Consequently, the validity and accuracy of the payments of Kshs.45,664,801 relating to other grants and transfers, could not be confirmed.

2. Unreconciled Variances on Unutilized Funds

The summary statement of appropriation - recurrent and development combined reflects a budget under-utilization of Kshs.73,180,950. However, Note 15.3 to the financial statements, reflects an unutilized funds balance of Kshs.71,688,708 while Annex 3 where the details of the unutilized funds are disclosed, reflects a total unutilized funds balance of Kshs.64,895,506.

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

3. Inaccurate Receipts Balance on the Summary Statement of Appropriation

The summary statement of appropriation - recurrent and development combined reflects total actual receipts of Kshs.117,871,691 instead of Kshs.117,957,691 thus understating the receipts by Kshs.86,000.

In the circumstances, the accuracy of the actual receipts balance, could not be confirmed.

4. Variances between the Comparative Balances and the Audited Balances

The comparative balances reflected in the Fund's financial statements differed with the ones reflected in the 2017/2018 audited financial statements as detailed below:

No.	Item	Financial Statement	Comparative Balances in the 2018/2019 Financial Statements (Kshs.)	Balances in the Audited 2017/2018 Financial Statements (Kshs.)	Variance (Kshs.)
1	Use of Goods and Services	Statement of Receipts and Payments and Statement of Cashflows	8,140,562	9,540,562	1,400,000
2	Other Payments	Statement of Receipts and Payments and Statement of Cashflows	1,400,000	nil	1,400,000
3	Surplus for the year	Statement of Receipts and Payments and Statement of Assets and Liabilities	7,724,762	7,902,639	177,877

In the circumstances, 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 – Kajiado Central 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 combined reflects a final receipts budget and actual receipts on comparable basis of Kshs.172,912,566 and Kshs.117,957,691 respectively resulting into underfunding of Kshs.54,954,876 or 32%. Similarly, the statement reflects a final budgeted expenditure of Kshs.172,912,566 against actual expenditure Kshs.99,731,617 resulting to under absorption of Kshs.73,180,950 or 42%.

The under-funding and under-expenditure may have impacted negatively on service delivery to the constituents.

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

Failure to Withhold Retention Money for Projects

Examination of contract documents revealed that the Fund Management paid Kshs.53,054,801 to contractors without withholding any retention amounts. Any defects arising would therefore be rectified by the project beneficiaries or the Fund.

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 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 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 ability of National Government Constituencies Development Fund - Kajiado Central Constituency to sustain services, disclosing and 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 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 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 sustaining 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

11 November, 2021