

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KILOME 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 - Kilome Constituency set out on pages 8 to 45 , which comprise the statement of assets and liabilities as at 30 June, 2019, 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 the National Government Constituency Development Fund - Kilome 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. Inaccuracies in the Financial Statements

1.1 Excluded Transfers and Transfers of Receipts outside Cut Off Period

The statement of receipts and payments reflects transfers from NGCDF Board of Kshs.74,784,483;(2018-Kshs.66,205,172) and as disclosed under Note 1 to the financial statements. However, transfers vide Authority to Incur Expenditure (AIE) receipt number 047089 dated 15 May, 2019 of Kshs.13,000,000 are excluded. Further, the figure includes transfers vide AIE receipt number A896908 dated 15 May, 2018 of Kshs.22,405,173 which is outside the financial reporting period.

In the circumstances, the accuracy and completeness of the receipts of Kshs.74,784,483 for the year ended 30 June, 2019 could not be confirmed.

1.2 Variances in Comparative Balances

The comparative balances in the financial statements are at variances with those of the audited financial statements as detailed out below: -

Component	Comparative Figures (Kshs.)	Audited Figures (Kshs.)	Variance in Figures (Kshs.)
Committee Expenses	2,222,000	2,337,000	115,000
Training Expenses	1,219,000	1,534,000	315,000
General Supplies and Services	2,239,399	1,809,399	430,000
Use of Goods and Services	9,821,326	6,321,326	3,500,000
Other Grants and Payments	36,926,904	40,426,904	3,500,000
Unutilized Funds	38,590,782	49,970,092	11,379,310
PMC Account Balance	3,921,335	0	3,921,335

No disclosures have been made in the financial statements to explain the adjustments made, contrary to the requirements of International Public Sector Accounting Standard (IPSAS).

Consequently, the validity and accuracy of the adjusted figures could not be confirmed.

2. Accuracy of Summary of Fixed Asset Register

The summary of fixed assets register at Annex 4 to the financial statements reflects historical cost of the fixed assets of Kshs.15,611,979 which differs from the recasted figure of Kshs.15,311,979 resulting to unexplained variance of Kshs.300,000.

Consequently, the accuracy of the fixed assets historical cost value of Kshs.15,611,979 disclosed at Annex 4 to 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 NGCDF - Kilome 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 receipts budget and actual receipts on a comparable basis of Kshs.147,631,658 and Kshs.90,970,092 respectively resulting to an underfunding of Kshs.56,661,566 or 38% of the budget. Similarly, the Fund spent Kshs.82,490,544 against an approved budget of

Kshs.147,631,658 resulting to an under-expenditure of Kshs.65,141,114 or 44% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Kilome 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. Project Implementation Status

Review of the project implementation status report as of 30 June, 2019 reflects that eighty-eight (88) projects with funding allocation of Kshs.102,607,004 were at different implementation statuses. Seven (7) projects had not started due to reallocation of funds to other projects, fifty two (52) were incomplete but ongoing while twenty nine (29) were complete and in use.

Consequently, it was not possible to confirm when value for money will be realized from the incomplete and yet to be started projects.

1.1 Unsatisfactorily Implemented Projects

Six (6) projects with funding allocation of Kshs.5,900,000 were sampled for verification during the month of March, 2020. The following observations made against the projects. Tender documents for construction of water pipes for three (3) primary schools were not availed for audit and the projects had stalled. There was evidence of poor workmanship on construction and renovations of nine (9) classrooms and one dormitory in three (3) primary schools.

No satisfactory explanations have been given for the deficiencies in projects implementation.

Consequently, it was not possible to confirm if and when the constituents of Kilome Constituency will realize value for money from the projects funded to the tune of Kshs.5,900,000 for the year ended 30 June, 2019.

2. Unsupported Bursaries to Students

The statement of receipts and payments reflects other grants and transfers of Kshs.43,771,727;(2018-Kshs.36,926,904) and as disclosed under Note 7 to the

financial statements which includes Kshs.40,940,977 paid as bursaries. However, there were no supporting documents by way of; minutes of the vetting committee, amounts awarded per student, signed and stamped application forms to confirm the basis for the awards.

In the circumstances, the regularity, validity and value for money of bursaries payments amounting to Kshs.40,940,977 for the year ended 30 June 2019 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, 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 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 overall 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 noncompliance. 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

06 October, 2021