

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – KIMININI 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 - Kiminini Constituency set out on pages 1 to 42, which comprise the statement of assets 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 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 the National Government Constituencies Development Fund – Kiminini 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. Presentation and Inaccuracies in the Financial Statements

1.1 Summary Statement of Appropriation for Recurrent and Development

The statement of receipts and payments reflects actual expenditure of Kshs.104,967,462 whereas the summary statement of appropriation- recurrent and development combined and the statement of budget execution by programmes and sub-programmes reflect a figure of Kshs.104,967,902 to resulting to an unreconciled variance of Kshs.440.

Further, it was noted that the summary statement of appropriation- recurrent and development combined reflects a budget utilization difference figure of Kshs.79,401,855 whereas the budget execution by programmes and sub-programmes reflects a figure of Kshs.79,247,239 resulting to un-reconciled variance of Kshs.154,616.

1.2 Variances Between Financial Statement Figures and Supporting Schedules

The financial statements submitted for audit had figures that were at variance with the supporting schedules as detailed below:

Item	Financial Statement (Kshs.)	Supporting Schedule (Kshs.)	Variance (Kshs.)
Use of Goods and Services	6,981,122	6,983,756	(2,634)

Transfers to Other Government Units	64,600,000	64,700,000	(100,000)
Other Grants and Transfers	27,334,180	20,671,595	6,662,585

In addition, the schedule in respect of use of goods and services figure of Kshs.6,981,122 was not analysed into sub-components as detailed under Note 5 to the financial statements.

2. Variances Between Unutilized Funds and Budget Utilization

Note 15.3 to the financial statements reflects unutilised funds totalling Kshs.75,206,499 while the summary statement of appropriation reflects budget utilisation difference of Kshs.79,401,855 resulting to an unexplained difference of Kshs.4,195,356. In addition, the supporting annex 3 when recasted totals to Kshs.56,199,897.45 resulting to a further un reconciled variance of Kshs.19,006,602.

Consequently, the accuracy of the unutilised funds balance of Kshs.79,401,855 and the PMC Account as at 30 June, 2019 could not be confirmed.

3. Variances in Additions to Fixed Assets Register

The summary of fixed asset register at annex 4 reflects historical cost asset balance of Kshs.14,309,676 as at 30 June, 2019 instead of the computed balance of Kshs.14,387,676 after additions during the year of Kshs.78,000.

Further, it was noted that the additions for the year of amounting to Kshs.78,000 is at variance with the acquisition of assets figure of Kshs.765,440 reflected in the statement of receipts and payments for the year ended 30 June 2019 resulting to a variance of Kshs.687,440, reflected under Note 8 to the financial statements as rehabilitation and renovation of plant, machinery and equipment expenditure. However, documentary evidence relating to the expenditure of Kshs.687,440 was not availed for audit review.

Consequently, the accuracy of the summary of fixed assets register balance of Kshs.14,309,676 as at 30 June, 2019 could not be confirmed.

4. Unreconciled Items and Variances in Cash and Cash Equivalents Balance

The cash and cash equivalents reflects a balance of Kshs.24,206,805 as at 30 June, 2019 which is in respect of cash held at the Cooperative Bank of Kenya as disclosed in Note 10A to the financial statements. Although the balance of Kshs.24,206,805 is in agreement with the reconciled cashbook balance as at 30 June, 2019, audit review performed on the bank reconciliation for the month of June, 2019 revealed unrepresented cheques totalling Kshs.10,003,547 out of which cheques totalling Kshs.148,308 related to the period between 04 September, 2018 and 04 December, 2018 were stale and ought to have been reversed in the cash book. However, no reason or explanation was provided for not reversing the stale cheques back to cashbook.

Further, the statement of cash flow, reflects closing cash and cash equivalent at the end of the year of Kshs.20,153,691 for 2017/2018 which is at variance with the opening cash and cash equivalent balance of the year 2018/2019 of Kshs.20,389,783 by Kshs.236,092.

Consequently, the validity and accuracy of the cash and cash equivalents balance of Kshs.24,206,805 as at 30 June, 2019 could not be confirmed.

5. Un-supported Expenditure

During the year under review, the use of goods and services expenditure of Kshs.6,981,122 includes payments amounting to Kshs.1,698,500 whose supporting documents were not availed for audit review.

Consequently, the validity and accuracy of the expenditure on use of goods and service of Kshs.6,981,122 as at 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit institution (ISSAIs). I am independent of the National Government Constituencies Development Fund – Kiminini 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 statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.184,215,141 and Kshs.108,784,483 respectively resulting to an under-funding of Kshs.75,430,658 or 41% of the budget. Similarly, the Fund spent Kshs.104,967,902 against an approved budget of Kshs.184,215,142 resulting to an under-expenditure of Kshs.79,401,855 or 43% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Kiminini Constituency.

1.1 Project Implementation Status

The Project Implementation Status (PIS) report availed for audit review was not prepared in accordance with the format prescribed by the National Government Constituencies Development Fund Board in that it did not have column for approved budget and amount disbursed as at 30 June, 2019. Instead, it had only one column for estimated project cost. According to the Project Implementation Status (PIS) report submitted for audit review as at 30 June, 2019, the Fund had planned to implement seventy-five (75) projects during the year 2018/2019 at a total cost of Kshs.97,312,593. According to this report, sixty-two

(62) projects valued at Kshs.72,773,600 were indicated as complete while twelve (12) projects with an estimated cost of Kshs.24,538,993 were ongoing although the completion levels or percentages were not indicated.

1.2 Project Verification

During the audit, sixteen (16) projects costing Kshs.30,412,854 were verified during the month of July, 2019. Eight (8) were complete, three (3) were complete but poorly done while five (5) were ongoing.

From the above, it is clear that some projects were poorly done while others delayed in completion therefore, denying the residents of Kiminini Constituency the benefits associated with the projects.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, 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

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements, 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 such 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 and 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.

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 scepticism 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Fund's 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 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

05 October, 2021