

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – LAMU EAST 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 - Lamu East Constituency set out on pages 10 to 38, which comprise the statement of financial assets 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 – Lamu East 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 Bursary Payments

Included in the other grants and other payments balance of Kshs.38,308,214 under Note 7 to the financial statements is an amount of Kshs.25,540,214 for bursaries paid to secondary schools and tertiary institutions of Kshs.19,082,714 and Kshs.6,457,500 respectively. However, a review of the expenditure and other supporting documents revealed that there were no minutes of the bursary committee meetings to confirm details of how the bursaries were awarded. Further, a review of the expenditure revealed that an amount of Kshs.15,517,213 disbursed to various institutions had not been acknowledged through the official receipts or acknowledgement letters from the beneficiary institutions.

Consequently, the validity of the expenditure of Kshs.25,540,214 as at 30 June, 2019 on bursaries could not be confirmed.

2. Presentation of Financial Statements

The statement of financial assets as at 30 June, 2019 reflects total financial assets of Kshs.59,731,738 and nil total financial liabilities. However, the statement incorrectly reflects a net liabilities position at the bottom of Kshs.59,731,738 instead of a net financial position in accordance with the guidelines issued by the Public Sector Accounting Standards Board. Further, the date (as at) of the statement of financial assets was not indicated.

In addition, the financial statements did not provide space for insertion of the report of the Auditor General, contrary to the requirements of the templates issued by the Public Sector Accounting Standards Board. No explanation was provided for this anomaly.

Consequently, the financial statements presented do not comply with the reporting format as prescribed by the Public Sector Accounting Standards Board.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Lamu East 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

During the year under review, the Fund had an approved budget of Kshs.128,542,059 comprising of Kshs.109,040,876 for financial year 2018/2019 and Kshs.19,501,184 being funds brought forward from financial year 2017/2018. The actual expenditure by the Fund in the year under review was Kshs.68,810,319 resulting to an under expenditure of Kshs.59,731,740 or an absorption rate of 54% of the total approved budget.

In the circumstances, failure to utilize the budget fully may have hampered service delivery to the constituents of Lamu East 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 matter described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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

Delayed Project Implementation

The project implementation status report made available for audit review indicated that a total of Kshs.99,227,198 was allocated to twenty-four (24) projects, out of which eight (8)

projects amounting to Kshs.21,114,760 were complete, five (5) with a cost of Kshs.42,064,437 were ongoing while eleven (11) amounting to Kshs.36,048,000 had not started as analyzed below:

Name of the Project	Activity	Project Cost (Kshs.)	Status
Pate Secondary School	Construction to completion of matron house	2,500,000	On going
Pate Secondary School	Phase II completion of upper floor	6,000,000	On going
Mtangawanda AP Post	Construction to completion of a galvanized chain-link fence	3,000,000	On going
Bursary Tertiary Schools	Payment of bursary to needy student	10,000,000	On going
Bursary Secondary Schools	Payment of bursary to needy student	20,564,437	On going
Tchundwa AP Post	Construction to completion of a new administration block	2,500,000	Not started
Shanga Primary School	Reroofing of 10 no. classrooms	1,548,000	Not started
Ndau Primary School	Construction to completion of an Administration block and furnishing	4,000,000	Not started
Myabogi Primary School	Construction to completion of an Administration block and furnishing	4,000,000	Not started
Mkokoni Primary School	Construction to completion of an Administration block and furnishing	4,000,000	Not started
Mbwajumwali Secondary School	Construction to completion of twin laboratory	7,000,000	Not started
Kizingitini Girls Primary School	Construction to completion of an Administration block and furnishing	4,000,000	Not started
Kiangwe Police Fence	Construction to completion of a galvanized chain-link fence	2,500,000	Not started
Faza Secondary School	Completion of school library, painting, putting ceiling and furniture	2,000,000	Not started
Faza Assistant County Commissioner	Construction to completion of an Administration Block	2,500,000	Not started
Environment	Construction of 12 door toilets 4 for girls, 2 for female teachers and 4 bathrooms at Pate Secondary school	2,000,000	Not started

Name of the Project	Activity	Project Cost (Kshs.)	Status
Total		78,112,437	

In view of the foregoing, the constituents did not get the expected services from a total of sixteen (16) projects worth Kshs.78,112,437 which were either incomplete or not started as at 30 June, 2019.

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 Constituency Oversight Committee

During the year under review the Fund had no Constituency Oversight Committee in place, contrary to Section 54(1) of the National Government Constituencies Development Fund Act, 2015 which requires that constituency oversight committees to be appointed for every National Government Constituency Development Fund.

In the circumstances, the Fund was in breach of law.

2. Weak Controls for Cash and Bank

A review of the effectiveness of the internal controls for cash and bank established that stale cheques were not immediately written back and the cash book was not updated at the time of preparation of bank reconciliations as required by Section 90(3) of the Public Finance Management (National Government) Regulations, 2015.

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 continue to sustain services, disclosing, as applicable, matters related to the 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 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

01 October, 2021