

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LARI 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 - Lari Constituency set out on pages 7 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 – Lari 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. Unreconciled Receipts

The statement of receipts and payments reflects total receipts of Kshs.108,833,483 for the year ended 30 June, 2019. However, the summary statement of appropriation: recurrent and development combined indicate actual receipts of Kshs.123,411,973 during the year, resulting in unreconciled variance of Kshs.14,578,490.

Consequently, the completeness and accuracy of the receipts during the year ended 30 June, 2019 could not be ascertained.

2. Net Liabilities

The statement of financial assets reflects total financial assets of Kshs.5,693,128 and nil financial liabilities as at 30 June, 2019. However, contrary to the guidelines issued by the Public Sector Accounting Standards Board, the net financial position of Kshs.5,693,128 has instead been presented erroneously as net liabilities at the bottom of the statement.

3. Unreconciled Variances in Comparative Balances

The comparative figures reflected in the financial statements for 2018/2019 differs with the audited financial statements figures for the year ended 30 June, 2018 as follows:

Item	Comparative Figures for 2017/2018 in the Financial Statements for 2018/2019 Kshs.	Figures as per Audited Financial Statements for 2017/2018 Kshs.	Variance Kshs.
Use of Goods and Services	2,744,949	1,577,199	1,167,750
Current Receivables – Outstanding Imprests	Nil	1,167,750	1,167,750

Journal entries, documentation or approval for the restated figures were not presented for audit review. In addition, no reasons or disclosures were provided for the restated prior year figures.

In the circumstances, the accuracy of the comparative figures could not be confirmed.

4. Unsupported Expenditure

The statement of receipts and payments reflects total payments of Kshs.117,718,845 for the year ended 30 June, 2019. Included in the expenditure are unsupported payments totalling Kshs. 25,226,827 in respect of sports activities, environment, emergency projects and construction of ICT Hubs of Kshs.4,114,535, Kshs.2,408,402, Kshs.7,838,993 and Kshs.10,834,897 respectively as detailed below:

Category	Payee	Date	Payment Voucher No.	Cheque No.	Amount Kshs	Total Kshs
Sports	Various Project Management Committees	3/7/2018	314	12352	1,736,207	
	Various Project Management Committees	10/16/2018	354	12293	227,511	
	Various Project Management Committees	4/24/2019	various		2,180,817	4,144,535
Environment	PMC-Constituency Environmental Programe	16/10/2018	353	12295	227,586	
	PMC - Constituency Environmental Programe	3/7/2018, 24/4/2019	various		2,180,816	2,408,402
Emergency Projects	Kinale Primary School	9/7/2018	323	12357	1,300,000	
	Katatina Chief's Office	9/7/2018	324	12358	300,000	
	Kagwe Police Post	7/7/2018	325	12359	200,000	

Category	Payee	Date	Payment Voucher No.	Cheque No.	Amount Kshs	Total Kshs
	Kamukombi Chief's Office	7/7/2018	326	12360	300,000	
	Various Projects	7/7/2018	various		5,738,993	7,838,993
ICT Hub	Kinale ICT HUB	17/10/18	356	12299	2,330,743	
	Kimende ICT HUB	17/10/19	357	12300	1,830,743	
	Kagwe ICT HUB	17/10/19	358	13285	2,330,745	
	Kamburu ICT HUB	17/10/19	359	13286	2,330,746	
	Telkom Kenya	31/10/19	369	13549	2,011,920	10,834,897
	Grand Total					25,226,827

Although, the NGCDF Management indicated that payment vouchers, relevant minutes of the CDF committee, procurement records and relevant bank statements were taken by the Ethics and Anti-Corruption Commission (EACC) for investigations, certified copies of the same were not provided for review.

Consequently, the accuracy and propriety of Kshs.25,226,827 expenditure for the year ended 30 June, 2019 could not be confirmed.

5. Unsupported Other Grants and Other Payments

Disclosed under Note 7 to the financial statements on other grants and other payments is an expenditure of Kshs.6,104,311 on security projects. The amount was incurred on five projects as follows:

	Project Name	Amount Kshs.
1	Gachoire Chief's Office	900,000
2	Kwaregi Administration	2,204,311
3	Kijabe ACCS Office	1,200,000
4	Kimende Police Post	900,000
5	Kamukombi Police Post	1,000,000
	Total	6,204,311

However, the expenditure was not supported with payment vouchers, procurement records, relevant minutes of NGCDF committee and projects status reports. In addition, title documents for the land on which the projects have been constructed were not provided for audit verification.

In the absence of supporting documentation and title deeds for the land, the propriety and validity of the total expenditure of Kshs.6,204,311 incurred on these projects could not be confirmed.

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

Development Fund - Lari 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

Budget Control and Performance

According to the summary statement of appropriation, during the year under review, the NGCDF- Lari Constituency received a total of Kshs.123,362,973 from NGCDF Board, representing about 69% of the budgeted amount of Kshs.178,403,849.

Similarly, the Fund expended Kshs.117,718,845 against an approved budget of Kshs.178,403,849 resulting to an under-expenditure of Kshs.60,685,004 or 34% of the budget.

Further, out of the actual receipts for the year, the NGCDF- Lari Constituency incurred a total expenditure of Kshs.117,718,845, equivalent to an absorption rate of 95% of the total receipts.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Lari 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, 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 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

Report of the Auditor-General on National Government Constituencies Development Fund - Lari Constituency for the year ended 30 June, 2019

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 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 applicable basis of accounting unless the 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 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 ability of Fund 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 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

01 October, 2021