

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MATHIOYA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Mathioya Constituency set out on pages 8 to 31, 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 - Mathioya 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 Expenditure on Use of Goods and Services

The statement of receipts and payments reflects payments totaling Kshs.8,406,357 on use of goods and services. As disclosed at Note 5 to the financial statements, the balance included Kshs.400,000 and Kshs.3,407,585 paid for fuel, oil and lubricants and committee allowances respectively. However, the fuel register maintained in respect of fuel consumed during the year did not indicate the registration numbers of the motor vehicles that consumed the fuel.

Further, relevant supporting documentation including minutes of meetings held and signed attendance lists were not provided for the various payments of allowances to committee members.

Consequently, the propriety and accuracy of the expenditure on fuel, oil and lubricants and committee allowances could not be confirmed.

#### 2. Other Grants and Transfers

The statement of receipts and payments reflects other grants and transfers of Kshs.51,769,965. The following observations were made regarding the payments:

## **2.1 Unsupported Bursary to Needy Students**

As disclosed at Note 7 to the financial statements, the balance included Kshs.22,951,961 and Kshs.19,918,489 being bursaries to secondary schools and tertiary institutions, respectively. However, the resolutions of the Project Management Committee (PMC) authorizing bursary payments totaling Kshs.5,945,681 were not provided contrary to Regulation 29(5) of the National Government Constituencies Development Fund Regulations, 2016, which requires that every payment from the PMC accounts shall be on the basis of a resolution recorded in the minutes of the meeting of the PMC.

Consequently, the accuracy and validity of the bursary payments amounting to Kshs.5,945,681 could not be confirmed.

## **2.2 Unsupported Expenditure on Environment**

As disclosed at Note 7 to the financial statements, the Fund incurred an expenditure of Kshs.1,963,792 on environment. The amount was disbursed to the PMC for the purchase of seedlings. However, evidence of delivery of the seedlings was not provided.

Further, expenditure returns in respect of the Project revealed inconsistencies in the number of tree seedlings supplied. According to the PMC minutes for the meeting held on 26 April, 2019, a total of 107,610 tree seedlings were supplied, while the record of the meeting held on 14 May, 2019 indicated that a total of 114,760 tree seedlings were received. No explanation was provided for the variance.

In the circumstances, the propriety and validity of the expenditure of Kshs.1,963,792 could not be confirmed.

## **3. Long Outstanding Bank Reconciliation Statement Items**

The statement of assets and liabilities reflects bank balances of Kshs.7,763,048. However, the June 2019 bank reconciliation statement reflected long outstanding unpresented cheques, totalling Kshs.683,522 which were already stale as at 30 June, 2019. No reason was provided for failure to reverse the cheques in the cash book.

Consequently, the accuracy of the reported bank balance of Kshs.7,763,048 could not be confirmed.

## **4. Inconsistencies in the Financial Statements**

The summary statement of appropriation – recurrent and development combined reflects Kshs.54,269,965 being the actual expenditure for other grants and transfers and a nil balance for other payments. However, the statement of receipts and payments and the respective disclosure Notes to the financial statements, reflect other grants and transfers of Kshs.51,769,965 and other payments of Kshs.2,500,000.

In the circumstances, the accuracy of the summary statement of appropriation – recurrent and development combined 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 - Mathioya 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. Budget Control and Performance**

According to the summary statement of appropriation - recurrent and development combined, during the financial year under review, total receipts for the Fund amounted to Kshs.115,382,269 against a budget of Kshs.170,392,144 resulting into a shortfall of Kshs.55,009,875, or 32% of the budgeted receipts.

Further, the Fund incurred a total expenditure of Kshs.107,623,220, which is equivalent to 63% of the approved total budget of Kshs.170,392,144. The under-utilization of Kshs.62,768,924 or 37% of the approved budget impacted negatively on service delivery to the residents of Mathioya Constituency.

#### **2. Unresolved Prior Year Audit Matters**

Prior year audit issues remained unresolved as at 30 June, 2019. Management has not provided reasons for the delay in resolving the prior year audit issues.

## **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**

#### **Security Projects not Put to Use**

As previously reported, the Fund implemented security projects in Kiiru Divisional Office, Kora AP Post, Kiambuthia AP Post and Wahundra AP Post at a total cost of Kshs.1,630,000. However, audit inspection in March, 2020, established that the projects at Kiiru Divisional Office, Kiambuthia AP Post and Wahura AP Post were complete but had not been put to use.

In the circumstances, value for money on the expenditure may not have been achieved.

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 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 ability of National Government Constituencies Development Fund - Mathioya Constituency to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless Management is aware of 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 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 National Government Constituencies Development Fund - Mathioya Constituency 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 National Government Constituencies Development Fund - Mathioya Constituency 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**