

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MOGOTIO 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 (NGCDF) - Mogotio Constituency set out on pages 1 to 54, which comprise the statement of financial 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 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 NGCDF - Mogotio 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. Errors in Annual Report and Financial Statements

The annual report and financial statements prepared and presented for audit had the following presentation and disclosure errors;

- 1.1 Pages 3, 4, 34, 36 and 38 do not indicate the reporting currency;
- 1.2 Information contained in Pages 4 and 19 footnotes is misleading and unclear;
- 1.3 Page Vii of the annual report reflects average budget absorption of 66% while in the summary statement of appropriation reflects 64%;
- 1.4 The explanatory notes of the summary statement of appropriation- recurrent and development combined at page 4 are inconsistent with those in the statement and
- 1.5 Annexures to the financial statements from page 54 onwards are not paginated and headed.

This is contrary to the format prescribed by the Public Sector Accounting Standard Board (PSASB) in accordance with section 194(1)(d) of the Public Finance Management Act, 2012.

Consequently, the annual report and the financial statements for the year ended 30 June, 2019 as prepared and presented are not IPSAS compliant.

2. Discrepancies Between Comparative and Audited Financial Statements Balances

The comparative balances in the financial statements for compensation of employees and use of goods and services under Notes 4 and 5 respectively varied with the audited balances as detailed out below.

Item	Comparative Balances (Kshs)	Audited FS (Kshs)	Variance (Kshs)
Compensation of Employees	1,549,903	1,512,703	37,200
Use of Goods and Services	4,796,247	3,378,248	1,417,999
Total	6,346,150	4,890,951	1,455,199

No explanations have been rendered for the discrepancies.

Consequently, the accuracy and completeness of the comparative figures under Notes 4 and 5 to the financial statements for the year ended 30 June, 2019 could not be confirmed.

3. Variance in the Summary Statement of Appropriation-Recurrent and Development Combined

The summary statement of appropriation - recurrent and development combined reflects Nil budget and actual on comparable basis balances on acquisition of assets while the statement of receipts and payments reflects expenditure of Kshs.183,700. The inconsistency has not been explained.

In the circumstance, the accuracy of the summary statement of appropriation- recurrent and development combined for the year ended 30 June, 2019 could not be confirmed.

4. Variance in the Budget Execution by Programmes

The statement of receipts and payments reflects compensation of employees cost of Kshs.2,768,487 while the budget execution by programs and sub programs reflects amount of Kshs.2,840,856 resulting to unexplained variance of Kshs.72,369. In the circumstance, the accuracy of the budget execution by programs and sub programs for the year ended 30 June, 2019 could not be confirmed.

5. Variance between the Cashbook and Board of Survey Balance

As previously reported, the statement of assets and liabilities reflects comparative bank balance of Kshs.3,844,728 which differed with the board of survey balance of 30 June, 2018 of Kshs.3,927,528 resulting to unexplained variance of Kshs.82,800. The variance had not been resolved as at 30 June, 2019.

In the circumstance, the accuracy of the bank balance of Kshs.5,945,651 as of 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the NGCDF - Mogotio 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

1.0 Other Matter

1.1 Budgetary Control and Performance

The summary statement of appropriation: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.167,670,087 and Kshs.112,629,211 respectively resulting to an under-funding of Kshs.55,040,876 or 33% of the budget. Similarly, the Fund spent Kshs.106,683,560 against an approved budget of Kshs.167,670,086 resulting to an under-expenditure of Kshs.60,986,526 or 36% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Mogotio 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. Projects Implementation Status

The statement of receipts and payments reflects transfers to other government units of Kshs.32,964,724;(2018-Kshs.8,576,421) and as disclosed under Note 6 to the financial statements. Review of the project implementation status report as of 30 June, 2019 revealed the following unsatisfactory issues: -

1.1. Incomplete Projects

Three (3) projects that involved completion of latrines, dormitory flooring and plastering that were physically verified lacked documentary evidence of completion through practical completion certificates health and occupational certificates as well as inspection and acceptance report. -

Further and as previously reported, Sirwa Primary School was allocated Kshs.300,000 for completion of one (1) classroom with the works comprising; flooring, ceiling, fixing door, windows and painting. However, physical verification held on 14 March, 2019 revealed shoddy and incomplete workmanship. There were also no expenditure returns hence, it was not possible to ascertain the actual amount already spent out of the allocated amount. In addition, there was no evidence of the shoddy work having been rectified as at the time of the audit inspection in February, 2020.

Consequently, it was not possible to confirm when the constituents will get value for money spent on the incomplete projects.

2. Other Grants and Other Payments

The statement of receipts and payments also reflects other grants and other payments of Kshs.60,348,204;(2018-Kshs.26,125,000) and as disclosed under Note 7 to the financial statements.

2.1. Incomplete Security Projects

Included in this amount are disbursement towards security projects of Kshs.3,650,000 for which physical verification of projects which entailed construction of two door latrines, and two chief's offices revealed that the construction had not been completed. No satisfactory explanation has been rendered for delays in completing the projects.

Consequently, it was not possible to confirm if and when the constituents will obtain value for money spent on security projects of Kshs.2,700,000 for the year ended 30 June, 2019.

2.2. Electricity Project

Included in other grants and other payments is payment of Kshs.4,405,277 on account of electricity expansion and installation of transformers in the constituency to Rural Electrification Authority (REA). However, the status report on the implementation of electricity projects were not made available.

Consequently, the regularity of electricity expenditure of Kshs.4,405,277 and utilization of the funds for the intended purpose could not be confirmed.

2.3. Doubtful Emergency Projects

Included in the emergency projects of Kshs.5,368,000 are payments of Kshs.750,000 for projects that fall outside the definition of emergency projects as per section 8(3) of the National Government Constituency Development Fund Act, 2015 as detailed out below;

Beneficiary	Cheque Number	Amount (Kshs)	Particulars
Mugurin Secondary School	101	200,000	Dormitory Electrification
Kipkitur Secondary School	186	150,000	Purchase of Chairs, Cabinets and Lockers
Kaplelwo Secondary School	202	300,000	Matron House Construction
Sirwa Secondary School	268	100,000	Lockers and Chairs
Total		750,000	

Consequently, the regularity of the emergency projects of Kshs.5,368,000 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 Funds ability to continue 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 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 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 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 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 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

01 October, 2021