

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MWALA 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 - Mwala Constituency set out on pages 8 to 33, 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 - Mwala 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

1.0 Inaccuracies in Financial statements

1.1 Cash and cash equivalents

The statement of assets and liabilities and Note 10A to the financial statements reflect a cash and cash equivalents balance of Kshs.2,646,271. However, the bank reconciliation statement for the month of June, 2019 reflected payments in the cashbook not in the bank statement totaling to Kshs.7,544,150 of which cheques amounting to Kshs.1,326,320 were stale as at 30 June, 2019.

The statement also reflected receipts in the cashbook not in the bank statement amounting to Kshs.1,995,870 described as an adjustment of the cashbook arising from a casting error in 2008 for which no supporting documents were provided.

Consequently, the accuracy of the reported cash and cash equivalents balance of Kshs.2,646,271 could not be confirmed.

1.2 Compensation of employees

The statement of receipts and payments and Note 4 to the financial statements reflect compensation of employees expenditure of Kshs.2,811,154. However, the balance differed with the total of Kshs.2,296,146 reflected in the payrolls and the supporting

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schedules provided, resulting into an unexplained and unreconciled variance of Kshs.515,008.

In the circumstances, the accuracy of the reported compensation of employees cost of Kshs.2,811,154 could not be confirmed.

1.3 Variances between Comparative Balances and Audited Balances

The comparative balances reflected in the financial statements differed with the balances in the audited financial statements for the year ended 30 June, 2018 as shown:

Item	2018/2019 Comparative Figure (Kshs.)	2017/2018 Audited Balance (Kshs.)	Variance (Kshs.)
Statement of Assets and Liabilities			
Cash and Cash Equivalents	21,972,468	22,752,433	(779,965)
Fund Balance b/f	12,437,876	13,217,841	(779,965)
Statement of Cash Flows			
Cash at the Beginning of the Year	12,437,876	13,217,841	(779,965)
Cash at the End of the Year	21,972,468	22,752,433	(779,965)
Note 15.3 and Annex 3			
Unutilized Funds	70,589,710	54,784,482	15,805,228

No explanation or disclosure has been included in the financial statements on the nature and the basis of restatement of the comparative balances.

In the circumstances, it has not been possible to confirm the accuracy of the balances.

2.0 Unsupported Expenditure on Purchase of Land

The statement of receipts and payments reflects other payments amounting to Kshs.7,404,225 which as disclosed under Note 9 to the financial statements, include expenditure totalling Kshs.3,000,000 on Innovation Hubs at Miu, Mbiuni, and Yathui. However, documents on the procurement proceedings, valuation and title deeds for the land parcels were not provided for audit review.

3.0 Nugatory Expenditure on Dry Borehole

The statement of receipts and payments reflects transfers to other government units amounting to Kshs.33,287,931 which as disclosed under Note 6 to the financial statements, includes Kshs.30,487,931 transferred to primary schools of which Kshs.4,000,000 was transferred to Miu DEB Primary School for the drilling of a borehole. However, the borehole did not yield water although the hydrological survey had been carried out. Kshs.802,500 had already been paid to the contractor.

4.0 Unsupported Sports Expenditure

The statement of receipts and payments reflects other grants and transfers of Kshs.46,887,034 which as disclosed under Note 7 to the financial statements, includes Kshs.227,568 for sports. The funds were disbursed to Mwala Sports Project Management Committee (PMC) to conduct the County League. However, supporting documents indicating dates and the venue of the events, list of participants, and PMC minutes authorizing the payment were not provided.

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

The summary statement of appropriation-recurrent and development combined reflects a final receipts budget and actual receipts on comparable basis of Kshs.179,630,586 and Kshs.104,451,779 respectively, resulting into a shortfall of Kshs.75,178,807 or 42% of the budget. The Fund's expenditure was limited to the receipts realized.

The underfunding affected the planned activities and projects which may have impacted negatively on service delivery for the constituents of Mwala.

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

1. Lack of Public Participation in Project Identification

Section 27(1) of the National Government Constituencies Development Fund Act, 2015 requires the Chairperson of a Constituency Committee to within the first year of commencement of the new Parliament and at least once every two years thereafter, to convene open forum public meetings in every ward in the constituency to deliberate on development matters in the ward and in the Constituency. However, no evidence was provided that there was public participation in the implementation of projects.

To the extent, the Fund was in breach of the Law.

2. Delayed Implementation of Projects

Implementation of thirty-eight (38) projects with a combined budget of Kshs.51,250,000 had not commenced due to delayed funding as well as slow tender processing and approval. In addition, eight (8) projects with an allocation of Kshs.12,677,028 were started but not completed in the year. Further, projects with a combined budget of Kshs.10,537,931 were not implemented since approval had not been given by the National Government Constituencies Development Fund Board.

Consequently, it has not been possible to confirm if and when value for money will be realized from the projects.

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 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 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 Fund's ability to continue to sustain its 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 Fund's 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 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 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 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

12 November, 2021