

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MWEA 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– Mwea Constituency set out on pages 10 to 38 which comprise the statement of financial assets and liabilities as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows and 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 – Mwea 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

1.0 Accuracy of the Financial Statements

1.1 Variances Between the Financial Statements and Ledger Balances

Note 5 to the financial statements reflect an amount of Kshs.8,373,980 in respect to use of goods and services. However, included in the amount is Kshs.5,001,721 in respect to two (2) items which had a compensating error of Kshs.70,000 between the amount in the financial statements and the amount in the respective ledgers as shown below: -

Item	Note	Financial statements (Kshs)	Ledger (Kshs)	Variance (Kshs)
Committee expenses	5	4,406,000	4,476,000	(70,000)
Other operating expenses	5	595,721	525,721	70,000
Total		5,001,721	5,001,721	

In the circumstances, the accuracy of the financial statements for the year ended 30 June, 2019 could not be confirmed.

1.2 Misstatement of Comparative Balance

Disclosure 15.4 on other important disclosures to the financial statements reflects Kshs.680,910 in respect to Project Management Committee (PMC) comparative balances. However, the audited 2017/2018 financial statements reflect a nil balance in respect to the same item resulting to an unreconciled or unexplained variance of Kshs.680,910.

Further, Note 15.3 to the financial statements reflect Kshs.30,681,332 in respect to unutilized funds comparative balance being the cash balance as at 30 June, 2018. However, Note 15.3 of the audited 2017/2018 financial statements reflect a nil balance in respect to the same item resulting to unexplained and unreconciled variance of Kshs.30,681,332.

In the circumstances, the accuracy of the comparative figures as at 30 June, 2019 could not be ascertained.

1.3 Inaccuracies in the Summary Statement of Appropriation: Recurrent and Development Combined

1.3.1 Receipts Budget

The summary statement of appropriation: recurrent and development combined reflects Kshs.186,506,690 in respect to transfers from the CDF Board. However, the approved receipts budget made available for audit review reflects Kshs.119,620,193 in respect to the same item resulting to unreconciled and unexplained variance of Kshs.66,886,497.

1.3.2 Payments Budget

The summary statement of appropriation: recurrent and development combined reflects Kshs.186,770,690 in respect to final expenditure budget. However, the approved expenditure budget made available for audit review reflects Kshs.119,620,193 in respect to the same items resulting to unreconciled and unexplained variance of Kshs.67,150,497.

1.3.3 Un-explained Variance Under Adjustments Budget

The summary statement of appropriation: recurrent and development combined reflects Kshs.77,729,814 in respect to adjustments being the budgeted for but unutilized funds from the previous year. However, the same statement included in the audited 2017/2018 financial statements unutilized funds totaling to Kshs.85,465,816 resulting to an unexplained and unreconciled variance of Kshs.7,736,002. Further, the details and breakdown of the Kshs.77,729,814 were not availed for audit review.

In the circumstances, the accuracy of the summary statement of appropriation recurrent and development combined for the year under review could not be ascertained.

2.0 Presentation of the Financial Statements

The Fund's financial statements presented for audit do not include a separate recurrent and development statements of appropriation contrary to the Public Sector Accounting Standards Board (PSASB) stipulated format.

In addition, Note 15.5 to the Fund's financial statements at page 38 reflects a progress on follow up of auditor recommendation indicating two issues raised by the Auditor General on 2017/2018 financial statements as resolved. However, no evidence as to how they were resolved was availed for audit review. Further, one issue raised in the 2017/2018 financial statements was omitted in the progress report in the Fund's financial statements.

Additionally, Annex 4, the summary of fixed assets register at page 42 to the financial statements reflects a register containing a list of item description, make, serial number chassis number, year of purchase, purchase cost and condition. However, PSASB stipulates that the summary of fixed assets register should reflect asset class, opening historical cost, additions during the year, disposals during the year, transfers in/(out) during the year and closing historical cost.

In the circumstances, the presentation of the financial statements for the year under review is not in accordance with the prescribed (PSASB) format.

3.0 Misstated Cash Book Balance

Note 10A to the Fund's financial statements reflects Kshs.24,740,621 in respect of cash and cash equivalents as at 30 June, 2019. However, the respective bank reconciliation statement reflects Kshs.650,000 in respect to receipts in the bank statements not recorded in the cash book and therefore understating the cash and cash equivalents by the same amount.

Further, the bank reconciliation statement reflects Kshs.2,157,748 in respect to cheques which had gone stale by 31 December, 2019 but had not been reversed in the cash book.

In the circumstances, the accuracy of the Kshs.24,740,621 in respect to cash and cash equivalents balance as at 30 June, 2019 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Mwea 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 of 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 Budgetary Control and Performance

The Fund's summary statement of appropriation: recurrent and development combined reflect an final receipts budget of Kshs.186,770,690 and actual receipts of Kshs.116,729,814 resulting to a budget shortfall of Kshs.70,040,876. The underfunding of Kshs.70,040,876 or 38%, is an indication that some of the programmes and activities that had been planned for were not implemented.

Further, the Fund's summary statement of appropriation reflect a budgeted expenditure of Kshs.186,770,690 and an actual expenditure of Kshs.91,989,193 resulting to an under expenditure of Kshs.94,781,497. Included in the under expenditure of Kshs.94,781,497 was Kshs.24,740,621 in respect to cash at bank, being funds released by the Board but not spent by the Fund. Failure to spend funds already released by the Board denied the residents of Mwea Constituency the much needed services.

2.0 Project Implementation Status

The project implementation status report as at 30 June, 2019 availed for audit review indicated that one hundred and forty-four (144) projects worth Kshs.161,743,616 were budgeted to be implemented during the year under review. However, only fifty-six (56) projects worth Kshs.44,181,378 were completed, four (4) projects worth Kshs.49,964,625 were ongoing while eighty-four (84) projects worth Kshs.67,597,613 had not been started as shown below: -

Projects	Amount Allocated (Kshs.)	Amount Disbursed (Kshs.)	No. of projects	Status
Environment	1,438,794	1,438,794	14	Complete
Security	11,000,000	11,000,000	13	
Education	30,033,784	30,033,784	28	
Acquisition of assets	1,708,800	1,708,800	1	
Sub-Total	44,181,378	44,181,378	56	
Sports	3,269,386	1,260,000	1	On-going
Emergency	9,908,675	5,795,268	1	

Projects	Amount Allocated (Kshs.)	Amount Disbursed (Kshs.)	No. of projects	Status
Bursary	36,786,564	29,320,564	2	
Sub-Total	49,964,625	36,375,832	4	
Environment	2,180,817	0	5	Not Started
Security	2,700,000	0	4	
Education	62,716,796	0	75	
Sub-Total	67,597,613	0	84	
Total	161,743,616	80,557,210	144	

In view of the foregoing, the constituents did not get the expected services equivalent to Kshs.117,562,238 from the eighty-four (84) projects not started and the four (4) ongoing projects.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the 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 INTERNAL CONTROLS EFFECTIVENESS, RISK MANAGEMENT SYSTEMS AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the 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 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, 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 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 Fund's 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 with limited assurance as to 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 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 noncompliance. 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 National Government Constituencies Development Fund - Mwea Constituency's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment 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 as a going concern or 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

17 September, 2021