

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NYANDO 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 - Nyando Constituency set out on pages 7 to 33, 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 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 - Nyando 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. Presentation of Financial Statements

The statement of receipts and payments reflects use of goods and services figure of Kshs.10,580,620 while the summary statement of appropriation: recurrent and development combined shows a figure of Kshs.10,588,620 resulting to a variance of Kshs.8,000 which has not been explained or reconciled.

Further, the statement of receipts and payments reflects other grants and transfers figure of Kshs.48,041,874 while the summary statement of appropriation: recurrent and development combined shows a figure of Kshs.48,033,874, resulting to a variance of Kshs.8,000 which has also not been explained or reconciled.

In addition, the summary statement of appropriation: recurrent and development combined reflects budget utilization difference under other payments of Kshs.119,648 whereas the final budget and actual expenditure reflect nil balances.

Similarly, Note 15.2 to the financial statements on pending staff payables shows staff gratuity amounting to Kshs.385,040 as at 30 June, 2019 while annexure 2 on analysis of pending staff payables shows a nil balance. No explanation has been provided for the variance of Kshs.385,040.

Consequently, the financial statements as presented did not conform to the format prescribed by the Public Sector Accounting Standards Board (PSASB).

2. Unconfirmed Cash and Cash Equivalents

The statement of assets and liabilities as at 30 June, 2019 reflects bank balances of Kshs.23,590,486. However, audit procedures performed on the bank reconciliation statement for the month of June, 2019 showed receipts in the bank statements not yet recorded in the cash book amounting to Kshs.200,000 which included dishonoured cheques amounting to Kshs.150,000 and Kshs.50,000 for cash banked in relation to purchase of tender documents. No reason was however provided for non-recording of the same in the cash book although the same had been outstanding for long.

In addition, the bank reconciliation statements reflected payments in bank not in cash book in respect of two cheque payments totalling Kshs.11,000 paid vide cheque No.010282 of Kshs.5,000 and cheque No.010563 of Kshs.6,000. No reason was however provided as to why the payments were not included in the cash book. Likewise, the supporting documents for the cheques including the payment vouchers were not provided for audit review.

Further, the bank reconciliation statement for the month of June, 2019 also showed payments in bank statement not yet recorded in the cash book of Kshs.69,100 relating to bank charges. However, no reason was provided for not recording the bank charges in the cash book and include the same in other payments in the financial statements.

Consequently, the accuracy and validity of the cash and cash equivalents balance of Kshs.23,590,486 as at 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 National Government Constituencies Development Fund - Nyando 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 Fund's approved receipts budget for the year 2018/2019 amounted to Kshs.170,072,608 comprising of 2018/2019 allocation of Kshs.109,040,875 and balance brought forward from 2017/2018 of Kshs.61,031,733.

During the period, the Fund incurred an expenditure of Kshs.146,601,769 representing 86% of the approved budget of Kshs.170,072,608 resulting in under-absorption of Kshs.23,590,486 or approximately 14% of the approved budget.

Consequently, failure to utilize all funds as budgeted/disbursed is an indication that programs and activities were not implemented as planned hence not achieving the intended objective of improving delivery of goods and services to the residents of Nyando 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 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. Delay in Project Implementation

Included in other grants and transfers figure of Kshs.48,041,874 is an amount of Kshs.1,500,0000 paid to Nyando Sub County Deputy Commissioner vide cheque No.012545 on 28 June, 2019 for the construction of a two-bedroom house. However, the project had not been implemented as at the time of audit in February, 2020 and no works were going on at the site. In addition, the cheque was still unrepresented as at February, 2020 and was therefore stale and no reason was provided for the delay in implementing of the project.

Consequently, residents of Nyando Constituency did not receive value for money in respect of Kshs.1,500,000 disbursed towards the project.

2. Unaccounted for Bursary Disbursements

Included in bursaries to tertiary institutions figure of Kshs.11,517,700 as disclosed in Note 7 to the financial statements is an amount of Kshs.45,000 paid vide cheque No.012021 to Kisii University as bursary for five students. However, as at the time of audit in February, 2020, there was no evidence that, Kisii University had acknowledged receipt of the amount. This is contrary to CDF Board circular reference VOL1/111 dated 13 September, 2010 which sets out the terms of reference of the bursary committee and which include among others to verify and ensure all bursary ~~cheques are dispatched to schools/colleges.~~

Consequently, the Management is in breach of the law and the bursary may not have benefitted the intended beneficiaries.

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 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.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue 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 money is applied in an effective manner.

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 review 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 Fund's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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

29 December, 2021