

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NYAKACH 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 - Nyakach Constituency set out on pages 7 to 33, which comprise of the statement of 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 effects of the matter 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 National Government Constituencies Development Fund - Nyakach Constituency as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with the 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. Inaccuracy in Summary Statement of Appropriation

The summary statement of appropriation - recurrent and development combined reflects budget adjustment of Kshs.83,773,511 which is at variance with the balances from the previous year of Kshs.78,673,511 made up of unremitted budget for 2017/2018 of Kshs.44,194,828 and cash and bank balance as at 30 June, 2018 of Kshs.34,478,683 to result to a variance of Kshs.5,100,00 which has not been explained or reconciled.

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

2. Incorrect Opening Balances

Included in the statement of receipts and payments and summary of fixed asset register are opening balances that are not in agreement with prior year audited balances as summarized below:

Item	Audited Balance 30 June, 2018 (Kshs.)	Reported Opening Balances (Kshs.)	Variance (Kshs.)
Compensation of Employees	1,629,240	1,231,268	397,972
Use of Goods and Services	5,906,756	7,204,728	1,297,972
Transfers to Other Government Units	12,800,000	11,900,000	900,000
Other Grants and Transfers	32,309,300	30,538,768	1,770,532
Summary of Fixed Asset Register	24,510,000	19,164,276	5,345,724
Total	77,155,296	70,039,040	9,712,200

No reason or explanation has been provided for the variances arising between the two sets of records.

Consequently, the accuracy and validity of the above balances for the year ended 30 June, 2019 could not be confirmed.

3. Inaccuracies in Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.3,670,749. However, review of the bank reconciliation statement for the month of June, 2019 showed unrepresented cheques totalling to Kshs.5,806,664 which included four (4) cheques totalling to Kshs.40,200 whose amounts were at variance with amounts recorded in the cash book of Kshs.160,135 resulting to a variance amounting to Kshs.119,935 that was not explained or reconciled.

Further, included in the list of unrepresented cheques totalling to Kshs.5,806,664 are cheques amounting to Kshs.1,203,419 which had not been presented to the bank for payment as at 31 December, 2019 and were therefore stale. However the cheques had not been reversed in cashbook.

Consequently, the accuracy, completeness and validity of the cash and cash equivalents balance of Kshs.3,670,749 reflected in the statement of assets and liabilities as at 30 June, 2019 could not be ascertained.

4. Inaccuracy in Statement of Cash flows

The statement of cash flows reflects other grants and transfers of Kshs.45,810,420 whereas the statement of receipts and payments reflected a total of Kshs.44,511,690 resulting to an unreconciled variance of Kshs.1,298,730.

Consequently, the accuracy, completeness and validity of the statement of cash flows for the year ended 30 June, 2019 could not be ascertained.

5. Misclassified Expenditure

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services totalling to Kshs.12,376,096. The balance includes committee expenses amount of Kshs.7,151,907 under which an amount of

Kshs.255,000 was incurred on the repair and maintenance of the Fund offices. This expenditure was incorrectly classified as part of committee expenses instead of being reported under repairs and maintenance.

Consequently, the accuracy, completeness and validity of committee expenses amount of Kshs.7,151,907 reflected in the statement of the statement of receipts and payments for the year ended 30 June, 2019 could not be ascertained.

6. Unsupported Tractor

Included in the summary of fixed asset register balance of Kshs.21,568,059 is a tractor purchased at a cost of Kshs.3,000,000 in the year 2009. However, the tractor was not operational, and an inspection report was not provided. Also, the Fund did not have the ownership document for this tractor.

Consequently, the accuracy and validity of the tractor's balance of Kshs.3,000,000 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 the National Government Constituencies Development Fund - Nyakach 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. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.192,814,388 and Kshs.124,773,511 respectively, resulting to an under-funding of Kshs.68,040,877 or 35% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.192,814,388 and Kshs.121,102,762 respectively, resulting to an under expenditure of Kshs.71,711,626 or 37% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere

to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

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. Irregular Expenditure

Included in the use of goods and services expenditure totalling to Kshs.12,376,096 is committee expenses amounting to Kshs.7,151,907 which was over and above the budgeted amount of Kshs.4,132,304 by Kshs.3,019,803.

Consequently, the Management was in breach of the law.

2. Non-Compliance with Law on Returns

Included in transfers to other Government Institutions totalling to Kshs.58,100,00 is transfers to primary schools amount of Kshs.33,700,000 as disclosed in Note 6 to the financial statements. The balance includes amounts of Kshs.1,800,000 disbursed to three (3) projects (Odhongi Primary School-Kshs.600,000; Lisana Primary School Kshs.600,000 and Barkawarinde Primary School-Kshs.600,000) whose project returns were not provided.

Further, included in the approved estimates for 2018/2019 is an allocation amount of Kshs.3,043,694 towards the purchase of fifty-one (51) seater bus for St. Alloys Gem Secondary School out of which an amount of Kshs.900,000 was disbursed to the school in the year to repay a loan taken from a commercial bank to finance the bus purchase. However, the school did not provide local purchase order, quotations, as well as the loan agreement to confirm the terms of the loan, amounts paid and the outstanding balance as at 30 June, 2019. This is contrary to section 15(1)d of the National Government Constituencies Development Fund Act, 2015 which requires project management committees to prepare returns and file them with a Constituency Committee.

Consequently, the Management breached the law.

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 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 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 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

05 October, 2021