

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NYARIBARI CHACHE 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 - Nyaribari Chache Constituency set out on pages 10 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 - Nyaribari Chache 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. Inaccuracies in the Statement of Assets and Liabilities

The statement of assets and liabilities reflects total financial assets balance of Kshs.8,288,513 and nil financial liabilities. However, the net financial position was presented as net liabilities. The error was not corrected.

Further, as disclosed in Note 10A to the financial statements, the statement of assets and liabilities reflects cash and cash equivalents bank balance of Kshs.8,288,513. Bank reconciliation statement provided had unrepresented cheques totalling to Kshs.16,475,575 out of which an amount of Kshs.16,006,571 represented stale cheques. However, the stale cheques had not been reversed in the cash book as at 30 June, 2019.

In addition, the statement reflects a prior year adjustment totalling to Kshs.38,116. However, relevant supporting documents including detailed breakdown of the amount were not provided for audit.

Consequently, the accuracy, completeness and validity of the statement of assets and liabilities as at 30 June, 2019 could not be confirmed.

2. Unsupported Domestic Travel and Subsistence Allowance

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services expenditure amounting to Kshs.11,504,819. The balance includes domestic travel and subsistence amount of Kshs.1,875,000 whose supporting documents such as claims forms, payment vouchers, attendance registers, back to office reports, work tickets, bus tickets and the officers' destination were not provided.

Consequently, the accuracy, completeness and validity of domestic travel and subsistence balance of Kshs.1,875,000 for the year ended 30 June, 2019 could not be confirmed.

3. Unsupported Bursary Disbursements

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers expenditure amounting to Kshs.50,927,051. The balance includes an amount of Kshs.35,831,356 which was disbursed as bursaries to needy students in secondary schools and tertiary institutions. Out of the total disbursements, an amount of Kshs.35,542,356 was not acknowledged by the beneficiary institutions by issuing receipts.

Consequently, the accuracy, completeness and validity of the disbursements totalling to Kshs.35,542,356 for the year ended 30 June, 2019 could not be confirmed.

4. Unsupported Purchase of School Buses

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other Government Units amounting to Kshs.55,322,855. The balance includes an amount of Kshs.23,349,603 which was paid for purchase of four (4) buses for learning institutions namely; Amariba, Nyabiosi, Irondi and Nyanko Secondary Schools.

Review of records revealed that request for quotations method of procurement was used instead of open tender method despite the total amount expected to be spent on the buses being above the legal threshold for quotations. Further, adequate documents supporting the award of the tender to the supplier were not provided.

In the circumstances, the accuracy, completeness and validity of the expenditure totalling to Kshs. 23,349,603 for the year ended 30 June, 2019 could not be confirmed.

5. Lack of Land Ownership Documents

Disclosed in Annex 4 to the financial statements is a summary of fixed assets register with a balance of Kshs.21,177,306. The balance includes land valued at historical cost of Kshs.8,096,672. However, ownership documents including the title deeds for the land were not provided.

Consequently, the validity of land valued at historical cost of Kshs.8,096,672 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 - Nyaribari Chache 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. 164,102,235 and Kshs. 134,430,597 respectively resulting to an under-funding of Kshs. 29,671,638 or 18% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs. 164,102,235 and Kshs. 126,103,969 respectively resulting to an under expenditure of Kshs. 37,998,266 or 23 % 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 matter 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

Irregular Penalties on Statutory Deductions

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects compensation of employees` expenditure totalling to Kshs.2,673,710. The expenditure includes an amount of Kshs.153,950 which was paid as penalties to the National Social Security Fund (NSSF) and National Hospital Insurance Fund (NHIF) for late remittance of statutory deductions. The expenditure was not approved or budgeted for and Management did not provide satisfactory explanation for not remitting deductions as per the law.

Consequently, the Management is in breach of 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

14 September, 2021