

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SUBA NORTH 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 - Suba North Constituency set out on pages 6 to 29, 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 - Suba North 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. Inaccuracies in Statement of Assets and Liabilities

The statement of assets and liabilities reflects a nil balance in respect of outstanding imprests while the board of survey report indicated a balance of Kshs.688,500. Further, the statement reflects total financial assets balance of Kshs.38,543,089 and nil liabilities. The statement, however, shows reflects net liabilities at the bottom instead of net financial position.

The errors were not corrected.

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

2. Unsupported Use of Goods and Services

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use goods and services expenditure totalling to Kshs.6,222,066. However, the balance includes an amount of Kshs.1,530,300 that was not supported with adequate relevant documents including payment vouchers. Further, Management made double payments of other committee expenses amounting to Kshs.564,500.

In the circumstances, the accuracy, completeness and validity of the expenditure amounting to Kshs.2,094,800 for the year ended 30 June, 2019 could not be confirmed.

3. Unsupported Other Grants and Transfers

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers expenditure totalling to Kshs.43,710,365. The expenditure includes an amount of Kshs.1,300,000 incurred in sporting activities which included purchase of uniforms, balls and trophies. However, Management did not provide store records to support receipts and issue of items. Further, the distribution schedule which was provided did not indicate the actual date of distribution of the sports items.

In the circumstances, the accuracy, completeness and validity of the expenditure amounting to Kshs.1,300,000 for the year ended 30 June, 2019 could not be confirmed.

4. Unsupported Summary Statement of Appropriation

The summary statement of appropriation: recurrent and development combined reflects adjustments totalling to Kshs.79,282,420 for both receipts and payments. However, a detailed schedule of the projects and programmes in the approved code list in the prior year which were to be funded during 2018/2019 financial year was not provided.

In the circumstances, the accuracy, completeness and validity of the adjustments amounting to Kshs.79,282,420 reflected in the summary statement of appropriation - recurrent and development combined for the year ended 30 June, 2019 could not be confirmed.

5. Unsupported Committee Bank Balances

Project Management Committee (PMC) at page 35 disclose bank balances totalling to Kshs.25,417,686 as at 30 June, 2019. However, adequate relevant documents including bank reconciliation statements, confirmation certificates and cash books were not provided. Further, no explanation was provided for not utilizing the funds for the intended purposes.

In the circumstances, the accuracy and completeness of the Committees bank balances totalling to Kshs.25,417,686 reflected in in Annex 5 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 – Suba North 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.188,323,295 and Kshs.122,282,430 respectively, resulting to an under-funding of Kshs.66,040,866 or 35% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.188,323,295 and Kshs.83,739,341 respectively, resulting to an under expenditure of Kshs.104,583,954 or 56 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

1.0 Transfers to Other Government Units

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other Government Units expenditure of Kshs.31,600,000. The following unsatisfactory observations were made:

1.1 Irregular Construction of Mbita Medical Training Centre

The balance includes an amount of Kshs.2,000,000, under transfers to tertiary institutions, which was allocated for establishment of Mbita Medical Training Centre (a KMTC Campus) at a contract price of Kshs.47,642,048. A review of records revealed that an amount of Kshs.1,842,641 was spent before the commencement of the project.

Further, tender for the project was advertised only in one newspaper on 16 January, 2019 contrary to the provisions Section 96(2) of the Public Procurement and Asset Disposal Act 2015.

Consequently, the Management is in breach of the law.

1.2 Irregular Gravelling of Access Roads

The balance also includes, under transfers to primary schools, an amount of Kshs.3,000,000 incurred on bush clearing, dozer work and gravelling of a two (2) km access road to Wakondo Primary School and Kshs.3,851,200 which was incurred on grading a 2.6 km access road (drainage works, gravel patching, and culvert installation) to Nyamaji Kisaka and Ndhuru Primary Schools. However, the roads projects are under the County Government. This is contrary to the provisions of Section 24 of National Government Constituencies Development Fund Act, 2015 and the Fourth Schedule of the Constitution of Kenya, 2010.

In the circumstances, the Management is in breach of the law.

2. Irregular Bursary Disbursements

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers expenditure totalling to Kshs.43,710,365. The expenditure includes an amount of Kshs.40,000 which was paid for a student at Tom Mboya High School. However, review of records revealed that the student was not a registered student at the school.

Consequently, the regularity and validity of the expenditure of the bursary amount of Kshs. 40,000 could not be ascertained.

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

04 October, 2021