

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - TAVETA 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 - Taveta Constituency set out on pages 13 to 40, which comprise the statement of financial assets and liabilities as at 30 June, 2019, 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 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 - Taveta 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 No.30 of 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unrecorded Receipts

The statement of receipts and payments for the year ended 30 June, 2019 reflects Kshs.30,000 in respect of other receipts. Records availed for audit review reflects that receipts for sale of tender amounted to Kshs.77,000, thus resulting to a variance of Kshs.47,000 and which the Management explained was erroneous banking in revenue account of the Ministry of Interior and Coordination. However, no evidence was availed to confirm the claim and the amount remained unrefunded to the Fund's bank account at the time of audit in the month of December, 2019.

Consequently, the accuracy and completeness of other receipts amounting to Kshs.30,000 for the year ended 30 June, 2019 could not be confirmed.

2. Understated and Unadjusted Bank Balance

The statement of assets and liabilities as at 30 June, 2019 reflects a bank balance of Kshs.8,296,170. The supporting bank reconciliation statement as at the same date availed for audit review reflects unpresented cheques amounting to Kshs.46,476,022 out of which cheques amounting to Kshs.139,688 had not been cleared as at 30 December, 2019 and were therefore stale. In addition, the bank reconciliation

statement reflects bank charges amounting to Kshs.1,071 which had not been recorded in the cash book and expensed in the statement of receipts and payments for the year under review.

Consequently, the accuracy and completeness of the bank balance of Kshs.8,296,170 as at 30 June, 2019 could not be confirmed.

3. Unrecovered Imprest

As previously reported, Note 11 to the financial statements for the year ended 30 June, 2019 reflects outstanding imprest of Kshs.88,600 which was issued in the year 2017. However, available records indicated that the imprest was issued to an employee who has since been transferred to another Government department outside Taveta Sub-County. However, the management has prepared a report to write-off the amount due to non-recovery.

Consequently, the recoverability of outstanding imprest of Kshs.88,600 as at 30 June, 2019 could not be confirmed.

4.0 Other Grants and Transfers

4.1 Non-Emergency Projects

Note 7 to the financial statements for the year ended 30 June, 2019 reflects emergency projects amounting to Kshs.8,876,924. Included in this figure is an amount of Kshs.2,150,000 relating to five (5) projects .

However, these projects did not qualify as emergency in nature as defined in Section 8(3) of the National Government Constituencies Development Fund Act, 2015 that, “emergency shall be construed to mean an ‘urgent, unforeseen need for expenditure for which it is in the opinion of the committee that it cannot be delayed until the next financial year without harming the public interest of the constituents’.

Consequently, the validity and lawfulness of emergency projects expenditure of Kshs.2,150,000 for the year ended 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 - Taveta 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

Budgetary Control and Performance

The summary statement of appropriation recurrent and development combined reflects a final budget and actual on comparable basis of Kshs.165,541,516 and Kshs.163,855,359 ,resulting to an under funding of Kshs.1,686,157. Similarly, the Fund's expenditure amounted to Kshs.157,245,346 against an approved budget of Kshs.165,541,516 resulting to an under-expenditure of Kshs.8,296,170 of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the citizens of Taveta 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 discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, 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

1.0 Projects Implementation Status

The projects implementation status report as at 30 June, 2019 availed for audit review indicates that thirty-nine (38) projects with a total budget of Kshs.102,357,993 received Kshs.93,218,993. Further, analysis of the report revealed that twenty-five (25) projects which had a budget of Kshs.44,668,993 and disbursements of the same amount were completed while eleven (11) projects which had a budget of Kshs.56,530,000 and received Kshs.48,550,000 were ongoing and two (2) projects approved with a total budget of Kshs.1,159,000 had not been started as at 30 June, 2019.

The Management did to strengthen monitoring and evaluation of development projects as it provides crucial feedback on areas that require urgent and continuous improvement.

In the circumstances, service delivery to the residents of Taveta Constituency and the intended purpose of the projects may not be realized.

1.1 Projects Inspection Status

Audit inspection of seven (7) projects with total allocation of Kshs.72,988,130 in the month of December, 2019 reflected the following state of affairs. Two (2) classrooms were partially done, two (2) pit latrines were not constructed as per the bill of quantities, two (2) dormitories were not constructed as per specifications and construction of a chief's office was not completed but in use.

The above observations are indication of poor workmanship, which casts doubt on project supervision and value for money on the seven projects for the year ended 30 June, 2019.

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 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 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 Management 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 Fund's 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 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

06 October, 2021