

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - UGENYA 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 - Ugenya Constituency set out on pages 10 to 42, which comprise of the statement of financial 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 - Ugenya 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 Cash and Cash Equivalents

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.22,720,954. However, review of the bank reconciliation statement for June, 2019 reflected payments in cashbook not in bank totalling to Kshs.1,843,291 out of which cheques amounting to Kshs.1,017,174 were dated 20 December, 2018 and earlier and were therefore stale. However, the cheques had not been reversed in the cash book. The bank reconciliation statement also reflected payments in bank not in the cashbook amounting to Kshs.1,511,112 out of which an amount of Kshs.1,167,000 was in respect of unpaid cheques and an amount of Kshs.315,198 on accumulated bank charges. No reason was provided why the bank charges were not written in cashbook and included in the expenditure for the year.

Further, two (2) cheques totalling to Kshs.1,160,000 were unpaid which Management explained to be refunds from Project Management Committee (PMC) - Ugenya Technical College for an Information Communications Technology project budgeted for during 2017/2018 but was recalled due to changes in implementation policy by the Ministry of Information Communication Technology. However, examination of the bank statement showed that on 30 April, 2019, a similar amount was withdrawn from the Fund bank account but supporting documents were not provided.

Consequently, the accuracy, completeness and validity of the cash and cash equivalents balance of Kshs.22,720,954 as at 30 June, 2019 could not be confirmed.

2. Inaccuracies in the Statement of Receipts and Payments

The statement of receipts and payments and the summary statement of appropriation - recurrent and development combined reflects total expenditure amounting to Kshs.95,165,711 while the computed balance amounts to Kshs.99,363,504 resulting to an unreconciled variance of Kshs.4,197,793.

Further as disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects compensation of employees totalling to Kshs.5,636,667. However, the payroll reflected compensation of employees amounting to Kshs.3,895,220 resulting to an unreconciled variance of Kshs.1,741,447.

Consequently, the accuracy, completeness and validity of expenditure totalling to Kshs.95,165,711 for the year ended 30 June, 2019 could not be confirmed.

3. Unsupported Bursary

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers totalling to Kshs.32,944,735. The balance includes bursary amounting to Kshs.3,000,000, under bursary to tertiary institutions, made to a local driving school in respect of fees for boda boda riders. However, the procurement documents for the school, payment vouchers, details of the beneficiaries and provisional driving licenses from National Transport and Safety Authority (NTSA) for an amount of Kshs.1,500,000 were not provided.

In the circumstance, the accuracy, completeness and validity of expenditure totalling to Kshs.3,000,000 for the year ended 30 June, 2019 could not be confirmed.

4. Inaccuracy in Fixed Assets Register

The summary of fixed assets register at Annex 4 to the financial statements reflects assets balance totalling to Kshs.22,164,281 as at 30 June, 2019. However, the fixed assets register provided reflected a balance of Kshs.16,175,427 as at 30 June, 2019 resulting to an unreconciled variance of Kshs.5,988,854.

In the circumstances, the accuracy and validity of the fixed assets balance of Ksh.22,164,281 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 - Ugenya 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.173,966,707 and Kshs.107,748,316 respectively, resulting to an under-funding of Kshs.66,215,391 or 38% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.173,966,707 and Kshs.99,363,504 respectively, resulting to an under expenditure of Kshs.74,600,203 or 43% 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. Delay in Project Implementation

Review of Project Implementation Status Report as at 30 June, 2019 showed that projects valued at a total of Kshs.62,970,690 which were approved and partly funded between the years 2015-2018 had not been completed and no funding was allocated for their completion during the year under review. In addition, construction of Ugenya Agricultural College which was allocated an amount of Kshs.3,600,000 during 2017/2018 financial year had not commenced.

Further, health facilities, dispensaries and water projects, which currently are under the devolve units, have remained incomplete and no reason or explanation has been provided for failure to budget and fund the projects to completion as required by National Government Constituencies Development Fund Act, 2015.

In the circumstances, I am unable to confirm whether public obtained value for the money spent on the incomplete projects.

2. Unapproved Expenditure

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers balance totalling to Kshs.32,944,735 which included bursary-secondary schools amount of Kshs.17,954,850. However, the approved budget on bursary for secondary schools amounted to Kshs.13,175,313 leading to an unapproved over expenditure total of Kshs.4,779,536.

Further, the Fund had use of goods and services expenditure budget and actual on comparable basis of Kshs.9,784,231 and Kshs. 19,023,012 respectively resulting to an unapproved over expenditure of Kshs.9,238,781 or 94% of the budget.

Consequently, the validity of the over expenditure for the year ended 30 June, 2019 could not be confirmed.

3. Unsatisfactory Implementation of Projects

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other Government Entities totalling to Kshs.39,420,576. The balance includes an amount of Kshs.1,700,000, under transfers to secondary schools, disbursed to Hafumbre Secondary School for construction of two (2) classrooms. Although the two (2) classrooms were complete and in use, physical verification in June, 2020 revealed that there were cracks on the floor and electricity wires we hanging on the walls which possess security and safety risk to the student and the building. This is an indication of poor workmanship and lack of proper project supervision.

In the circumstances, the public did not get value for money in the expenditure of Kshs.1,700,000 incurred on the classrooms.

4. Long Outstanding Imprest

The statement of assets and liabilities reflects outstanding imprest from an individual relating to the year 2009 amounting to Kshs.498,876. No reason or explanation was provided for non-surrender or recovery of the same contrary to Section 93 of the Public Finance Management (National Government) Regulations, 2015 which provides that a holder of a temporary imprest should account or surrender the imprest within 7 working days after returning to duty station and in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer should take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate.

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

01 October, 2021