

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - UGUNJA 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 - Ugunja Constituency set out on pages 10 to 55, which comprise the statement of financial assets and liabilities as at 30 June, 2019 and 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 - Ugunja 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. Understated Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.47,953,305 in respect of bank balance as at 30 June, 2019 as disclosed in Note 10A to the financial statements. Audit procedures performed on the bank reconciliation statement for the month of June, 2019 reflected unrepresented cheques totalling to Kshs.2,542,599.45 out of which cheques amounting to Kshs.1,800,871.45 were stale and had not been reversed in cashbook thereby understating the cash and cash equivalent balance. The bank reconciliation statement also reflected bank charges amounting to Kshs.9,980 and not recorded in the cashbook and included as expenditure for the year ended 30 June, 2019.

This is contrary to Section 90(3) of the Public Finance Management (National Government) Regulations, 2015 which provides that Accounting Officers shall ensure any discrepancies noted during bank reconciliation exercise, are investigated immediately and appropriate action taken including updating the relevant cash books.

Consequently, the accuracy and validity of the cash and cash equivalents balance of Kshs.47,953,305 as at 30 June, 2019 could not be confirmed.

2. Incorrect Summary Statement of Appropriation

The summary statement of appropriation recurrent and development combined reflects approved budget of Kshs.128,466,427 and expenditure of Kshs.71,705,122 for the year ended 30 June, 2019 to result to under-expenditure of Kshs.56,761,305. Although the totals are correct, the other payments adjustment of Kshs.4,677,027 has not been reflected under the final budget column and the budget utilisation difference column.

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

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Ugunja 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 statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.128,466,427 and Kshs.119,658,427 respectively resulting to an under-funding of Kshs.8,808,000 or 7% of the budget. Similarly, the Fund spent Kshs.71,705,122 against an approved budget of Kshs.128,466,427 resulting to an under-expenditure of Kshs.56,761,305 or 44% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Ugunja Constituency.

REPORT ON COMPLIANCE WITH 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 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. Poor Workmanship on Renovation of CDF Office in Ugunja

Disclosed under note 8 is acquisition of assets figure of Kshs.5,281,654 which includes refurbishment of buildings figure of Kshs.2,500,000. . The expenditure of Kshs.2,500,000 is in respect of payment to a local contractor for renovation of Ugunja NGCDF Offices. Audit verification of the project in June, 2020 reflected that the renovation was complete and the building was in use. However, there were leakages in some sections of the ceiling, the paint had started peeling off and some sections of the gutters were missing and required to be fixed. This is an indication of poor workmanship and use of poor-quality materials.

This is contrary to section 43(d) of Public Finance Management Regulation 2015, which stipulate that an accounting officer shall manage, control and ensure that policies are carried out efficiently and wastage of public funds is eliminated and section 25,(1) of the National Government Constituencies Development Fund Act (NG-CDF), 2015 requires that any funding under this Act shall be for a complete project or a defined phase of a project and may include the acquisition of land and buildings.

Consequently, the Management is in breach of the law and the residents of Ugunja Constituency may not have obtained value for money on the renovations.

2. Unapproved Variation for Land Scaping and Car Park Works

The acquisition of assets figure of Kshs.5,281,654 includes construction of carpark and land scaping expenditure of Kshs.2,781,654 as disclosed in Note 8 to the financial statements. The amount was paid to a local company in relation to construction of carpark and land scaping at NG-CDF offices in Ugunja constituency compound. However, the clerk of works' unnumbered certificate of practical completion reflected that the certified works by the contractor amounted to Kshs.3,120,870.67 which was in excess of the contract sum of Kshs.2,781,373.47 by Kshs.339,497.20. There was no authority and approval for the variation.

Although the variation of Kshs.339,497.20 had not been paid, it is in contravention of section 43(d) of Public Finance Management (National Government) Regulation 2015, which stipulates that an accounting officer shall manage control and ensure that policies are carried out efficiently and wastage of public funds is eliminated.

Consequently, the Management breached the law and there may be possible loss of Kshs.339,497.20 through unauthorised payment.

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.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain 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 money is applied in an effective manner.

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 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 Fund policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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

15 October, 2021