

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - IGEMBE NORTH CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Igembe North Constituency set out on pages 13 to 47, which comprise of the statement of assets and liabilities as at 30 June, 2020, 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 effect of the matters 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 - Igembe North Constituency as at 30 June, 2020, 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

1.0 Accuracy of Financial Statements

1.1 Variances Between the Summary Statement of Appropriation; Recurrent and Development Combined and Budget Execution by Programs and Sub-Programs

The Fund's summary statement of appropriation - recurrent and development combined for the year under review reflects balances in respect to four (4) items that are at variance with balances in the budget execution by programmes and sub-programmes as detailed below:

Items	Summary Statement of Appropriation: Recurrent and Development Combined (Kshs.)	Budget Execution by Programmes and Sub-programmes (Kshs.)	Variance (Kshs.)
Final Budget			

Transfer to Other Government Units	127,416,481	139,724,841	(12,308,360)
Other Grants and Other Transfers	51,559,988	45,930,655	5,629,333
Total	178,976,469	185,655,496	(6,679,027)
Actual amounts			
Transfer to Other Government Units	94,674,841	92,824,841	1,850,000
Other Grants and Other Transfers	20,342,059	20,042,058	300,001
Total	115,016,900	112,866,899	2,150,001

In the circumstances, the accuracy of the summary statement of appropriation: recurrent and development combined and the budget execution by programmes and sub-programmes for the year under review could not be ascertained.

1.2 Inaccuracies in the Summary Statement of Appropriation

The summary statement of appropriation; recurrent and development combined for the year ended 30 June, 2020 reflects total payments budget utilization difference and transfers to other governments units budget utilization difference of Kshs.70,958,947 and Kshs.32,217,92 respectively. However, a recasting of the statement revealed the correct totals to be Kshs.70,435,237 and Kshs.32,741,640 in respect to the two items resulting to variance of Kshs.523,710 and Kshs.523 711.

In the circumstances, the accuracy of the summary statement of appropriation - recurrent and development combined for the year under review could not be confirmed.

2.0 Unsupported Bursary Funds

As disclosed in Note 7 to the financial statements for the year ended 30 June, 2020, the statement of receipts and payments reflects other grants and other payments amount of Kshs.20,342,059. This balance includes Kshs.4,155,000 and Kshs.1,444,000 in respect to bursaries disbursed to secondary schools and to tertiary institutions respectively both totalling to Kshs.5,599,000. However, out of bursaries disbursed during the year of Kshs.5,599,000 bursaries disbursed during the year, only Kshs.1,030,000 (18%) was acknowledged by the respective beneficiary institutions.

In the circumstances, it has not been possible to confirm whether the bursaries disbursed amounting to Kshs.4,569,000 benefited the intended beneficiaries and whether the same was expended as appropriated in the year under review.

3.0 Unsupported Project Management Committees (PMC) Bank Balances

Notes 6, 7 and 8 to the financial statements for the year ended 30 June, 2020 reflects Kshs.94,674,841, Kshs.20,342,059 and Kshs.4,598,702 in respect to transfers to other government entities, other grants and other payments and acquisition of assets respectively all totalling to Kshs.119,615,602 which was disbursed to various institutions for the implementation of projects through Project Implementation Committees (PMC). Included in the amount of Kshs.119,615,602 is Kshs.3,113,945 reflected at Annex 5 on Page 47 of the financial statements as PMC bank balances being the unspent project

funds. However, the respective supporting documents including bank reconciliations statements and cash books were not availed for audit review.

In the circumstances, the accuracy of the Kshs.3,113,945 in respect to PMC bank balances as at 30 June, 2020 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 - Igembe 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 are no key audit matters to report in the under review.

Other Matter

1.0 Budgetary Control and Performance

The Fund's summary statement of appropriation: recurrent and development combined for the year ended 30 June, 2020 reflects an approved receipt budget of Kshs.202,457,380 and actual receipts of Kshs.133,089,656 resulting to an underfunding of Kshs.69,367,724 or 34% of the budget.

Similarly, the Fund's summary statement of appropriation - recurrent and development combined for the year ended 30 June, 2020 reflects budgeted expenditure of Kshs.202,457,380 and actual expenditure of Kshs.131,498,432 resulting to an under-expenditure of Kshs.70,958,948 or 35% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the citizens of Igembe North Constituency.

2.0 Delay in Project Implementation

Review of the project implementation status report for the year under review provided for audit revealed that one hundred and sixty-three (162) projects worth Kshs.191,046,011 had not been budgeted for implementation during the year under review. However, only ninety-four (94) projects with estimated costs of Kshs.71,328,962 were completed, thirty-four (34) projects worth Kshs.85,219,695 were on-going and thirty-four (34) projects with a budgeted cost of Kshs.34,497,354 were not started as at 30 June, 2020.

In view of the foregoing, the residents of Igembe North Constituency did not get the expected services equivalent to the Kshs.85,219,695 ongoing projects and the Kshs.34,497,354 being projects not started all totaling to Kshs.119,717,049 for the year ended 30 June, 2020.

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 of Conclusion

1.0 Errors in the Presentation of the Financial Statements

The financial statements availed for audit review reflects the following presentation anomalies.

- i) The Fund's financial statements for the year ended 30 June, 2020 did not include separate summary statements of appropriation for recurrent and development as required by the Public Sector Accounting Standards Board (PSASB).
- ii) The statement of receipts and payments, statement of cash flows, statement of assets and liabilities and the summary statement of appropriation - recurrent and development combined do not indicate the year to which the statements relate.
- iii) The Fund's accountant Institute of Certified Public Accountants of Kenya (ICPAK) membership number is missing in the financial statements.
- iv) Progress on follow up of prior years' auditors' recommendations has not been included in the financial statements.
- v) Note 17.1 and 17.2 to the financial statements makes references to annexes 1 and 2. However, the two annexes are not included in the Fund's financial statements.
- vi) Note 6 and Note 7 to the financial statements makes reference to "attached lists". However, the lists are not attached in the financial statements presented for audit review.
- vii) The budget execution by programs and sub programs has no totals.
- viii) The chairman's statement on Page 5 of the financial statements includes a statement on budget performance that Kshs.129,134,489 equivalent to 63.8% was absorbed by the Fund. However, the summary statement of appropriation: recurrent and development combined reflects Kshs.131,498,432 equivalent to 65% in respect to fund absorption resulting to an unexplained variance of Kshs.2,363,943.
- ix) Notes 16 to the financial statements erroneously reflects changes in accounts payable-deposits and retentions as Kshs.369,336 instead of Kshs.2,733,279

reflected in the statement of assets and liabilities and as disclosed under notes 12A and 12B.

In the circumstances, the presentation of the financial statements for the year ended 30 June, 2020 is not in accordance with PSASB prescribed format.

2.0 Failure to Bond Unserviceable Fixed Assets

Annex 4 to the financial statements on summary of fixed assets reflects Kshs.11,344,264 in respect to transport equipment's which includes Kshs.4,394,264 in respect to a Land Rover Defender registration number GKA 735U which was acquired in April, 2010. However, the vehicle is grounded and unserviceable but has not been bonded/valued for disposal contrary to Section 164(1)(3) of the Public Procurement and Assets Disposals Act, 2015 which requires that unserviceable, obsolescent, obsolete or surplus assets be brought to the attention of the disposal committee and a technical report be given by a relevant expert of the subject items for disposal that considers the real market price and the technical expert shall set up a reserve price.

In the circumstances, the Management was 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, 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 service 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 Fund's financial reporting process, reviewing the effectiveness of how the entity 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 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 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 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 February, 2022