

**REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT
CONSTITUENCIES DEVELOPMENT FUND – WESTLANDS 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 – Westlands Constituency set out on pages 15 to 34, which comprise the statement of financial of asset and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows, statement of appropriation - recurrent and development combined for the year then ended, and summary of significant accounting policies and other explanatory information in accordance with the provision 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 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 National Government Constituencies Development Fund - Westlands Constituency 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 Standard (cash basis) and comply with the Public Finance Management Act, 2012 and the National Government Constituency Development Fund Act, 2015 .

Basis for Qualified Opinion

1.0 Accuracy of the Financial statements

The financial statements for the year ending 30 June 2020 presented for audit had the following errors:

1.1 Statement of Appropriation – Recurrent and Development Combined

The statement of appropriation - recurrent and development combined reflects final payments budget of Kshs.225,494,259 while a recast of the statement adds to Kshs.242,951,157 resulting to a difference of Kshs.17,456,898.

1.2 Comparative figures

The financial statements had errors on balances brought forward as indicated in the table below;

	Description	2019/2020 Financial Statements Comparative Amount	2018/2019 Financial Statement Amount	Variance
1	Compensation of employees	1,426,758	1,447,158	(20,400)
2	Transfers to Other Govt Units	44,332,937	44,701,550	(368,613)
3	Note 1 - Transfers from other Government units	108,795,471	108,784,484	10,987
4	Note 4 - Compensation of employees	1,426,758	1,447,158	(20,400)
5	Note 6 - Transfers to Other Govt Units	44,332,937	44,701,550	(368,613)
6	Note 17.3 - Unutilized funds	88,126,535	88,115,558	10,977
7	Note 17.2 - Staff payables	0	683,856	(683,856)
8	Note 17.4 - PMC Account balances	27,216,717	20,142,567	7,074,150
9	Annex 4 - Summary of Fixed Assets	2,185,175	1,319,207	865,968
10	Annex 5 - PMC Bank Balances	27,216,717	20,142,567	7,074,150

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June, 2020 could not be confirmed.

1.3 Transfers to Other Government Units

The statements of receipts and payments for the year under review reflect transfers to other government entities amounting to Kshs.83,022,084. The amount includes Kshs.46,529,763 and Kshs.36,492,321 in respect of transfers to primary schools and secondary schools respectively as shown in Note 6 to the financial statements. Examination of expenditure documents for the respective transfers revealed payments amounting to Kshs.1,189,469 whose payment vouchers were missing and could not be availed for audit.

In the circumstances, the validity and completeness of the payments amounting to Kshs.1,189,469 during the year ending 30 June, 2020 could not be confirmed.

2.0 Undisclosed funds

Note 17.3 to the financial statements reflect unutilized funds amounting to Kshs.75,893,039 as at 30 June, 2020. Review of the project implementation status report presented for audit revealed that Hospital Hill Primary School had received Kshs.5,500,000 for the construction of a library with a capacity of 200 pupils in 2013/2014 financial year. The scope of works comprised a slab, staircase and a ramp to completion. The project funds were deposited at the school's Westlands main bank account, from where payments were made. However, a donor came on board and finalized the project, but the unutilized funds, which have not been reallocated, are not disclosed in the financial statement.

In the circumstances, the validity and completeness of transfers of Kshs.5,500 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund -Westlands Constituency 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

Budget Control and Budget Performance

The summary statement of appropriation – recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.225,494,162 and Kshs.154,626,537 respectively resulting and shortfall of Kshs.70,867,625 or 31% of the approved budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totaling to Kshs.225,494,162 and Kshs.149,601,220 respectively, resulting in underperformance amounting to Kshs.75,892,942 or 34% of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the residents of Westlands 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 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

1.1 Irregular purchase of Furniture

The statement of receipts and payments reflects transfers to other government units amounting to Kshs.83,022,084, which includes Kshs.3,925,000 transferred to Nairobi School for purchase of furniture. However, the Project Management Committee (PMC) was not constituted contrary to section 57 of the National Government Constituencies Development Fund Act, 2015. Further, there was no evidence that a PMC bank account was opened for the implementation of the Project, contrary to Regulation 15(1 c) of the National Government Constituencies Development Fund Regulations, 2015.

In addition, review of procurement records provided for audit revealed that the evaluation committee of a tender for the supply furniture, recommended a supplier who was most responsive, subject to adherence of the required quality. The professional opinion also recommended award to the supplier subject to meeting the required quality. However, different suppliers were contracted to supply the furniture by the Management of Nairobi School, and as a result, it could not be ascertained whether the other suppliers were identified in accordance with the Public Procurement and Asset Disposal Act, 2015. In addition, there was no evidence to show that the furniture had been received inspected by an inspection and acceptance committee in accordance with the section 48 (3) of the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, the fund administrator was in breach of the Law.

2.0 Bursaries

Note 7 to the financial statements reflects Kshs.17,344,600 and Kshs.15,484,124 in respect of bursaries to secondary schools and tertiary institutions respectively. However, the bursaries were not supported with documentary evidence including applications, approval process, acknowledgement by schools and institutions, and a list of recipients or beneficiaries.

In the circumstances, the accuracy and validity of the Kshs.17,344,600 and Kshs.15,484,124 bursary disbursements for the year ending 30 June, 2020 could not be confirmed.

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 ability 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 abolish 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 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 the Fund 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 going concern 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 ability to continue as a going concern or 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

10 February, 2022