

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MATHARE 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 - Mathare Constituency set out on pages 15 to 61, which comprise 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 - Mathare 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 Public Finance Management Act, 2012 and National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Accuracy of the Financial Statements

1.1 Unexplained Differences in Opening Balances

Fund Balance Brought Forward

The statement of assets and liabilities reflects a fund balance brought forward of Kshs.22,663,079 for the financial year 2018/2019. However, the corresponding Note 13 to the financial statements shows a fund balance brought forward of Kshs.5,434,369 for the same year thereby resulting to an unexplained difference of Kshs.17,228,710.

Prior Year Adjustments

The statement of assets and liabilities shows a prior year adjustments opening balance of nil while the corresponding Note 14 to the financial statements reflects Kshs.17,535,030 as the opening balance thus resulting to an unexplained difference of Kshs.17,535,030.

Project Management Committee (PMC) Accounts Balances

Note 17.4 to the financial statements reflects a PMC Account opening balance of Kshs.531,857 while Annex 5 to the financial statements on PMC bank balances shows the financial year 2018/2019 closing balance of Kshs.5,318,576 resulting to an unexplained difference of Kshs.4,786,719.

Unutilized Fund

Note 17.3 to the financial statements reflects closing balance on unutilized fund of Kshs.77,767,569 for the financial year 2018/2019. However, Annex 3 to the financial statements shows of Kshs.77,787,707 as the outstanding balance as at 30 June, 2019 resulting to an unexplained difference of Kshs.20,138.

1.2 Variance between the Financial Statements and Ledger Amounts

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects a compensation of employees amount of Kshs.3,877,526 which includes basic wages of temporary employees amount of Kshs.2,351,988. However, the ledger provided in support of this amount shows an amount of Kshs.2,163,990 thus resulting in an unexplained variance of Kshs.187,998.

Further, as disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects a use of goods and services amount of Kshs.8,618,241 which includes an amount of Kshs.1,666,000 being other committee expenses. However, the ledger provided in support of this amount shows an amount of Kshs.1,511,000 thereby resulting in an unexplained variance of Kshs.155,000.

1.3 Statement of Cashflows

The statement of cashflow shows a cash and cash equivalents balance at the beginning of the year of Kshs.17,535,030 which differs with the cash and cash equivalents balance as at 30 June, 2019 of Kshs.17,837,886 as shown in the statement of assets and liabilities. The resultant difference of Kshs.302,856 has not been explained.

1.4 Summary Statement of Appropriation: Recurrent and Development Combined

The summary statement of appropriation: recurrent and development combined shows a total budget utilization difference of Kshs.108,195,082 on the payments side. However, the recomputed amount is Kshs.104,317,556 thus resulting in an unexplained difference of Kshs.3,877,527.

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

2. Unconfirmed Fixed Assets

As reported previously, Annex 4 to the financial statements reflects a total fixed assets balance of Kshs.53,635,262. However, the annex does not include a summary of fixed assets and comparative information for the previous financial year but instead shows an extract of the fixed assets for the current year which does not disclose the nature, value, status and location of the assets owned by the Fund as at 30 June, 2020.

In the circumstances, it has not been possible to verify the existence of the assets owned by the National Government Constituencies Development Fund - Mathare Constituency.

3. Unsupported Payment of Allowances for Monitoring and Evaluation

The statement of receipts and payments reflects payments of use of goods and services totaling Kshs.8,618,241 for the year ended 30 June, 2020 which includes an amount of Kshs.2,085,000 incurred under committee allowances. During the year under review, the Fund spent an amount of Kshs.1,778,002 under other committee expenses for monitoring and evaluation exercise. However, the invitation letters, agendas, schedule of projects visited, reports, minutes of meetings, photos of the project progress and the committee's recommendations were not provided.

Consequently, the regularity and value for money of the amount of Kshs.1,778,002 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 - Mathare 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 reflects final receipts budget and actual on comparable basis of Kshs.214,505,337 and Kshs.135,498,218 respectively resulting to an under-funding of Kshs.79,007,119 or 37% of the budget. Similarly, the Fund expended Kshs.110,187,781 against an approved budget of Kshs.214,505,337 resulting to an under-expenditure of Kshs.104,317,556 or 49% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the constituents of Mathare 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

Construction of an Administration Block and Classrooms at Huruma Secondary School

During the year under review, the Fund allocated Kshs.3,463,557 to Huruma Secondary school for completion of an administration block and 6 Classrooms which were rolled over from the previous financial year, 2018/2019. A physical verification of the project carried out in the month of February, 2021, revealed that the project had not been completed and the contractor was not on site.

In the circumstances, it was not possible to confirm the value for money for the expenditure of Kshs.3,463,557 incurred during the year ended 30 June, 2020.

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 standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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 governance.

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 abolish 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 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 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

10 February, 2022