

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - TIATY CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund (NG-CDF) - Tiaty Constituency set out on pages 1 to 22, which comprise the statement of assets and liabilities as at 30 June, 2019, and the statement of receipts and payments, statement of cash flow 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.

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 - Tiaty 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. Unsupported Use of Goods and Services**

The statement of receipts and payments reflects use of goods and services figure of Kshs.8,142,062;(2018-Kshs.4,686,817) and as disclosed under Note 3 to the financial statements. However, included in the figure is committee expenses of Kshs.4,581,820 which were not supported by payment vouchers, payment lists and minutes of meetings.

##### **1.1 Unsupported Domestic Travel and Subsistence**

The statement of receipts and payments reflects use of goods and services as disclosed in Note 3 includes domestic travel and subsistence expenditure of Kshs.499,550 which was not supported by work plans, bus tickets, work-tickets and relevant reports as evidence of work done.

Consequently, the accuracy and validity of the expenditure on use of goods and services of Kshs.8,142,062 for the year ended 30 June, 2019 could not be confirmed.

## **2. Unsupported Other Grants and Other Payments**

The statement of receipts and payments reflects other grants and other payments of Kshs.43,747,266;(2018- 29,316,300) and as disclosed under Note 5. However, the grants and other payments includes bursaries to secondary schools and tertiary institutions totalling Kshs.31,623,500 disbursed without following the guidelines contrary to Regulation, 21(3) of the National Government Constituencies Development Fund Regulations, 2016 which states that a constituency committee shall vet all persons proposed to receive support in accordance with guidelines issued by the Board.

Consequently, the accuracy and completeness of other grants and other payments of Kshs.43,747,266 for the year ended 30 June, 2019 could not be confirmed.

### **2.1. Unsupported Emergency Projects Expenditure**

The statement of receipts and payments reflects other grants and other payments of Kshs.43,747,266 out of which Kshs.3,350,000 relates to emergency projects which whose supporting requests for funding, the nature of emergency, minutes of the Project Management Committee (PMC) meetings, expenditure returns as well as monitoring and evaluation committee reports were not provided.

Consequently, the accuracy and regularity of Kshs.43,747,266 for other grants and other payments for the year ended 30 June, 2019 could not be confirmed.

## **3. Unsupported Transfers to Other Government Units**

The statement of receipts and payments reflects transfers to other government units of Kshs.44,317,342;(2018-Kshs.3,100,000) and as disclosed under Note 4. Included in the transfers to other Government units are transfers to secondary schools of Kshs.8,700,000 that were not supported by bill of quantities, work plans, minutes of PMC meeting, expenditure returns, respective bank account statements as well as monitoring and evaluation reports as prove of project implementation.

Consequently, the accuracy and occurrence of the transfer to other government units of Kshs.44,317,342 could not be confirmed.

## **4. Understated Other Grants and Transfers**

Note 5 to the financial statements reflects other grants and transfers of Kshs.43,747,266 which includes Kshs.600,000 in respect of sports projects that is understated by Kshs.436,840.

Consequently, the accuracy and completeness of other grants and transfers of Kshs.43,747,266 could not be confirmed.

## **5. Understated Bank Balance**

The statement of assets and liabilities reflects bank balance of Kshs.15,197,882;(2018-Kshs. 5,546,173) and as disclosed in Note 7 to the financial statements. However, the bank reconciliation statement in support of the balance reflects stale cheques totalling Kshs.377,744 that have not been written back into the cash book.

Consequently, the accuracy and completeness of the bank balance of Kshs.15,197,882 as of 30 June, 2019 could not be confirmed.

## **6. Unsupported Prior Year Adjustments**

The statement of assets and liabilities reflects prior year adjustment of Kshs.(394,149) and disclosed under note 9 to the financial statements. However, details relating to the adjustment have not been provided for review.

In the circumstances, the accuracy, completeness and validity of the prior year adjustment of Kshs.(394,149) 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 - Tiaty 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 combined reflects final receipts budget and actual on comparable basis of Kshs.169,871,532 and Kshs.114,830,656 respectively resulting to underfunding of Kshs.55,040,875 or 32 % of the budget. Similarly, the Fund spent Kshs.99,238,625 against an approved budget of Kshs.169,871,532 resulting to an under-expenditure of Kshs.70,632,906 or 42% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Tiaty 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. Status of Project Implementation**

The statement of receipts and payments reflects transfers to other government units of Kshs.44,317,342;(2018-Kshs.3,100,000) and as disclosed under Note 6 to the financial statements. Review of project status report as at 30 June, 2019 reflects that out of the fifty-six (56) projects with funding of Kshs.97,847,197 nineteen (19) were ongoing, thirty (30) had not started and seven (7) were completed.

Consequently, it was not possible to confirm if and when value for money will be realized from the projects not started with funding allocation of Kshs.35,863,898.

#### **2. Delay in Delivery of Strategic Plan**

The other grants and other payments amount of Kshs.43,747,266 which includes Kshs.3,173,766, being 80% payment to a firm to develop the Fund strategic plan. According to the work plan submitted by the firm, the project was to be completed within eight (8) weeks effective from 30 July, 2018. However, as at the time of audit in February, 2020, the firm was yet to deliver on the strategic plan.

Consequently, it was not possible to confirm whether expenditure of Kshs.3,173,766 was effective use of public resources.

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, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management, and Governance section of my

report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

## **Basis for Conclusion**

### **Lack of a Risk Management Policy**

The Fund does not have a risk management policy that guides on assessment and evaluation of risk and to develop the strategies to mitigate them. This is contrary to Regulation 165(1) of the Public Finance Management Act (National Government) Regulations, 2015 which require the Accounting Officer to ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism; and a system of risk management and internal control that builds robust business operations.

Consequently, it was not possible to confirm whether the risks faced have been identified and appropriately mitigated.

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 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 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 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**

**11 February, 2022**