

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Githunguri Constituency set out on pages 14 to 42, 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 a 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, the financial statements present fairly, in all material respects, the financial position of the National Government Constituencies Development Fund - Githunguri 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 Opinion

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

1. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury and Planning Circular reference No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

2. Budgetary Control and Performance

The summary statement of appropriation-recurrent and development combined reflects final receipts budget and actual on comparable basis totalling to Kshs.161,072,704 and Kshs.91,469,980 respectively, resulting to an underfunding amounting to Kshs. 69,602,724 or 43% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.161,072,704 and Kshs.84,064,923 respectively, resulting to an underperformance amounting to Kshs. 77,007,781 or 47% of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on the delivery of services to the residents of Githunguri Constituency.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

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. Non-Adherence to Prescribed Format

The annual report and financial statements prepared and presented for audit had the following presentation and disclosure errors;

- i. The annexures in the financial statements are not included under table of contents.
- ii. The progress on follow up of auditors' recommendations is not signed by the Accounting Officer.
- iii. The fiduciary management under section 1c of the financial statements indicates the financial year ended 30 June, 2019 instead of 30 June, 2020.

- iv. Annex 3 of the financial statements under unutilized fund indicates the title as analysis of other pending payables instead of unutilized fund.
- v. Note 13 to the financial statements which relates to balance brought forward is not aligned to the statement of assets and liabilities but is shown under cash and cash equivalents at the beginning of the year in the statement of cash flows.
- vi. The statement of assets and liabilities reflects balance brought forward for 2019/2020 amounting to Kshs.23,269,980 while Note 13 to the financial statements reflects balance brought forward of Kshs.23,989,445 resulting to unreconciled variance of Kshs.719,465.
- vii. Note 17.2 to the financial statements under other important disclosures reflects pending staff payables amounting to Kshs.1,168,788 for 2019/2020 while annex 2 to the financial statements reflects pending staff payables balance of Kshs.719,465 resulting to unreconciled variance of Kshs.449,323.
- viii. Note 17.3 to the financial statements under other important disclosures reflects unutilized fund balance of Kshs.78,176,570 and Kshs.23,989,447 for 2019/2020 and 2018/2019 financial years respectively. However, annex 3 to the financial statements reflects nil unutilized fund balances under outstanding balance for 2019/2020 and 2018/2019 columns.
- ix. Note 17.3 to the financial statements under other important disclosures reflects unutilized fund balance of Kshs.78,176,570. However, the summary statement of appropriation- recurrent and development combined reflects unutilized funds under budget utilization difference column amounting to Kshs.77,007,781. The variance of Kshs.1,168,789 has not been explained.
- x. The summary statement of appropriation- recurrent and development combined reflects transfers from Constituencies Development Fund Board under actual on comparable basis column of Kshs.91,369,980. However, the statement of assets and liabilities reflects fund balance brought forward of Kshs.23,989,445 and the statement of receipts and payments reflects actual transfers from National Government Constituencies Development Fund Board amounting to Kshs.68,000,000 resulting to total actual transfers of Kshs.91,989,445. The variance of Kshs.619,465 has not been reconciled.

Consequently, the annual report and financial statements as prepared and presented are not in the format prescribed by the Public Sector Accounting Standard Board (PSASB).

2. Failure to Insure the Fund's Assets

Review of records of Githunguri National Constituencies Development Fund showed that the fund has several assets including buildings, equipment, furniture and fittings of historical value totalling to Kshs.12,677,442.60 as at 30 June, 2020. However, none of the assets have been insured against risk of loss due to fire, burglary, or theft contrary to

section 36(3) of The National Government Constituencies Development Fund Act, 2015, which requires all assets to be insured in the name of the Board. Consequently, the management was in breach of the law.

3. Unimplemented Projects

A review of project implementation status report showed that the Constituencies Development Fund committee had identified and allocated funds amounting to Kshs.82,735,155 for development projects during the year but incurred actual expenditure of Kshs.66,750,254.

The Constituencies Development Fund committee had planned to undertake thirty-one projects. However, thirteen projects were completed, sixteen were on going while two had not commenced during the year under review. Failure to implement and complete projects impacted negatively on service delivery to the residents of the Githunguri Constituency.

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 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 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 Fund 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 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

03 February, 2022