

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund - Machakos Town Constituency set out on pages 17 to 52, which comprise the statement of assets and liabilities as at 30 June, 2020 and 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 - Machakos Town 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Undisclosed Comparative Balances

As disclosed in Note 17.3 under other important disclosures is a balance of Kshs.78,035,137 for the year under review and a comparative balance of Kshs.62,558,596 relating to the year 2018/2019. However, Annex 3 (analysis of unutilized fund) which is attached to support Note 17.3 does not reflect the comparative balances of Kshs.62,558,596.

In the circumstances, the balance of Kshs.78,035,137 disclosed in Note 17.3 and Annex 3 to the financial statements could not be confirmed.

2. Receipts from the NG-CDF Board

The Statement of receipts and payments reflects a balance of Kshs.128,640,876 being transfers from the NGCDF Board. However, the amount reflected in the summary statement of appropriation: recurrent and development combined is Kshs.137,561,658 resulting to unexplained variance of Kshs.8,920,782.

In the circumstances, receipts from NG-CDF Board of Kshs.128,640,876 as at 30 June 2020 could not be confirmed.

3. Prior Year Adjustments

As disclosed under Note 14 to the financial statements, the Statement of assets and liabilities for the year under review reflects prior years adjustments balance of Kshs.2,000,000 against the requirement of IPSAS 3 which states "An entity is now required to correct (where practicable) material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery. Further, no details or explanation was provided to ascertain the nature and the reason for the prior year adjustments of the said amount.

In the circumstances, it has not been possible to confirm the nature and fair statement of the prior year adjustments of Kshs.2,000,000.

4. Bank Balances

As disclosed in Note 10A to the financial statements, the Statement of assets and liabilities reflects bank balances of Kshs.8,167,413. Review of the supporting bank reconciliations statements for June, 2020 revealed unpresented cheques totaling Kshs.59,608,483 issued to various Secondary Schools and Tertiary Institutions. Further, stale cheques totaling Kshs.3,977,000 as at 30 June, 2020 had not been reversed in the cashbook.

In the circumstance, the accuracy and completeness of bank balance of Kshs.8,167,413 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 National Government Constituencies Development Fund - Machakos Town 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

1. Budgetary Control and Performance

The Summary statement of appropriation: Recurrent and Development combined reflects budgeted and actual receipts for the year of Kshs.207,429,383 and Kshs.137,561,658 respectively, resulting in underfunding of Kshs.69,867,725 or 34% of the approved budget. Further, out of the realized receipts of Kshs.137,561,658 only Kshs.129,394,245 was utilized during the year resulting in under-absorption of Kshs.8,167,413 or about 6% of the available funds.

Failure to receive the budgeted funds from the Board and the under-absorption of the available receipts implies that some of the planned programmes were not executed thereby denying effective services to the residents.

2. Unresolved Prior Year Audit Matters

In the report of the previous year, several issues were raised under report on Financial Statements and report on lawfulness and effectiveness in use of public resources. However, although the Management has indicated that all the issues have been resolved, the matters remain unresolved as the National Assembly has yet to deliberate on the audit report for 2018/2019.

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. Errors of Presentation and Disclosures in Financial Statements

Review of the financial statements submitted for audit by the Fund management revealed errors of presentation and misstatements as detailed out below:

- i. Use of Roman numbering system has not been adopted for information appearing before the elements of the financial statements.
- ii. The numbering of the main headings from I to XIII has not been adopted as required as per the prescribed reporting template.
- iii. Background information in Page 3 indicates the Headquarters of the Fund as Elite Centre Building instead of Machakos Town CDF Office.
- iv. All the dates of signing of the financial statements were wrongly indicated as 2020 instead of 2021 and corrected by hand but the alterations were not counter signed.

2. Unutilized Project Management Committee (PMC) Balances

As disclosed under Note 17.4 and Annex 5 to the financial statements a bank balances of Kshs.9,531,388 relating to Project Management Committee (PMC) as at 30 June, 2020. These balances are held contrary to the provisions of Section 12(8) of the National Government Constituency Development Fund (NGCDF) Act, 2015 which stipulates that unutilized funds of the Project Management Committee shall be returned to the constituency account.

In the circumstances, the Management is 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, 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

1. Delays in Project Implementation

Review of the approved code list and project implementation status report revealed that the Fund had budgeted to implement a total of one hundred and four (104) projects worth Kshs.135,617,724. However, only 17 projects valued at Kshs.15,350,000 were completed during the year while nineteen (19) projects worth Kshs.77,267,724 were ongoing. The remainder of sixty-eight (68) projects with a combined allocation of Kshs.43,000,000 had not started.

Failure to implement projects which were allocated funds during the year denied the residents effective services and may be indicative of poor project planning and implementation skills on the part of the Fund Management.

2. Lack of Approved Bursary Allocation Criteria

The Statement of receipts and payments reflects other grants and transfers expenditure of Kshs.56,913,958 as disclosed under Note 7 to the financial statements. The expenditure includes amounts of Kshs.26,848,000 and Kshs.18,258,000 in respect of bursaries disbursed to Secondary Schools and Tertiary Institutions respectively.

However, the Fund management did not provide for audit, approved criterion for selection and award of bursaries to the beneficiaries.

Consequently, it has not been possible to ascertain that bursaries were awarded in a fair and transparent manner to needy and deserving applicants.

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 services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless Management is aware of intention to liquidate the Fund or to cease operations or have no realistic alternative but to do so.

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 Fund's 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'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

08 February, 2022