

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MATUGA 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 - Matuga Constituency set out on pages 14 to 51, 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, except for the effects of the matter 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 - Matuga 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 Qualified Opinion

1.0 Errors in Annual Reports and Financial Statements

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 financial statements include guidance notes on preparation of the financial statements.
- iv. Note 17.4 to the financial statements under other important disclosures reflects PMC account balances of Kshs.20,408,794 for 2018/2019 financial year, however, Annex 5 to the financial statements reflects PMC account balances of Kshs.32,395,668 for 2018/2019.
- v. The statement of cash flows reflects changes in accounts receivable: outstanding imprest of Kshs.150,000 for 2019/2020 and nil balance for 2018/2019 financial

years. However, Note 15 to the financial statements reflects changes in accounts receivable: outstanding imprest of nil balance for 2019/2020 and an amount of Kshs.150,000 for 2018/2019 financial year.

- vi. The statement of cash flows reflects nil balance for net cash flow from operating activities, however a casting error was noted resulting to correct net cash flow from operating activities of negative Kshs.56,374,356.

Consequently, the accuracy, completeness, presentation and disclosure of the annual report and financial statements could not be confirmed.

2.0 Unexplained Variances for Transfers from CDF Board

The summary statement of appropriation - recurrent and development combined reflects transfers from CDF Board under actual on comparable basis column of Kshs.128,693,219 which differs with the actual transfers from CDF Board of Kshs.68,000,000 shown under the statement of receipts and payments resulting to unreconciled variance of Kshs.60,693,219.

In the circumstances, the accuracy and completeness of the transfers from CDF Board figure of Kshs.68,000,000 could not be confirmed.

3.0 Stale Cheques

The statement of assets and liabilities as at 30 June, 2020 reflects a bank balance of Kshs.4,168,863. The supporting bank reconciliation statement as at 30 June, 2020 reflects payments in cashbook not in bank statement amounting to Kshs.1,649,106.10, out of which cheques totalling Kshs.428,500 were stale and not reversed in cash book as at 30 June, 2020. No proper explanation was given for retaining the stale cheques in cashbook.

Consequently, the accuracy and completeness of bank balance of Kshs.4,168,863 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 the National Government Constituencies Development Fund - Matuga 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

1.0 Budgetary Control and Performance

1.1 Revenue Budget Analysis

During the year under review, National Government Constituencies Development Fund - Matuga Constituency had a revenue budget of Kshs.198,095,943 against actual receipts of Kshs.128,728,219 or 65%, resulting to an under disbursement of budget of Kshs.69,367,724 or 35% from the Constituency Development Fund Board. Further, the balance of Kshs.69,367,724 was received between July, 2020 and September, 2020.

Delays by the Board to disburse funds as per the budget and late release of the funds may have adversely affected delivery of services to the residents of Matuga Constituency, contrary to values and principles of public service as provided for under Article 232(1 - c) of the Constitution which requires responsive, prompt, effective, impartial and equitable provision of services.

1.2 Expenditure Budget Analysis

During the year under review, National Government Constituencies Development Fund - Matuga Constituency had a final expenditure budget of Kshs.198,095,943 and actual expenditure of Kshs.124,559,356 or 37%, resulting to net under expenditure of Kshs.73,536,587.

The under expenditure of Kshs.73,536,587 or 37% may have impacted negatively on service delivery to the residents of Matuga Constituency contrary to values and principles of public service as provided for under Article 232(1– c) of the Constitution which requires responsive, prompt, effective, impartial and equitable provision of services.

1.0 Projects Implementation Status

1.1 Projects Not Started

The projects implementation status report as at 30 June, 2020 which was provided for audit indicated that four (4) development projects with a total allocation of Kshs.5,551,674 were approved by the National Government Constituencies Development Fund Board for implementation in the financial year 2018/2019 but were not started.

Slow implementation of projects due to late disbursements greatly affects the delivery of services to the residents of Matuga Constituency.

1.2 Delayed Completion of Projects

Review of the project implementation status report showed that two projects with total allocation of Kshs.24,626,634 have delayed despite commencement in previous financial years and the contractor had abandoned the site as at the time of the audit.

In the circumstances, value for money has not been realized from the delayed projects.

2.0 Projects Inspection

Audit inspection undertaken in the month of January, 2021 on four (4) development projects valued at Kshs.13,500,000 showed the following anomalies ;

- i. Poor workmanship.
- ii. Some works which were factored in the Bill of Quantities were not done yet the funds are fully utilized.
- iii. Incomplete projects

This is an indication of poor project planning, implementation and monitoring which negatively affects quality of work done. Delayed projects may also turn out to be costly due to inflation.

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 Irregular Payment of Sitting Allowance

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services expenditure of Kshs.7,784,132 which includes committee expenses of Kshs.2,953,200 which further include sitting allowances of Kshs.497,000 paid to sub-county official while attending constituency development committee meetings and monitoring and evaluation of projects. This was contrary to Regulation 33 of National Constituencies Development Fund Regulations which states that, "the Cabinet Secretary shall, with the approval of The National Assembly Select Committee on NGCDF, issue guidelines on allowances payable to members of a constituency committee and other government officers involved in the management of the Fund". The officials did not qualify for sitting allowance and instead should have been paid lunch allowance.

In the circumstances, the regularity of the payment of sitting allowance of Kshs.497,000 could not be confirmed.

2.0 Failure to Maintain Project Expenditure Status Report

The statement of receipts and payments shows that National Government Constituencies Development Fund - Matuga Constituency undertook various projects under transfer to other government entities and other grants and transfers amounting to Kshs.71,972,000 and Kshs.39,446,544 respectively. However, there was no evidence that the Fund Account Manager maintained a monthly record of all receipts, disbursements and expenditure per project and which was tabled before the NGCDF for discussion. This was contrary to Section 38 of the NGCDF Act, 2015, which states that, 'the officer of the Board in every constituency shall compile and maintain a record showing all receipts, disbursements and actual expenditures on a monthly basis in respect of every project and sub-project under this Act.

Consequently, the Management was 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.

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 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 cash 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 noncompliance. 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 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 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 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

31 January, 2022