

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MWALA 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 - Mwala Constituency set out on pages 19 to 53, 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 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. 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 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 National Government Constituencies Development Fund - Mwala 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. Presentation and Disclosure in the Financial Statements

The statement of assets and liabilities and the statements of receipts and payments have not been signed by the Sub-County Accountant as required.

In view of the foregoing, it could not be confirmed that Management had taken full responsibility for the financial statements. The financial reporting guidelines issued by the Public Sector Accounting Standards Board have also not been met.

2. Acquisition of Assets

The statement of receipts and payments and Note 8 to the financial statements, reflect nil balance for acquisition of assets. However, Annex 4 to the financial statements reflects assets additions of Kshs.517,000 in the financial year 2019/2020 which increased the historical cost of assets from Kshs.26,474,434 at the beginning of the year to a closing balance of Kshs.26,991,434. No explanation or reconciliation was provided.

Consequently, the accuracy of the nil balance for acquisition of assets expenditure as at 30 June, 2020 could not be confirmed.

3. Project Management Committee (PMC) Account Balances

Note 17.4 to the financial statements and Annex 5 reflect nil PMC bank account balances for both the current and the prior year. However, the audited financial statements for the prior year reflected PMC bank balances of Kshs.13,741,740 as at 30 June, 2019.

In the circumstances, it has not been possible to ascertain the accuracy and completeness of the PMC bank account balances for the year ended 30 June, 2020.

4. Unutilized Funds Balance

Note 17.3 to the financial statements reflects unutilized funds balance of Kshs.145,037,054 (2019 - Kshs.77,825,078). However, the supporting Annex 3 where the details of the unutilized funds should be provided has blank entries.

Consequently, it has not been possible to confirm the accuracy of the unutilized funds balance as at 30 June, 2020.

5. Bank Balances

The statement of assets and liabilities and Note 10A to the financial statements reflect bank balances of Kshs.49,181,329. However, the bank reconciliations statement for the month of June, 2020 revealed unrepresented cheques totalling Kshs.9,140,042 of which cheques amounting to Kshs.3,518,000 were stale.

In the circumstances, the accuracy of the bank balances of Kshs.49,181,329 as at 30 June, 2020 could not be confirmed.

6. Bursary Disbursements

The statement of receipts and payments reflects Kshs.25,807,682 in respect of other grants and transfers which as disclosed under Note 7 to the financial statements, includes Kshs.1,595,000 and Kshs.11,636,000 being bursary disbursements to secondary schools and tertiary Institutions respectively, both totalling to Kshs.13,231,000. However, the supporting schedule reflected bursary disbursements amounting to Kshs.40,445,000 resulting into an unexplained variance of Kshs.27,214,00 as shown in the table below:

Name	Balance in Financial Statements (Kshs.)	Support Schedule Balance (Kshs.)	Variance (Kshs.)
Secondary Schools	11,636,000	6,660,000	4,976,000
Tertiary Institutions	1,595,000	28,125,000	(26,530,000)
Special cases both Secondary and Tertiary	-	5,660,000	(5,660,000)

In addition, it was not possible to ascertain how the beneficiaries were identified and the awarded amounts determined as the Fund Management did not provide for audit the approved criteria for selection and awarding of bursaries.

Further, Regulation 21(5) of the National Government Constituencies Development Fund Regulations, 2016 provides that a Constituency Committee shall allocate not less than twenty-five percent (25%) of the funds allocated to a constituency for bursaries. However, the Fund's total bursaries disbursements of Kshs.13,231,000 represented 11% of the receipts of Kshs.116,678,807 from the Board during the financial year 2019/2020.

In the circumstance, the completeness, accuracy and regularity of the bursary disbursements of Kshs.13,231,000 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 - Mwala 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 Controls and Performance

The summary statement of appropriation - recurrent and development combined reflects a receipts budget and actual receipts on comparable basis of Kshs.212,546,531 and Kshs.116,690,807 respectively, resulting into underfunding of Kshs.95,855,724 or 45% of the approved budget. Further, of the total receipts of Kshs.116,690,807, only

Kshs.70,155,748 was spent during the year resulting into under-absorption of Kshs.46,535,059 or 40%

The under-funding and under-absorption implies that some of the planned programmes and projects were not executed which denied effective services to the residents.

2. Unbalanced Budget

Regulation 31(c) of Public Finance Management (National Government) Regulations, 2015 provides that the budget shall be balanced. However, the summary statement of appropriation – recurrent and development combined, reflects total budgeted receipts of Kshs.212,546,531 which differed with the total budgeted expenditure of Kshs.215,192,802 by Kshs.2,646,271. The budget was therefore, unbalanced.

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. Delay in Implementation of Projects

According to the projects implementation status report, the Fund had allocated Kshs.117,580,000 towards implementation of one hundred and four (104) projects. However, eighty-one (81) projects with a combined allocation of Kshs.114,910,000 had not been completed.

Delay in completion of projects hindered improved service delivery to the residents and may be lead to escalation of costs.

2. Failure to Report Emergency Projects

Note 7 to the financial statements reflects expenditure of Kshs.6,624,800 on emergency projects. However, Management did not provide any evidence that the expenditure was reported to the Board as required under Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016.

The Fund Management was therefore, 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

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 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 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 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

21 January, 2022