

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NYALI 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 - Nyali Constituency set out on pages 17 to 48, which comprise of the statement of financial 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 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 - Nyali 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 Transfers to Other Government Units

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other government units of Kshs.48,668,870 for the year ended 30 June, 2020. However, audit review revealed the following anomalies:-

1.1 Payment for Doubtful Delivery of Goods

Included in this balance is an amount of Kshs.2,981,000 to Kongowea Secondary School for fixing of wooden shelves for the library, purchase of library chairs, tables, and supply and delivery of office furniture and fittings. However, audit verification revealed that there were items paid for but not delivered amounting to Kshs.624,580.

1.2 Disbursement to a Cancelled Project at Mombasa School for the Physically Disabled

Similarly, included in transfers to other government units balance is a transfer of Kshs.2,000,000 to Mombasa School for the Physically Disabled for replacement of asbestos roof. However, the funding of the project was cancelled but the funds had not been refunded to the main bank account as at the time of audit.

In the circumstances, the validity and completeness of transfers to other government units of Kshs.48,668,870 for the year ended 30 June, 2020 could not be confirmed.

2.0 Other Grants and Transfers

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers balance of Kshs.56,480,578 as at 30 June, 2020. However, review of records revealed the following anomalies:-

2.1 Payment for Doubtful Delivery of Goods

Included in other grants and transfer balance is security projects figure of Kshs.7,328,908. The expenditure of Kshs.7,328,908 further includes a payment of Kshs.800,000 for supply and delivery of office furniture and equipment to Kadzandani Kwa Bulu Police Post. However, audit verification revealed that Kyocera 1800 printer costing Kshs.74,500 was not delivered.

2.2 Doubtful Payment

Similarly, included in the other grants and transfer balance is sports projects figure of Kshs.2,192,456 which further includes a payment of Kshs.1,378,960 to a supplier for supply of sports kit and equipment. However, review of procurement records revealed that all the supporting documents were prepared in one day casting doubts on how these procurement activities were undertaken in one (1) day only. In addition, no evidence of how the items were distributed was provided.

Consequently, the validity and completeness of other grants and transfers balance of Kshs.56,480,578 as at 30 June, 2020 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Nyali 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 on in the year under review.

Other Matter

1.0 Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.203,436,994 and Kshs.134,068,269 respectively resulting to an under-funding of Kshs.69,367,724 or 34% of the budget. The Project expenditure was limited to the amount realized.

Based on the approved estimates, under funding and expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

2.0 Projects Implementation

Review of the projects implementation status report as at 30 June, 2020, revealed nine (9) projects with a total budget of Kshs.45,392,156 which had not been completed and one (1) with a budget of Kshs.1,300,000 which had not been started

In the circumstances, the Public did not realize value for money equivalent to Kshs.46,692,156.

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 Presentation and Inaccuracies in the Financial Statements

Annex 3 to the financial statements for the year ended 30 June, 2020 did not provide a breakdown of projects for the unutilized funds of Kshs.87,357,827;

Consequently, the accuracy of the financial statements presented could not be confirmed nor the format conform to that which is recommended by the Public Sector Accounting Standards Board.

2.0 Irregular Reallocation of Bursary to Secondary Schools

Included in other grants and other payments of Kshs.56,480,578 and disclosed at Note 7 to the financial statements is bursary to secondary schools totalling Kshs.23,153,700. Audit examination of the bank reconciliation statement as at 30 June, 2020 revealed that bursary cheques totalling Kshs.2,799,000 had not cleared in the bank due to closure of schools during Covid-19 pandemic. Audit review of the bank reconciliations for subsequent months revealed that the cheques were reversed in September, 2020 and the funds spent on training of drivers. However, there was no evidence that the reallocation was approved by the National Government Constituencies Development Fund Board in line with Section 6(2) of the National Constituencies Development Fund Act, 2015 which states that 'once funds are allocated for particular projects, they shall remain allocated for that project and may only be reallocated for any other purpose during the financial year with approval of the Board'.

As a result, the legality of the bursary to secondary schools balance of Kshs.23,153,700 could not be ascertained.

3.0 Idle Funds

As previously reported, Annex 5 to the financial statements for the year ended 30 June, 2020 reflects Project Management Committees Bank balances of Kshs.17,142,682, out of which Kshs.4,531,264 relates to health projects. These services have since been devolved and are not eligible for funding in terms of Section 24 of the National Government Constituencies Development Fund Act, 2015 and Section 11(j) which requires all projects to receive adequate funding and are completed within 3 years.

Consequently, the Management breached the Law.

4.0 Failure to Maintain Projects Expenditure Status Report

According to the statement of receipts and payments, NGCDF-Nyali Constituency undertook various projects including Kshs.48,668,870 under transfers to other government entities and Kshs.56,480,578 under other grants and transfers. 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 and shall -

- (a) Table such record at a meeting of the Constituency Committee in every month; and
- (b) Submit a summary of the record for the year to the Constituency Committee not later than thirty days after the end of every financial year".

Consequently, the Management was in breach of the Laws.

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

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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 Fund's ability to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to wind up 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 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 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

10 February, 2022