

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – RANGWE 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 - Rangwe Constituency set out on pages 13 to 46, which comprise the statement of financial assets and liabilities as at 30 June, 2020, and the statement 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, the financial position of the National Government Constituencies Development Fund - Rangwe 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Use of Goods and Services

As disclosed in Note 3 to the financial statements, the statement of receipts and payments reflects payments totaling Kshs.12,369,430 relating to use of goods and services. However, the individual items were not supported by sub-schedules or sub-ledgers.

Consequently, the accuracy and completeness of Kshs.12,369,430 under use of goods and services for the year ended 30 June, 2020 could not be confirmed.

2. Variances Between the Statement of Appropriation and Unutilized Funds

The statement of appropriation - recurrent and development combined reflects total budget utilization difference of Kshs.116,884,589. However, Note 17.3 on unutilized funds reflects total unutilized fund balances of Kshs.102,779,289. The resulting difference of Kshs.14,105,300 between the two sets of records have not been explained or reconciled.

Consequently, the accuracy and completeness of budget utilization difference of Kshs.116,884,589 for the year ended 30 June, 2020 could not be confirmed.

3. Inaccuracies in the Statement of Budget Execution by Programmes and Sub-Programmes

The statement of budget execution by programmes and sub-programmes reflects transfers to primary schools amounting to Kshs.20,700,000. The balance does not include Kshs.3,000,000 transfers to two schools which are supported by the payment schedules. On other hand, the statement includes Kshs.2,500,000 transfers to two schools which are not supported by payment schedules.

Consequently, the accuracy and completeness of statement of budget execution by programmes and sub-programmes for the year ended 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 - Rangwe 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 Mater

1. Budgetary Control and Performance

The statement of budget and actual amount for the year ended 30 June, 2020 reflects Kshs.206,527,719 and Kshs.119,940,876 in respect to budgeted revenue and actual receipts respectively. This translates to an under -realization of Kshs.86,586,844 or 42% of the budget.

In addition, the statement of comparison of budget and actual amounts reflects Kshs.206,527,719 and Kshs.89,643,130 in respect of budgeted and actual payments respectively resulting to under absorption of Kshs.119,648,564 or 47 % of the budget.

The under-realization and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the residents of Rangwe Constituency.

2. Projects not Implemented

The project implementation status indicated that projects with estimated cost of Kshs.80,547,354 were not implemented during the year. This is was attributed to underfunding by the NGCDF Board.

Failure by the Board to fund the projects on time affected implementation of planned projects and may have impacted negatively on service delivery to the residents of Rangwe Constituency.

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. Implementation of Emergency Projects

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and other payments of Kshs.24,924,482 out of which Kshs.3,400,000 is in respect of emergency projects. However, the requests for the emergency funds by the schools and the NG CDF Committee minutes approving the utilization of the emergency funds were not made provided for audit verifications.

In addition, expenditure records including bill of quantities, the quotations, purchase orders, delivery notes, invoices inspection and acceptance minutes, payment vouchers and bank statements were not presented for audit.

Further, there was no evidence to indicate that the utilization of the emergency reserve was reported to the Board within 30 days of the occurrence of the emergency as required by Regulation, 20 (2) of the National Government Constituency Development Fund Regulations, 2016.

Consequently, the regularity and propriety of the emergency projects of Kshs.3,400,000 could not be confirmed.

2.0 Lack of a Procurement Plan

Procurement plan and work plan were not prepared and approved contrary to Regulations 25 (1 & 2) of the National Government Constituency Development Fund Regulations, 2016 which requires that the officer of the Board seconded to the constituency to prepare a detailed budget, procurement plan and work plan for the year and within the first quarter of the new financial year present them to the committee for approval.

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 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain services, disclosing, as applicable, matters related sustainability of services and using the applicable 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 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 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 ability of the Fund 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 sustaining 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 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

07 February, 2022