

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KANGUNDO CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Kangundo Constituency set out on pages 11 to 42, which comprise the statement of assets and liabilities as at 30 June, 2019, 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 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 National Government Constituencies Development Fund - Kangundo Constituency as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Unsupported PMC Bank Account Balances

Note 15.4 to the financial statements discloses PMC account balances of Kshs.5,634,492 and as detailed at Annex 5. However, the bank statements in support of PMC account balances reflected balances of Kshs.27,754,067 resulting to undisclosed balance of Kshs.22,119,575. Further PMC bank account balances of Kshs.535,555 were unsupported by way of bank statements.

Consequently, the completeness and accuracy of the reported PMC account balances of Kshs.5,634,492 as at 30 June, 2019 could not be confirmed.

2. Unsupported Other Personnel Payments

The statements of receipts and payments reflects compensation of employees cost of Kshs.2,584,703;(2018-Kshs.1,841,909) and as disclosed under Note 4 to the financial statements. This amount includes other personnel payments of Kshs.576,600 for which supporting documents were not provided for audit review.

Consequently, the accuracy and completeness of other personnel payments of Kshs.576,600 could not be confirmed.

3. Unexplained Variance for Unutilized Funds

Note 15.3 to the financial statements discloses unutilized fund balance of Kshs.40,665,118 (2018 - Kshs.21,886,537) and as detailed at Annex 3. However, the balance differs with the detailed analysis at Annex 3 which reflects a balance of Kshs.38,484,300 resulting to unexplained variance of Kshs.2,180,818.

Further, the total amount of Kshs.40,665,118 at Note 15.3, differs with the recomputed balance of Kshs.40,678,118 by an unexplained difference of Kshs.13,000.

In view of the foregoing, the accuracy and completeness of the unutilized funds balance of Kshs.40,665,118 as at 30 June, 2019 could not be confirmed.

4. Unsupported Bursary Disbursements

The statement of receipts and payments reflects other grants and transfers amount of Kshs.35,919,978;(2018-Kshs.36,869,189) and as disclosed under Note 7 to the financial statements. However, bursary payments amounting to Kshs.473,500 were not supported by the list of beneficiaries and their acknowledgement.

In the circumstances, the accuracy of other grants and transfers amount of Kshs.35,919,978 for the year ended 30 June, 2019 could not be confirmed.

5. Presentation and Disclosure of Financial Statements

A review of the Fund's financial statements prepared and presented for audit revealed the following inconsistencies: -

- i. The PMC bank accounts balance as at 30 June, 2019, has been referenced as Annex 4 instead of Annex 5, thus duplicating the Annex 4 reference;
- ii. Annex 5 on PMC bank balances as at 30 June, 2019 do not include comparative figures for the prior year 2017/2018;
- iii. Notes 6 and 7 to the financial statements on transfer to other government entities and other grants and other payments respectively were unsupported by a detailed listing of projects funded;
- iv. Outstanding gratuities of Kshs.1,036,020 as disclosed under Note 12B have not been disclosed in the financial statements; and
- v. The land where the Fund's Offices are erected and its value has not been disclosed in the assets register.

This is contrary to the format prescribed by the Public Sector Accounting Standard Board (PSASB) in accordance with Section 194(1) (d) of the Public Finance Management Act, 2012.

Consequently, the annual report and the financial statements as prepared and presented are not compliant with the IPSAS.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Kangundo 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

Budget Control and Performance

The summary statement of appropriation: recurrent and development combined reflects a final expenditure budget and actual on comparable basis of Kshs.131,071,798 and Kshs.92,587,499 respectively resulting to an under absorption of Kshs.38,484,299 or 30% of the budget. No satisfactory explanation has been rendered for the under absorption.

In the circumstances, the constituents of Kangundo were denied services due to failure to implement the planned programmes and activities for the year.

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. Non-Remittance of Statutory Deductions

Contrary to Section 37 of the Income Tax Act, which requires employers to deduct Pay As You Earn (PAYE) tax from the employees and remit to Kenya Revenue Authority not later than the ninth day of the month following deductions, PAYE amounting to Kshs.1,148,596 had not been remitted to Kenya Revenue Authority.

To the extent, the Fund is in breach of the law.

2. Irregular Medical Insurance Expenses

Note 2 to the financial statements discloses committee expenses of Kshs.6,157,218. The amount includes an amount of Kshs.352,185 being medical out-patient expenses for the Committee and staff members. However, the requisite authority to cover committee members was not provided. The payment to committee members is contrary to the National Government Constituencies Development Fund Act, 2015, which entitles them to payment of sitting allowances only.

To the extent, the Fund is in breach of the law.

3. Projects implementation

The statements of receipts and payments reflects transfers to other government units of Kshs.44,643,515;(2018-Kshs.30,372,618) and as disclosed under Note 6 to the financial statements. Also included in other grants and other payments under Note 7 is an amount of Kshs.12,010,478 on account of projects bringing the total expenditure on projects to Kshs.56,653,993 during the year. However, a review of project implementation status report as of 30 June, 2019 and other project related documents revealed the following unsatisfactory observations: -

3.1 Projects Completed but Not in Use

Four (4) projects with a funding allocation of Kshs.9,180,779 completed during the year had not been put to use. The projects are namely; Kakuyuni police post, Kitwii Chief's post, three (3) classrooms, eight (8) door cubicle toilets and two (2) door pit latrines at Mukuyuni Secondary School. No satisfactory explanation was rendered for the continued non-usage.

3.2 Failure to Procure a Parcel of Land - Mikoikoni Primary School

The approved budget and disbursements for the year includes Kshs.1,500,000 towards the purchase of one (1) acre piece of land for the expansion of infrastructure at Mikoikoni Primary School. However, the parcel of land was not procured and no explanation was provided for failure to acquire it.

3.3 Unbranded Projects

Section 15 (d & f) of National Government Constituency Development Fund Regulations, 2016, requires the Project Management Committee to among other

things undertake project closure and labeling it upon completion. However, during the year under review, eleven (11) projects valued at Kshs.24,124,969 as detailed at **Appendix 1**, were completed but not branded. There is a risk of funded projects being claimed by other agencies in absence of the branding.

To the extent, the Fund is in breach of the law.

3.4 Unbudgeted for Expenditure

The contract for construction of a kitchen at AIC Manyatta Boarding & Day Primary School, was awarded at a sum of Kshs.1,696,198. However, the approved budget was for Kshs.700,000 with the contractor's bid price of Kshs.1,696,198. The signed contract agreement was for Kshs.665,000 that was subsequently paid. However, the supporting documents for the revised contract sum of Kshs.1,696,198 and the bill of quantities were not provided for audit review.

Consequently, it has not been possible to confirm the regularity of the expenditure of Kshs.1,696,198.

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 OVERALL 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 sustain 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 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 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 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 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

04 October, 2021

Appendix 1 – Unbranded Projects

Project	Description	Amount (Kshs.)	Remarks
Kangundo KMTC	Construction and completion of gate house, gate installation and fence	1,780,646	Project complete in use but not branded
Kangundo KMTC	External renovation of hostel. Classrooms and administration block	3,309,140	Project complete in use but not branded
Matungulu AIC Primary School	Renovation of 2 classrooms and roofing	1,012,350	Project complete in use but not branded
AIC Kakambuani Secondary School	Construction of a block of 8 door cubicle toilets	977,521.50	Project complete in use but not branded
St. Francis Misyani Primary School	Renovation of 7 classrooms, new roof covering , internal & external painting, metal windows, doors, internal external plaster repairs and verandah	2,817,933	Project complete in use but not branded
Kangundo DEB Primary School	Complete repairs of 2 standard classroom	2,060,290	Project complete in use but not branded
Kangundo High School	Complete repairs of a library	2,050,190	Project complete in use but with minor ceiling defects and unbranded
Kangundo High School	Renovation of 3 dormitories	3,008,980	Project complete in use but not branded
Kangundo High School	Renovation of 6 classrooms	2,436,718	Project complete in use but not branded
Mukuyuni Sec. School	Construction of 3 classrooms	3,471,300	Project complete in use but not branded
Mukuyuni Secondary School	Construction of 8 door cubicle toilets and 2 door pit latrines for teachers	1,199,900	Project complete in use but not branded. There is no title deed for the land parcel.
	Total	24,124,969	