

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KURIA EAST 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 - Kuria East Constituency set out on pages 14 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 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 the National Government Constituencies Development Fund – Kuria East Constituency as at 30 June, 2019, 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. Unsupported Project Management Committees Bank Balances

Disclosed under Note 15.4 to the financial statements and Annex 2, are Project Management Committees (PMC) bank account balances of Kshs.874,548 as at 30 June, 2019. However, supporting documents including bank reconciliation statements, bank balances confirmation certificates and cash books were not provided for audit.

Consequently, the accuracy, existence and completeness of the PMC account balances of Kshs.874,548 could not be confirmed.

2. Lack of Ownership Documents for Land

The statement of receipts and payments reflects Kshs.39,329,500 for transfers to other government units which includes an amount of Kshs.5,029,500 incurred on purchase of ten (10) acres of land for Nyamtiro Boarding Primary School. However, ownership documents for the land were not provided for audit.

In the circumstances, the ownership of the land and value for money of the expenditure of Kshs.5,029,500 could not be confirmed.

3. Unsupported Bursary Disbursements

The statement of receipts and payments reflects other grants and transfers expenditure of Kshs.56,418,222. The expenditure includes Kshs.16,248,550, Kshs.17,643,900 and Kshs.3,033,600 being bursaries disbursed to secondary schools, tertiary institutions and special schools respectively, all totaling to Kshs.36,926,050. However, the bursary application forms completed and submitted were not accompanied by key supporting documents such as copies of the beneficiaries' identity cards, fee statement balances and admission letters. Further, the bursary sub-committee did not give remarks on the status of each applicant as required under Regulation 21(3) of the National Government Constituencies Development Fund, Regulations, 2016.

In the circumstances, the validity, accuracy and completeness of the expenditure of Kshs.36,926,050 incurred on bursary disbursements could not be confirmed.

4. Summary Statement of Appropriation

4.1 Unsupported Budgetary Adjustments

The summary statement of appropriation - recurrent and development combined, reflects original expenditure budget of Kshs.109,040,875 and adjustments of Kshs.40,527,849 bringing the total final approved expenditure budget to Kshs.149,568,724. However, the approved code list indicating the individual projects approved in the prior year for implementation in the financial year 2018/2019, was not provided.

In the absence of the approved code list, the accuracy and completeness of the adjustments of Kshs.40,527,849 could not be confirmed.

4.2 Unreconciled Variances on Unutilized Funds

The summary statement of appropriation - recurrent and development combined, reflects a budget under-utilization of Kshs.44,730,231. However, Note 15.3 to the financial statements reflects an unutilized funds balance of Kshs.64,712,329 while Annex 3 where the details of the unutilized funds are disclosed reflects a total unutilized funds balance of Kshs.26,067,286.

In the circumstances, the accuracy of the unutilized funds balance as at 30 June, 2019 could not be confirmed

5. Inconsistencies in Presentation of the Financial statements

The statement of assets and liabilities reflects net assets of Kshs.1,287,115 which are represented by an equivalent fund balance. However, the fund balance is erroneously described as net liabilities.

In addition, referenced disclosure Notes on the face of the statement of receipts and payments, do not match the respective Notes under the Notes to the financial statements as shown below:

Payment	Reference Note as per the statement of receipts and payments	Note as per the Notes to the Financial Statements
Compensation of Employees	4	2
Use of Goods and Services	5	3
Transfers to Other Government Units	6	4
Other Grants and Transfers	7	5
Acquisition of Assets	8	7

In the circumstances, the financial statements were not properly presented.

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

Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual receipts on comparable basis of Kshs.149,568,724 and Kshs.106,125,607 respectively, resulting to an under-funding of Kshs.43,443,117 or 29% of the budget. The Fund's expenditure was limited to the receipts realized. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the constituents.

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

Delay in Completion of Projects

Audit inspection of eleven (11) projects with disbursements totaling to Kshs.28,800,000 revealed that, some of the projects were completed and put to use before certificates of practical completion were issued, some were completed but not equipped, while others were partly funded hence incomplete as indicated in **Appendix I**.

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 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 governance.

In preparing the financial statements, Management is responsible for assessing the ability of National Government Constituencies Development Fund - Kuria East Constituency 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 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 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 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 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 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 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

01 October, 2021

APPENDIX 1 – Delay in Completion of Projects

Project	Details	% Level of Completion	Cost (Kshs.)	Status
Gokeharaka Primary School	Additional funds for fixing windows, doors, plastering and painting of four (4) classrooms on ground floor of one storey building.	100%	2,000,000	-Project was satisfactorily completed and put to the intended use. -Certificate of practical completion was not issued.
Kendege Technical Training Institute	Construction of a new gate and sentry house.	45%	4,700,000	-Gate was erected and bricks to sentry house laid. -Roofing, plastering, windows, doors and flooring were yet to be done.
Koromangucha Primary School	Additional funds for flooring, roofing, fixing doors, windows of an ongoing construction of administration block and two (2) classrooms.	65%	2,000,000	-Bricks wall was erected and roofing done. -Windows, doors, plastering, flooring and painting was yet to be done. -Learners had already moved to the incomplete classrooms.
Taragai Secondary School	Renovation of three (3) classrooms- (roofing, flooring, fixing windows, doors, plastering and painting).	90%	2,500,000	-Project was satisfactorily completed and put to the intended use. -Certificate of practical completion was not issued.
Bongebo Boarding Primary School	Purchase of one hundred (100) double decker beds. Additional funds for flooring plastering, fixing verandah and painting of a dormitory.	100%	4,100,000	-Project was satisfactorily completed and put to the intended use. -Certificate of practical completion was not issued.
Gureta Primary School	Construction of two (2) new classrooms.	95%	1,600,000	-Project was satisfactorily completed and put to the intended use. -Certificate of practical completion was not issued.

Project	Details	% Level of Completion	Cost (Kshs.)	Status
Kebare Primary School	Renovation of four (4) classrooms (fixing of verandah, flooring, plastering, fixing doors, windows, plastering and painting)	95%	2,500,000	-Project was satisfactorily completed and put to the intended use. -Certificate of practical completion was not issued.
Kendege Primary School	Construction of four (4) new classrooms. Construction of one classroom and four-door pit latrine (2017/18 FY).	90%	3,000,000	-Project was satisfactorily completed and put to the intended use. -Certificate of practical completion was not issued.
Nyaitara Primary School	Renovation of four (4) classrooms (flooring, fixing doors, windows and painting)	95%	1,000,000	-Project was satisfactorily completed and put to the intended use. -Certificate of practical completion was not issued.
Kegonga Police Station	Completion of divisional police headquarter offices-(fixing doors, tilling, glassing and painting)	100%	4,100,000	-Project was satisfactorily completed and put to the intended use. -Certificate of practical completion was not issued.
Itongo Chief's Office	Additional funds for flooring, fixing windows, doors, plastering and painting of Chief's Office.	100%	1,300,000	-Project was satisfactorily completed and put to the intended use. -Certificate of practical completion was not issued.
	Total		28,800,000	