

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - AWENDO 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 - Awendo Constituency set out on pages 10 to 46, which comprise the statement of financial assets and liabilities as at 30 June, 2019, and the statement of 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 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 - Awendo 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 (NG-CDF) Act 2015 and Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Understated Cash and Cash Equivalents

The statement of financial assets reflects cash and cash equivalents bank balance of Kshs.13,839,616 as at 30 June, 2019. However, a review of the bank reconciliation statements in support of the balance revealed stale cheques amounting to Kshs. 319,932 were not reversed in the cashbook, thereby understating the cash and cash equivalent balance.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.13,839,616 could not be confirmed.

2. Unsupported Bursary Disbursements

The statement of receipts and payments reflects expenditure of Kshs.51,134,703 in respect of other grants and transfers. As disclosed in Note 7 to the financial statements, the expenditure includes Kshs.20,088,375 and Kshs.13,844,327 incurred on bursary disbursements to needy students in secondary schools and other tertiary institutions, respectively. However, out of the total bursary disbursements, an amount of Kshs.15,462,125 was not acknowledged as having been received by the beneficiary schools and institutions.

Consequently, the validity of the disbursement of Kshs.15,462,125 could not be confirmed.

3.0 Incorrect Net Liabilities

The statement of financial assets reflects total financial assets balance of Kshs.13,839,616 and Nil liabilities as at 30 June, 2019. The statement further reflects, net liabilities instead of net financial position balance of Kshs.13,839,616 as at 30 June, 2019. No explanation was provided for this anomaly.

Consequently, the correctness of the statement of financial assets as at 30 June, 2019 could not be confirmed.

3.1 Incorrect Heading in the Statement of Financial Assets

The Management prepared the statement of financial asset that does not conform to the prescribed template by the Public Sector Accounting Board (PSAB), which requires the statement to read 'Statement of Financial Assets and Liabilities as at 30 June, 2019 and not 'Statement of Financial Assets'.

Consequently, the financial statements are not consistent with the prescribed format and template.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Awendo 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 on a comparable basis of Kshs.171,047,676 and Kshs.163,825,360 respectively resulting to an underfunding of Kshs.7,222,316 or 4% of the budget. Similarly, the Fund spent Kshs.154,308,059 against an approved budget of Kshs.171,047,675 resulting to an under-expenditure of Kshs.16,739,616 or 10% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Awendo 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 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. Incomplete Drilling and Equipping of a Borehole at Ogwamrondo Hill Secondary School

Note 6 to the financial statement reflects transfers to Other Government Units' expenditure of Kshs.88,166,278 for the year ended 30 June, 2019. This expenditure includes an amount of Kshs.41,511,778 which was earmarked for transfers to secondary schools. The amount includes an amount of Kshs.3,000,000, which was allocated to Ogwamrondo Hill Mixed Secondary for drilling and equipping of a borehole. The tender for drilling and equipping of the borehole was awarded to a firm at a contract sum of Kshs.1,831,720 being the lowest evaluated bidder. The works were to be performed for a period of three weeks commencing on 16 August, 2018. The firm was paid Kshs.1,300,000 despite the borehole not yielding any water.

Later, a new tender was awarded to another firm for drilling of a second borehole on a private land adjacent to Ogwamrondo Hill Mixed Secondary at a contract amount of Kshs.1,472,423 on 12 April, 2019. However, land transfer documents for the new site and certificate of completion of the works were not provided for audit. Further, physical verification conducted on 19 February, 2020 revealed that the second borehole was not complete.

Consequently, the value for money and regularity of the expenditure incurred on the two borehole projects could not be confirmed.

2. Incomplete Drilling of a Borehole at St. Gabriel Siruti Secondary School

The amount of Kshs.41,511,778 earmarked for transfers to secondary schools includes Kshs.3,000,000 allocated to St. Gabriel Siruti Secondary for drilling of a borehole. The tender for drilling of the borehole was awarded to a firm at a contract sum of Kshs.1,893,045 on 11 September, 2019 but was later varied to Kshs.2,507,450 after the first borehole drilled did not yield any water.

Later, a second borehole was drilled on a private land after the variation of the contract sum but the title deed for the new site was not provided for audit. Further, physical verification of the project conducted on 19 February, 2020 revealed that the second borehole was not complete.

Consequently, the value for money and regularity of the expenditure incurred on the borehole project could not be confirmed.

3. Irregular Grading and Gravelling of Access Roads to Nyangaya and Kodeny Primary Schools

Transfer to Other Government Units expenditure of Kshs.88,166,278 includes an amount of Kshs.33,854,500 which was earmarked for transfers to primary schools as disclosed in Note 6 to the financial statements. The amount includes expenditure totalling Kshs.5,730,600 claimed to have been incurred on opening, grading and gravelling of access roads to Nyangaya Primary School at a cost of Kshs.3,230,600 and Kodeny Primary School at a cost of Kshs.2,500,000. The following anomalies were observed.

Construction of rural roads is a devolved function that belongs to the County Government and not the Fund. Physical verification conducted on 19 February, 2020 revealed that the roads did not have publicity signage despite their inclusion in the bill of quantities. It was not possible to confirm whether these roads were indeed graded and graveled by the Fund or other government agencies.

In the circumstances, the regularity and value for money of the expenditure incurred on the roads project could not be confirmed.

4. Overpaid and Incomplete Construction of Awendo Police Divisional Headquarters

The tender for the construction of the Awendo Police Divisional Headquarters was awarded to a firm at a contract sum of Kshs.3,948,470 being the lowest evaluated bidder during the 2015/2016 financial year. The commencement date of the contract was 10 June, 2016 with the expected completion date of 10 June, 2017. The following anomalies were noted.

By 29 November, 2016, the contractor had been paid a total of Kshs.7,100,000 leading to an unexplained overpayment of Kshs.3,151,530. Bank statements for the Project Implementation Committee account was not provided for audit to confirm whether the balance of Kshs.1,900,000, which is the difference between the total payments of Kshs.7,100,000 and the total disbursements of Kshs.9,000,000, was still in the bank account.

Physical verification of the project that was done on 27 February, 2020 revealed that the ceiling, plastering and painting were incomplete and the project had stalled and had been vandalized. Documents supporting the land ownership for the project site were not provided for audit review and an alleged land dispute exist between the community and the Government.

In the circumstances, the validity, value for money and regularity of the expenditure incurred on the project could not be confirmed.

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, 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 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 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 applicable basis of accounting unless Management is aware of the intention to terminate the Fund or 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 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 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

08 October, 2021