

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - BELGUT 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 - Belgut Constituency set out on pages 6 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 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 - Belgut 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. Presentation and Inaccuracies in the Financial Statements

The financial statements submitted for audit had page numbering that was not accurate and consistent. The page numbering after page 19 starts again from page 14 thus making it difficult to refer to the correct page number of the financial statements.

Further, the statement of receipts and payments reflect total receipts for the year amounting to Kshs.108,847,483 while the summary statement of appropriation - recurrent and development combined reflect a figure Kshs.118,040,733 hence resulting to a variance of Kshs.9,193,250 which has not been explained or reconciled.

Consequently, the accuracy of the financial statements for the year ended 30 June, 2019 could not be confirmed.

2. Unsupported Prior Year Adjustment

As disclosed under Note 14 to the financial statements, the statement of assets and liabilities reflects Kshs.30,009 in respect of prior year adjustment relating to bank balance. However, prior year adjustment may arise either as a correction of an error in the financial statements reported for a prior period or change in accounting policy/ estimate from the previous year in accordance with the International Public Sector Accounting Standards (IPSAS) 3.

In the circumstances, this treatment does not conform to the International Public Sector Accounting Standards (IPSAS 3) and hence the accuracy of the statement of assets and liabilities as at 30 June, 2019 cannot be confirmed.

3. Failure to Provide Project Returns

As disclosed under Note 6 to the financial statements, the statement of receipts and payments reflects Kshs.64,823,000 in respect of transfers to other government units out of which includes transfers to primary schools' amount of Kshs.29,723,000 out of which Kshs.6,100,000 that was not supported by project returns contrary to Regulation 15 of the National Government Constituencies Development Fund Regulations, 2016 which provides for a Project Management Committee for each project in a Constituency in accordance with Section 36 of the Act to implement projects in consultation with the relevant departments of government; maintain proper records of all minutes, accounting documents and other records in relation to projects being implemented; open and maintain an independent bank account for each project; prepare returns and file them with a Constituency Committee on a timely basis; account for funds to a Constituency Committee; and undertake project closure, labelling and handover upon completion.

Consequently, the occurrence and validity of the expenditure of Kshs.6,100,000 relating to transfers to other Government entities for the year ended 30 June, 2019 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 - Belgut 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 statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.173,081,608 and Kshs.118,103,733 respectively resulting to an under-funding of Kshs.54,977,876 or 32% of the budget. Similarly, the Fund spent Kshs.114,838,514 against an approved budget of Kshs.173,081,608 resulting to an under-expenditure of Kshs.58,243,095 or 34% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Belgut 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 matter 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

Construction of Double Storey Administration Block, Classrooms and Library at Chebirirbei Secondary School

As disclosed under Note 6 to the financial statements, the statement of receipts and payments reflects Kshs.64,823,000 in respect of transfer to other Government units which includes transfers to secondary schools amount of Kshs.35,100,000 out of which Kshs.10,500,000 was transferred to Chebirirbei Secondary School for the proposed construction of double storey administration block, classrooms and library.

Although the works were advertised in the daily nation of 6 August, 2018, the opening tender minutes of 20 August, 2018 were not initialised on each page and the final page did not have the signatures and initials of the members present indicating their full name and designation as required by the Public Procurement and Asset Disposal Act, 2015 Section 78(10) a.

The contract was awarded to a construction company at a contract sum of Kshs.16,324,923 through open tender. As at the time of audit, the project was complete and certificate of practical completion reference number KCO/207/2019/125 issued on 29/1/2020. However, physical verification of the project revealed that the project was not branded as per the requirement by the National Government Constituencies Development Fund Regulations, 2016. In addition, three number double leaf doors, each divided into small panes including 3No. pairs hinges, union 5 lever door lock, two sets of heavy-duty lever handles, 2 No. brackets for padlock welded on size1500*2700mm costing Kshs.135,000 had not been fitted.

In addition, the Bill of Quantities (BQs) had provisional sums totalling Kshs.1,300,000 in respect of Kshs.300,000 for septic tank, Kshs.300,000 for electrical works, Kshs.200,000 for plumbing works, Kshs.300,000 for contingencies and Kshs.200,000 for project Management. However, there was no documentation in support of how the provisional sums were expended as required by regulation 104(1) of the Public Finance Management Regulations, 2015.

Consequently, the occurrence and validity of the expenditure of Kshs.10,500,000 for the year ended 30 June, 2019 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 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 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 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 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 judgment and maintain professional scepticism 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 Fund's 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

18 October, 2021