

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – ENDEBESS 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 – Endebess Constituency set out on pages 1 to 30, 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 National Government Constituencies Development Fund – Endebess 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Project Management Committee Bank Balances

Note 15.4 to the financial statements reflects Project Management Committee (PMC) bank account balances totalling Kshs.18,472,353 whose details are provided under Annex 5 to the financial statements. However, the cash books and certificate of bank balances as well as bank reconciliation statements for the respective bank accounts were not provided for audit.

Consequently, the accuracy and existence of the PMC bank balances of Kshs.18,472,353 as at 30 June, 2019 could not be confirmed.

2. Undisclosed Payables and Unutilized Balances

The financial statements did not include Annex 2 on analysis of pending staff payables and Annex 3 on unutilized funds. In the circumstances, the financial statements were not presented in accordance with the financial reporting guidelines issued by the Public Sector Accounting Standards Board.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government

Constituencies Development Fund – Endebess 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 are no key audit matters to report in the year under review.

Other Matter

1. 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.168,128,008 and Kshs.113,087,132 respectively resulting to an under-funding of Kshs.55,040,876 or 33% of the budget. Similarly, the Fund spent Kshs.107,600,423 against an approved budget of Kshs.168,128,006 resulting to an under-expenditure of Kshs.60,527,582 or 36% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the Endebess Constituents.

2. Unresolved Prior Year Audit Matters

As disclosed under the progress on follow up of auditor recommendations section of the financial statements, various prior year audit issues remained unresolved as at 30 June, 2019. Management has not provided reasons for the delay in resolving the prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, 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 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. Lack of Inspection and Acceptance Certificate for Tree Seedlings

The other grants and transfers balance of Kshs.34,712,500 reflected in the statement of receipts and payments includes environment projects expenditure of Kshs.1,662,500

as disclosed in Note 5 to the financial statements. The payment was made to a local firm for the supply and delivery of tree seedlings. However, the inspection and acceptance certificate issued in accordance with Section 48(4)(e) of the Public Procurement and Asset Disposal Act, 2015, to confirm that the seedlings supplied were of the right quality and quantity was not provided for audit.

Consequently, value for money may not have been obtained on the expenditure of Kshs1,662,500.

2. Delayed Implementation of Projects

According to the project implementation status report provided for audit, during the financial year 2018/2019 the Fund had planned to implement one hundred and thirty-seven (137) projects with a combined budget of Kshs.150,942,366. However, fifty-two (52) projects with a combined budget of Kshs.52,567,027 were not funded. In addition, forty-seven (47) projects with a total value of Kshs.47,032,672 were still in progress at the end of the financial year, while one (1) project with a funding of Kshs.500,000 had not started.

Delayed implementation of projects denied the residents the benefits that would have been derived from the projects.

3. Audit Inspection of Projects

Audit inspection during the month of July, 2020 revealed the following anomalies:

No.	Project	Activities	Amount (Kshs.)	Remarks
1.	Endebess Centre Primary School	Renovation of classrooms	1,000,000	Renovation works done although the project not budgeted for in 2017/18
2.	AIC Chepsalei Secondary School	Construction of twin laboratory	4,996,079	Project almost 90% complete. One room did not have laboratory benches and tables
3.	Chelulus Secondary School	Purchase of land Construction of classroom	990,000 800,000	Land bought 2.2 acres but agreement was in the name of Andrew Matum, the School Principal and had no title deed.
4.	Chepsalei Primary School	Construction of 6 door toilet	200,000	Emergency project. Incomplete but was already cracking, an indication of poor workmanship
5.	Chepsalei Secondary School	Construction of toilet	300,000	The project was funded under emergency and was still incomplete
6.	Nai Primary School	Construction of 8 door toilet	200,000	The project funded through emergency was incomplete though had already been put to use

No.	Project	Activities	Amount (Kshs.)	Remarks
7.	Andersen High School	Construction of a 6 door toilet	500,000	Funded through emergency. It was complete and in use. However, it was not branded
8.	Maliki Primary School	Construction of two pit latrines and urinal	300,000	Funded through emergency, was complete and in use. However, walls were made of iron sheets instead of bricks as per the BQs.

In view of the poor workmanship, non-adherence to technical specifications in construction and slow progress of works, value for money may not be obtained from the expenditure.

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 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 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 such 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.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain its services and 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Fund's 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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

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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 Fund's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Fund's 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 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 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 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

14 September, 2021