

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - GILGIL 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 - Gilgil Constituency set out on pages 12 to 40, 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 - Gilgil 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Unexplained Variances in Use of Goods and Services

The statement of receipts and payments reflects payments on use of goods and services of Kshs.7,444,664;(2018-Kshs.4,793,792) and as disclosed under Note 5 to the financial statements. However, the schedules in support of the expenditure differed by Kshs.315,949 as detailed below out below: -

Item	Financial Statements Balance (Kshs.)	Supporting Schedule Balance (Kshs.)	Variance (Kshs.)
Electricity	-	14,658	(14,658)
Communication, Supplies and Services	-	126,500	(126,500)
Domestic Travel	244,300	278,300	(34,000)
Hospitality, Supplies and Services	480,000	660,000	(180,000)
Committee Allowances	2,596,000	2,562,000	34,000
Bank Charges	-	90,991	(90,991)
Water, Sewerage Charges	-	39,671	(39,671)
Office, General, Supplies and Services	339,556	203,685	135,871
Total	3,659,856	3,975,805	(315,949)

In the circumstance, the accuracy and validity of the use of goods and services expenditure of Kshs.7,444,664 for the year ended 30 June, 2019 could not be confirmed.

2. Unconfirmed Expenditure on Sports

The statement of receipts and payments also reflects other grants amount of Kshs.55,767,863;(2018-Kshs.33,186,314) and as disclosed under Note 7 to the financial statements. Included in the sports amount is expenditure on purchase of balls and uniforms of Kshs.1,288,900 and Kshs.451,400 respectively totaling Kshs.1,740,300. However, records in support of the expenditure by way of; inspection and acceptance report, and receipt acknowledgement by the beneficiaries were not made available for audit review.

In the circumstance, the regularity of sports expenditure amounting to Kshs.1,740,300 for the year ended 30 June 2019 could not be confirmed.

3. Unconfirmed Bank Balances

Annex 5- Project Management Committee (PMC) bank balances as at 30 June 2019 discloses amounts held in the various projects bank accounts totaling to Kshs.46,688,959. Six bank accounts reflected balances of Kshs.841,494 while the corresponding bank confirmation reflected balances of Kshs.1,575,378 resulting to unexplained variance of Kshs.733,885 as tabulated below.

Project	Account No.	FS Balance (Kshs.)	Certificate Bank Balance (Kshs.)	Variance (Kshs.)
Mbombo Primary School - Cooperative Bank	01141404482600	250,174	100,174	150,000
Morop Cypress Secondary School - Cooperative Bank	01139404620900	150,000	150,685	(685)
Mugaa Primary School - Cooperative Bank	01139115877200	80,317.85	172,631.85	(92,314)
Ngumo Primary School - Cooperative Bank	01141404213300	361,002	301,002	60,000
Echararie Primary School - Equity Bank	0770266623480	0	850,005	(850,005)
Langalanga Primary School - Equity Bank	0770278587629	0	880	(880)
Total		841,494	1,575,378	(733,884)

In the circumstances, the accuracy and completeness of the reported Project Management Committee (PMC) bank balances of Kshs.46,537,394 as at 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 National Government Constituencies Development Fund - Gilgil 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 that, in my professional judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

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. Incomplete Projects

Six (6) projects with a funding allocation of Kshs.8,750,000 were sampled for verification during the month of January, 2020. However, two (2) projects valued at Kshs.2,950,000 were found incomplete despite full disbursements having been made as indicate below;

Project Name	Details	Observations	Amount (Kshs.)
Gilgil Girls Secondary	Completion of Multipurpose Hall (Phase II)	The project estimated cost was Kshs.4,500,000, funded in 2017/18 and 2018/19 financial years but remains incomplete.	2,000,000
Kikohey Secondary School	Construction of one Classroom	The following works remained incomplete; floor, window paints and glasses, ceiling, walkways, piping, electrical wiring and fittings.	950,000
Total			2,950,000

No satisfactory explanations have been rendered for the incomplete projects despite the full funding.

Consequently, the constituents of Gilgil Constituency may not realize value for money from the incomplete projects.

2.0 Transfers to Other Government Entities

The statement of receipts and payments reflects transfers to other government entities amount of Kshs.63,440,000;(2018-Kshs.33,676,321) and as disclosed under Note 6 to the financial statements. Review of the expenditure revealed the following unsatisfactory issues: -

2.1 Unsupported Award of Contract - Mbegi Primary School

Transfers to Mbegi Primary School of Kshs.1,790,000 for construction of two (2) standard classrooms were unsupported by way of; technical evaluation report and signed contract to confirm the due award process was followed and terms of the contract respectively.

In the circumstance, the regularity of the expenditure of Kshs.1,790,000 at Mbegi Primary School for the year ended 30 June 2019 could not be confirmed.

2.2 Unsupported Award of Contract - Tangitano Secondary School

Kshs.1,900,000 was transferred to Tangitano Secondary School. Of this amount, Kshs.1,512,260 was paid out for the supply of hardware and quarry materials for renovation of two (2) classrooms. However, there are no supporting documents by way of; technical evaluation reports to confirm whether the due process was adhered to during the award. Further, the supplier registration status with the Fund could not be established. The balance of Kshs.387,740 was yet to be returned to the Fund account contrary to the provisions of Section 12(8) of the National Government Constituencies Development Fund Act, 2015 which requires all the unutilized funds of the project management committee to be returned to the constituency account.

Under the circumstance, the Fund is in breach of the law.

3.0 Other Grants and Other Payments

The statement of receipts and payments also reflects other grants and other payments amount of Kshs.55,767,863;(2018-Kshs.33,186,314) and as disclosed under Note 7 to the financial statements. Review of the expenditure revealed the following unsatisfactory issues:-

3.1 Unsupported Bursaries to Secondary Schools and Tertiary Institutions

Bursaries to secondary schools and tertiary institutions amounting to Kshs.5,514,568 and Kshs.4,156,620 respectively and totaling to Kshs. 9,671,188 were issued but were unsupported by way details of the beneficiary student including the respective admission numbers. Consequently, the authenticity of the beneficiaries could not be established.

From the foregoing, the validity and regularity of bursary amounts totaling to Kshs.9,671,188 to secondary schools and tertiary institutions for the year ended 30 June, 2019 could not be confirmed.

3.2 Unsupported Award of Contract for Construction of Perimeter Wall and Landscaping

Included in the security expenditure is Kshs.1,022,650 incurred towards the construction of a perimeter wall and landscaping at the Fund offices. The project certificate of practical completion was issued by the district works officer and payment made on 16 and 12 July, 2018 respectively. However, the supporting documents by way of signed contract agreement was not made available for audit review. Further, payment was made in full without being subjected to retention money to cover for shoddy workmanship during the defects liability period. A visit to the Project on 14 January, 2020 revealed that, one side of the perimeter wall had collapsed and there were no plans to restore the collapsed wall.

In the circumstances, the value for money from the expenditure of Kshs.1,022,650 on the construction Fund offices perimeter wall 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, 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 continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using 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 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 or 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

29 December, 2021