

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – HOMA BAY TOWN 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 - Homa Bay Town Constituency set out on pages 8 to 44, 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 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 the National Government Constituencies Development Fund - Homa Bay Town 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. Unsupported Emergency Expenditure

The statement of receipts and payments reflects an expenditure of Kshs.34,018,446 under other grant and transfers. The expenditure includes an amount of Kshs.2,822,146 which was incurred on emergency projects as disclosed in Note 7 to the financial statements. However, supporting documents and schedules provided by the Management for the emergency projects amounted to Kshs.5,687,232, leading to unexplained variance or understatement of emergency projects expenditure by Kshs.2,865,086.

Consequently, the accuracy and completeness of the emergency projects expenditure of Kshs.2,822,146 could not be confirmed.

2. Unsupported Bursary Disbursements

The statement of receipts and payments reflect an expenditure of Kshs.34,018,446 under other grants and transfers. The expenditure includes bursary disbursements to secondary schools and tertiary institutions of Kshs.27,920,000 as disclosed in Note 7 to the financial statements. However, supporting documents and schedules provided for the bursary

disbursements amounted to Kshs.24,642,914, leading to unsupported variance of Kshs.3,277,086.

Consequently, the accuracy and completeness of Kshs.3,277,086 expenditure on bursary disbursements 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 - Homa Bay Town 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

Budget Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.164,038,25 and Kshs.151,743,819 respectively resulting to an under-funding of Kshs.12,294,206 or 7% of the budget. Further, the National Government Constituencies Development Fund - Homa Bay Town Constituency spent a total of Kshs.109,006,239 against an approved budget of Kshs.164,038,025 leading to under-utilization of the allocated funds by Kshs.55,031,786 or 34 % of the budget. The under-expenditure on the approved budget implies that the Fund was not able to achieve some of its core objectives and thereby impacting negatively on the efficiency and effectiveness of 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

1. Irregular Hiring of Casual Employees

The statement of receipts and payments reflects an expenditure of Kshs.4,173,416 under compensation of employees. The expenditure includes an amount of Kshs.2,892,500

which was spent on wages of thirty-four casual employees. However, the Management did not provide evidence of their competitive recruitment. Further, job specifications and job descriptions for the casual workers were not provided for audit review.

In the circumstances, the propriety and value for money on wages for casual employees of Kshs.2,892,500 could not be ascertained.

2. Anomalies in the Construction of Access Roads to Primary Schools

The statement of receipts and payments reflects an expenditure of Kshs.59,503,817 under transfers to other government units. The expenditure includes Kshs.33,611,849 earmarked for transfers to primary schools as disclosed under Note 6 to the financial statements. Included in the expenditure of Kshs.33,611,849 is an amount of Kshs.20,261,849 allocated for grading and gravelling of access roads to seven primary schools namely; Andigon Primary School, Disii Primary School, Ndiru Primary School, Kuja Primary School, Ogande Primary School, Maguje Primary School and Pundo Primary School.

However, the following anomalies were noted during the audit:

- i. Construction of un-paved roads is a devolved function and therefore should not have been done by the National Government Constituencies Development Fund – Homa Bay Town Constituency.
- ii. All the constructed access roads did not have a publicity signage despite their inclusion in the bill of quantities.
- iii. The grading work covering about 3 kilometers on the Ogande Primary School access road does not appear commensurate with the payment of Kshs.4,695,680 made to the contractor.

In the circumstances, the regularity and value for money of the expenditure of Kshs.20,261,849 incurred on the access roads project could not be confirmed.

3. Incomplete Projects in Secondary Schools

The expenditure of Kshs.59,503,817 under transfers to other government units also includes Kshs.25,891,968 earmarked for transfers to secondary schools as disclosed under Note 6 to the financial statements. Included in the expenditure of Kshs.25,891,968 is an amount of Kshs.12,648,276, which was allocated to ten (10) projects implemented in nine (9) secondary schools namely; Bishop Okulu Magare Girls High School, Gogo Katuma Mixed Secondary School, Pala Masogo Secondary School, Ojunge Mixed Secondary School, St. Joseph Sero Mixed Secondary School, Ngere Secondary School, Pap Ndege Mixed Secondary School, St Peters Disii Secondary School, and Ruga Mixed Secondary School.

Physical verification done on 10 February, 2020 at the schools revealed that all the ten projects were incomplete and had stalled, the contractors were not on site and the structures were not in use. Further, there was no evidence of supervision by the

department of public works engineers, the projects were not branded and the contract period had elapsed.

Consequently, the regularity and value for money of Kshs.12,648,276 incurred on the secondary schools' projects could not be confirmed.

4. Projects Implementation in Primary Schools

4.1. Poor Workmanship at Shauri Yako Primary School's New Classrooms

Transfers to other government units expenditure of Kshs.59,503,817 includes an amount Kshs.33,611,849 earmarked for transfers to primary schools. The transfers to primary schools includes Kshs.1,600,580 incurred on construction of classrooms at Shauri Yako Primary School. However, a review of documents and physical verification done at the school on 10 February, 2020 revealed that the classrooms floor was chipping off, an indication of poor workmanship and the building had not been branded. Further, Management did not deduct 6% VAT and 3% withholding tax, neither was 10% retention money deducted from the payments to the contractor to cover for any costs during the defects liability period.

Consequently, the value for money of the expenditure of Kshs.1,600,580 incurred on the project could not be confirmed.

4.2. Incomplete Administration Block at Adongo Primary School

Included in Kshs.33,611,849 transfers to primary schools is Kshs.3,921,250 incurred on construction of an administration block at Adongo Primary School. However, a review of documents and physical verification done on 10 February, 2020 revealed that the building had stalled at the lintel level and the contractor was not on site.

Consequently, the regularity and value for money of the expenditure of Kshs.3,921,250 incurred on the project could not be confirmed.

4.3. Poor Workmanship on Newly Constructed Classrooms at Arunda Primary School

Similarly, transfers to primary schools included an expenditure of Kshs.1,374,000 incurred on construction of classrooms at Arunda Primary School. However, a review of documents and physical verification done on 10 February, 2020 revealed that the building had not been branded, 6% VAT and 3% withholding tax were not deducted from payments made to the contractor, neither was 10% retention money deducted exposing the Fund to costs arising during defects liability period.

Consequently, the value for money of the expenditure of Kshs.1,374,000 incurred on the project could not be confirmed.

4.4 Stalled Construction of Administration Block at Wiobiero Primary School

An expenditure of Kshs.1,000,000 which was part of Kshs.33,611,849 for transfers to primary schools was incurred on construction of an administration block at Wiobiero Primary School. However, a review of documents and physical verification done on

10 February, 2020 revealed that the building had stalled at the lintel level and the contactor was not on site.

Consequently, the value for money and regularity of the expenditure of Kshs.1,000,000 incurred on the project could not be confirmed.

4.5 Stalled Construction of Administration Block at Kogello Kalanya Primary

An amount Kshs.1,681,294 was incurred on construction of an administration block at Kogello Kalanya Primary School being part of Kshs.33,611,849 transferred from the Fund to primary schools. However, a review of documents and physical verification done on 10 February, 2020 revealed that the building had stalled at the lintel level and the contactor was not on site. Further, the tender for construction works was awarded to a contractor who was not recommended by tender committee.

Consequently, the validity, regularity and value for money for the expenditure of Kshs.1,681,294 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 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.

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 the Fund to sustain services, 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 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 entity 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 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 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 noncompliance. 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

20 September, 2021