

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - IKOLOMANI CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Ikolomani Constituency set out on pages 1 to 28, which comprise the statement of assets and liabilities as at 30 June, 2020, 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 - Ikolomani Constituency as at 30 June, 2020 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. Cash and Cash Equivalents

The statement of assets and liabilities reflects a cash and cash equivalents balance of Kshs.2,480,835 as at 30 June, 2020. However, the June 2020 bank reconciliation statement reflected unrepresented cheques amounting to Kshs.1,275,250 of which cheques of Kshs.14,000 were stale as at 30 June, 2020.

In the circumstances, it was not possible to ascertain the accuracy of the reported cash and cash equivalents balance as at 30 June, 2020.

2. Unutilized Funds

The summary statement of appropriation - recurrent and development combined reflects budget adjustments of Kshs.10,545,344 as also indicated under the comparative balance

for unutilized funds under Note 17.3 to the financial statements. However, the balance of Kshs.10,545,344 differed with the balance of Kshs.10,340,344 reflected in the prior year's audited financial statements by an unreconciled variance of Kshs.205,000.

In the circumstances, the accuracy of the unutilized funds balance 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 - Ikolomani 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

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.147,913,068 and Kshs.76,845,344 respectively, resulting into an under-funding of Kshs.71,067,724 or 48% of the budget. Similarly, the Fund expended Kshs.74,364,509 against an approved budget of Kshs.147,913,068 resulting into an under-expenditure of Kshs.73,548,559 or 50% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to Ikolomani constituents.

2. Unresolved Prior Year Audit Matters

As disclosed under the progress on follow up of auditor recommendations section of the financial statements, prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided satisfactory reasons for the delay in resolving the issues.

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. Delayed Completion of Projects

According to the projects implementation status report provided for audit, the Fund had disbursed a total of Kshs.701,103,236 to finance four hundred and twelve 412 projects between financial years 2013/2014 to 2019/2020. However, as at 30 June, 2020, the Fund had only completed sixteen (16) Projects with a combined allocation of Kshs.36,263,081 representing 5% of the total projects. Further, none of the forty (40) projects with a combined allocation of Kshs.86,600,000 initiated in the financial year 2019/2020 had been completed.

In addition, the project for construction of storey classrooms and an administration block at Mutaho Girls Secondary School on which an amount of Kshs.15,000,000 had been spent since financial year 2014/2015 had not been completed. Similarly, the project for the construction of a library holding eighty (80) students, two (2) classrooms and four (4) offices at Lirhembe Friends Secondary School at a cumulative cost of Kshs.12,000,000 has been outstanding since the financial year 2013/2014.

Also, twenty-four (24) projects with a combined allocation of Kshs.42,400,000 had been ongoing for more than three (3) years contrary to Regulation 11(1)(j) of the National Government Constituencies Development Fund Regulations, 2016 which requires projects to be completed within three (3) years. The details of the projects are provided at **Appendix I**.

Delayed completion of projects denied the residents of Ikolomani Constituency the benefits that would have accrued from the projects and could lead to cost escalations.

2. Poor Workmanship and Other Anomalies in Implementation of Projects

Audit inspection undertaken on 25 March, 2021 to the projects under primary schools revealed poor workmanship and other anomalies as shown at **Appendix II**.

In the circumstances, it could not be confirmed whether value for money had been obtained from the expenditure.

3. Irregular Procurement of Strategic Plan

The statement of receipts and payments reflects other payments of Kshs.2,843,334 which as disclosed at Note 9 to the financial statements, related to the development of the Fund's Strategic Plan. However, records and documents on the procurement proceedings and award of the contract were not provided for audit verification.

In the circumstances, the regularity of the process and value for money from the expenditure could not be confirmed.

4. Irregular Allocation of Bursary

Regulation 21(5) of National Government Constituencies Development Fund Regulations, 2016 provides that a Constituency Committee shall allocate not less than twenty-five percent (25%) of the funds allocated to the constituency for bursaries. However, as disclosed under Note 7 to the financial statements, the Fund spent a total of

Kshs.3,515,000 on bursaries representing 5.2% of the amount received from the National Government Constituencies Development Fund Board.

The Fund Management was therefore, in breach of the Law.

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 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.

In preparing the financial statements, Management is responsible for assessing National Government Constituencies Development Fund – Ikolomani Constituency'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 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 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 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 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 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

03 December, 2021

Appendix I – Delayed Completion of Projects

Project Name	Financial Year of Project Commencement	Disbursements (Kshs.)	Current Status
Ivole Primary School	2014/2015	500,000	Ongoing
Lirhembe Friends Girls High School	2014/2015	1,500,000	Ongoing
Lusiola Primary School	2014/2015	500,000	Ongoing
Madivini Primary School	2014/2015	1,000,000	Ongoing
St. Boneventure Shimanyiro Secondary School	2014/2015	1,500,000	Ongoing
Matundu Primary School	2015/2016	2,400,000	Ongoing
Naliava Primary School	2015/2016	1,600,000	Ongoing
Lirhembe Primary School	2015/2016	3,000,000	Ongoing
Shikhombelo Primary School	2015/2016	2,400,000	Ongoing
Shimanyiro Primary School	2015/2016	1,600,000	Ongoing
Lusiola Primary School	2015/2016	2,400,000	Ongoing
Shikokho Secondary School	2015/2016	2,400,000	Ongoing
St. Joseph Shichinji Secondary School	2015/2016	1,600,000	Ongoing
Matundu Primary School	2016/2017	3,000,000	Ongoing
Ivole Primary School	2016/2017	1,000,000	Ongoing
Lirhembe Primary School	2016/2017	2,000,000	Ongoing
Naliava Primary School	2016/2017	3,400,000	Ongoing
Imulama Primary School	2016/2017	1,000,000	Ongoing
Shikhombelo Primary School	2016/2017	1,600,000	Ongoing
Shimanyiro Primary School	2016/2017	2,400,000	Ongoing
Imalaba Primary School	2016/2017	1,000,000	Ongoing
Lusiola Primary School	2016/2017	1,000,000	Ongoing
Madivini Primary School	2016/2017	1,000,000	Ongoing
Shikokho Secondary School	2016/2017	2,600,000	Ongoing
Total		42,400,000	

Appendix II - Poor Workmanship and Other Anomalies in Implementation of Projects

Project	Disbursement Details (2019/2020) (Kshs.)	Project Details	Anomalies Observed
Imulama Primary School	3,000,000	Casting the Suspended Slab, fixing doors & windows, of 8 No. classrooms, (Pending works to be funded in FY 2020/21 include, 1st Floor Walling, Roofing, fixing ceiling, flooring, fixing window panes, wiring & painting).	At the first floor lintel level, suspended slab was done without supporting pillars.
Musoli Mixed Primary School	2,850,000	Renovations by re-roofing, re-fixing doors & windows, plastering, and painting of a 9No. Classroom to completion.	Renovations incomplete. Terrazo floor incomplete.
St. Claires' Musoli Girls Primary School	1,700,000	Renovations by re-fixing doors & windows, plastering, and painting of Nine (9) classrooms to completion.	Only iron sheets replaced and re-painting done.
Shikumu Primary School	4,000,000	Construction of 8 Classrooms tuition block at an estimated total cost of Kshs.14,000,000. Phase one (1) consisting of four (4) classrooms up to the suspended Slab Level.	Project at first floor pillars level. Suspended slab done without supporting pillars. Pillar sub-structures at first floor made using a mixture of D8 & D16 steel rods.
Total	11,550,000		



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi