

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND-KABONDO KASIPUL CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund-Kabondo Kasipul Constituency set out on pages 23 to 54, 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, , the financial statements present fairly, in all material respects, the financial position of the National Government Constituencies Development Fund-Kabondo Kasipul 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 Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund-Kabondo Kasipul 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 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.159,054,251 and Kshs.139,976,047 respectively resulting to an under-funding of Kshs.19,078,204 or 12% of the budget. Similarly, the Fund spent Kshs.113,451,509 against an approved budget of Kshs.159,054,251 resulting to an under-expenditure of Kshs.45,602,742 or 29% of the budget. The underfunding and

underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Kabondo Kasipul 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 matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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

1.0 Unauthorized and Unutilized Borehole

During the year under review, the Kabondo Kasipul CDF Management awarded a contract for drilling and equipping of a borehole at the Constituency Development Fund Offices at a cost of Kshs.1,840,000.

Physical verification done on 7 February, 2020 revealed that the borehole was lying idle and unutilized despite its completion. Further, authorization for the drilling of the borehole and water use permit from the Water Resources Management Authority was not provided for audit.

In the circumstances, value for money of the expenditure of Kshs.1,840,000 which was incurred on the project could not be confirmed.

2.0 Incomplete Office and Multipurpose Hall

A tender for construction of the constituency office and multipurpose hall was awarded to a contractor on 27 November, 2015 for a contract sum of Kshs.30,350,117 and the project was to take 24 weeks from the date of site possession.

Physical inspection done on 7 February, 2020 revealed that the project was incomplete, the contractor was not on site and work had stalled. The outstanding works included roofing, installation of window grills and panes, plastering, painting and flooring.

Further, the expenditure analysis indicates that a total of Kshs.33,993,000 had been spent on the project.

In the circumstances, the public resources were not used in an effective and efficient way and the value for money of the expenditure of Kshs.33,993,000 could not be confirmed.

3.0 Transfers to Other Government Units

3.1 Unauthorized Reallocation of Funds meant for Construction of Classrooms at Pala Secondary School

The statement of receipts and payments reflects transfers to other government units expenditure of Kshs.42,687,629 for the year ended 30 June, 2019, includes an amount of Kshs.21,739,655 earmarked for transfer to secondary schools. The latter in turn includes Kshs.550,000 which was allocated for the construction of two classrooms at Pala Secondary School.

Physical verification done on 7 February, 2020 revealed that instead of constructing the classrooms, the Project Management Committee reallocated the funds to the school laboratory. The change of activity was not authorized by the National Government Constituencies Development Fund Board as stipulated under section 6(2) of the National Government Constituencies Development Fund Act, 2015.

Consequently, the regularity of the expenditure of Kshs.550,000 could not be confirmed.

3.2 Unauthorized Reallocation of Funds meant for Construction of Classrooms at Otondo Secondary School

The expenditure of Kshs.21,739,655 in respect of transfer to secondary schools also includes an amount of Kshs.1,000,000 which was transferred to the Project Management Committee of Otondo Secondary School for the construction of two classrooms.

Physical verification done on 7 February, 2020 revealed that instead of constructing the two classrooms, the Project Management Committee reallocated the funds to the construction of one classroom and renovation of three classrooms. The change of activity was not authorized by the National Government Constituencies Development Fund Board as stipulated under section 6(2) of the National Government Constituencies Development Fund Act, 2015.

Consequently, the regularity of the expenditure Kshs.1,000,000 could not be confirmed.

3.3 Unauthorized Reallocation meant For Construction of Classrooms at Kotienditi Secondary School

The transfers to secondary schools` expenditure of Kshs.21,739,655 also includes an amount of Kshs. 550,000 which was allocated to the Project Management Committee of Kotienditi Secondary School for the construction of one classroom.

Physical verification carried out on 7 February, 2020 revealed that instead of constructing one complete classroom, the Project Management Committee reallocated the funds to the school library. The change of activity was not authorized by the National Government Constituencies Development Fund Board as stipulated under section 6(2) of the National Government Constituencies Development Fund Act, 2015.

Consequently, the regularity of the expenditure of Kshs.550,000 could not be confirmed.

3.4 Unbranded Projects in Construction of Laboratory and Classrooms in Three (3) Schools

The expenditure of Kshs.21,739,655 in respect of transfer to secondary schools includes an amount of Kshs.6,795,000 which was incurred on the construction of a laboratory and classrooms in three schools:

Physical verification revealed that the projects had not been branded with the Constituencies Development Fund logo. Failure to brand the projects with the logo of the Constituencies Development Fund may result in overlaps especially where there is multi-funding thereby affecting the accountability of the expenditure.

4.0 Incomplete Construction of a Police Post and Gate

The Kabondo Kasipul CDF funded the construction of a police post at Kodhoch West and a gate at Sori Police Post at a cost of Kshs.1,560,000 during the 2017/2018 financial year.

Physical verification done on 7 February, 2020 revealed that fitting of a gate at Sori Police Post which was among the key activities that were to be carried out by the contractor was not done even after full payment of the contract sum.

Consequently, the value for money and regularity of the expenditure of Kshs.1,560,000 could not be confirmed.

5.0 Poor Workmanship of Some Projects Implemented

Physical verification of various projects which were funded in the financial year 2018/19 revealed various cases of poor workmanship as shown below:

Institution	Activity	Status
Osuri Primary School	Renovation of eight classrooms	- Peeling Plaster and Paint - Cracking Walls
Kauma Primary School	Construction of two classrooms	- Cracking Floors
St Mary Andingo Primary School	Construction of laboratory	- Cracking Walls
Apondo Primary School	Renovation of eight classrooms	- Cracking Walls and peeling Paint
Otondo Secondary School	Construction of two classrooms	- Cracking Floors and Walls

6.0 Unimplemented Projects

The Kabondo Kasipul CDF had budgeted to spend a total of Kshs.72,125,640 on various projects under transfers to other government units in 2018/2019 financial year. However, audit review revealed that projects estimated to cost a total of Kshs.25,500,000 were not implemented by the end of the financial year. :

No explanation has been provided for failure to implement the above projects.

7.0 Net Liabilities

The statement of assets and liabilities reflects total financial assets balance of Kshs.26,524,538 and nil liabilities as at 30 June, 2019. The statement, however, shows

at the bottom net liabilities instead of the net financial position of Kshs.26,524,538 as at 30 June 2019. The format is not consistent with Public Sector Accounting Board template for preparation of financial statements. No explanation was provided for this anomaly.

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 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 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 its 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 liquidate 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 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 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 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 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

17 September, 2021