

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KABUCHAI 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 - Kabuchai Constituency set out on pages 11 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 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 - Kabuchai 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 Expenditure on Use of Goods and Services

The statement of receipts and payments reflects an amount of Kshs.6,845,184 under use of goods and services and as shown under Note 3 to the financial statements. The amount includes Kshs.452,070 spent on monitoring and evaluation of the Fund's projects. However, the relevant monitoring and evaluation reports availed for audit verification were not signed casting doubt on their authenticity.

Further, the expenditure includes Kshs.230,240 spent on two officers of the Fund and one officer from Kabuchai Sub-County Office, for attending a meeting in Mombasa. However, no explanation was provided why the Sub-County officer was paid allowances from the Fund's resources.

In addition, the use of goods and services expenditure, includes Kshs.136,600 spent on six officers of the Fund who allegedly went to Nairobi to follow up on the specifications of a bus that was to be purchased for Kimalewa Secondary School. However, no approval of the expenditure was provided for audit review. Further, it was noted that all the six officers did not have the requisite technical capacity to interrogate automobile specifications. Although it was explained that a technical officer from the Department of Mechanical Transport was already in Nairobi and was involved in the inspection of the Kimalewa Secondary School Bus, no evidence was provided to support the claim.

Finally, a senior officer of the Fund was paid Kshs.787,000 to cater for accommodation and meals for eighteen (18) persons who attended a capacity building workshop at Comfort Hotel, Busia. However, it was noted that the Fund separately paid the hotel Kshs.162,000 for accommodation and meals for the same individuals, resulting in double payment.

In the circumstances, the regularity of the allowances amounting to Kshs.1,605,910 could not be confirmed.

2. Unconfirmed Project Management Committee Bank Balances

Annex 1 to the financial statements reflects PMC Bank Balances of forty-five (45) bank accounts totaling Kshs.5,301,364 as at 30 June, 2019. However, the respective cash books and bank reconciliation statements were not provided to support these balances.

Further, Annex 1 reflects 2017/2018 comparative balances totaling Kshs.4,474,111 which differs with the total of Kshs.3,542,294 shown in the audited PMC bank balances as at 30 June, 2018 by an unreconciled variance of Kshs.931,817.

In addition, the total PMC bank balance of Kshs.5,301,364 for the year include Kshs.3,351,825 relating to projects which, according to the project implementation status report, had been completed and were operational as at 30 June, 2019. However, the unutilized amount of Kshs.3,351,825 had not been returned to the constituency account as at the time of the audit, contrary to Section 12 (8) of the National Government Constituencies Development Fund Act, 2015. Management was in breach of the law by failing to transfer the un-utilized funds of Kshs.3,351,825 to the constituency account.

In view of the foregoing, the accuracy and completeness of the reported PMC bank balance of Kshs.5,301,364 for the year ended 30 June, 2019 could not be confirmed. The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Kabuchai Constituency Management in accordance with ISSAI 130 on the 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. Budget Control and Performance

The summary statement of appropriation: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs. Kshs.136,471,513 and Kshs.8,430,639 respectively, resulting to an under-funding of Kshs.55,040,874 or 40% of the budget. Similarly the Fund spent Kshs.80,141,559 against a budgeted amount of Kshs.136,471,513, thereby resulting in a net budget under-absorption of Kshs.56,329,954 or 41%.

In addition, the final budget of Kshs.9,302,360 for use of goods and services, comprised the original budget of Kshs.6,877,469 and adjustments of Kshs.2,424,891. However, detailed analysis for the adjustments of Kshs.2,242,891 was not availed for audit verification.

In view of the foregoing, the Fund may not have achieved all its project completion and service provision targets, resulting in delayed benefits to the residents of Kabuchai Constituency.

2. Project Implementation Review

The Fund had planned to implement a total of 80 projects/programmes in security, education, sports and environment sectors during the financial year as highlighted below:

Sector	Total Project Cost Kshs.	Budgeted projects No.	Actual/Implemented Projects						% of Completed Projects
			Not Started		Ongoing		Completed		
			No.	Kshs.	No.	Kshs.	No.	Kshs.	
Bursaries	27,276,568	2	-	-	-	-	2	27,276,568	100%
Sport Projects	1,680,817	1	-	-	-	-	1	1,680,817	100%
Environment Projects	1,680,818	2	1	505,818	-	-	1	1,175,000	50%
Primary School Projects	23,650,000	36	-	-	16	12,300,000	20	11,350,000	56%
Secondary School Projects	32,800,000	28	-	-	16	15,200,000	12	17,600,000	43%
Security Projects	6,400,000	11	1	650,000	8	5,300,000	2	450,000	18%
Total	93,488,203	80	2	1,155,818	40	32,800,000	38	59,532,385	48%
% of All Projects			3%		50%		48%		

Further analysis indicated that, two (2) projects representing 3% of all projects had not started, forty (40) projects representing 50% of all projects were still ongoing and thirty-eight (38) projects representing 48% of all projects had been completed as at 30 June, 2019.

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 Prior Years Projects

The project implementation status report submitted for audit review indicated that several projects with a total estimated cost of Kshs.75,587,027, which were to be implemented during the 2016/2017 and 2017/2018 financial years were still ongoing as at 30 June, 2019 as detailed below:

Financial Year	Project Name	Estimated Project Cost (Kshs.)	% Completion
2016/2017	Assistant County Commissioner Residence-Nalondo	1,700,000	80%
2016/2017	Assistant County Commissioner office – Mukuyuni	3,000,000	80%
2016/2017	Lukhome Secondary School	4,500,000	90%
2016/2017	Sichei Secondary School	7,500,000	85%
2016/2017	St.Charles Lwanga Secondary School	6,700,000	80%
2016/2017	Luuya Girls High School	4,000,000	80%
2016/2017	Nangwe RC Primary school	900,000	75%
2017/2018	ICT HUB	4,677,027	Not indicated
2017/2018	Nasaka Secondary School	6,000,000	80%
2017/2018	Lukhome Secondary School	4,500,000	95%
2017/2018	Musokho Secondary School	14,500,000	95%
2017/2018	St. Charles Lwanga Secondary School –Bwake	4,260,000	80%
2017/2018	St. Annes Sirare Secondary School	3,500,000	70%
2017/2018	Luuya Girls Secondary School	2,850,000	80%
2017/2018	Chebukaka Girls Primary School	2,500,000	80%
2017/2018	Assistant County Commissioner Office Mukuyuni	4,000,000	90%
2017/2018	Assistant Chief Office North Bukusu	500,000	80%
Total		75,587,027	

Further, Management may not be prioritizing on-going projects when allocating funds as required by Section 46(2) of the National Government Constituencies Development Fund Act, 2015.

Consequently, the Fund may not have achieved its project completion targets and could therefore not provide its constituents with the anticipated services.

2.0 Irregularities in Implementation of Schools Projects

The statement of receipts and payments reflects an amount of Kshs.32,910,720 in respect of transfers to other government units. The amount includes Kshs.7,300,000

and Kshs.25,610,720 for primary and secondary schools respectively. However, the following anomalies were noted;

2.1 Sikulu Friends Secondary School

During the year under review, Sikulu Friends Secondary School received Kshs.700,000 to construct one classroom. The PMC awarded the contract to a local firm, and as at 30 June, 2019, Kshs.468,966 had been spent. However, field verification conducted revealed that gauge 30 iron sheets were used for roofing, instead of the harder pre-painted G.C.L., gauge 28 iron sheets specified in the Bill of Quantities (BQs). Further, the constructed building had five (5) windows instead of seven (7) windows specified in the approved drawings and design.

2.2 Baraki Secondary School

The Baraki Secondary School received and spent Kshs.1,400,000 for construction of two (2) classrooms with the Fund Management having awarded the project to a local contractor. Project records and PMC minutes for a meeting held on 19 June, 2019 indicate that, a resolution was made for the BQs from the State Department for Public Works be domesticated for this project. However, the modified BQs was not availed for audit review.

3. Purchase of Parcels of Land for Schools

During the year under review, ten (10) schools received a total of Kshs.6,600,000 from the Fund for the purchase of 9.75 acres of land as tabulated below:

No.	Project Name	Acres	Cost (Kshs.)
1	Chemwa Secondary School	0.75	700,000
2	Kasosi Secondary School	0.75	600,000
3	Sirare Secondary School	0.75	600,000
4	St. Joseph's Nalondo Girls Secondary School	0.75	800,000
5	Sanandiki Girls Secondary School	3.00	700,000
6	St. Kizito Girls Secondary School	1.00	700,000
7	Nangwe Secondary School	0.75	800,000
8	Pongola Secondary School	0.75	700,000
9	Kabuchai Special Primary School	0.50	400,000
10	Luucho Primary School	0.75	600,000
	Total	9.75	6,600,000

However, at the time of the audit, ownership documents were not provided for audit verification. Management indicated that the process of acquiring title deeds for the parcels of land was ongoing.

In the circumstances, it was not possible to confirm the regularity of the expenditure Kshs.6,600,000.

4. Uninsured Fixed Assets

Annex 2, a summary of fixed assets register to the financial statements for the year under review reflects total fixed assets of Kshs.19,979,043, which have not been insured, contrary to Section 36 (3) of the National Government Constituencies Development Fund Act, 2015.

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 comply, 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, risk management, and governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability 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 effectively.

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 based on 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 comply with the authorities that govern them and that public resources are applied effectively, 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 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 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 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.
- 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 continue as a going concern or 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

01 October, 2021