

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Kigumo Constituency set out on pages 8 to 49, 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 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 the National Government Constituencies Development Fund - Kigumo 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 National Government Constituencies Development Fund Act, 2015.

### **Basis for Qualified Opinion**

#### **1. Erroneous Net Liabilities**

The statement of assets and liabilities reflects total financial assets of Kshs.60,376,499 and Nil liabilities as at 30 June, 2019. However, contrary to the reporting guidelines issued by the Public Sector Accounting Standards Board, the statement reflects erroneously net liabilities of Kshs.60,376,499 instead of net financial position of the same amount.

Consequently, the state of assets and liabilities contravenes the prescribed format of preparation and presentation of the statement.

#### **2. Other Grants and Transfers**

##### **2.1 Variances in Bursary to Needy Students**

Disclosed under Note 7 to the financial statements is other grants and transfers payments of Kshs.37,750,611 which includes Kshs.9,834,500 and Kshs.18,635,250 for bursary-secondary schools and bursary-tertiary institutions, respectively. However, the list of beneficiaries presented for audit reflected bursary disbursements of Kshs.13,708,500 compared to the total recorded amount of Kshs.28,469,750, resulting to unexplained difference of Kshs.14,761,250.

Further, the bursary disbursements were not supported with acknowledgement letters or receipts from the schools and institutions to confirm receipt of the bursaries. In addition, some of the beneficiaries were issued with several bursary awards thus denying bursary, other needy applicants.

Consequently, the validity and accuracy of the other grants and transfers of Kshs.37,750,611 could not be confirmed.

## **2.2 Unsupported Education Day Expenditure**

Disclosed under Note 7 to the financial statements is other grants and transfers payments of Kshs.37,750,611 which includes expenditure of Kshs.6,600,000 on emergency projects, out of which an amount of Kshs.862,250 was incurred in respect of Kigumo Education day held on 15 March, 2019.

The expenditure was based on a budget to cater for sitting arrangement, meals, subsistence allowance, publicity, trophies/certificates and entertainment during the function. However, relevant expenditure returns were not provided for audit review. Further, the expenditure appears unrelated to the ordinary activities of the CDF.

As a result, the regularity and validity of the expenditure of Kshs.6,600,000 incurred on emergency projects 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 - Kigumo 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**

#### **Budgetary Control and Performance**

The summary statement of appropriation - recurrent and development reflects final receipts budget and actual on comparable basis of Kshs.190,632,447 and Kshs.183,552,447 respectively resulting to an under-funding of Kshs.7,080,000 or 4% of the budget. Similarly, the Fund spent Kshs.123,175,948 against an approved budget of Kshs.190,632,447 resulting to an under-expenditure of Kshs.67,456,499 or 35% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Kigumo 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 section 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. Transfers to Other Government Units

#### 1.1 Transfers to Primary Schools

Disclosed under Note 6 to the financial statements is transfers to other government units of Kshs.61,417,027 which include expenditure of Kshs.32,917,027 in respect of transfers to primary schools, out of which disbursements totalling Kshs.9,017,027 were for eight (8) projects during the year ended 30 June, 2019.

Physical verification of the projects revealed poor workmanship in construction and renovation of classrooms as indicated in the table below:

	<b>Project's Name</b>	<b>Amount Disbursed (Kshs.)</b>	<b>Activity</b>	<b>Remarks</b>
1.	Kairitu primary school	1,000,000	Construction of 1 no. classroom	The classroom not in use, visible cracks on the wall and floor and the drainage works not done hence waterlogging.
2.	Njogu-ini primary school	1,017,027	Construction of 2 classrooms	Poor painting works, roof leaking, visible cracks on the floor, wall and verandah.
3.	Muiria primary school	500,000	Renovation of 6 Classroom, floor, metal doors, verandah, paint, roofing, windows, window panes, doors wall, plastering, flooring, fascia board and bag washing	Incomplete patches on the floor, poor fascia board, painting and leaking roof.

	<b>Project's Name</b>	<b>Amount Disbursed (Kshs.)</b>	<b>Activity</b>	<b>Remarks</b>
4.	Kiugu primary school	1,000,000	construction of 2 no block of toilets of 6 cubicles to completion	One of the toilets blocks had a huge gapping/visible cracks on the walls.
5.	Gakuyu primary school	1,000,000	Construction of 1 no. classroom	The walls and the floor had cracks, the verandah part of the slab had cracks and painting was poorly done.
6.	Kinyona primary school	600,000	Construction of 1.no blocks of toilet of 6 cubicles for boys	Visible cracks on the walls and verandah.
7.	Kiahiti primary school	2,900,000	Completion of admin block and of 2.no classrooms	visible cracks noted on the floor and walls, a sign of poor workmanship.
8.	Irigiro primary school	1,000,000	Construction of 2 no block of toilets of 6 cubicles to completion	Visible cracks and gapping on the walls
	<b>Total</b>	<b>9,017,027</b>		

As a result, value for money of the expenditure of Kshs.9,017,027 incurred on the projects during the year ended 30 June, 2019 could not be confirmed.

## **1.2 Poor Workmanship in Completion of Laboratory at Mugumo-ini Secondary School**

Disclosed under Note 6 to the financial statements is transfer to other government entities of Kshs.61,417,027 which includes Kshs.28,500,000 in respect of transfer to secondary schools, out of which an amount of Kshs.1,000,000 was disbursed to Mugumo-ini secondary school for completion of science laboratory phase 2 and installation of fittings.

However, procurement records including tender opening, evaluation and award minutes were not presented for audit review. Further, physical inspection of the project revealed that the walls and the floor had visible cracks, and poorly done black board.

As a result, the value for money of the expenditure of Kshs.1,000,000 incurred on the laboratory project during 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 that, nothing has come to my attention to cause me to believe that internal controls, risk management and 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 aware of the intention to terminate 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 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 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**

**05 November, 2021**