

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KIRINYAGA CENTRAL 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 - Kirinyaga Central Constituency set out on pages 17 to 51, 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 - Kirinyaga Central 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Un-utilized Funds

Note 17.3 and Annex 3 to the financial statements reflect a comparative balance of Kshs.37,499,754 with respect to unutilized funds. However, the summary statement of appropriation - recurrent and development combined reflects budgetary adjustments of Kshs.38,142,919 representing the unutilized funds in the previous year resulting into an unreconciled and unexplained variance of Kshs.643,165

In the circumstances, the accuracy of the budgetary adjustments of Kshs.38,142,919 could not be confirmed.

2.0 Cash and Cash Equivalents - Stale Cheques

The statement of assets and liabilities and Note 10A to the financial statements reflect cash and cash equivalents balance of Kshs.3,206,133 as at 30 June, 2020. However, the bank reconciliation statement for the month of June, 2020 reflected unrepresented cheques of Kshs.502,446 of which cheques for Kshs.6,976 were already stale.

In the circumstances, the accuracy of the reported cash and cash equivalents balance of Kshs.3,206,133 as at 30 June 2020, 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 - Kirinyaga Central 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 combined reflects a final receipts budget and actual receipts on comparable basis of Kshs.175,516,643 and Kshs.106,135,919 respectively, resulting into an under-funding of Kshs.69,380,724 or 40% of the budget. Similarly, the Fund expended Kshs.175,516,643 against an approved budget of Kshs.102,936,786 resulting to an under-expenditure of Kshs.72,579,857 or 41% of the budget.

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

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 on 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

1.0 Delayed Completion of Projects

The project implementation status report as at 30 June, 2020 provided for audit, indicated that thirty-eight (38) projects with a combined budget of Kshs.187,318,873 were budgeted to be implemented during the year under review. However, eighteen (18) projects with a combined budget of Kshs.52,809,724 were still ongoing at the end of the financial year.

Delayed completion of projects denied the residents of Kirinyaga Central Constituency the benefits that would have accrued from the projects and might also lead to cost escalations.

2.0 Transfers to Other Government Entities

2.1 Transfers to Primary Schools

Note 6 to the financial statements reflects transfers of Kshs.43,350,000 to other government entities which includes transfers of Kshs.29,400,000 to primary schools. The following observations were made regarding the transfers.

2.1.1 Kamuiru Primary School

An amount of Kshs.4,250,000 was transferred to Kamuiru Primary School for renovation and repair of classrooms of which Kshs.140,000 was meant for drainage works on five (5) classrooms. However, audit inspection in December, 2020 revealed that the drainage works for three (3) classrooms had not been done. In addition, the renovated classrooms had cracks indicating poor workmanship.

2.1.2 Kiaga Primary School

Kshs.2,520,000 was transferred to Kiaga Primary School for completion of the School Facelift of which Kshs.86,400 was for a standard special purpose welded mild steel door complete with hinges, stays, fasteners, 75mm high permanent vent mosquito gauze and steel metal hood as provided for in the bill of quantities. However, audit inspection in December, 2020 revealed that the stays, fasteners and the 75mm high permanent vent mosquito gauze had not been done. In addition, 50pcs, 100mm long tower bolts to be fixed on classroom doors at a cost of Kshs.12,320 as provided for in the bill of quantities had not been fixed at the time of audit inspection in December, 2020.

In the circumstances, value for money for the amounts transferred for the projects in the two (2) primary schools could not be confirmed.

2.2 Transfers to Secondary Schools

Note 6 to the financial statements reflects Kshs.43,350,000 with respect to transfers to other government entities of which Kshs.5,950,000 was transferred to secondary schools. The following observations were made regarding the transfers.

2.2.1 Gathuthuma Secondary School

An amount of Kshs.5,250,000 was transferred to Gathuthuma Secondary School for construction of a laboratory. However, audit inspection in December, 2020 revealed that the roof was leaking and the chip board had been spoilt by rain water. In addition, the laboratory benches supplied were not firmly fixed indicating poor workmanship.

2.2.2 Kirimunge Secondary School

An amount of Kshs.700,000 was transferred to Kirimunge Secondary School for the construction of a Storey Science Laboratory. However, audit inspection of the Project in December, 2020 revealed that works valued at Kshs.34,500 in the bill of quantities were not done as detailed below:

No.	Details as per Bill of Quantities	Amount (Kshs.)
1	Mosquito wire gauze on all windows	8,500
2	140mm half round gutter	12,000
3	140mm diameter approved plastic brackets	1,500
4	Fixing of closed ends to gutters	1,000
5	100mm diameter downpipe with brackets to wall	9,600
6	100mm diameter spigot outlet	1,600
7	Swan neck & rainwater shoe	300
	Total	34,500

In the circumstances, value for money for the expenditure on the Projects in the two (2) secondary schools could not be confirmed.

3.0 Irregular Payment of Sitting Allowances

Note 5 to the financial statements reflects Kshs.8,122,295 with respect to use of goods and services which includes Kshs.4,257,000 with respect to committee allowances of which sitting allowances amounting to Kshs.92,000 were paid to five (5) individuals who were not members of the National Government Constituencies Development Fund Committee and whose role in the monitoring and evaluation process was not explained during the audit.

It could therefore not be confirmed that the expenditure was incurred in a way that is lawful and authorized; effective, efficient, economical and transparent as required under Section 68(1) of the Public Finance Management Act, 2012.

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 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 continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless Management is aware of 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 follow 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 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 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 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 as a going concern or 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

17 December, 2021