

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KITUI EAST 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 - Kitui East Constituency set out on pages 8 to 41, 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 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 - Kitui East 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. Inaccuracy of Unutilized Funds

The summary statement of appropriation: recurrent and development combined reflects unutilized fund balance on transfers to other government entities of Kshs.58,020,000. However, Note 15.3 to the financial statements reflects an amount of Kshs.59,220,000 on the same account resulting to a variance of Kshs.1,200,000. Although Management explained that the variance resulted from duplicate payments made to two (2) primary schools, supporting documents to evidence refunds were not made available.

Consequently, the accuracy of the unutilized fund balance on transfers to other government entities of Kshs.58,020,000 as at 30 June, 2019 could not be confirmed.

2. Net Liabilities

The statement of financial assets and liabilities reflects total financial assets balance of Kshs.22,287,643 and nil total financial liabilities as at 30 June, 2019. However, contrary to the guidelines issued by the Public Sector Accounting Standards Board, the statement of financial assets and liabilities shows at the bottom net liabilities instead of net financial position of Kshs.22,287,643. No explanation was given for this anomaly.

3. Unsupported Prior Year Adjustments

The statement of assets and liabilities includes an amount of Kshs.1,200,000 described as prior year adjustments and as disclosed under Note 14 to the financial statements. However, no disclosure has been included on the nature and basis for prior adjustments contrary to paragraph 54 of IPSAS 3.

Consequently, it has not been possible to ascertain the validity of the prior year adjustments of Kshs.1,200,000 and the accuracy of the statement of assets and liabilities as at 30 June, 2019.

4. Inaccuracies in the Fixed Assets

Annex 4 to the financial statements discloses historical cost of fixed assets of Kshs.11,829,271;(2018-Kshs.9,829,271) indicative of additions in the year of Kshs.2,000,000. However, the statement of receipts and payments reflects nil expenditure on acquisition of assets during the year. Further, the asset register presented in support of the balance reflects a cost of Kshs.12,861,913 resulting to an unexplained difference of Kshs.1,032,642.

In the circumstances, the accuracy of the disclosed fixed assets balance of Kshs.11,829,271 as at 30 June, 2019 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 - Kitui East 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. Budget Control and Performance

The summary statement of appropriation: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.174,833,296 and Kshs.114,792,421 respectively resulting to an under-funding of Kshs.60,040,876 or 34% of the budget. The underfunding affected the planned activities and projects which may have impacted negatively on service delivery for the constituents of Kitui East.

Further, out of the actual receipts amount of Kshs.114,792,421 only Kshs.93,704,778 was absorbed resulting to an under absorption of Kshs.21,087,643 or 18 % of the actual receipts.

No satisfactory explanations have been rendered contrary to the values and principles of public service as provided for under Article 232 (1– c) of the Constitution which requires responsive, prompt, effective, impartial and equitable provision of services.

In the circumstances, the constituents have not received the services as planned.

2. Project Implementation Status

A review of the project implementation status report as at 30 June 2019 indicated that ninety (90) projects with a funding allocation of Kshs.169,446,555 were at different implementation statuses as detailed out below: -

Project Status	Count	Amount (Kshs.)
Complete and in use	35	95,626,555
Incomplete-Ongoing	27	29,600,000
Not started	28	44,220,000
Total	90	169,446,555

Thirty-five (35) projects with a budget of Kshs.95,626,555 were complete and in use, while fifty-five (55) projects with funding allocation Kshs.73,820,000 were either incomplete and ongoing or not started.

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 of Conclusion

1. Unsatisfactory Project Implementation

A review of the project implementation status report as at 30 June 2019 indicated that ninety (90) projects with funding allocation of Kshs.169,446,555 were scheduled for implementation for the year under review. However, out of the total, nine (9) projects with funding allocation of Kshs.15,008,750 were sampled for verification during the month of March, 2020. The following observations were made for the specific projects: -

Project Beneficiary and Details	Cost (Kshs.)	Observations
Kyululu Secondary School - Construction of classroom	800,000	Signage and branding not done while letters of regret to unsuccessful bidders were not made available.

Project Beneficiary and Details	Cost (Kshs.)	Observations
Ngaaka Yakwa Mixed Secondary School - Construction of two (2) class rooms	1,600,000	Signage and branding not done while letters of regret to unsuccessful bidders not availed.
Ngaaka Yakwa Mixed primary School - Renovation of two (2) classrooms	600,000	Signage board and branding not done.
Matia primary school- Renovation of three (3) class rooms and supply of twenty-five (25) desks	1,050,000	Signage board and branding not done
Malatani Mixed Secondary School - Construction of two (2) class rooms	1,600,000	Signage board and branding not done, window sills costing Kshs.7,000 were not installed.
Ngelani primary school -Renovation of two (2) class rooms	900,000	Signage board and branding not done
Tiko Primary School -Renovation of two (2) class rooms	600,000	Signage board and branding not done while cracks had started to appear on the walls.
Kabati Secondary School - Construction of two (2) class rooms	1,600,000	Signage board and branding not done while cracks had started to appear on the walls. Contract agreement and completion certificate not availed for audit review.
Construction of Matia Administration Police Line - Construction of four (4) rooms office and two (2) door latrines	1,500,000	Office rooms were not fully completed while the construction of the pit latrines had not started. PMC bank balances and bills of quantities (BQ) were not availed.
Total	15,008,750	

No satisfactory explanations were rendered for the deficiencies in implementation of the projects.

Consequently, value for money from the unsatisfactorily implemented projects valued at Kshs.15,008,750 for the year ended 30 June, 2019 could not be ascertained.

2. Excessive Project Administration Costs on Sports

Note 7 to the financial statements discloses expenditure on sports of Kshs.1,700,421 of which Kshs.169,000, representing approximately 10% of the total was used in administration of the sports projects. This is contrary to Section 9 of National Government Constituencies Development Fund Act, 2015 which limits project administration costs not to exceed 5% of the project allocation.

To that extent, the Fund is in breach of the law.

3. Irregular Recruitment of a Driver

The Fund recruited a driver in the year 2018 who has been idle since then, as the Fund did not have an operational motor vehicle. In the circumstances, value for money has not been realized from the employee costs being incurred on the driver whilst idle.

4. Grounded and Vandalized Vehicle

Included in the historical cost of fixed assets disclosed at Annex 4 to the financial statements is a motor vehicle acquired in the year 2009 at a cost Kshs.3,285,000. However, the vehicle has been grounded since February, 2015 at the Deputy County Commissioner's parking yard despite having incurred repair costs of Kshs.619,440 in December, 2014. Available information indicates that the vehicle has been vandalized. No explanation was rendered on why the vehicle was grounded soon after the repairs and actions being taken to deter further vandalism.

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, 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 going concern basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operation.

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 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 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 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 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

01 October, 2021