

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund - Kitui South Constituency set out on pages 11 to 51, 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, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund - Kitui South 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 the Public Finance Management Act, 2012.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Kitui South 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

1. Budget Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual receipts on comparable basis of Kshs.256,269,379 and Kshs.201,228,503 resulting into an underfunding of Kshs.55,040,876 or 21% of the budget. Similarly, the Fund expended Kshs.161,645,714 against an approved budget of Kshs.256,269,379 resulting into an under-expenditure of Kshs.94,623,665 or 37% of the budget.

The underfunding and failure to implement all the planned activities and projects may have impacted negatively on service delivery for the constituents of Kitui South.

2. Unresolved Prior Year Audit Matters

As disclosed under the progress on follow up of auditor recommendations section of the financial statements, some of the prior year audit issues remained unresolved as at 30 June, 2019. Management has not provided satisfactory reasons for the delay in resolving the issues.

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. Projects Implementation

1.1 Delayed Implementation of Projects

As at the time of audit in February, 2020, ten (10) projects budgeted for implementation in the 2018/2019 financial year and with a funding allocation of Kshs.10,400,000 were still ongoing while implementation of another ten (10) projects with a funding allocation of Kshs.14,200,000 had not commenced.

1.2 Poor Workmanship and Unoccupied Ndakani Chief's Office

The Fund incurred Kshs.200,000 for completion of the Ndakani Chief's Office, with the scope entailing electrical installation, fixing of doors and windows and painting of three (3) rooms. This was in addition to the previous allocation of Kshs.300,000 towards walling and roofing of the Office. However, audit inspection of the Project in February, 2020, revealed that the Office had not been put into use due to poor workmanship in the painting works despite having been substantially completed.

1.3 Unused Project Kanziko Secondary School

The Fund paid out Kshs.1,500,000 towards the construction of the dining hall at Kanziko Secondary School. However, audit inspection carried out in February, 2020 revealed that the facility had not been put to the intended use due to lack of sitting benches and kitchen jikos. Evidence of the measures put in place to put the facility to use was not provided.

1.4 Incomplete Project at Ikutha Sub-County DCC Office

The Fund spent Kshs.2,500,000 for the construction of an office block at Ikutha Sub-County DCC Office. However, audit inspection of the project in February, 2020 revealed that the plumbing works had not been done because it was omitted in the bill of quantities. Evidence of how the matter would be resolved was not provided.

1.5 Abandoned Innovation Hubs Project

The Fund entered into a contract with Telkom Kenya in May, 2019 for the development of Constituency Innovation Hubs at a contract price of Kshs.4,677,027. The scope of the contract entailed installations at four (4) sites. However, as at 30 June, 2019, installation had been done at only one (1) site and Kshs.1,169,257 had been paid. As at the time of the audit, the project was reported to have been abandoned due to security challenges, overlooking and space unavailability. It was further noted that the remaining funds had been reallocated to other projects.

In view of the foregoing, it has not been possible to confirm effective use of public resources and whether value for money would be realized from the abandoned projects.

2. Idle Bank Balances

The statement of assets and liabilities reflects bank balances of Kshs.39,582,78 (2018-Kshs.91,462,468) which as disclosed under Note 9 to the financial statements, included a balance is Kshs.6,693,227 held in a bank account operated with a local bank. Additional information indicated that the amount was held due to a court case dating as far back as 2011/2012 financial year and which terminated in 2015. No satisfactory explanation was provided why the funds remained unutilized despite the case having been resolved.

In the circumstances, effective utilization of resources could not be established.

3. Grounded Motor Vehicles

Note 11.2 to the financial statements and the summary of fixed asset register at Annex 2 reflect a historical cost balance of Kshs.30,155,277 (2018 - Kshs.28,986,020) for fixed assets. Included in the transport equipment balance of Kshs.9,750,212 was Kshs.2,907,400 and Kshs.5,700,000 relating to a Toyota Double Cab-pick-up and a Land Rover Defender Station Wagon, respectively. However, audit inspection of the vehicles in February, 2020, revealed that the two (2) vehicles had been grounded due to mechanical breakdown and no evidence of the efforts to repair the vehicles was provided.

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 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 misstatements, 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 services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the Management is aware of intention to either 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 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 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 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 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

12 November, 2021