

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KITUI WEST 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 - Kitui West Constituency set out on pages 20 to 75 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 - Kitui West 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 the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Use of Unapproved Rates for Domestic Travel and Subsistence Allowances

The statement of receipts and payments reflects Kshs.7,159,514 with respect to use of goods and services which as disclosed at Note 5 to the financial statements, includes Kshs.445,075 incurred on domestic travel and subsistence. Review of the supporting documents for the payments revealed that daily subsistence allowances were paid using rates determined by the Constituency Development Fund Committee. However, the approval of the rates by the Salaries and Remuneration Commission was not provided for audit.

In the circumstances, the regularity of the expenditure of Kshs.445,075 incurred on domestic travel and subsistence allowances 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 - Kitui West 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 receipts budget and actual receipts on comparable basis of Kshs.203,894,628 and Kshs.134,526,905 respectively, resulting into an underfunding of Kshs.69,367,723 or 34%. Further, expenditure amounting to Kshs.129,992,809 was incurred during the year against a budget of Kshs.203,894,628 resulting into an under-expenditure Kshs.73,901,819 or 36% of the approved budget.

Failure to receive the budgeted funds from the Board and the resultant under-expenditure implies that some of the budgeted projects and programmes were not implemented thereby denying effective services to the constituents.

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. Delay in Implementation of Projects

One hundred and forty-five (145) projects with a combined budget of Kshs.87,273,074 were planned for implementation during the year. However, one hundred and one (101) projects with a combined allocation of Kshs.49,474,709 had not commenced.

Delay in implementation of projects hinders effective service delivery to the residents and may lead to cost escalations.

2. Implementation of Emergency Projects

The statement of receipts and payments reflects other grants and transfers of Kshs.60,089,303 which as disclosed at Note 7 to the financial statements, includes payments of Kshs.5,540,815 on emergency projects. Review of the project implementation documents and audit inspection of the emergency projects revealed the following anomalies:

2.1 Construction of a Classroom at Mwatate Primary School

The Fund disbursed Kshs.800,000 for construction of one classroom to completion at Mwatate Primary School. However, it was noted that, the School did not have a title deed for the land in which the project was implemented. In absence of ownership documents for the land, value for money for the expenditure on the projects could not be confirmed.

2.2 Supply of Hand washing Tanks and Water Tanks

The Fund disbursed Kshs.266,000 for the supply, branding and delivery of hand wash tanks complete with tap stand and a basin and Kshs.796,875 for the supply of 250-litre hand washing tanks to curb the spread of Covid-19. However, the suppliers were identified through the direct procurement method in spite of the fact that the conditions for use of the method as provided under under Section 103 of Public Procurement and Asset Disposal Act, 2015 had not been met. In addition, Management did not provide any evidence that the tanks were received in the stores and on how the hand wash tanks and the water tanks were distributed.

In the circumstances, it has not been possible to confirm that value for money was realized from the expenditure of Kshs.266,000 and Kshs.796,875 incurred on procurement of hand washing tanks and water tanks, respectively.

3. Contract for Completion of a Dormitory at Kauma Secondary School

The statement of receipts and payments reflects transfers of Kshs.55,905,393 to other government units which as disclosed at Note 6 to the financial statements included transfers of Kshs.28,350,000 to secondary schools of which an amount of Kshs.2,500,000 was disbursed for completion of a 200-student capacity dormitory at

Kauma Secondary School. The project was indicated to have been completed and the contractor paid the full contract sum. However, audit inspection in February, 2021 revealed that painting works valued at Kshs.52,000 and flooring and tiling works costing Kshs.346,400 which were part of the awarded bill of quantities had not been done. No explanation was provided for the omissions.

4. Implementation of Security Projects

The statement of receipts and payments reflects other grants and transfers of Kshs.60,089,303 which as disclosed at Note 7 to the financial statements, includes disbursements of Kshs.8,700,000 for security projects. However, review of documents and audit inspection of the projects revealed the following anomalies:

4.1 Lack of Land Ownership Documents

Funds totaling to Kshs.2,000,000 were disbursed for implementation three (3) security projects namely; Completion of a Four-room Office at Katheka Assistant Chief's Office, completion of a Three-room Office at Kangii Assistant Chief's Office and Completion of a 300-people Capacity Social Hall at Kwa Mutonga Chief's Office at a cost of Kshs.1,000,000, Kshs.500,000 and Kshs.500,000 respectively. However, title deeds for the parcels of land on which the three projects were implemented was not provided for audit.

In absence of title deeds, the sustainability of the benefits from the projects could not be confirmed.

4.2 Stalled Construction of Administration Block at Ndolo's Police Station

An amount of Kshs.3,066,349 was released to the Project Management Committee for the construction of an Administration Block at Ndolo's Police Station on 21 June, 2019 and the contract awarded on 23 September, 2019. However, audit inspection in February, 2021 revealed that the Project had stalled at foundation level. No explanation was provided for the stalled project and the measures in place to ensure its completion.

In the circumstances, it was not possible to confirm if and when value for money would be realized from the expenditure of Kshs.3,066,349 incurred on the project.

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 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 the 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 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 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 noncompliance. 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