

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NORTH HARR 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 - North Horr Constituency set out on pages 22 to 54, which comprise of the statement of assets and liabilities as at 30 June, 2020, 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 matter 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 - North Horr Constituency as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with the 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

1. Inaccuracies in Bank Balances

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities reflects bank balances totalling to Kshs.6,666,261. The bank reconciliation statement reflected unpresented cheques totalling to Kshs.1,342,333 which further included stale cheques amounting to Kshs.748,139. However, the cheques were not replaced or reversed in the cashbook.

Consequently, the accuracy, completeness and validity of the bank balances totalling to Kshs.6,666,261 reflected in the statement of assets and liabilities as at 30 June, 2020 could not be confirmed.

2. Inaccuracies in Unutilized Fund

Note 17.3 to the financial statements reflects nil Unutilized Fund comparative balance. However, Annex 3 to the financial statements reflects Unutilized Fund comparative balance totalling to Kshs.33,028,994. Further, the Annex reflects on comparative

balances two (2) items that were at variance with the 2018/2019 closing balances as detailed below:

Item Description	Comparative Balance in Annex 3 (Kshs)	Audited Balances in 2018/2019 (Kshs)	Variance (Kshs)
Compensation of Employees	741,932	790,882	48,950
Use of Goods and Services	871,589	822,639	48,950

In addition, Annex 3 reflects Unutilized Fund balance totalling to Kshs.69,367,724 as at 30 June, 2020 whereas, the summary statement of appropriation - recurrent and development combined reflects a total of Kshs.76,033,985 on comparable basis resulting to a variance amounting to Kshs.6,666,261. The errors and variances were not corrected or explained.

Consequently, the accuracy, completeness and validity of the Unutilized Fund opening balance totalling to Kshs.33,028,994 as at 30 June, 2019 and closing balance totalling to Kshs.69,367,724 as at 30 June, 2020 could not be confirmed.

3. Inaccuracies in Committee Bank Balances

Disclosure 17.4 reflects nil balances in respect to Project Management Committee bank balances as at 30 June, 2020 and the comparative balance. However, Annex 5 to the financial statements reflects a total of Kshs.2,516,935 and Kshs.10,316 for Project Management Committee bank balances as at 30 June, 2020 and the comparative balance respectively, resulting to unexplained variances of the same amounts. In addition, a recast of Annex 5 comparative balances resulted to an amount of Kshs.2,537,817 resulting to an unexplained variance amounting to Kshs.2,527,501.

Consequently, the accuracy, completeness and validity of the nil Project Management Committee bank balances as at 30 June, 2020 could not be confirmed.

4. Unsupported Project Implementation Status Report

As disclosed in Note 6 and 7 to the financial statements, the statement of receipts and payments reflects transfers to other Government Units totalling to Kshs.16,201,461 and other grants and other payments totalling to Kshs.69,726,403 both totalling to Kshs.85,927,864 which was disbursed to various institutions to implement projects during the year ended 30 June, 2020. However, the project implementation status report was not provided.

In the circumstances, it has not been possible to ascertain the implementation status of projects totalling to Kshs.85,927,864 for the year ended 30 June, 2020.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - North Horr 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. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis totalling to Kshs.172,713,847 and Kshs.103,346,123 respectively, resulting to an under-funding amounting to Kshs. 69,367,724 or 40% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.172,713,847 and Kshs.108,055,559 respectively, resulting to an under expenditure amounting to Kshs.76,033,986 or 44% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates for the year ended 30 June, 2020.

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. Non-compliance with the Public Sector Accounting Standards Board Requirements

The statement of receipts and payment, statement of cash flows and the summary statement appropriation do not indicate that they are for the “year ended 30 June, 2020” while the statement of assets and liabilities does not indicate that it is “as at 30 June 2020” Further, the Management did not prepare the separate statement of appropriation for recurrent and development. This is contrary to the requirements of the Public Sector Accounting Standards reporting template issued by the Board in June, 2020.

In the circumstances, the presentation of the financial statements for the year under review is not in accordance with the prescribed PSASB format.

2. Unsatisfactory Implementation of Projects

2.1. Helmer Primary School

The Management paid an amount of Kshs.1,500,000 to a contractor for fencing and building a gate at Helmer Primary School. The fence was to include a 14-gauge chain-link with six (6) strands of galvanized barbed wire as per the bill of quantities. However, physical verification of the project in November, 2020 revealed that four (4) strands of barbed wire were fixed. No explanation was given for the two strands of barbed wire which was paid as part of the whole contract sum but was not fixed.

2.2. Gas Primary School

The Management paid an amount of Kshs.1,600,000 to a contractor for wiring and solar installation at Gas Primary School. However, the School Management confirmed that prior to the funding by the Fund, the Ministry of Education had installed the solar panels. The funding by the Fund therefore resulted to double funding of the institution for the same project. Further, the batteries and solar panels in the girls’ dormitory were not functioning and no evidence from the Management of the action to rectify the same was provided.

2.3. Bishop Cavallera Primary School

The Management paid an amount of Kshs.916,978 to a contractor for fencing and building a gate at Bishop Cavallera Primary School. According to the bills of quantities, the fence was to be constructed using metallic post painted with red-oxide primer and two finishing coats of high gloss quality paint and was to cover a distance of five hundred (500) meters. However, physical verification carried out in November, 2020 revealed that only three

hundred and ninety-three (393) meters were done and the metallic posts were not painted.

2.4. North Horr Technical and Vocational College

The Management disbursed an amount of Kshs.500,000 to North Horr Technical and Vocational College School committee for supply and delivery of twenty (20) double decker beds and forty (40) mattresses of three feet by four inches. However, physical verification in November, 2020 revealed that out of the forty (40) mattresses supplied, twelve (12) were of lower density of three feet by three inches.

Consequently, the propriety and value for money for the expenditure totalling to Kshs.4,516,978 for the year ended 30 June, 2020 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 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 applicable basis of accounting unless Management is aware of the 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 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 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

18 November, 2021