

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NDIA 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 - Ndia Constituency set out on pages 14 to 51, 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 - Ndia 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 the Summary Statement of Appropriation

The summary statement of appropriation - recurrent and development combined reflects Kshs.364,245,501 on three (3) items while re-computation of the same balances gave Kshs.366,645,501 resulting to an unexplained variance amounting to Kshs.2,400,000 as shown below:

Description	Summary statement of Appropriation Balance (Kshs.)	Recomputed Balance (Kshs.)	Variance (Kshs.)
Total adjustments (Payments)	75,721,469	76,521,469	800,000
Final Budget (Payments)	213,152,193	213,952,193	800,000
Budget utilization (Payments)	75,371,839	76,171,839	800,000
Total			2,400,000

Further, the financial statements did not include separate development and recurrent summary statements of appropriation.

In the circumstances, the accuracy, completeness and validity of balances reflected in the summary statement of appropriation for the year ended 30 June, 2020 could not be confirmed.

2. Unsupported Fuel

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services amounting to Kshs.7,168,990. The balance includes, under routine maintenance - vehicles and other transport equipment, an amount of Kshs.1,455,929 paid to a firm for supply of fuel, oil and lubricants. However, supporting documents including suppliers' statements, fuel registers, and requisition from the user department were not provided.

In the circumstances, the accuracy, completeness and validity of the expenditure totalling to Kshs.1,455,929 for the year ended 30 June, 2020 could not be confirmed.

3. Unsupported Refurbishment of the Fund Offices

As disclosed in Note 8 to the financial statements, the statement of receipts and payments reflects acquisition of assets totalling to Kshs.1,150,000 which relates to refurbishment of buildings which was carried out in the Fund's Office during the financial year. However, Engineers Estimates, Completion Certificates and Inspection and Acceptance Committee Certificate were not provided.

In the circumstances, the accuracy, completeness and validity of the acquisition of assets totalling to Kshs.1,150,000 for the year ended 30 June, 2020 could not be confirmed.

4. Inaccuracies in Committee Bank Balances

As reported in the previous year, Note 17.5 to the financial statements reflects Project Management Committee (PMC) account balances totalling to Kshs.11,629,877 as further, disclosed in Annex 5. However, the 2018/2019 financial statements reflected a re-casted balance of Kshs.8,101,940 resulting to an unreconciled variance amounting to Kshs.3,527,937. In addition, re-casting of the comparative balance in the 2019/2020 financial statements for the same item reflects an amount of Kshs.9,478,392 resulting to an unexplained variance amounting to Kshs.1,376,452.

In the circumstances, the accuracy, completeness and validity of the comparative balances totalling to Kshs.11,629,877 for the year ended 30 June, 2020 could not be confirmed.

5. Inaccuracies in Unutilized Funds

Note 17.3 to the financial statements reflects unutilized fund 2018/2019 comparative balance totalling to Kshs.67,186,578. However, the summary statement of appropriation - recurrent and development combined reflects Kshs.75,721,469 in respect to adjustments for the year being the unspent funds in the previous year resulting to an unreconciled and unexplained variance of Kshs.8,534,891.

In addition, the same Note reflects unutilized funds amounting to Kshs.75,371,839 for the year under review which includes use of goods and services amount of Kshs.9,071,060. However, the summary statement of appropriation - recurrent and development combined reflects an amount of Kshs.9,871,060 in respect budget utilization difference which relates

to unutilized funds for the year under review resulting to an unreconciled variance amounting to Kshs.800,000.

In the circumstances, the accuracy, completeness and validity of the unutilized funds totalling to Kshs.75,371,839 for the year ended 30 June, 2020 could not be confirmed.

6. Unsupported Project Implementation Status Report

As disclosed in Note 6 and Note 7 to the financial statements, the statement of receipts and payments reflects transfers to other government entities amount of Kshs.81,603,800 and other grants and other payments amount of Kshs.45,028,259 all totalling to Kshs.126,632,059 spent on project implementation during the year. However, the reflected attached lists in the Notes, supporting documents including funds disbursed, date of projects completion, location of the projects and total funds allocated per project for the 2019/2020 financial year were not provided.

In the circumstances, the accuracy, completeness and validity for the expenditure totalling to Kshs.126,632,059 as per the Report for the year ended 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 - Ndia 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.213,152,193 and Kshs.143,784,468 respectively, resulting to an under-funding of Kshs.69,367,725 or 33% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.213,152,193 and Kshs.137,780,354 respectively, resulting to an under expenditure of Kshs.75,371,839 or 36% 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 provided evidence supporting how the issues were resolved or given any explanation for failure to adhere to the provisions of the Public Sector

Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

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. Unsatisfactory Project Implementation - Upper Sagana Primary School

The Management transferred an amount of Kshs.2,700,000 to Upper Sagana Primary School for renovation of six (6) classrooms. However, a review of the bills of quantities and physical verification in December, 2020 revealed that work worth Kshs.52,650 was not done.

In the circumstances, the propriety and value for money of expenditure totalling to Kshs.52,650 in respect to renovation of classrooms for the year ended 30 June, 2020 could not be confirmed.

2. Unsatisfactory Project Implementation - Kianjege West Security Project

Management transferred an amount of Kshs.1,500,000 to Kianjege West Security Project for construction of exhaustible toilet and urinal to completion. However, review of the bill of quantities and project verification in December, 2020 revealed that the contractor used blue gum wood which was not treated instead of sawn first grade cypress wood treated with one coat of wood preservative at a cost of Kshs.97,600.

Further, structural drawings and architectural drawings and approvals by the relevant Government Departments were not provided.

In the circumstances, the propriety and value for money of expenditure totalling to Kshs.1,500,000 during 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 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

04 November, 2021