

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Othaya Constituency set out on pages 6 to 46, 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 - Othaya 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.

Basis for Opinion

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

Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects a final receipts budget and actual receipts on comparable basis of Kshs.182,552,319 and Kshs.127,511,443 respectively, resulting into an under-funding of Kshs.55,040,876 or 30% of the budget. Similarly, the Fund expended Kshs.111,228,996 against an approved

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budget of Kshs.182,444,319 resulting to an under-expenditure of Kshs.71,215,323 or 39% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery 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 for Conclusion

1.0 Transfers to Primary Schools

Note 6 to the financial statements reflects Kshs.44,780,000 in respect of transfers to primary schools of which Kshs.9,100,000 was disbursed for various projects. However, audit inspection of the projects revealed poor workmanship, delayed completion, incomplete works and other anomalies as described below:

Project Location	Project Details	Amount Disbursed (Kshs.)	Anomalies Observed
Gichichie Primary School	Construction of sixteen (16) modern toilets	1,500,000	Incomplete patches on the floor. Further, although the bills of quantities required flooring to have a red oxide mixture with mortar, red oxide was painted on the clear floor after completion instead. Paint in some sections of the floor had started peeling off.
Kariko Primary School	Renovation of ten (10) classrooms	1,500,000	Despite the works being complete, the floor had visible cracks and some sections were peeling off.
Mucharage Primary School	Renovation of eight (8) classrooms	1,500,000	Incomplete works on the floor and plastering of the walls, and visible cracks in some completed walls indicating poor workmanship.
Kihuri Primary School	Construction of sixteen (16) modern toilets	1,500,000	Incomplete painting works as only one coat was applied instead of the three provided for in the bills of

Project Location	Project Details	Amount Disbursed (Kshs.)	Anomalies Observed
			quantities. Further, ventilation of the toilets was poorly done
Kihome Primary School	Construction of sixteen modern toilets	1,500,000	Incomplete painting works on the verandah and poor drainage on the urinal section.
Gikurwe Primary School.	Fixing of doors, windows, plastering, painting and electrification	1,600,000	Incomplete works including painting, windows panes, bend doors and incomplete external wall finishes. In addition, the floor of upper verandah was not done and no barrier was in place. Further, the walls had visible cracks - a sign of poor workmanship.

In the circumstances, value for money on the expenditure could not be confirmed.

2.0 Security Projects

Included in the amount of Kshs.40,146,030 for other grants and other payments reflected under Note 7 to the financial statements, is an expenditure of Kshs.9,750,000 on security projects. The following anomalies were noted regarding the expenditure:

2.1 Unimplemented Security Projects

The expenditure includes Kshs.2,000,000 and Kshs.500,000 disbursed to Ruruguti AP Camp and Othaya Law Courts for completion of three (3) staff houses and purchase of furniture, respectively. However, despite the funds having been disbursed to the Project Management Committees' bank accounts, the projects had not been implemented. No explanation was provided for the delay in the implementation of the projects.

2.2 Unutilized Security Projects

The expenditure on security projects includes Kshs.1,500,000 and Kshs.700,000 disbursed to Mahiga Assistant County Commissioner and Karuthi AP Camp for construction of a staff house and completion of three (3) houses respectively. However, audit inspection in January, 2020, revealed that although the projects had been completed, none had been put to use. No satisfactory explanation was provided for failure to utilize the facilities.

2.3 Witima AP Lines Project

An amount of Kshs.1,400,000 was disbursed to Witima AP Lines for completion of three (3) staff houses. The works entailed roofing, plastering and flooring of the three (3) staff houses. However, audit inspection in January, 2020, revealed that the project was incomplete and appeared to have stalled, yet the funds had already been exhausted. The pavement, plumbing and sewerage works was incomplete and the contractor was not on site.

In view of the foregoing, value for money on the expenditure on the security projects could not be ascertained.

3.0 Stalled Projects

3.1 Construction of a Multipurpose Social Hall at Mumbui-ini Secondary School

Audit inspection in January, 2020, revealed that construction of a multipurpose social hall at Mumbui-ini Secondary School which was funded and initiated in 2015/2016 financial year had stalled. Records availed for audit indicated that the project received a total of Kshs.2,000,000. The walls of the social hall and verandah were not plastered, window panes were not fixed, roofing had no fissure board, and electrification and painting works were not done. No explanation was provided for failure to complete the works.

3.2 Construction of Modern Toilets at Mumbu-ini Primary School

According to the records availed for audit , the Fund Management incurred an expenditure of Kshs.1,500,000 in 2017/2018 financial year on construction of modern toilets at Mumbu-ini Primary School. Audit inspection of the project in February, 2020 revealed that the construction works had stalled and the contractor was not on site after carrying out works valued at Kshs.424,420. The toilet had been done up-to lentil level and had started to deteriorate.

A complaint letter dated 13 June, 2019 was issued by the School Head Teacher to the contractor for abandoning the site. Evidence of other measures taken by the School Management and the Fund Management to ensure completion of the project were not 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 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 governance.

In preparing the financial statements, Management is responsible for assessing the ability of the National Government Constituencies Development Fund - Othaya Constituency 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 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 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 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 ability of the Fund 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 sustaining 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

09 November, 2021