

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Rongai Constituency set out on pages 7 to 32, which comprise the statement of financial assets and liabilities as at 30 June, 2019, statement of receipts and payments, statement of cash flows and 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 effect 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 the National Government Constituencies Development Fund – Rongai 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

### **Basis for Qualified Opinion**

#### **1.0 Cash and Cash Equivalentents**

The statement of financial assets and liabilities reflects bank balance of Kshs.56,987,483;(2018-Kshs.5,972,891) and as disclosed under Note 10A to the financial statements. Included in this amount are unrepresented cheques totaling to Kshs.2,852,503 out of which stale cheques amounted to Kshs.271,432 had not been written back into the cash book.

Under the circumstances, the accuracy and fair statement of bank balance of Kshs.56,987,483 as at 30 June, 2019 could not be confirmed.

#### **2.0 Inaccuracy of Financial Statements**

A review of the statement of cash flows revealed casting errors. The recomputed total receipts less total payments amounted to Kshs.58,555,592 while the statement reflected Kshs.58,555,610. Further, the recomputed net increase in cash and cash equivalent amounted to Kshs.51,014,592 instead of Kshs.51,014,892 indicated in the financial statement.

In addition, the cash and cash equivalent at the end of the year should be Kshs.56,987,483 instead of Kshs.56,987,783 reflected in the statement of cash flows.

In the circumstances, the accuracy of the financial statements cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Rongai 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 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 final expenditure budget and actual on comparable basis of Kshs.169,014,067 and Kshs.112,810,765 respectively resulting to net under absorption of Kshs.56,203,301 or 33% of the budget.

Management has explained the delayed absorption to be as a result of funding amounting to Kshs.56,987,784 being received late in July, 2019.

The under absorption affected the planned activities and projects for the year which may have impacted negatively on service delivery for the residents of Rongai Constituency.

## **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. Incomplete Projects**

The project implementation status report as of 30 June, 2019 indicated that 48 projects with a funding allocation of Kshs.53,600,000 were at various completion statuses as detailed out below:-

<b>Project Status</b>	<b>Count</b>	<b>Fund Allocation (Kshs.)</b>
Complete and in use	23	23,500,000
Ongoing	19	23,800,000
Not Started	6	6,300,000
<b>Total</b>	<b>48</b>	<b>53,600,000</b>

The Fund Management attributed the delay in completing the twenty-five (25) projects to slow tendering processes and delayed disbursements from the NGCDF- Board. However, no measures have been put in place to deter its recurrence.

The delay in completing projects may have impacted negatively on service delivery to the residents Rongai Constituency.

## **2. Projects Completed But Not in Use**

Thirteen (13) projects with a funding allocation of Kshs.12,450,000 were sampled for verification during the month of February 2020 and the following observations were made:-

	<b>Project Name</b>	<b>Details</b>	<b>Cost (Kshs.)</b>	<b>Observations</b>
1	Kerma Primary School	Construction of an 8-door toilet to completion	400,000	Completed but not handed over
2	Kiamunyi Primary School	Construction of an 8-door toilet to completion	400,000	Casting of slab and floor done. Curing on plastered surfaces ongoing.
3	Lower Solai Primary School	Renovation of 3 classrooms to completion (roofing, plastering windows and dooring, floor)	1,300,000	Finishing level, curing on plastered surfaces ongoing.
4	Arus Primary School	Renovation of 4 classrooms to completion (roofing, plastering windows and dooring, floor)	1,000,000	Sub-structure level. Curing on slab ongoing.

	<b>Project Name</b>	<b>Details</b>	<b>Cost (Kshs.)</b>	<b>Observations</b>
5	Seet Kobor Primary School	Construction of a boy's dormitory to completion	2,000,000	Finishing level,
6	Lengenet Secondary School	Construction of 1 classroom	850,000	Completed but not handed over
7	Barina Secondary School	Completion of a twin laboratory	1,500,000	Complete but not handed over
8	Mangu Primary School	Construction of an 8-door toilet to completion	400,000	Complete and in use
9	Therando Primary School	Construction of an 8-door toilet to completion	400,000	Complete
10	Moricho Primary School	Construction of 2 classrooms to completion	1,700,000	Complete but not in use
11	Tumaini Primary School	Construction of 1 classroom to completion	850,000	Completed in use but not handed over
12	Rafiki Primary School	Construction of 1 classroom	850,000	Complete but not in use
13	Banita Chief's Office	Construction of Chief's office to completion	800,000	Curing on plastered surfaces done
	<b>Totals</b>		<b>12,450,000</b>	

No satisfactory explanation has been rendered for delays in handing over the completed projects for use.

Consequently, the constituents are not getting value for money with the continued delays in handing over of completed projects.

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 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 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 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 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 with limited assurance as to 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 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 judgment 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 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**

**23 December, 2021**