

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KAITI CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund - Kaiti Constituency set out on pages 23 to , which comprise 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 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 - Kaiti 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

1.0 Errors in Comparative Figures of the Financial Statements

Review of comparative figures reflected in the financial statements for the year ended 30 June, 2020 against the audited financial statements for 2018/2019 financial year revealed differences which were neither explained nor reconciled as shown in the table below:

Description	Opening Balances for (2019/2020) Financial Statements (Kshs)	Financial Statements (2018/2019) (Kshs)	Variance (Kshs)
Use of goods and services	10,845,383	13,316,383	2,471,000
Other grants and transfers	89,333,982	86,862,982	2,471,000

In the circumstances, it has not been possible to confirm the accuracy of the 2018/19 comparatives figures as presented in the financial statements.

2.0 Errors in the Statement of Cash Flows

The statement of cash flows reflects Kshs.5,289,946 in respect to compensation of employees which differs with the Kshs.5,259,167 reflected under the disclosure Note 4 to the financial statements and in the statement of receipts and payments resulting in unexplained variance of Kshs.30,779. Further, the statement of cash flows indicates total payments for operating expenses as Kshs.104,948,726 instead of Kshs.104,979,505 confirmed on re-computation resulting in a variance of Kshs.30,779.

Consequently, the accuracy of the statement of cash flows as at 30 June, 2020 could not be confirmed.

3.0 Errors in the Forward by the Chairman of NGCDF Committee

Review of the NG-CDF Committee Chairman's forward on page 5 of the financial statements showed errors in expenses amounts as follows:

Item	Statement of Receipts and Payments (Kshs)	Forward by NGCDF Chairman (Kshs)	Variance (Kshs)
Compensation of employees	5,259,167	5,289,946	(30,779)
Other grants and transfers	53,722,466	43,895,701	9,826,765

Consequently, the expenses information included in the forward by the Chairman of NG-CDF Committee is in contradiction with figures indicated in the financial statements.

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

Budget and Budgetary Performance

The summary statement of appropriation: recurrent and development combined reflects receipts budget and actual amount on comparable basis of Kshs.178,825,175 and

Kshs.109,457,451 respectively, resulting to an underfunding of Kshs.69,367,724 or 39% of the approved budget.

The underfunding affected negatively the planned activities and projects of the Fund for the year and denied effective services to the residents of Kaiti 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

1.0 Delayed Project Implementation

A review of the projects implementation status for the year under audit revealed that, a total of Kshs.82,117,102 had been allocated for implementation of seventy-four (74) projects. However, only thirteen (13) projects with a total cost of Kshs.11,400,000 were completed during the year while eleven (11) projects with a total allocation of Kshs.9,100,000 were on-going. The remaining fifty (50) projects with total estimated cost of Kshs.61,617,102 had not commenced. No satisfactory explanation was rendered for the delay in project implementation or measures which are in place to remedy the situation.

Consequently, it has not been possible to confirm if and when value for money will be realized from the fifty projects to which Kshs.61,617,102 was allocated but had not been started.

2.0 Unapproved Expenditure on Emergency Projects

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects payments totaling Kshs.53,722,466 relating to other grants and transfers out of which Kshs.13,346,250 was incurred on emergency projects. However, this amount exceeded the approved budget on emergency projects for the year of Kshs.7,197,241 resulting to un-approved expenditure of Kshs.6,149,009.

In the circumstances, the Management was in breach of the law.

3.0 Irregularities in Procurement of Primary School Projects

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other government entities amounting to Kshs.21,400,000 which includes Kshs.18,400,000 relating to transfers to primary schools. However, a review of procurement documents revealed that Kshs.2,399,000 was incurred in respect

of five (5) primary school projects. The projects paid were paid for using cash while no competitive procurement process was undertaken despite amounts involved being above the thresholds for low value procurement method as detailed below:

No.	Project	Description	Amount (Kshs.)
1	Kikongeni Primary School	Renovation of 4 classrooms	499,000
2	Thomas Primary School	Construction 1 classroom	500,000
3	Nyaani Primary School	Renovation 2 classrooms	500,000
4	Kyambai Primary School	Renovation 2 classrooms	500,000
5	Luni Primary School	Renovation 2 classrooms	400,000
Total			2,399,000

This was in contravention of Section 45(3)(b) of the Public Procurement and Assets Disposal Act, 2015 which stipulates that all procurement should be done in accordance with threshold matrix.

Consequently, the Management was in breach of the law.

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 OVERALL GOVERNANCE

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Overall Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Lack of a Risk Management Policy and Business Continuity Plan

Audit revealed that the Fund did not have in place an Approved Risk Management Policy and a Disaster Recovery and Business Continuity Plan and thus lacks a blue print for identifying, preventing and mitigating against fraud and operational risks to ensure uninterrupted operations in case of a disaster.

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 the Management is aware of intention to either dissolve 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 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 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 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 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.

11 February, 2022