

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - RONGO 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 - Rongo Constituency set out on pages 12 to 38, which comprise the statement of assets and liabilities as at 30 June, 2020, and the statement 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 - Rongo 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1.0 Understated Cash and Cash Equivalent

As disclosed in Note 10A to the financial statements, the statement of financial position as at 30 June, 2020 reflects an amount of Kshs.4,852,491 in respect to Cash and Cash Equivalents. The bank reconciliations provided for audit included unrepresented cheques consisting of stale cheques amounting to Kshs.11,498,619 and which had not been reversed into the cash as at the time of audit. No justification was provided by the Management for failure to reverse the same.

In the circumstances, the accuracy, validity and completeness of the cash and cash equivalents balance of Kshs.4,852,491 as at 30 June, 2020 could not be confirmed.

2.0 Inaccuracy in the Statement of Cash flow

The Statement of Cash Flow for the year ended 30 June, 2020 reflects adjustments of Kshs.172,850 and Kshs.81,441 in respect of decrease in accounts receivable and increase in accounts payable respectively and refers to notes 15 and 16 of the financial statements. However, the notes reflect nil balances in respect of receivables and payables respectively.

In the circumstances, the accuracy of the statement of cash flow as at 30 June, 2020 could not be confirmed.

3.0 Unsupported adjustments in the Summary Statement of Appropriation

Included in the summary statement of appropriation-recurrent and development combined for the year ended 30 June, 2020 are adjustments of Kshs.24,867,555 for both receipts and payments. However, detailed schedule of the projects and programmes in the approved code list for the prior year carried forward for funding in the during the 2019/2020 financial year was not provided for audit.

In the circumstances, the accuracy and completeness of the adjustments in the statement of appropriation-recurrent and development combined of Kshs.24,867,555 for the year ended 30 June, 2020 could not be confirmed.

4.0 Variance between Statement of Receipts and Payments and Statement of Appropriation

As disclosed in Note 1 to the financial statements, the statement of receipts and payments for the year ended 30 June 2020 reflects Kshs.140,017,724 in respect of Transfer from NGCDF Board while the Summary Statement of Appropriation: Recurrent and Development combined for the year ended 30 June, 2020 reflects Kshs.162,213,279 for the same item resulting to an unreconciled variance of Kshs.22,195,555.

In the circumstances, the accuracy and completeness of the transfers from NGCDF board of Kshs.140,017,724 for the year ended 30 June, 2020 could not be confirmed

5.0 Project Management Committee (PMC) Accounts

Annex 5 to the financial statements reflects bank balances for Project Management Committee accounts of Kshs.10,872,207 as at 30 June, 2020. However, the Management did not provide cash books and bank reconciliation to support the bank balances.

In the circumstances, the accuracy, validity and completeness of the Project Management Committee accounts balance of Kshs.10,872,207 as at 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 - Rongo 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

Budgetary Control and Performance

The summary statement of appropriation: recurrent and development combined for the year ended 30 June, 2020 reflects final budgeted receipts and actual on comparable basis of Kshs.162,213,279 and Kshs.162,213,279 respectively indicating a 100% realization. Further, the total actual expenditure for the year was Kshs.156,189,066 representing an absorption rate of 96% of actual receipts.

The budget under absorption is equivalent to services budgeted for but not delivered to the residents of Rongo 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 sections 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 Transfer to Other Government Units- Construction of a Multipurpose at Rongo Mixed Secondary

As disclosed in Note 6 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.91,590,276 in respect of transfers to other Governments units which includes Kshs.72,663,959 in respect of transfers to Secondary Schools out of which Kshs.39,000,000 related to construction of a three-story multipurpose building consisting: classrooms, laboratories and administration block at Rongo Mixed Secondary at contract sum of Kshs.44,211,000.

Project verification done in January, 2021 revealed that the project is at the second floor and 88% of the funds have been used, an indicator the payments may have exceeded certified work. Further, the contractor was not on site indicating that the project may have stalled.

Consequently, the value for money of Kshs.39,000,000 expenditure for the year ended 30 June, 2020 could not be confirmed.

2.0 Maintenance and Spot Improvement of Okumba Police Post- Kanyach Road

As disclosed in Note 7 to the financial statements, the statement of receipts and payments for the year ended 30 June 2020 reflects Kshs.49,743,856 in respect of other grants and other transfers which includes Ksh.4,622,418 out of which a payment of Kshs.2,498,118 was made for maintenance and spot improvement of Okumba police post – Kanyach road as an emergency project. Management have not provided authority to justify the roads project meet the criteria for emergency projects as set out

in section 8(3) of the National Government Constituencies Development Fund Act 2015 which defines an emergency as an urgent, unforeseen need for expenditure for which it is in the opinion of the committee that it cannot be delayed until the next financial year without harming the public interest of the constituents.

Under the circumstances, the regularity of the expenditure of Kshs.2,498,118 from the emergency reserves on improvement of access roads could not be confirmed.

3.0 Delay in Projects Implementation

Review of projects implementation status report as at 30 June, 2020 provided for audit revealed that seven (7) projects with actual expenditure of Kshs.24,306,449 were on-going as at 30 June, 2020.

A site visit done in the month of January, 2021 revealed that, although the projects were expected to be completed by 30 June, 2020, they had not been completed.

The slow pace of projects implementation may negatively affect goods and service delivery to the residents of Rongo Constituency and the intended purpose of the projects may not be actualized and hence the value for money for the Kshs.24,306,449 may not be realized.

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

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 governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain services, disclosing, as applicable, matters related sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to abolish 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 management 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 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 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

08 February, 2022