

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Laikipia West Constituency set out on pages 17 to 51, which comprise the statement of financial assets as at 30 June, 2020, the 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, the financial statements present fairly, in all material respects, the financial position of the National Government Constituencies Development Fund - Laikipia West 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 National Government Constituencies Development Fund Act, 2015.

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 - Laikipia West 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

1. Prior Year Unresolved Issues

In the report of the previous year, several issues were raised under Report on the Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, although the Management has indicated that all the issues have

been resolved, the matters remained unresolved as the National Assembly has yet to deliberate on the audit report for 2018/2019.

2. Budgetary Control and Performance

The summary statement of appropriation-recurrent and development combined reflects revenue budget of Kshs.193,446,405 against actual receipts of Kshs.124,069,680 resulting in under collection of Kshs.69,376,725 or 36% of the budget. Similarly, the statement reflects expenditure budget of Kshs.193,446,405 against actual payments of Kshs.117,313,526 resulting in under expenditure of Kshs.76,132,879 or 39% of the budgeted expenditure.

Based on the approved estimates, under funding and expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

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 Projects Verification

1.1 Construction of Classroom at Kabati Primary School

The statement of financial performance reflects transfers to other government units of Kshs.78,960,633 as disclosed in Note 6 to the financial statements. Included in the balance is an amount of Kshs.44,826,993 in respect of transfers to primary schools, out of which of Kshs.1,100,000 was disbursed to Project Management Committee for construction of one classroom to completion at Kabati Primary School.

A review of project file showed that the contract for the construction was awarded to a firm at a contract sum of Kshs.1,099,730 through competitive process. According to contract signed on 6 July, 2020 between the firm and the school PMC, the construction was to take 8 weeks. However, a physical verification carried out on 19 February, 2021 revealed that the project was incomplete, and the contractor was not on site. No explanation was provided for the failure to complete the project.

As a result, the value for money of the expenditure of Kshs.1,100,000 incurred on the project during the year ended 30 June, 2020 could not be confirmed.

1.2 Construction of Miteta Police Post

The statement of financial performance reflects other grants and transfers of Kshs.29,084,014 as disclosed in Note 7 to the financial statements. Included in the balance is an expenditure of Kshs.19,888,203 on security projects. Which further includes an amount of Kshs.3,000,000 in respect of construction of Miteta Police Post.

According to available records, the activity was later changed to construction of residential houses for police officers, instead of construction of a police post approved by the NGCDF Board. No evidence was provided indicating that approval was given for the change of activity as stipulated in Section 6(2) of National Government Constituencies Development Fund Act, 2015 which provides that once funds are allocated for a particular project, they shall remain allocated for that project and may only be-allocated for any other purpose during the financial year with the approval of the Board.

Consequently, the validity and propriety of the expenditure of Kshs.3,000,000 could not be confirmed.

1.3 Construction of Administration Block and Classrooms at Dr. Wachira Kiamariga Secondary School

Disclosed in Note 6 to the financial statements under transfer to other government units is an expenditure of Kshs.33,131,640 on transfers to secondary schools. Included in the expenditure is an amount of Kshs.14,522,457.60 for construction and completion of administration block and six classrooms at Dr. Wachira Kiamariga Secondary School.

A physical inspection of the project carried out in February, 2021 revealed uneven application of paint on both interior and exterior surfaces, an indication of poor workmanship. Further, two classrooms had been completed but were not in use.

Consequently, value for money on the expenditure of Kshs.14,522,457.60 incurred on the project during the year ended 30 June, 2020 could not be confirmed.

1.4 Kiandege and Muruku Secondary Schools Projects

Included also in the expenditure of Kshs.33,131,640 on transfers to secondary schools are payments of Kshs.1,000,000 and Kshs.7,000,000 which were disbursed to Kiandege Secondary School and Muruku Secondary School for construction of a classroom to completion and construction of multipurpose hall respectively.

However, physical verification of the project on 18 February, 2021 revealed visible cracks on the floor of the classroom and on the walls of the multipurpose hall. Further, paint works was applied on uneven internal and external walls an indication of poor workmanship. The contractors were not on site at the time of audit.

In the circumstance, value for money on the expenditure of Kshs.8,000,000 incurred on the project 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 governance were not effective.

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 overall governance.

In preparing the financial statements, Management is responsible for assessing the ability of National Government Constituencies Development Fund - Laikipia West Constituency to sustain 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 abolish 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 entity 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 Fund's ability of 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

11 February, 2022