

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – ROYSAMBU 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-Roysambu Constituency set out on pages 23 to 52, which comprise the statement of assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows for the year then ended, summary statement of appropriation - recurrent and development combined, 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 - Roysambu 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 Accuracy of the Financial Statements

1.1 Misstatement of Use of Goods and Services

The statement of receipts and payments reflects comparative expenditure amounting to Kshs.9,249,923 on use of goods and services. However, Note 5 to the financial statements reflects an amount of Kshs.9,283,889 resulting to a difference of Kshs.33,966.

1.2 Inaccurate Prior Year Adjustments

Note 14 to the financial statements reflects prior year adjustments amounting to Kshs.52,938,512. However, the statement of assets and liabilities reflects a balance of Kshs.5,597,674 resulting to an unreconciled difference of Kshs.47,340,838.

1.3 Variance between Budget and Financial Statements Amounts

The statement of receipts and payments reflects total receipts amounting to Kshs.78,784,868 against summary statement of appropriation - recurrent and development combined actual receipts amounting to Kshs.131,723,381 resulting to unreconciled variance of Kshs.52,938,513.

In the circumstances, the accuracy of the financial statements could not be confirmed.

2.0 Unsupported Expenditures

2.1 Unsupported Project Expenses

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects transfers to other government entities amounting to Kshs.70,431,296. Included in this amount is Kshs.21,837,819 transferred to primary schools. Review of project documents revealed that the National Government Constituencies Development Fund – Roysambu Constituency tendered for construction of a resource center at Githurai Primary School at a contract sum of Kshs.14,637,420. The contract was signed on 20 February, 2019 with a contract period of 24 weeks. However, project inspection carried out on 17 February, 2021 revealed that the project was incomplete and had stalled.

In addition, the installation of doors, windows, external and internal finishes amounting to Kshs.4,473,620 had not been done as per the bills of quantities. Further, review of payment vouchers revealed that the contractor had been paid an amount of Kshs.16,707,889 equivalent to 114 % of the contract amount or Kshs.2,070,489 above the contract sum. The audit also observed that payments amounting to Kshs.1,245,258 and Kshs.1,971,732, respectively, were not supported with payment certificates contrary to Regulation 104(1) Public Finance Management Act (National Government) Regulations, 2015 which states that all receipts and payments shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

In the circumstances, the accuracy and validity of the expenditure of Kshs.16,707,889 could not be confirmed.

2.2 Unsupported Training Expenses

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects an expenditure of Kshs.8,584,984 in respect to use of goods and services. Review of records revealed that the Fund paid an amount of Kshs.570,000 to a hotel for a training of its National Government Constituencies Development Fund Committee members. The training was conducted between 8 and 12 October, 2019. However, members of the National Government Constituencies Development Fund Committee signed for two days, that is, 8 and 9 October, 2019. Further, the audit observed that the consultant was paid Kshs.250,000 for training of the National Government Constituencies Development Fund Committee members. However,

supporting documents provided for audit review were not clear on the purpose of the training.

In the circumstances, the validity and completeness of the training expenses amounting to Kshs.820,000 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-Roysambu 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, reflects receipts budget and actual on comparable basis of Kshs.209,856,547 and Kshs.131,794,381, respectively, resulting in an underfunding of Kshs.78,062,166 or about 37% of the budget. Similarly, the Fund expended Kshs.103,792,359 against an approved budget of Kshs.209,856,547 resulting to an under-expenditure of Kshs.106,064,188 or 51% of the budget. The underfunding and underperformance 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

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Conclusion on Compliance and Effectiveness section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Unlabeled Projects

Project inspection carried out on 17 February, 2021 revealed that all projects undertaken for the year under review which were complete or yet to be completed were not labeled contrary to Regulation 15(1)(f) of the National Government Constituencies Development Fund Regulations, 2016 which states that the Project Management Committee shall undertake project closure, labelling and handover upon completion.

In the circumstances, the Project Management Committees were in breach of the Regulations.

2.0 Unutilized Funds

Note 17.3 together with Annex 3 to the financial statements reflects un-utilized funds of Kshs.72,488,823 which increased during the year from Kshs.64,670,549 prior year. Further, the un-utilized funds were occasioned by un-approved re-allocations by Management across projects rather than non-implementation of projects whose monies can be accessed in the bank accounts.

Consequently, the Fund's budget is not realistic and has no capacity to implement the overlapping 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, the 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 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, the 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 manner.

Those charged with governance are responsible for overseeing the Fund's 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 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 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 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' 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 the 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

10 February, 2022