

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND- AWENDO 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 - Awendo Constituency set out on pages 19 to 37, which comprise the statement of financial assets as at 30 June, 2020, and 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, except for the effects 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 - Awendo 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. Accuracies of the Financial Statements

1.1 Inaccurate Presentation of Use of Goods and Services

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.7,765,098 on use of goods and services which differs with the statement of appropriation - recurrent and development amount of Kshs.7,735,620 resulting to a variance amounting to Kshs.29,478.

Consequently, the accuracy and validity of use of goods and services amounting to Kshs.7,765,098 could not be confirmed.

1.2 Un-Utilized Funds

Note 17.3 to the financial statements reflects a balance of Kshs.72,394,912 in respect of unutilized funds for the year under review. However, the summary statement of appropriation - recurrent and development combined reflects a balance of Kshs.72,383,433 in respect of budget utilization difference and which relates to unutilized

fund for the year under review resulting to unreconciled and unexplained variance amounting to Kshs.11,479.

In the circumstances, the accuracy and completeness of unutilized funds balance amounting to Kshs.72,394,912 could not be confirmed.

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

Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Ksh.154,107,340 and Kshs.83,339,616, respectively resulting to an under-funding of Kshs.70,767,724 or 46% of the budget. Similarly, the Fund expended Kshs.81,723,906 against an approved budget of Kshs.154,107,340 resulting to an under-expenditure of 72,383,433.87 or 47% 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 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. Transfers to other Government Entities

1.1 Non- implemented Project

The Fund received an amount of Kshs.1,169,257 in the financial year 2017/2018 towards establishment of an innovation hub fully equipped with internet system for use by the youth in the constituency. However, the innovation hub project had not been implemented as of February, 2021, with the funds lying idle in the bank account for three financial years.

Consequently, the youth in Awendo constituency have been denied the intended benefits and services from the innovation hub project. Further, holding funds idle in the bank account for more than three years is against the prudent public finance management procedures.

1.2 Irregular Variation of Construction of Kenya Medical Training College

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.24,765,800 relating to transfers to other government entities which includes an amount of Kshs.10,000,000 in respect of transfers to health institution for construction of Awendo Kenya Medical Training College at contract sum of Kshs.39,870,586. However, the project Management committee terminated the contract with the original contractor on 30 April, 2020, at the time when the contractor had been paid a total of Kshs.10,939,000, on the grounds that the contractor was facing financial difficulties forcing him to abandon the construction works at the superstructure level. A new contractor has been engaged to complete the project at a total cost of Kshs.55,000,000 thereby resulting in a contract sum variation amounting to Kshs.15,129,413.80 or 38% contrary Section 139(6) of the Public Procurement and Asset Disposal Act, 2015.

Under the circumstances, the regularity and value for money of Kshs,10,000,000 expenditure for the year ended 30 June, 2020 could not be confirmed and also the management is in breach of the law.

1.2 Stalled Project Construction of Dining Hall

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.24,765,800 relating to transfers to secondary schools which includes an amount of Kshs.1,500,000 on construction of a dining hall at St. Joseph's Kamwaya. Physical verification reflects that the project has stalled at the substructure level with the contractor abandoning the site on the grounds of ill health. The school's project management committee has also terminated the contract without undertaking valuation of the work by the contractor.

In the circumstances, the value for money amounting to Kshs.1,500,000 could not be confirmed.

2. Other Grant and Transfers

2.1 Irregular Contract Variation on Construction of Awendo Police Division Headquarters

Note 7 to the financial statement reflects an amount of Kshs.45,858,735 relating to transfers to other grants and transfers which includes an expenditure of Kshs.7,100,000 for construction of Awendo police Division Headquarters at an initial contract sum of Kshs.3,948,470 in the financial year 2015/2016. However, the total payments to the contractor on this project as at 30 June, 2020 amounted to Kshs.7,100,000 resulting in an unexplained overpayment of Kshs.3,151,530 translating to 80% contract sum variation contrary Section 139(6) of the Public Procurement and Asset Disposal Act, 2015 . Further, it was noted that the Fund's committee approved funding for this project without verifying the ownership of the land on which the project was to be constructed, an omission which has led to the stoppage of works on the project site by a court order after one of the locals who is claiming the ownership of the land took the Awendo Police Division management to court.

Consequently, the regularity and value for money amounting to Kshs.7,100,000 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 Article 229(6) of the Constitution, I confirm that, nothing 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

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.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the Cash 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the funds 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 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'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 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