

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - CHERANGANY 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 - Cherangany Constituency set out on Pages 1 to 42, which comprise the statement of assets and liabilities as at 30 June, 2020, and the statements 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund - Cherangany 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

Cash and Cash Equivalents

The statement of assets and liabilities reflects bank balances amounting to Kshs.32,636,898 as at 30 June, 2020 in respect of cash held at Cooperative Bank, Kitale branch. However, review of the bank reconciliation statement for balances as at 30 June, 2020 revealed unrepresented cheques totalling Kshs.1,771,597 out of which, cheques totalling to Kshs.253,723 relate to the period between July, 2018 to October, 2019 and therefore, were stale and invalid for payment. However, no explanation was provided for non-reversal of the stale cheques in the cashbooks.

Further, the statement reflects payments in the bank statement not in the cash book totaling Kshs.117,040 in respect of bank charges and commissions for the period between July, 2019 and June, 2020, which should have been recorded in the cashbook and included in the expenditure for the year. No explanation was provided for not recording the transactions in the cashbooks contrary to Regulation 90(3) of the Public Finance Management (National Government) Regulations, 2015 which states that Accounting Officers shall ensure any discrepancies noted during bank reconciliation exercise, are investigated immediately and appropriate action taken including updating the relevant cash books.

In the circumstances, the accuracy and completeness of the bank balance of Kshs.32,636,898 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 - Cherangany 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

1.0 Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.268,522,866 and Kshs.142,114,267 respectively resulting to shortfall of Kshs.126,408,600 or 47% of the approved budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.268,522,866 and Kshs.110,384,635 respectively, resulting in underperformance amounting to Kshs.158,138,230 or 59% of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the residents of Cherangany Constituency.

2.0 Project Implementation Status

According to the Project Implementation Status (PIS) report as at 30 June, 2020 provided for audit review, the Fund planned to implement one hundred and thirty-sixty (136) Projects with a budget of Kshs.90,598,241. However, according to the report, sixty-three (63) projects costing Kshs.36,298,241 were completed, fifty-eight (58) projects costing Kshs.49,950,000 were still on-going while fifteen (15) projects with a budget allocation of Kshs.4,350,000 had not started as summarized below:

No.	Sector	Planned Projects		Complete Projects		On Going Projects		Not started	
		No.	Amount (Kshs.)	No.	Amount (Kshs.)	No.	Amount (Kshs.)	No.	Amount (Kshs.)
2	Education	97	79,050,000	39	29,100,000	58	49,950,000		-
3	Emergency	24	7,198,241	24	7,198,241				-
4	Environment	10	500,000	0	-		-	10	500,000
5	Security	4	2,350,000		-		-	4	2,350,000

6	Sports	1	1,500,000	0	-	-	1	1,500,000
	Total	136	90,598,241	63	36,298,241	58	49,950,000	4,350,000

Non-implementation of projects as planned denies the residents of Cherangany Constituency the benefits associated with such complete projects.

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 matter 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

Poorly Implemented Projects

Included in the transfers to other government units amount of Kshs.69,921,059 reflected in the statement of receipts and payments for the year is an amount of Kshs.3,500,000 transferred to three (3) primary schools and two (2) secondary schools. However, physical verification of the projects revealed unsatisfactory execution as summarized below:

Project Name	Amount Disbursed Kshs.	Remarks
Top Suwerwa Secondary School	1,000,000	The contract was labour based and works totalling to Kshs.998,000 representing 100 % of the funds allocated towards the project were paid. However, an audit verification of the project revealed that it was incomplete as the floor, plastering and painting works had not been done and it could not be confirmed as to when the project will be completed and put to use as the funds allocated had already been exhausted
Happy Valley Primary School	500,000	The works included plastering of the wall, flooring works, putting in windows and glasses, and painting on the five classrooms. Although the works were complete at the time of audit in March 2021, the floor had cracked an indication of poor workmanship.
Tumaini Primary School	500,000	The amount was for construction, roofing, fitting of one classroom. As at the time of inspection in March 2021, the project was incomplete. Window panes had not been fitted and walls had not been painted. The floor and

Project Name	Amount Disbursed Kshs.	Remarks
		wall had cracks, an indication of poor workmanship.
Kesogon Secondary School	1,000,000	The amount was for foundation works, walling, roofing and fittings of the two classrooms. As at the time of audit inspection in March 2021, the flooring works and verandah were incomplete, window panes had not been fitted and walls had cracks, an indication of poor workmanship
Surungai Primary School	500,000	The amount was for foundation works, wall erection, roofing, door and window fixing and doing finishes including painting. The classroom was complete and in use. However, it had cracks on the floor, an indication of poor workmanship

In the circumstances, the residents of Cherangany Constituency did not get value for money in respect of the Kshs.3,500,000 incurred on the projects during the year ended 30 June, 2020.

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 such 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.

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

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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Fund's 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 going concern 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 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 cease 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