

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - EMBAKASI NORTH 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 - Embakasi North Constituency set out on pages 21 to 47~~39~~, which comprise the statement of assets and liabilities as at 30 June, 2020 and the statement 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 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 National Government Constituencies Development Fund - Embakasi North 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

1.0 Unsupported Expenditure

1.1 Sports Projects

The statement of receipts and payments reflects other grants and other payments of Kshs.69,178,119 out of which Kshs.1,662,000 was spent on sports projects as disclosed at Note 7 to the financial statements. However, no evidence was provided that the sports equipment procured were inspected and on how the items bought were distributed.

1.2 Training

The statement of receipts and payments reflects expenditure of Kshs.7,420,205 on use of goods and services out of which Kshs.2,000,000 was spent on training during the year under review. However, supporting documents in support of the expenditure was not provided.

In the circumstances, the accuracy and validity of the expenditure of Kshs.1,662,000 and Kshs.2,000,000 on sports projects and training respectively, could not be confirmed.

2.0 Cash and Cash Equivalents

The statement of assets and liabilities reflects a bank balance of Kshs.39,774,517. However, examination of the cashbook and bank reconciliation statements revealed that cheques amounting to Kshs.7,804,002 had not been presented for payment by the recipients and Kshs.860,000 of the unpresented bursary cheques were already stale as at 30 June, 2020.

Consequently, the accuracy of the reported bank balance of Kshs.39,774,517 as at 30 June, 2020 could not be confirmed.

3.0 Unsupported Bursary Payments

The statement of receipts and payments reflects other grants and transfers of Kshs.69,178,119 which as disclosed at Note 7 to the financial statements included bursaries of Kshs.24,703,000 and Kshs.20,000,000 to secondary schools and tertiary institutions respectively, both totaling to Kshs.44,703,000. However, payment of bursaries amounting to Kshs.11,299,000 were not supported with relevant documents such as payment vouchers, bursary applications register maintained to show the names of the applicants, their identification details, location of domicile and schools and acknowledgements from the respective colleges and schools.

In the circumstances, the accuracy and validity of the bursaries 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 - Embakasi North 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 a final receipts budget and actual receipts on comparable basis of Kshs.235,756,397 and Kshs.166,388,673 respectively, resulting into an under-funding of Kshs.69,367,724 or 29% of the budget. Similarly, the Fund expended Kshs.126,614,156 against an approved budget of Kshs.235,756,397 resulting into an under-expenditure of Kshs.109,142,241 or 46% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to Embakasi North constituents.

2.0 Chairman's Report

The Forward by the Chairman at page 6 of the annual report, reflects Kshs.68,000,000 as the amount received from the National Government Constituencies Development Fund Board during the financial year 2019/2020. However, the statement of receipts and payments reflects receipts of Kshs.130,640,876 from the Board hence resulting into a material inconsistency between the Forward by the Chairman and the financial statements.

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 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 Poor Workmanship and other Anomalies in Projects

Audit inspection on 9 and 10 March, 2021 to various projects revealed poor workmanship and other anomalies as detailed out in Appendix I.

In the circumstances, it could not be confirmed that value for money was obtained from the expenditure on the projects.

2.0 Unconfirmed Existence and Ownership of School Buses

The Fund purchased school buses for Ushirika and Dandora Secondary Schools at a cost of Kshs.8 million each. However, although the buses had been fully paid for by November, 2020, the ownership documents were not provided for audit. Further, the buses were not presented for physical verification.

In the circumstances, the existence of the buses and value for money for the expenditure 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 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 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 to sustainability of services and using the going concern basis of accounting unless the Management is aware of the intention to terminate 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 Fund's financial reporting process, reviewing the effectiveness of how the Fund 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 Fund 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 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 continue as a going concern or 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

17 December, 2021

Appendix I: Poor Workmanship and other Anomalies in Projects

	Project Location	Project Details	Contract Sum (Kshs.)	Anomalies Noted
1	James Gichuru Primary School	Construction of a Storey Block of 4 No. Classrooms	8,000,000	Progress of works report not provided, poor workmanship on roofing and painting works, outside wall was already chipping off despite the project being incomplete, black board not as per standards and the upper classes windows were not as per the Ministry of Education guidelines
2	Wangu Primary School	Proposed Construction of a Storey Block of 4 No. Classrooms	8,000,000	
3	Ronald Ngala Primary School	Proposed Construction of a Storey Block of 4 No. Classrooms	8,000,000	
4	Kariobangi Police Station	Construction of a Perimeter Wall, Gate house	6,500,000	Progress of works report not provided; no works was ongoing; the gate house was poorly done; there were cracks on the wall, the paint works on the gate house and washrooms was already peeling off showing they were poorly done, there was poor workmanship, the floor was slabbed and tiled as per the bill of quantities and the ceiling is not painted.
5	Kariobangi North Primary School	Construction Demolition and reconstruction of a perimeter wall, ground drainage works and installation of Concrete slabs	15,000,000	Progress of works report not provided; no works were ongoing; the drainage works had not been done as per the bill of quantities, the gate house was incomplete and stalled, the perimeter wall was not as per the program of works; the works were to cover approximately 666

	Project Location	Project Details	Contract Sum (Kshs.)	Anomalies Noted
				meters while only 500 meters was done and the project is not complete though the contractor has been fully paid even for works not done.
6	Sharp Corner Administration police line	Proposed Renovation of 8 houses	3,800,000	Progress of works report not provided; no works were ongoing. In addition, there was poor workman ship.