

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - ENDEBESS 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 - Endebess Constituency set out on pages 1 to 26, 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 the National Government Constituencies Development Fund - Endebess Constituency as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and comply with the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.6,447,392 held at Equity Bank account as disclosed in Note 8 to the financial statements. However, review of the bank reconciliation statements for the month of June, 2020 revealed payments in cash book not yet recorded in the bank statement totalling Kshs.465,820. Included in this amount is cheque No. 6032 for Kshs.5,000 dated 1 October, 2019 which was stale but had not been reversed in the cashbook.

Consequently, the accuracy of the cash and cash equivalents balance of Kshs.6,447,392 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 - Endebess 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. I have determined that there are no key audit matters to communicate in my report.

Other Matter

1. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined for the year under review reflects total budgeted receipts of Kshs.197,895,306 and actual receipts of Kshs.128,527,584 resulting to underfunding of Kshs.69,367,722 or 35% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.197,895,305 and Kshs.123,129,267 respectively, resulting to an under expenditure of Kshs.74,766,038 or 38% of the budget.

The underfunding and under expenditure may have affected delivery of services to the residents of the constituency.

2. Projects Implementation Status

According to the Project Implementation Status (PIS) report availed for audit review as at 30 June, 2020, the Fund had planned to implement sixty-eight (68) Projects with a total budget of Kshs.125,805,941. The report indicated that sixty-four (64) projects costing Kshs.109,755,941 were on going, while four (4) projects costing Kshs.16,050,000 had been completed.

The non-completion of projects as planned denies the residents of Endebess Constituency the services and benefits that would have accrued from the completed 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 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. Construction of Dining Hall at St. Mathews Secondary School Cheptantan

The transfers to other government entities figure of Kshs.85,190,000 include transfer to secondary schools of Kshs.68,250,000 as disclosed in Note 4 to the financial statements. Included in the transfers to secondary schools is Kshs.3,009,690 paid to a local firm in respect of the construction of dining hall at St. Mathews Secondary School Cheptantan.

The firm was awarded the contract on 26 May, 2020 at a contract sum of Kshs.8,889,503. The project was to be completed by 11 September, 2020. However, as at the time of audit in February, 2021, over five months after the expected completion period, the project had not been completed and had only been done up to lintel level. No explanation was given for the failure to complete the project on schedule. There was also no evidence of extension of the contract period yet the contractor was still on site.

Consequently, the residents of Endebess Constituency have not received value from the amount of Kshs.3,009,690 disbursed towards the project.

2. Construction of a Dormitory at Japata Secondary School

The transfer to other government entities figure of Kshs.85,190,000 includes transfers to secondary schools amounting to Kshs.68,250,000 as disclosed in Note 4 to the financial statements. Included in the transfer to secondary schools is an amount of Kshs.5,200,000 paid to Japata High School towards the construction of a twin dormitory. The contract was awarded to a local construction company on 21 March, 2019 for a contract sum of Kshs.5,592,420. As at the time of this audit in February, 2021, the dormitory was in use although there was no evidence that handing over had been done. Further, the ceiling had not been done although it had been provided for in the bill of quantities. Also, there were several cracks on the floor, an indication of poor workmanship and the Management has not indicated the measures being taken to have the same rectified.

In the circumstances, the residents of the Endebess may not have received the value for the amount of Kshs.5,200,000 spent on the project.

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 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 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.

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 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 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

07 February, 2022