

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - GATANGA 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 - Gatanga Constituency set out on pages 15 to 50, 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 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 National Government Constituencies Development Fund - Gatanga 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 National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Bursary to Needy Students

Disclosed in Note 7 to the financial statements are other grants and transfers totaling Kshs.8,696,828 comprised of Kshs.8,158,828, Kshs.528,000 and Kshs.10,000 for bursary-secondary schools, Bursary-tertiary institutions and bursary-special schools respectively. However, schedule of bursary payments reflected an amount of Kshs.9,236,716 resulting in a difference of Kshs.539,888 which was not explained or reconciled. Further, acknowledgement letters or receipts from two institutions which were paid a total of Kshs.7,968,828 to confirm receipt of the bursaries were not provided for audit review.

Consequently, it was not possible to ascertain whether the bursaries amounting to Kshs.8,696,828 were properly accounted for.

2. Project Management Committees (PMC) Bank Accounts

Disclosed under Annex 5 to the financial statements are unutilized balances totalling Kshs.31,707,314 in respect of sixty (60) Project Management Committee (PMC) bank accounts as at 30 June 2020. However, the Gatanga - NGCDF did not provide implementation status of the projects. Further, no explanation was given for failure to close the accounts and transfer the balances to the Constituency bank account contrary to Section 12(8) of the NGCDF Act, 2015, which requires that all unutilized funds of the project management committee shall be returned to the Constituency account. In addition, expenditure returns for funds amounting to Kshs.6,416,821 in respect of PMC bank accounts as at 30 June, 2019 were not provided for audit review.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Gatanga 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. Prior Year Unresolved Issues

In the report of the previous year, several issues were raised under Report on the Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. A review of the Progress on follow up of Auditor Recommendations showed that the Management has indicated that all the issues have been resolved. To the contrary, the matters remained unresolved as the National Assembly has yet to deliberate on the audit report for 2018/2019.

2. Budget Performance

During the financial year under review, the Constituency received a total of Kshs.123,073,876 from the National Government Constituencies Development Fund Board against a budget of Kshs.205,652,457 resulting in a shortfall of Kshs.82,578,581 or 40% of the budgeted amount.

Further, the total actual expenditure for the year was Kshs.119,171,072 representing an absorption rate of 96.8% of the actual receipts. Failure to implement projects fully and to absorb in full the funds disbursed denied the residents the benefits accruing from the planned projects, programmes and activities.

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. Project Verification

The statement of receipts and payments reflects expenditure on transfers to other government units and other grants and transfers of Kshs.68,200,000 and Kshs.37,793,100 respectively for implementation of various projects during the year ended 30 June, 2020.

However, physical verification of nineteen (19) projects implemented at a cost of Kshs.32,848,420 revealed poor workmanship as visible cracks on the floors and walls, leaking roofs, loose doors, incomplete works, leaking wastewater pipes and poor paint works on the various projects was observed. Further, included in the Kshs.32,848,420 is an amount of Kshs.2,500,000 incurred on construction of two classrooms and one unit ablution block at Chomo mixed day secondary school. As at the time of verification, the school was not operational as there were no students and no teachers posted, no approval of the school from the Ministry of education and no evidence of public participation before implementing the project was provided for review.

In the circumstances, the value for money of the expenditure of Kshs.32,848,420 incurred on the projects during the year ended 30 June, 2020 could not be confirmed.

2. Gatanga ICT Innovation Hubs

Disclosed under Note 9 to the financial statements on other payments is an expenditure of Kshs.1,169,256 in respect of ICT hub in Kihumbuini ward. Available records indicate that the NGCDF-Gatanga Constituency had allocated a total Kshs.4,677,027.20 for development of four innovation hubs in Gatanga ward, Kariara ward, Kihumbu ward and Ithanga ward, each receiving an amount of Kshs.1,169,256

The contract for development of the four ICT hubs was awarded to M/sTelcom Kenya at a total sum of Kshs.4,677,027.20 and the contract agreement signed on 25 October, 2018. However, no procurement records including original tender bids from suppliers, evaluation and award minutes and details of the ICT equipment ordered and supplied were presented for audit review. Further, audit inspection carried out in February, 2021 revealed that the hubs have not been used for unclear reasons.

Consequently, the value for money expenditure of Kshs1,169,256.80 incurred on the projects during the year ended 30 June, 2020 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 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 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 overall 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 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.

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 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 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 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 ability of the Fund 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 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

08 February, 2022