

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - HAMISI 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 - Hamisi Constituency set out on pages 13 to 46, 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 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 the National Government Constituencies Development Fund - Hamisi 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 Public Finance Management Act, 2012 and National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1.0 Unsupported - Prior Year Adjustments

As disclosed in Note 14 to the financial statements, the statements of assets and liabilities reflects a prior year adjustment of Kshs.871,500 relating to reversed stale bursary cheques. However, supporting documents for the prior year adjustment were not provided for audit verifications.

Consequently, the accuracy and propriety of prior year adjustments of Kshs.871,500 as at 30 June, 2020 could not be confirmed.

2.0 Unsupported PMC Bank Balances

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.5,986,327 out of which a balance of Kshs.5,218,769 was the PMC bank accounts balances as detailed in Annex 5. However, the bank balances were not supported by bank certificates. .

Consequently, the accuracy and completeness of the PMC bank accounts balance of Kshs.5,218,769 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 - Hamisi 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 Budget Control and Performance

The statement of appropriation - recurrent and development combined shows that the Fund's approved budget for the year 2019/2020 was Kshs.210,718,365 while the actual amount disbursed was Kshs.137,050,641 resulting to underfunding of Kshs.73,667,724 being 35% of the budgeted amount.

In addition, the budgeted expenditure was Kshs.210,718,365 while actual expenditure was Kshs.131,064,314 resulting in under-absorption of Kshs.79,654,051 by 38%.

The underfunding and under-expenditure affected the planned programs and activities and may have impacted negatively on service delivery to the residents of Hamisi constituency.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the 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 believe that public resources not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Late Remittances of PAYE

During the year under review, it was observed that the Fund paid the Commissioner of Income Tax a total of Kshs.314,484 as a penalty of late remittances of Pay As You Earn tax. However, the amount had not been budgeted for while no explanation was provided for the delay in tax remittances thus occasioning the voidable expenditure.

Consequently, the Management was in breach of the Law.

2.0 Unsatisfactory Implementation of Emergency Projects

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers of Kshs.38,247,193 which includes emergency projects of Kshs.9,024,993 out of which Kshs.1,200,000 was transferred to Jemulongoji Primary School for the renovation of classrooms. However, physical verification done on 11 March, 2021, revealed that the works were poorly done as the floor had cracked already and painting was not done on the rear side of the building. The project was not labelled and a certificate of inspection was not provided for audit verification.

Consequently, the propriety and value for money of Kshs.1,200,000 spent on the renovation of the school could not be confirmed.

3.0 Unsatisfactory Implementation of Secondary Schools Projects

As disclosed in Note 6 of the financial statements, the statement of receipts and payments reflects transfers to other government units of Kshs.81,000,000 which includes transfers to secondary schools of Kshs.22,100,000. However, physical verification of sampled projects in secondary schools revealed various anomalies as detailed below:

- i) Dr. Gimose Secondary School received Kshs.4,800,000 for ongoing construction of story building housing 8 No. classrooms and an administration section. However, payments of Kshs.4,800,000 was not supported with detailed certificates indicating quantified works done, inspection and acceptance reports and invoices from the contractor.
- ii) Muhudu Secondary School received Kshs.2,000,000 for ongoing completion of 2 No. classrooms including roofing, plastering, flooring and painting to completion. However, the school did not have a CDF account while the classrooms were not labeled. Payments made were not supported with detailed certificates indicating quantified works, inspection and acceptance reports and invoices from the contractor were not provided for audit review.

Consequently, the propriety and value for money on Kshs.6,800,000 incurred in the construction of the two secondary schools could not be confirmed.

4.0 Unsatisfactory Implementation of Primary Schools Projects

As disclosed in Note 6 to the financial statements, the statement of receipts and payments and Note 6 to the financial statements reflects transfers to other government units of Kshs.81,000,000 which includes transfers to primary schools of Kshs.57,900,000 out of which three primary schools received disbursement totaling Kshs.4,000,000 for various constructions.

Physical verifications of the projects in three primary schools revealed various anomalies as detailed below:

- i) Lurther Primary School received Kshs.1,000,000 for the construction of one classroom by laying foundation, plastering, walling, roofing, wiring and fitting doors and windows, painting, fascia board and labelling. A physical verification conducted on 10 March, 2021, revealed that the project was not complete as plastering, floor works, doors, windows and window panes, walling, electrical works had not been done and the contractor was not on site.
- ii) Jebrongo Primary School received Kshs.1,500,000 for the construction of a one storey building at a contract sum of Kshs.14,000,000. However, the school had received a cumulative total of Kshs.7,500,000 since initiation of the project in the 2017/2018 financial year. A physical verification carried out on 10 March, 2021 revealed that the contractor was on site, but the contract agreement and inspection and acceptance certificates were not provided for audit verification.
- iii) Gemeni Primary School received Kshs.1,500,000 for construction one storey building where the budgeted amount for the project was Kshs.14,000,000. A physical verification carried out on 11 March, 2021, revealed that the project was incomplete.

Consequently, the propriety and value for money on Kshs.4,000,000 incurred in the construction of the three primary schools.

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 SYSTEMS AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the 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 standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance was maintained 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 projects ability to continue 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Fund's 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.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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's 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 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

04 February, 2022