

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – KABETE 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 - Kabete Constituency set out on pages 17 to 48, 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 the National Government Constituencies Development Fund – the Kabete 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 (NG-CDF) Act, 2015 and Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Accuracies of the Financial Statements

1.1 Inaccurate Presentation of the Financial Statements

The financial statements presented for audit had casting errors and inaccurate presentation and disclosure as detailed below:-

- i. Prior year expenditure under use of goods and services has an amount of Kshs.850,545 whereas Note 5 to the financial statements has an amount of Kshs.8,505,465 resulting to a variance amounting to Kshs.7,654,920, the error has affected both the total payment and the Surplus/(deficit) for the previous year.
- ii. The surplus/(deficit) for the previous year as per the statement of receipts and payments reflects a balance of Kshs.6,436,794 which differs with the balance in the statement of financial position of Kshs.6,672,778 resulting to unexplained variance amounting to Kshs.235,984,

- iii. The statement of financial assets and liabilities reflects cash and cash equivalents balance of Kshs.9,200.30 which differs with the total cash and cash equivalents balance of Kshs.9,200,300,
- iv. Note 12B reflects gratuity deposits balance of Kshs.427,800 and Kshs.844,150 for 2019/2020 and 2018/2019 whereas the statement of financial assets and liabilities reflects nil balances,
- v. Prior year cash flows amounts under payments for operating expenses differs with the amounts under statement of receipts and payments on compensation of employees, use of goods and services and other grants and transfers amounting to Kshs.8,640, Kshs.7,846,224 and Kshs.418,050, respectively, no explanation was provided for the differences. Further the total payments under operating expenses has a casting error amounting to Kshs.597,
- vi. The summary statement of appropriation: recurrent and development combined reflects transfers from the Board amounting to Kshs.88,166,577 whereas the statement of receipts and payments reflects an amount of Kshs.68,000,000 resulting to unexplained variance amounting to Kshs.20,166,577.
- vii. Budget execution by programmes and sub-programs does not reflect the total expenditure.

Consequently, the completeness, accuracy, presentation and disclosure of the financial statements could not be confirmed.

1.2 Omitted Project Management Committees Bank Accounts

Annex 5 to the financial statements reflects unutilized balances totalling Kshs.15,064,895 in respect of fourteen (14) Project Management Committee (PMC) bank accounts. However, other PMC balances totalling to Kshs.19,871,468 in eight PMC bank accounts were not included in the list or annex to the financial statements. No reason was given for the omission.

Consequently, the completeness and accuracy of the PMC Bank balances 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 – Kabete 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. Follow up on Prior Year Unresolved Audit 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. However, although the Management has indicated that some of the issues have been resolved, the matters remained unresolved as the National Assembly has yet to deliberate on the audit report for 2018/2019.

2. Budgetary Control and Performance

Summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.157,544,301 and Kshs.88,166,577 respectively resulting to an under-funding of Kshs.69,377,725 or 44% of the budget. Similarly, the Fund expended Kshs.78,966,277 against an approved budget of Kshs.157,544,301 resulting to an under-expenditure of Kshs.78,568,025 or 50% of the budget.

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

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. Transfers to Other Government Units/Entities

1.1 Non-Implementation of Projects

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.50,908,993 on transfer to other government entities for the implementation of projects in primary schools and secondary schools. Included in the expenditure are disbursements totalling Kshs.30,900,000 to project management committee for implementation of nineteen (19) projects during the year ended 30 June, 2020.

However, physical verification of the project carried out in February, 2021 revealed that the above projects had not commenced. No justification was provided for the delay in utilization of the disbursed funds.

1.2 Failure to Label Projects

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.50,908,993 on transfer to other government entities. Included is an expenditure amounting to Kshs.17,049,657 incurred in implementation of projects in three(3) secondary schools and ten(10) primary schools in the Constituency. An inspection of the projects carried out in February revealed that although the construction was complete the projects were not been labelled.

No explanation was provided for failure to label the project for ease of identification.

2. Delay in Completion of Construction of Dormitory at Kabete High School

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.50,908,993 on transfer to other government entities. Included in the expenditure is an amount of Kshs.1,000,000 for completion of a two storied 450 capacity dormitory, plastering of second floor and painting of the whole building at Kabete High School. The project commenced in 2014/2015 financial year and was to be implemented in phases. A review of project file indicates that as at 30 June, 2020, the National Government Constituencies Development Fund Committee had disbursed funds totalling to Kshs.6,850,000 for implementation of the project, comprising Kshs.2,000,000, Kshs.1,850,000, Kshs.2,000,000 and Kshs.1,000,000 in 2014/2015, 2017/2018, 2018/2019 and 2019/2020 financial years respectively.

A physical inspection of the project in February, 2021 revealed visible cracks on the walls and patches of incomplete plastering an indication of poor workmanship. The works were implemented by local artisans without any supervision by the Constituency Development Fund Committee and the County Public Works Office. The project is still far from completion, over 7 years after commencement.

Consequently, value for money on the expenditure of Kshs.6,850,000 on the project as at 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 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.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management either intends 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.

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 funds 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 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 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 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

07 February, 2022