

REPORT OF THE AUDITOR-GENERAL ON THE NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KABONDO KASIPUL CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund – Kabondo Kasipul Constituency set out on pages 17 to 45, which comprise the statement of assets and liabilities as at 30 June, 2020, 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 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 the National Government Constituencies Development Fund – Kabondo Kasipul 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. Cash and Cash Equivalents

Note 10A reflects Cash and Cash Equivalents balance of Kshs.467,170 as at 30 June, 2020. The bank reconciliation statement for the account as at that date reflected un-presented cheques totalling to Kshs.1,334,100. However, payments totalling to Kshs.1,035,025 in the cash book is un-presented in the bank statement but does not form part of un-presented cheques in the bank reconciliation as at 30 June, 2020.

Consequently, the accuracy, validity and completeness of cash and cash equivalents balance of Kshs.467,170 as at 30 June, 2020 could not be confirmed.

2.0 Transfers to Other Government Entities

2.1 Grading and Gravelling of Access Roads

Note 6 to the financial statements represents transfers to other government entities of Kshs.49,442,276 which includes Kshs.3,594,537 in respects of grading and gravelling of two (2) roads for Junction-Ogilo Secondary and Kadongo-Chagere-Osuri road. However, procurement documents namely; tender evaluation, contract agreement,

certificate of work done, payment voucher and Authority letter from KERRA were not provided for audit review. Further, this expenditure is supposed to be under roads projects in other grants and payments but was instead incurred under transfers to schools without authority from the board.

Consequently, the accountability, legality and value for money of Kshs.3,594,537 for the year ended 30 June, 2020 could not be confirmed.

2.2 Renovation of Classrooms in Five (5) Primary Schools

Note 6 to the financial statements reflects transfers to other government entities of Kshs.49,442,276 which includes transfers to Primary schools balance of Kshs.32,358,636. This further includes Kshs.12,737,315 in respect of renovation of classrooms in six (6) primary schools namely; Anjech, Kogalo, Pany Komolo, Saramba, Ringa and Lwanda. However, procurement documents including tender evaluation, contract agreement, certificate of work done and payment vouchers were not provided for audit review.

Consequently, the accountability and value for money of Kshs.12,737,315 for the year ended 30 June, 2020 could not be confirmed

2.3 Construction of Modern ICT Hub at Oriwo Youth Polytechnic

Note 6 to the financial statements represents transfers to other government entities of Kshs.49,442,276 which includes transfers to tertiary institutions of Kshs.1,933,640 which further includes Kshs.1,000,000 transferred to Oriwo Youth Polytechnic for the construction of a modern ICT hub. However, procurement documents which included tender evaluation, contract agreement, certificate of work done and payment vouchers were not provided for audit review.

Consequently, the accountability and value for money for the expenditure of Kshs.1,000,000 for the year ended 30 June, 2020 could not be confirmed

3. Sports Expenditure

Note 7 to the financial statements reflects a balance of Kshs.35,338,960 for other grants and other payments which includes Kshs.700,000 in respect of sport activities. This particular expenditure was not supported by the CDF minutes, payment vouchers and user request.

Consequently, the accuracy, validity and completeness of the expenditure of Kshs.700,000 for the year ended 30 June, 2020 could not be confirmed.

4. Misclassification of Expenditure

Note 7 to the financial statements reflects a balance of Kshs.35,338,960 for other grants and other payments out of which Kshs.6,772,878 is for emergency projects which further includes Kshs.1,616,002 paid out for the construction of kodhoch East Chief's Office. However, the ledgers that were provided for audit review revealed that the expenditure was wrongly classified under emergency projects instead of being under security projects.

Consequently, the accuracy and completeness of the emergency projects of Kshs.6,772,878 for the year ended 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 - Kabondo Kasipul Constituency 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

1.1 Receipts Analysis

The summary statement of appropriation; recurrent and development combined for the year under review reflects total budgeted receipts of Kshs.189,364,473 and actual receipts of Kshs.102,053,546 resulting to under realization of Kshs.87,310,927 or 46%.

Overall, the under realization is an indication that some programs and activities that had been planned for were not implemented. There is need therefore for the Fund to review its budget making process with a view to formulating a realistic budget that would be actualized for service delivery to the residents of Kabondo Kasipul Constituency.

In addition, the Board approved a budget of Kshs.189,364,473 to be transferred to the Fund but only Kshs.102,053,546 transferred was resulting to a variance of Kshs.87,310,927. Failure to transfer the Kshs.87,310,927 by the Board translates to loss of anticipated benefits by the residents of Kabondo Kasipul Constituency.

1.2 Expenditure Analysis

The statement of appropriation both recurrent and development for the period ending 30 June 2020 reflects total expenditure budget of Kshs.189,364,472 against total actual expenditure of Kshs.103,779,386 resulting to an overall under expenditure of Kshs.85,585,086.

Overall, the Fund failed to actualize its budget by Kshs.85,585,086 or 45% performance, an indication that some of the programmes and activities that had been planned were not implemented, contrary to the Public Finance Management Act, 2012 (31) which requires Accounting Officers to ensure that all services which can be

reasonably foreseen are included in the estimates and that they are within the capacity of the Fund during the financial year.

Further, the Fund underspent its budget by Kshs.85,585,086 in the year under review. However, included in the under expenditure is Kshs.467,170 in respect to cash at bank, being funds released by the Board but not spent by the Fund. Failure to spend funds denied the residents of Kabondo Kasipul Constituency equivalent services.

2. Unimplemented Projects

Review of the approved budget for the 2019/2020 financial year revealed that thirty-seven (37) projects had been approved by the board for implementation all valued at Kshs.43,851,388. However, examination of records and physical verification of the projects revealed that these projects had not yet been started at the closure of the financial year under review.

In the circumstances, the residents of Kabondo Kasipul did not therefore get the expected services equivalent to Kshs.43,851,388 being the budget projects that had not started. This is an indication of inappropriate project implementation mechanism. Therefore, there is need for the Fund to review its project planning mechanism with a view to prioritizing projects which will be implemented during the financial year resulting to higher impact in improving service delivery to the residents.

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 matter(s) 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 a Modern Toilet at Kolweny Primary school

Note 6 to the financial statements reflects transfer to other Government entities balance of Kshs.49,442,276 which includes Kshs.32,358,636 being transfers to Primary schools which further included Kshs.300,000 for the construction of a five door modern toilet at the above school. A physical verification of the project carried out in the month of January, 2021 revealed that the project had not been done and the contractor was not on site. A shallow hole had only been excavated.

Consequently, the accountability and value for money of the expenditure of Kshs.300,000 for the year ended 30 June, 2020 could not be confirmed.

2.0 Reallocation of Funds

2.1 Construction of Classrooms at Ringa Boys High School

Note 6 to the financial statement reflects transfers to other Government entities balance of Kshs.49,442,276 which includes Kshs.15,150,000 being transfers to secondary schools. This further included Kshs.1,300,000 for the construction of two classrooms at the above School. However, a physical verification revealed that instead of constructing two classrooms, the project management committee constructed a dormitory block. However, the change of activity was not authorized by the Board contrary to section 6(2) of the National Government Constituencies Development Fund Act, 2015 which state that “once funds are allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose during the financial year with the approval of the Board.”

Consequently, the Fund Management was in breach of the law.

2.2 Renovation of Classrooms at Abuoye Primary School

Note 6 to the financial statements reflects transfers to other Government entities balance of Kshs.49,442,276 which includes Kshs.32,358,636 being transfers to Primary schools which further included Kshs.400,000 for the renovation of three classrooms at Abuoye Primary school. However, a physical verification revealed that the two classrooms were renovated only. This change of activity was not authorized by the Board contrary to section 6(2) of the National Government Constituencies Development Fund Act 2015 which state that, “once funds are allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose during the financial year with the approval of the Board.”

Consequently, the Fund Management was in breach of the law.

3. Poor Workmanship in Projects Implementation

Note 6 to the financial statements reflects a balance of Kshs.49,442,276 as transfers to other Government entities which in turn includes an amount of Kshs.7,161,965 incurred on renovation, construction and completion of 8 schools (4 secondary and 4 primary schools). However, a physical verification of the projects carried out in the month of January, 2021 revealed unsatisfactory workmanship as shown in the table below;

No.	Institution	Activity	Amount Paid Kshs.	Remarks
1.	Osuri Primary School	Renovation of Eight Classrooms to Completion	761,965	Leaking Verandah Roof, Cracking Walls
2.	Anjech Primary	Renovation of Three Classrooms	700,000	Cracks on Internal and External Walls
3.	Kolwa Primary	Construction of One New Classroom	650,000	Warping Beams and Slanting

No.	Institution	Activity	Amount Paid Kshs.	Remarks
				Verandah Columns
4.	Kogalo Primary	Renovation of 3 Classrooms	500,000	Peeling Paint, Cracked Floor
5.	Ongoro Secondary	Construction of New Classroom to Completion	550,000	Cracked Floor
6.	Ogilo Secondary	Construction of One New Classroom	800,000	Cracked Floor
7.	Danis Obara Secondary	Completion Phase One Administration Block	2,900,000	Cracked Walls and Beam
8.	Kowidi Mixed Secondary	Completion One Classroom	300,000	Cracking Floor
9.		Total	7,161,965	

The Fund was in breach of Section 150(1) of the Public Procurement and Asset Disposal Act 2015 which states that” An Accounting Officer or his or her appointed representative shall be responsible for ensuring that the goods, works and services are of the right quality and quantity.”

Consequently, the accountability and value for money for the expenditure of Kshs.7,161,965 for the year ended 30 June, 2020 could not be confirmed.

Basis for Conclusion

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.

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 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 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 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 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 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

04 February, 2022