

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – KANDARA 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 – Kandara Constituency set out on pages 12 to 40, 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 – Kandara 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

1.0 Receipts

The statement of receipts and payments reflects total receipts of Kshs.123,040,876 for the year ended 30 June, 2020. However, the summary statement of appropriation; recurrent and development combined indicate actual receipts of Kshs.130,751,877 for the year. The difference amounting to Kshs.7,711,001 between the two sets of records was not explained or reconciled. Further, receipts in respect of sale of tenders amounting to Kshs.29,000 were not disclosed in the financial statements.

Consequently, the accuracy and completeness of the receipts for the year ended 30 June, 2020 could not be ascertained.

2.0 Transfer to Other Government Entities

The statement of receipts and payments for the year ended 30 June, 2020 reflects transfer to other government entities amounting to Kshs.63,762,425. However, review of expenditure records revealed a payment of Kshs.2,847,495 in respect of construction of

washrooms at Kandara Technical Training Institute which was excluded from the expenditure ledger for the year under review, hence understating the expenditure in the financial statements by the same amount.

Consequently, the accuracy of transfers to other government entities amount of Kshs.63,762,425 for the year under review could not be confirmed.

3.0 Unsupported Utilization of Provisional Sums

The statement of receipts and payments reflect Kshs.63,762,425 and Kshs.46,394,554 under transfer to other government entities and other grants and transfers respectively, towards to implementation of various projects. Examination of bills of quantities for forty (40) projects revealed a general provisional sum of Kshs.55,000 for each project described as contingencies. However, the sums were not supported by expenditure returns, certificate of works and reports of County Works Officer indicating how the contingencies were utilized and accounted for.

Consequently, the validity of the expenditure totalling Kshs.2,200,000 on contingencies for the forty (40) projects could not be confirmed.

4.0 Project Management Committees (PMC) Bank Accounts

Disclosed under Annex 5 to the financial statements are unutilized balances totalling Kshs.3,252,426 and Kshs.11,410,465 in respect of Project Management Committee (PMC) bank accounts as at 30 June, 2020 and 30 June, 2019 respectively. However, bank statements and expenditure returns for unutilized funds amounting to Kshs.11,410,465 in the PMC bank accounts brought forward from 2018/2019 financial year were not provided for audit review.

Further, no explanation was given for failure to close the accounts and transfer the balances to the Constituency bank account. This was contrary to Section 12(8) of the National Government Constituencies Development Fund Act, 2015, which requires all unutilized funds by the Project Management Committees to be returned to the Constituency Fund account.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Kandara 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. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1.0 Prior Year Unresolved Issues

In the report of the previous year, several issues were raised under Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, although the Management has indicated that all the issues have been resolved, the matters remained unresolved as the National Assembly was yet to deliberate on the audit report for 2018/2019.

2.0 Budget Execution

The statement of appropriation: recurrent and Development combined for the year under review reflects that the Constituency received a total of Kshs.130,751,877 from the National Government Constituencies Development Fund Board against a budget of Kshs.200,119,601 resulting in a shortfall of Kshs.69,367,724 or 35% of the budgeted amount.

Further, the total actual expenditure for the year was Kshs.118,562,982 representing an absorption rate of 91% of the actual receipts. No satisfactory explanation was provided for failure to utilize the funds received fully, which in turn impacted negatively on service delivery to the residents of Kandara Constituency.

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 of 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

1.0 Bursary to Needy Students

Disclosed in Note 7 to the financial statements under other grants and transfers are payments of Kshs.15,306,000 and Kshs.6,877,000 for bursary - secondary schools and bursary - tertiary institutions respectively. However, the disbursements were not supported with acknowledgement letters or receipts from the schools and institutions confirming receipt of the bursaries and distribution to the intended beneficiaries.

2.0 Failure to Label Projects

The statement of receipts and payments for the year under review reflects other grants and transfers expenditure of Kshs.46,394,554. The amount includes expenditure of Kshs.11,186,896 in respect of emergency projects, out of which, an amount of Kshs.5,679,445 was spent on emergency projects in six primary schools. However, an inspection carried out in those schools revealed that the projects were not labeled with a plaque, signage or any form of labeling to indicate the implementing agency and the financial year they relate to.

No explanation was provided for the omission.

3.0 Environment Projects

Disclosed in Note 7 to the financial statements is other grants and other payments expenditure amounting to Kshs.46,394,554. Included in the expenditure is Kshs.4,928,172 incurred on environment projects. The projects entailed construction of concrete stand base and supply of water tank, and installation of gutters. However, procurement records including tender opening, evaluation and award minutes were not provided for audit review. Further, physical inspection of the projects revealed that installation of fascia board nailed to rafters at the cost of Kshs.89,400 was not done despite being included in the bill of quantities for the project.

As a result, the value for money of the expenditure of Kshs.4,928,172 incurred on the environment projects during the year could not be confirmed.

4.0 Construction of Classrooms at Githuya Primary School

Disclosed in Note 6 to the financial statements under transfer to other government entities is an expenditure of Kshs.33,875,255 under transfer to primary schools. The amount includes a disbursement of Kshs.3,058,188 to Githuya primary school for construction and completion of two classrooms. Review of records revealed that the project was initiated in 2018/2019 financial year and entailed construction of 2 storey classroom block, which was corroborated in the bill of quantities. However, the tender acceptance letter and contract agreement indicated that the works entailed renovation of classrooms and construction of a laboratory to completion. The inconsistencies in scope of works were not explained.

Consequently, the occurrence and validity of the expenditure of Kshs.3,058,188 could not be confirmed.

5.0 Unsupported Committee Allowances

Note 5 of the financial statements reflects use of goods and services payments totalling Kshs.1,962,970 made in respect of committee allowance. However, the payments were not supported with relevant monitoring and evaluation reports, committee minutes, travel documents such work tickets or bus fare tickets and signed participants' attendance lists.

In view of the missing information, the occurrence and validity of the expenditures totalling Kshs.1,962,970 incurred on committee allowance 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 governance.

In preparing the financial statements, Management is responsible for assessing the Funds 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 either to terminate the Fund or to cease operation.

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 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 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 National Government Constituencies Development Fund – Kandara Constituency 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 sustaining 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 National Government Constituencies Development Fund - Kandara Constituency 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

02 February, 2022