

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KANGUNDO 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 - Kangundo Constituency set out on pages 14 to 49, 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 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 - Kangundo 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

1.0 Inaccuracy of Cash and Cash Equivalents Balances

As disclosed under Note 10A to the financial statements, The Statement of assets and liabilities reflects Kshs.13,768,856 in respect to bank balances as at 30 June, 2020. A review of the bank's reconciliation statement for the month of June 2020, provided for audit, revealed unrepresented cheques amounting to Kshs.5,949,728 which include stale cheques as at 30 June, 2020 totalling Kshs.52,866 that had not been written back in the cash book.

No explanation was provided for the failure to write back the stale cheques. Consequently, the accuracy of cash and cash equivalents balance of Kshs.13,768,856 as at 30 June, 2020 could not be confirmed.

2.0 Unsupported Training Expense

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.6,413,999 as disclosed under Note 5 to the financial statements. This amount includes Kshs.389,000 which was incurred on staff training held in August, 2019 at a local hotel. However, no adequate relevant supporting documents including attendance registers and back to office reports were provided to confirm that the training took place.

In the absence of adequate supporting documents, the validity and accuracy of the expenditure of Kshs.389,000 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 - Kangundo 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 are no key audit matters to report in the year under review.

Other Matter

Budgetary Control and Performance

The summary statement of appropriation; recurrent and development combined, reflects a receipts budget and actual amounts on comparable basis of Kshs.178,513,994 and Kshs.109,146,270 respectively, resulting in an under-funding of Kshs.69,367,724 or 39% of the approved budget. Similarly, the Fund spent Kshs.95,377,414, against an approved budget of Kshs.178,513,994 resulting in under absorption of the Kshs.83,136,580 47% of budget.

The under-funding and under absorption of the budget implies that some of the planned projects and programmes were not implemented and may have negatively impacted on service delivery to the public.

3.0 Presentation and Disclosures in the Financial Statements

Review of the financial statements presented for audit revealed the following anomalies in the presentation of the financial statements:

- 3.1** Financial statements show inconsistencies in paging of financial report as page numbering starts from page 1 to 28, then starts again on page 18 thus duplication.
- 3.2** The headers on the page 18 on significant accounting policies reads 'Gilgil Constituency' instead of Kangundo Constituency.
- 3.3** There is no disclosure in the financial statements regarding ownership of land where NG-CDF Kangundo Offices are erected.

In the circumstances, presentation and disclosures of the financial statements do not fully comply with the reporting template issued by the Public Sector Accounting Standards Board.

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

1.0 Failure to Remit Pay as You Earn (P.A.Y.E) Deductions

The statement of receipts and payments reflects compensation of employees amount of Kshs.2,745,926. A review of compensation of employees records revealed that the Fund failed to remit Pay As You Earn (P.A.Y.E.) deductions for the months of March and April, 2020 to Kenya Revenue Authority within the stipulated timelines. As a result, penalties and interest amounting to Kshs.694,372 were levied on the Fund bringing the total outstanding P.A.Y.E. to Kshs.1,028,103 as at 30 June, 2020. No explanation was provided for the anomaly.

Failure to remit PAYE within the stipulated timelines is a contravention of the provisions Income Tax Act Cap. 470.

2.0 Project Implementation Status

2.1 Delay in Completion of Projects

During the year under audit, a total of Kshs.137,767,724 was allocated for implementation of one hundred and sixteen (116) projects. Review of the project implementation status revealed that, fifty (50) projects worth Kshs.9,750,000 were completed during the year while thirty-four (34) projects with a total cost of Kshs.80,150,040 were on-going. The remaining thirty-two (32) projects, worth Kshs.47,867,684 had not commenced. No explanation was given for the anomaly.

2.2 Contract for Renovation of Dining Hall at Kathithyamaa Secondary School

Included in transfers to other government entities balance disclosed under Note 6 to the financial statements is transfers to secondary schools balance of Kshs.9,443,370 which includes an amount of Kshs.3,800,000 transferred to the (Project Management Committee (PMC) of Kathithyamaa Secondary School for the renovation of a dining hall. The contract for the renovation works was awarded on 30 June, 2020 at a contract sum of Kshs.3,610,000. Physical inspection conducted in January, 2021 revealed that plumbing and drainage works for gutters and downward pipes worth Kshs.210,000 had not been done despite the contractor having been paid the total contract sum of Kshs.3,610,000 including the retention money.

In the circumstances, no value for money may not have been realized from the Kshs.210,000 which was paid for work not done.

2.3 Unsupported Payments for Provisional Sums and Contingencies

During the year under review, the Fund paid Kshs.7,192,208 on account of three (3) projects which included Kshs.230,000 paid as provisional sums for which no relevant supporting documents were provided as detailed out in table below;

Project Details	Contractor	Contract sum paid Kshs.	Provisional Sums Kshs.
Renovation of 4 classrooms at Kilalani Township Primary School.	Vithek Enterprises Ltd	1,517,396	50,000
Construction of three classrooms at Kakuyuni Secondary School.	M/s Southern Atlas International Co. Ltd	3,397,814	120,000
Construction of 2 classrooms at ABC Katatha Maweu Primary School	M/s Lamana Global Technology	2,276,998	60,000
Total Amount (Kshs.)		7,192,208	230,000

Consequently, it has not been possible to confirm the validity and value for money from the Kshs.230,000 payment on the projects.

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 overall 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 overall 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 continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of 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 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 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 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

11 February, 2022