

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KASIPUL 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 - Kasipul Constituency set out on pages 26 to 65, which comprise the statement of assets and liabilities as at 30 June, 2020, and the statement 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 - 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1.0 Summary Statement of Appropriation

Included in the summary statement of appropriation-recurrent and development combined for the year ended 30 June, 2019 are adjustments of Kshs.64,739,328 for both receipts and payments. The adjustments are in respect to payments for compensation of employees, use of goods and services, transfers to other government units, other grants and transfers, acquisition of assets and other payments of Kshs.486,030, Kshs.4,547,745, Kshs.29,704,204, Kshs.28,939,150, Kshs.550,000 and Kshs.512,199 respectively. However, detailed schedule of the projects and programmes in the approved code list for the prior year which were to be funded during the 2019/2020 financial was not provided for audit review.

In the circumstances, the accuracy and completeness of the summary statement of appropriation for the year ended 30 June, 2020 could not be confirmed.

2.0 Project Management Committee (PMC) Accounts

Annex 5 to the financial statements reflects Kshs.11,184,421 in respect to bank balances for PMC accounts as at 30 June, 2020. However, Management did not provide respective cash books and bank reconciliation statements for audit review.

Consequently, the accuracy, validity and completeness of the project management committee accounts balance of Kshs.11,184,421 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 - Kasipul 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 reflects final receipts budget and actual on comparable basis of Kshs.202,107,052 and Kshs.132,739,329 respectively resulting to an under-funding of Kshs.69,367,724 or 34% of the budget. Similarly, the Fund expended Kshs.127,308,372 against an approved budget of Kshs.202,107,052 resulting to an under-expenditure of Kshs.74,798,680 or 37% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Kasipul 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 on Lawfulness and Effectiveness in Use of Public Resources sections 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 Key Ongoing Projects

Review of projects implementation status report provided for audit review revealed that ten (10) projects with budgeted cost of Kshs.11,200,204 were on-going as at 30 June, 2020. Physical verification of the projects revealed unsatisfactory matters as summarized in **Appendix I**.

Although the projects had been planned to be completed by 30 June, 2020, as at the time of audit in January, 2021, the projects had not been completed. The slow pace of projects implementation may negatively affect goods and service delivery to the residents of Kisipul Constituency and the intended purpose of the projects may not be actualized.

2.0 Transfer to Other Government Entities

2.1 Construction of One Storey Dormitory at Wire Secondary

Note 6 to the financial statements reflects Kshs.68,264,204.00 in respect to transfers to other Government entities which includes Kshs.37,854,204 in respect to transfers to Secondary Schools of which further includes Kshs.900,000 for construction of one storey dormitory at Wire Secondary. Physical verification of the project on 21 January, 2021 revealed that the one storey building is not supported by a strong foundation thus increasing risk of collapsing. It was also noted that the project is labour based and of poor workmanship.

Consequently, the regularity and value for money of expenditure of Kshs.900,000 for the year ended 30 June, 2020 could not be confirmed.

3.0 Reallocation of Funds Without Authority from The Board

Note 6 to the financial statements reflects Kshs.30,410,000 in respect to transfers to Primary Schools which includes Kshs.1,780,000 for construction of classrooms at two primary schools as detailed below:-

School	Approved Works/Activity	Change to	Amount Paid Kshs.
Kaditonge Primary School	Renovations of 3 classrooms and fencing	Construction of one classroom to completion and fencing	1,030,000
Saye Primary School	Renovations of 3 classrooms	Construction of one classroom to completion	750,000
Total			1,780,000

The two schools received funding for renovations of classrooms, however, according to the schedule provided for audit review, there was a change of activities without seeking approval from the NGCDF Board. This is contrary to section Section 6(2) of the National Government Constituency Development Fund Act, 2015 that states 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 approval of the NGCDF Board. Further, Project Management Committees should only implement approved projects.

Consequently, the Fund Management is in breach of the Law.

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

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 sustain services, disclosing, as applicable, matters related sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or 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 financial reporting process, reviewing the effectiveness of how the Management Fund 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 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 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 Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with 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

Appendix I – Schedule of Ongoing Projects as at 30 June, 2020

Project	Activiies	Amount Paid Kshs.	Status
Kalanding Mixed Secondary School	Construction of 40 Student Capacity Laboratory to completion	2,500,000	Foundations, Walling, Roof completed Lab Working Tables under construction Paint works not done Electrical works not done Branding not done
Nyatindo Mixed Secondary School	Construction of library	1,300,000	Only foundations and Walling done Plastering, Roofing and Fittings not done Not branded
Aolo Girls Secondary School	Construction of Dormitory	1,000,204	Foundations and Walling to lintel level done Project not branded
Saye Mixed Secondary School	Completion of Library. Plastering, Fittings and Painting	800,000	Foundations, Walling, and 1 st floor slab done Project not branded
Kachieng Mixed Secondary School	Completion of Administration block: Walling, Plastering, Fittings and Painting	800,000	Project Incomplete Plastering, Fittings and Painting not done Project not branded
Eng. Peter Owidi Nyahera Girls Secondary School	Completion of a Laboratory: Walling, Fittings and Roofing	800,000	Labour based project Walling, Fittings and Roofing done Project not branded
St. Peters Kotieno Mixed Secondary School	Completion of dormitory: Walling, Roofing and Fittings	800,000	Labour based Project incomplete First section complete and in use Second section is at Walling level Project not branded
Kisuri Primary School	Construction of Administration Block	1,200,000	Foundations, Walling and Roofing done Project not branded
Opondo Primary School	Construction of Administration Block to roof level	1,000,000	Foundations, Walling and Roofing done Project not branded
St. Charles Kauko Primary School	Construction of Administration Block to roof level	1,000,000	Foundations, Walling and Roofing done Project not completed no branding