

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – KIAMBAA 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 - Kiambaa Constituency set out on pages 16 to 42, 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 effects of the matter 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 - Kiambaa 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

Inaccurate Comparative Project Management Committee Bank Balances

Note 17.4 (other important disclosures) to the financial statements reflects comparative PMC bank balances of Kshs.11,627,849. However, the annex 5 and audited 2018/2019 financial statements reflected balance of Kshs.7,212,901 resulting in unexplained and unreconciled difference of Kshs.4,414,948.

In the circumstances, the accuracy of the Kshs.11,627,849 reported as PMC account 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 - Kiambaa 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

1. Budgetary Control and Performance

The Summary statement of appropriation: recurrent and development combined reflects receipts budget and actual amount on comparable basis of Kshs.209,090,900 and Kshs.139,383,176 respectively resulting in underfunding of Kshs.69,707,724 or 67% of the approved budget. Further, out of the receipts amount of Kshs.139,383,176, only Kshs.126,231,888 was utilized resulting in under absorption of Kshs.13,151,288 or 9% of the available receipts.

The underfunding and under absorption affected the planned activities and may have impacted negatively on service delivery to the residents.

2. Prior Year Audit Matters

The Kiambaa NGCDF Management did not indicate the status and follow up of audit recommendations reported in the previous financial years as required in the reporting template prescribed 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. Unconfirmed Bursary to Needy Students

As disclosed under Note 7 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.42,209,831 in respect of other grants and transfers out of which Kshs.1,124,233 and Kshs.3,228,571 related to bursary for secondary schools and tertiary institutions respectively. However, no adequate relevant supporting documents were provided for audit to show how applications for bursaries were invited and evaluated. It was therefore not possible to confirm whether, the bursaries were awarded to needy and deserving students through an open and transparent process.

Consequently, it could not be ascertained whether the bursaries of Kshs.4,352,804 for the year ended 30 June, 2020 reached the intended beneficiaries and were properly accounted.

2. Projects Verification

2.1 Unutilized facility – Lower Kihara Primary School

As disclosed under note 6 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.73,420,000 in respect of transfer to other government entities which includes Kshs.57,420,000 relating to transfers to primary schools out of which Kshs.2,600,000 was disbursed to Lower Kihara primary school for construction of two ablution blocks. The sum comprised of Kshs.600,000 for construction of boy's aqua toilet and Kshs.2,000,000 for construction of girl's toilet. The contract for construction of 14 doors aqua toilets blocks for boys and girls was awarded to at a cost of Kshs.2,499,750. As at the time of audit in March, 2021, the contractor had been paid a total of Kshs.2,191,345.

Physical verification carried out on 16 March, 2021 established that the project was complete and officially handed over for use on 26 May, 2020. However, the utilization of the facility was stopped a few days after hand over with Management claiming it was due to foul smell emanating from the aqua toilets owing to lack of ventilation. Although the CDF management indicated that the defects had been rectified, no inspection and acceptance report or completion certificate were provided to confirm that it was satisfactory. Further, no evidence was provided indicating that the works were supervised by the Constituency Development Fund Committee and the County Public Works.

Consequently, value for money on the expenditure of Kshs.2,600,000 incurred on the project during the year ended 30 June, 2020 could not be confirmed.

2.2 Incomplete Renovation of Wangunyu Primary School

As disclosed under Note 6 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.73,420,000 in respect of transfer to other government entities which includes Kshs.57,420,000 relating to transfers to primary schools out of which Kshs.3,400,000 was disbursed to Wangunyu primary school for renovation of floor with terrazzo, roofing, plastering walls and painting of 12 classrooms. The amount of Kshs.3,000,000 was disbursed on 27 November, 2019. An additional amount of Kshs.400,000 allocated in 2019/2020 financial year was disbursed on 2 May 2020. The contract for the renovation of 12 classrooms was awarded to a firm at a sum of Kshs.3,036,100. As at the time of the audit in March, 2021, the contractor had been paid a total of Kshs.2,606,112.

However, physical verification carried out on 16 March, 2021 revealed that roofing to one of the twelve (12) classrooms was not done and window locks were not fitted. Management explained that the roofing material in the bill of quantity could only

complete 11 and not 12 classrooms and variation of the project could not be done since the contract period was less than 12 months. The explanation was not convincing given the fact that the County Public Works prepared the bill of quantity and estimates for 12 classrooms and not 11 that were done. Further, the Management has not provided any evidence of the measures taken to complete the works.

As a result, the validity and value for money of the expenditure of Kshs.3,400,000 disbursed to Wangunyu primary school could not be confirmed.

2.3 Delay in Implementation of Kiambaa Police Post Reporting Office

As disclosed under Note 7 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.42,209,831 in respect of other grants and other payments which includes Kshs.21,277,027 for security projects out of which Kshs.6,289,747 was disbursed to Kiambaa police post. The amount comprised of Kshs.1,500,000 for construction of reporting office to completion, Kshs.500,000 for construction of two doors bio-aqua toilet and Kshs.4,289,747.59 for construction of 5 doors police house.

Physical verification carried out on 16 March, 2021 revealed that the construction of police houses and ablution block were ongoing. However, construction of the proposed reporting office had not commenced. No explanation was provided for the delay in implementing the project.

2.4 Unutilized Energy Saving Jiko

As disclosed under note 6 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.73,420,000 for transfers to other government entities which includes an expenditure of Kshs.57,420,000 on transfers to primary schools out of which Kshs.3,300,000 was disbursed for supply and installation of Energy Saving Jikos Project in 11 primary schools in the Constituency. Records provided indicated that the tender was awarded to a company at a sum of Kshs.3,190,000. Further, project status report indicated that supply and installation of energy saving jiko was complete and the supplier had been paid a total of Kshs.2,813,000.

However, physical verification carried out on 16 March, 2021 in five (5) primary schools namely, Gachie, Kamuiru, Karuri, Kawaida and Wangunyu primary schools revealed that supply and installation of the energy saving jikos were complete but had not been put to use casting doubt on whether a needs assessment was done. Further, project proposal from the schools requesting for the project and minutes of public participation carried out prior to implementation of the project were not provided for audit.

As a result, it has not been possible to confirm whether value for money was obtained on the expenditure of Kshs.3,300,000 for supply of energy saving jikos.

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 ability of the Fund to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intentions 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 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 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 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 ability of the Fund 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 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