

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KIGUMO 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-Kigumo Constituency set out on pages 21 to 57, 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 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 National Government Constituencies Development Fund- Kigumo 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. Project Management Committees (PMC) Bank Accounts

Disclosed under Annex 5 to the financial statements are unutilized balances totalling Kshs.10,645,133 and Kshs.16,823,787 in respect of seventeen(17) and forty three (43) Project Management Committee (PMC) bank accounts as at 30 June, 2020 and as at 30 June, 2019 respectively. However, bank confirmation certificates and expenditure return for funds amounting to Kshs.16,823,787 in respect of PMC bank accounts as at 30 June, 2019 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 is contrary to Section 12(8) of the NGCDF Act, 2015, which requires that all unutilized funds of the project management committee shall be returned to the Constituency account.

2. Other Grants and Transfers

3.1 Unconfirmed Bursary Payments

Note 7 to the financial statements reflects other grants and transfers amounting to Kshs.14,034,500 and Kshs.16,487,000 for bursary-secondary schools and bursary-tertiary institutions respectively. However, acknowledgement letters or receipts from secondary schools and tertiary institutions which were paid bursaries totalling Kshs.14,034,500 and Kshs.6,889,000 respectively were not provided for audit review. Further, a review of list of beneficiaries showed some students were awarded bursaries more than once without explanation or any justification hence denying bursary to other needy students.

Consequently, it was not possible to ascertain whether the bursaries were paid to the intended beneficiaries and were properly accounted for.

3.2 Training of Youth on Driving Skills (Boda Boda riders)

Note 7 to the financial statements reflects an expenditure of Kshs.16,487,000 on bursary to tertiary institutions. This expenditure further includes an amount of Kshs.6,000,000 which was paid to a driving school in respect of training of "boda boda" riders in the Constituency. However, acknowledgement receipt or confirmation letter and copies of driving license for the riders were not provided for audit verification.

Consequently, the validity of the expenditure of Kshs.6,000,000 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 - Kigumo 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. Follow up on Prior Year Unresolved Audit Issues

In the report of the previous year, several issues were raised under Report on the 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 has yet to deliberate on the audit report for 2018/2019.

2. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined for the year under review reflects total budgeted receipts of Kshs.208,824,223 and actual receipts of Kshs.139,456,499 resulting to underfunding of Kshs.69,367,724 or 33% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totaling to Kshs.208,824,223 and Kshs.113,112,009 respectively, resulting to an under expenditure amounting to Kshs.95,829,214 or 46% of the budget.

The underfunding and under expenditure may have affected delivery of services to the residents of the 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. Project Verification

During the financial year under review, Kigumo NGCDF disbursed funds totalling Kshs.65,806,576 and Kshs.38,030,241 under transfers to other government units and other grants and transfers respectively for implementation of various projects during the year ended 30 June, 2020.

However, physical verification of twelve (12) projects implemented at a cost of Kshs.30,818,993 revealed unsatisfactory matters as indicated **Appendix 1**.

As a result, the value for money of the expenditure of Kshs.30,818,993 incurred on the projects during the year ended 30 June, 2020 could not be confirmed.

2. Security Projects

2.1 Purchase of Land for Gatia-ini Police Station

Disclosed in Note 7 to the financial statements under other grants and other payments is an expenditure of Kshs.3,200,00 on security projects, out of which an amount of Kshs.1,800,000 was in respect of purchase of parcel of land for the proposed Gatia-ini Police station. The project was approved in 2018/2019 and entailed purchase of land measuring approximately 50 by 100 feet. The parcel of land was purchased and

demarcated for public use. However, the CDF management had not obtained title deed as proof of ownership.

As a result, the regularity and validity of the expenditure of Kshs.1,800,000 incurred on the purchase of land could not be ascertained.

2.2 Construction of Ablution Block at Muthithi Police Station

The expenditure of Kshs.3,200,000 on security projects under other grants and transfers as disclosed in Note 7 to the financial statements also includes Kshs.600,000 for construction of 1 ablution block at Muthithi Police Station. However, physical verification of the project revealed large cracks on the walls and the floor an indication of poor workmanship. No satisfactory explanation was provided by Kigumo CDF management for the failure to ensure completion of the project to the required specifications and quality.

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 overall governance.

In preparing the financial statements, Management is responsible for assessing the ability of National Government Constituencies Development Fund - Kigumo Constituency to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends 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 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 - Kigumo 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 - Kigumo 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

03 February, 2022

Appendix 1

Project Verification Status

	Project category/ Name	Activity	Amount Disbursed (Kshs.)	Observations
	Secondary Schools			
1	St. Francis Muyu-ini Secondary School	Construction of 1 classroom	1,000,000	Physical verification revealed visible cracks on the floor and on the walls
2	Karinga Secondary School	Construction of 2 classrooms to completion	2,000,000	Physical verification revealed visible cracks on the floor and on the walls
3	Wamahiga Secondary School	Purchase of School Bus	7,080,000	Funds allocated in 2016/2017 but utilized in 2019/2020 without justification. Also, logbook for the bus was not presented for audit.
4	Githembe Secondary School	Finishing works for dining hall	3,200,000	The project was initiated in 2015/2016 financial year with allocation of Kshs.1,000,000, and subsequently allocated Kshs.1,500,000 and Kshs.3,200,000 in 2017/2018 and 2018/2019 respectively. However, there was no justification on the delayed completion.
	Primary Schools			
5	Gatitu DEB	Construction of classroom	1,000,000	Visible cracks on the walls, verandah and poorly done paint works
5	Kigumo Primary School	Renovation of 6 classrooms(roof painting, flooring, doors and windows)	1,000,000	Visible cracks on the floor
6	Muthithi Primary School	construction of 1 block-6 door toilet	600,000	Poor finishings and low/poor quality doors
7	Mairi Primary School	Renovation of 6 classrooms(roof painting, flooring, doors and windows)	1,000,000	Visible cracks on the walls, verandah and poorly done paint works
8	Gikarati Primary School	Construction of 1 classroom	1,000,000	Visible cracks on the walls and the floor
9	Mumbu Primary School	Renovation of 6 classrooms (roof painting, flooring, doors and windows)	1,000,000	Poor workmanship on the floor finishing

	Project category/ Name	Activity	Amount Disbursed (Kshs.)	Observations
10	Mbogoini Primary School	Renovation of 6 classrooms (roof painting, flooring, painting doors and windows)	1,000,000	Visible cracks on the floor and verandah
	Tertiary Institution			
11	Kigumo Technical Training Institute	Co-funded Project with Ministry of Education- Construction of Administration Block, 2 lecture halls and workshop	10,000,000	Poor finishes on the floor and walls
	Emergency Project			
12	Githima Police Post	Construction of a block 4-unit police offices to completion	938,993	Inspection carried out in February 2021, revealed that the project had not been implemented despite disbursement of funds in March,2020, hence delayed for about1 year
		Total	30,818,993	