

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – KIMININI 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 - Kiminini Constituency set out on pages 1 to 32, which comprise the statement of financial assets and liabilities as at 30 June, 2020, and the statements of receipts and payments, statement of cash flows and a 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 National Government Constituencies Development Fund - Kiminini 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 Inaccuracies in the Financial Statements

1.1 Variance Between the Financial Statement and the Trial Balance

The statement of receipts and payments and the statement of cash flow for the year ended 30 June, 2020, reflects use of goods and service expenditure of Kshs.12,298,416, while the trial balance reflects a figure of Kshs.12,249,396 resulting in un-explained variance of Kshs.49,020.

1.2 Inaccuracy of Cash and Cash Equivalents Balance

The statement of assets and liabilities as at 30 June, 2020 reflects bank balance of Kshs.30,474,232. However, the respective bank reconciliation statement for the month of June, 2020, reflects un-presented cheques totalling Kshs.2,323,801 which includes cheques totalling Kshs.737,167 that had gone stale and had not been reversed in the cash book as at the time of audit and no explanation was provided for failure to reverse the stale cheques back to cashbook.

In the circumstances, it was not possible to ascertain accuracy and completeness of the cash and cash equivalents balance reflected in the financial statements.

2.0 Unsupported Purchase of Land by Meso Secondary School

The statement of receipts and payments for the year ended 30 June, 2020 reflects transfer to other government entities of Kshs.78,530,000. Included in this balance is Kshs.1,300,000 disbursed to Meso Secondary Project Management Committee (PMC) vide voucher number 3, cheque no. 5574 of 18 July, 2019 towards purchase of one acre of land. Although, a survey and valuation report for the parcel of land purchased was availed, key documents including a land search report and the title deed were not provided for audit review.

In the circumstances, it was not possible to confirm that the land is registered in the name of the school.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Kiminini 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. Unsupported Project Management Committee (PMC) Account Balances

Note 10.2 to the financial statements and as detailed under Annex 3 reflects Project Management Committee (PMC) account balances totalling Kshs.9,596,560 as at 30 June, 2020, relating to seventeen (17) PMC bank accounts. However, the bank reconciliation statements together with the certificate of bank balances as at 30 June, 2020 for Chris Wamalwa Primary School, Milele School, St. Andrew Girls, Namanda Secondary and Simatwet Secondary Schools were not availed for review.

2. Unresolved Prior Year Audit Issues

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the issues. Further, some of the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

3. Budget Performance

3.1 Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.216,615,405 and Kshs.147,247,681 respectively resulting to an under-funding of Kshs.69,367,724 or 32% of the budget. Similarly, the Fund had an approved expenditure budget of Kshs.216,615,405 against an actual expenditure of Kshs.116,773,449 resulting in an under expenditure of Kshs.99,841,956 or 46% of the budget.

Under funding and under performance affected the planned activities and may have impacted negatively on service delivery to the public.

4. Project Implementation Status

The Fund did not have the updated project implementation status and therefore, it was not possible to assess the correct position on the project status.

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. Poor Workmanship on Classroom Project at AIC Kapkoi Sisal Secondary

The fund disbursed a total of Kshs.1,200,000 to AIC Kapkoi Sisal Secondary School Project Management Committee vide payment voucher number 72 and cheque number 6050 towards the construction of two classrooms. A contract was signed on 12 February, 2020 between AIC Kapkoi Secondary and a contractor. A total of Kshs.1,183,116 was paid to the contractor by the school's PMC through payment vouchers Nos. 01 and 02 of Kshs.735,206 and Kshs.447,910 respectively. However, a site visit procedure conducted in February, 2021 revealed the following anomalies;

- The floor had several cracks an indication of poor workmanship done by the contractor.
- The contractor used 30-gauge pre-painted iron sheets instead of 28-gauge as specified in the BQ.

In the circumstance, the residents of Kiminini have not received value for the money spent on the project.

2. Delay in Completion of Dormitory Project at St. Anthony's Boys High School

Included in other grants and other payments of Kshs.24,101,873 is an amount of Kshs.1,100,000 disbursed to St. Anthony's Boys high school for the construction of a dormitory. The contract for the project was awarded to a local firm on 23 October, 2019 at a contract sum of Kshs.2,000,000 for a contract period of 12 weeks. Examination of records provided revealed that an amount of Kshs.1,774,180 was paid to the contractor during the year under review. However, an audit inspection, carried out in February, 2021 revealed that although the substructure, walling, roofing had been done, the project was incomplete as screeding of the floor, glazing and painting works had not been done. Further, the contractor was not on site and the contract period had expired.

In the circumstances, the benefits in the utilization of the project has been delayed, and therefore, the value for the money spent may not have been realized.

3. Purchase of Sports Equipment

Included in the other grants and other payments figure of Kshs.24,101,873 reflected in the statement of receipts and payments is sports projects payment of Kshs.1,003,873 which includes an expenditure of Kshs.100,000 incurred in the procurement of sports equipment by Hill Secondary School. However, receipts, inspection and acceptance certificates, local purchase orders and delivery notes were not provided for audit verification.

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 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 such 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.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain its services and disclosing as applicable matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the 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.

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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

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- 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 cease 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 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