

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KURIA EAST 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 - Kuria East Constituency set out on pages 20 to 41, which comprise the statement of financial assets and liabilities as at 30 June, 2020, 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 - Kuria East 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Expenditure of Projects Management Committees

The statement of receipts and payments reflects Kshs.81,440,000 in respect of transfers to other Government entities. The transfers include Kshs.13,500,000 to various Projects Management Committee (PMC) accounts which were not adequately supported with relevant documents including complete expenditure returns, cash books, payment vouchers for cash withdrawals, stores records, minutes of tender processing committees and report of inspection and acceptance committee approving the goods and services procured.

Consequently, the accuracy and completeness of Kshs.13,500,000 transferred to schools and tertiary institutions could not be confirmed.

2. Projects Management Committees Bank Balances

Disclosed in annex 3 to the financial statements are Projects Management Committees (PMC) account balances totalling Kshs.6,453,515 as at 30 June 2020. However, supporting documents including bank reconciliation statements, bank balances confirmation certificates, cash books and payment vouchers for expenditure from the accounts during the year were not provided for audit review.

Consequently, the accuracy and completeness of the projects management committees account balances of Kshs.6,453,515 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 - Kuria East 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 were 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 final receipts budget and actual on comparable basis of Kshs.180,108,600 and Kshs.147,027,991 respectively resulting to shortfall of Kshs.33,080,610 or 18% of the approved budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.180,108,600 and Kshs.137,226,610 respectively, resulting in underperformance amounting to Kshs.42,881,990 or 24% of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the residents of Kuria East Constituency.

2. Verification of Projects

Physical verification of seven (7) projects with a total disbursement of Kshs.13,000,000 revealed that some of the projects were ongoing, others were complete but not in use, some were completed but not equipped, while others were partly funded hence incomplete and could not be put to use as detailed below:

Payee	Activity	Amount Paid (Kshs.)	Remarks
Masangora Secondary	Construction of Kitchen cum dining capacity of 300 students.	1,000,000	Construction of 300 students' capacity kitchen/ dining hall; roofing, fixing doors, windows, plastering both internal and external and painting done. Project complete but not in use.
Kegonga Boys Secondary	Construction of one storey 300 capacity boy's dormitory.	3,000,000	Construction of one storey 300 capacity boy's dormitory. Project ongoing, slabbing of first floor done while walling, fixing doors, windows, plastering of both internal and external, tiling and painting of first floor not done and works are not branded.
Nyaitara Primary School	Drilling of borehole, installation of overhead tank 3,000L, piping, installation of electric pump and electrical works.	2,000,000	Overhead tank, 3,000L tank, piping, installation of electric pump and electrical works not done. Not put to intended use.
Masangora Girls	Drilling of borehole, installation of overhead tank 3,000L, piping, installation of electric pump and electrical works.	2,000,000	Installation of overhead tank 3,000L, piping, installation of electric pump and electrical works not done. Water used by learners. No sign board nor branded.
Masangora Primary	Renovation of 14 classrooms.	2,000,000	Renovation of 14 classrooms done – re-roofing, flooring, fixing windows and painting done. Doors and glazing not done.
Tungaine Primary	Drilling of borehole, installation of overhead tank 3,000L, piping, installation of electric pump and electrical works.	2,000,000	Drilling of borehole done. Installation of overhead tank 3,000L, piping, installation of electric pump and electrical works yet to be done. No sign board nor branded.
Koromangucha Primary	Completion of administration block with four offices and two classrooms.	1,000,000	Completion of administration block with four offices and two classrooms. Flooring, electrical not done.
Total		13,000,000	

The above projects were expected to be completed by 30 June, 2020. However, as at the time of our audit in January, 2021, they had not been completed. The slow pace of projects implementation may negatively affect service delivery to the constituents of Kuria East and the intended purpose of the projects may not be actualized

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 matter 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

Construction of Dormitory at Matare Boys Secondary

Note 4 to the financial statement reflects transfers to other Government units' expenditure amounting to Kshs.81,440,000. The amount include Kshs.5,000,000 transferred to the PMC account of Matate Boys Secondary School being additional funds for the construction of one storey 300 capacity boy's dormitory. The scope of works entailed slabbing of first floor, walling, fixing doors, windows, plastering both internal and external, tiling and painting. Physical verification done on 4 February, 2021 revealed that the construction of dormitory was complete, however, fixing of doors, windows, plastering both internal and external, tiling and painting works had not been done, and the contractor was not on site.

Consequently, the value for money of Kshs.5,000,000 expenditures for the year ended 30 June, 2020 could not be confirmed.

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 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 the Fund to sustain its services, 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.

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 financial reporting process, reviewing the effectiveness of how the 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 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 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

09 February, 2022