

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LURAMBI 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 - Lurambi Constituency set out on pages 1 to 34, which comprise of the statement of financial assets as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and the 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 - Lurambi Constituency as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and comply with the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

Project Management Committee (PMC) Bank Balances

Note 10.3 to the financial statements reflects Project Management Committee (PMC) accounts balance of Kshs.6,767,270 as at 30 June, 2020 while annex 3 to the financial statement, reflects a balance of Kshs.6,730,241 for the same item resulting to an un-reconciled balance of Kshs.37,029. Further, cashbooks, bank reconciliation statements and certificates of bank balance in support of the PMC balances were not availed for audit review.

In the circumstance, it was not possible to ascertain the accuracy and completeness of the Project Management Committee bank balance of Kshs.6,767,270 as at 30 June, 2020.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Lurambi 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 totalling to Kshs.223,179,117 and Kshs.130,540,876, respectively, resulting to an underfunding amounting to Kshs. 92,638,241 or 42% of the approved budget. Similarly, the Fund expended Kshs.130,889,074 resulting to an under expenditure of Kshs.92,290,069 or 41% of the budgeted amount.

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

2. Projects Implementation Status

According to the Project Implementation Status (PIS) report availed for audit review for the year ended 30 June, 2020, the Fund had planned to implement sixty-eight (68) projects at a budget of Kshs.127,846,692. According to the report, fourth-eight (48) projects were completed at a cost of Kshs.69,796,692, while twenty (20) projects costing Kshs.58,050,000 were still on-going at various levels of completion.

Failure to complete projects as planned denies the residents of Lurambi Constituency the benefits that would have accrued from the completed projects.

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. Construction of Storey Staff Houses at Matende Secondary School

Note 4 to the financial statements reflects transfer to secondary schools amounting to Kshs.16,609,000 which includes an amount of Kshs.1,000,000 transferred to Project Implementation Committee bank account the vide payment voucher number 130 dated 26 June, 2020. The funds were for the construction of storey staff houses at Matende Secondary School. The construction contract was awarded to a local construction company at a contract sum of Ksh.6,800,029 through an agreement signed on

20 July, 2014 and works were to commence immediately. However, as at the time of audit in January, 2021, the project was still incomplete and no explanation was provided for non-completion of the project which has been ongoing for over six and a half years.

Audit verification carried out in January, 2021 revealed that the structure, plastering, plumbing, windows and doors on the ground floor had been done while the first floor houses had not been partitioned. In addition, the building appeared dilapidated and the contractor was not on site implying that the project may have stalled or abandoned. Also, there were no records to indicate how much had been incurred on the building. In addition, the signed contract did not include the contract period and as a result, the expected completion and handed over dates were not known.

Consequently, the delayed completion of the project denies the residents of Lurambi Constituency the benefit from use of the completed project.

2. Construction of Storey Classrooms at Kakamega Muslim Secondary School

Note 4 to the financial statements reflects transfer to secondary schools of Kshs.16,609,000 which includes Kshs.1,000,000 transferred to Kakamega Muslim Secondary on 16 October, 2019 vide payment voucher No.5 towards the construction of storey building for classrooms on labour-based basis. The project records indicate that the works started on 18 September, 2012 with an estimated project cost Kshs.31,000,000. As at the time of audit in January, 2021, the building was still not complete and it appeared stalled. The ground floor, first floor, and second floor slabs had been done but without walling on the first and second floors and the structure looked dilapidated. The first-floor slab was found to be waterlogged which posed danger to the learners.

In the circumstances, the residents of Lurambi Constituency may not have obtained value for money in respect of funds spent on the building.

3. Environmental Project at Eshisiru Primary School

The other grants and transfers amount of Kshs.38,180,298 includes environment expenditure of Kshs.2,254,494 as disclosed in Note 5 to the financial statements. This figure in turn includes an amount of Kshs.1,073,677 paid to Eshisiru Primary School vide payment voucher No. 99 on 17 April, 2020 for the construction of a 10-door pit latrine, purchase of one number 2,500 litre water tank, 10 number (30litre) hand wash cylinders and hand washstands. However, audit verification carried out in January, 2021 indicated that although the toilet had been constructed and put to use, there were no records to confirm that the 2,500-litre water tank, the ten number 30-litre hand wash cylinders were supplied, received and put to the intended use.

Consequently, the residents of Lurambi may not have obtained value for money from the amount of Kshs.1,073,677 disbursed to the school.

4. Security Project at Emusala Administration Police

Note 5 to the financial statements reflects other grants and transfers figure of Kshs.38,180,298 which includes an amount of Kshs.8,300,000 for security. Out of the security transfer is an amount of Kshs.500,000 was transferred to Emusala Administration Police on 31 July, 2019 towards the roofing, electrical works, plumbing works, and flooring of 4 units staff houses. However, although the project was found to be complete and occupied by the police, the plumbing works had not been done.

Consequently, the residents of Lurambi Constituency may not have obtained value for the Kshs.500,000 incurred on the project for the year ended 30 June, 2020.

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 dissolve 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 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.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether 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

15 February, 2022