

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NYAKACH 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 - Nyakach Constituency set out on pages 15 to 53, which comprise the statement of assets and liabilities as at 30 June, 2020, 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 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 - Nyakach 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. Bank Balances

The statement of assets and liabilities reflects bank balances of Kshs.2,826,005 as at 30 June, 2020. The supporting bank reconciliation statements provided for audit review included unrepresented cheques totaling Kshs.17,975,489 out of which cheques of Kshs.4,048,820 had become stale. However, the stale cheques had not been reversed in the cash book. There was also an adjustment of Kshs.460,126 which was not explained.

Further, the cash book recorded a payment dated 6 June, 2020 of Kshs.5,500,000 while the bank statement showed that the cheque was cleared for Kshs.550,000 leading to an understatement of the bank balance by Kshs.4,950,000. This anomaly has not been explained.

There were also payments in the bank statement not yet recorded in the cash book of Kshs.225,531 an indication that the cashbook was not being updated regularly. Further, there were receipts in the cashbook totalling Kshs.2,237,432 for cheques issued between 10 December, 2019 and 27 April, 2020 which had not been recorded in the bank statements. Consequently, the accuracy and completeness of the bank balances of Kshs.2,826,005 as at 30 June, 2020 could not be confirmed.

2. Use of Goods and Services

The statement of receipts and payments reflects use of goods and services balance of Kshs.10,908,070. This amount included utilities, supplies and services of Kshs.3,167,960 as per note 5 to the financial statements of which there were no supporting documents such as fuel registers, approval minutes, monitoring and evaluation reports, stores records, workshop reports, procurement records or justification for payments totalling Kshs.2,887,267. The casting of the items that make up note 5 to the financial statements on use of goods and services gives Kshs.11,682,160 that differs with the Kshs.10,908,070 indicated by Kshs.774,090.

Consequently, the accuracy, validity and completeness of use of goods and services figure of Kshs.10,908,070 for the year ended 30 June, 2020 could not be confirmed.

3. Transfers to Other Government Units

The statement of receipts and payments reflects transfers to other government units balance of Kshs.47,729,423 but the supporting schedules had a figure of Kshs.50,910,240 leading to an unexplained variance of Kshs.3,180,817.

Consequently, the accuracy, validity and completeness of the transfers to other government units of Kshs.47,729,423 for the year ended 30 June, 2020 could not be confirmed.

4. Other Grants and Transfers

The statement of receipts and payments reflects other grants and transfers balance of Kshs.76,981,717 while the supporting schedules had a figure of Kshs.71,626,810 leading to an unexplained variance of Kshs.5,354,907. In addition, two payments for the proposed improvement of Fund office perimeter wall for Kshs.896,000 and for repair and renovation amounting to Kshs.495,950 were funded under emergency projects. The basis for utilization of emergency funds on the projects have not been supported by any documentary evidence or explained.

Consequently, the accuracy, validity and completeness of other grants and transfers balance of Kshs.76.981,717 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 - Nyakach 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

Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.199,476,629 and Kshs.140,074,404 respectively resulting to an under funding of Kshs.59,402,225 or 30% of the budget.

Similarly, the actual expenditure reflects a balance of Kshs.140,074,404 against an approved budget of Kshs.199,476,629 resulting to an under-expenditure of Kshs.59,402,225 or 30% of the budget.

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

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. Change of Activity Without Board Approval

Included in the transfer to other government units balance of Kshs.47,729,423 as per the statement of receipts and payments are transfers of Kshs.34,800,000 to primary schools. However, eight (8) schools that received Kshs.3,600,000 carried out activities that were different from those approved by the Board as follows:-

No.	Project Name	Approved Activity	Activity Done	Amount Kshs.
1.	Ngege Primary school	Construction of 1 Classroom	Renovation of the existing class	500,000
2.	Kodum Primary School	Construction of 1 Classroom	Renovation of 3 classrooms	500,000
3.	Ragen Primary School	Construction of 1 Classroom	Renovation of classrooms	500,000
4.	Pedo Primary School	Construction of 1 Classroom	Renovation of classroom	500,000
5.	Nyakach Mixed Primary school	Construction of 1 Classroom	Renovation of 2 classrooms	500,000

No.	Project Name	Approved Activity	Activity Done	Amount Kshs.
6.	Asao Primary School	Roofing of 2 classrooms	Completing 3 classrooms and staffroom	500,000
7.	St Peters Kogola Primary School	Construction of 1 classroom	Completion of administration block and staffroom plastering roofing and tiling ceiling and painting	500,000
8.	Ngege Primary School	Plastering and painting classroom	Construction of 2 pit latrines. The latrines were not labelled.	100,000
	Total			3,600,000

The use of funds for different activities contravenes Section 6(2) of the National Government Constituencies Development Fund Act, 2015 which states that once funds are allocated for a particular project they shall remain for that project unless reallocated with the approval of the National Government Constituencies Development Fund Board. The project management committees (PMCs) were therefore in contravention of the law.

2. Irregular Procurement of a Contractor

Included in the transfer to other government units balance of Kshs.47,729,423 in the statement of receipts and payments are transfers of Kshs.11,929,423 to secondary schools. In this amount were transfers to two schools namely; Bishop N.K Ngala and Moro secondary school paid Kshs.500,000 each for the construction of a classroom.

A single contractor bid for the works in the two schools but respective PMCs failed to re-advertise the works as per Public Procurement and Asset Disposal Act, 2015 section 106(2b) which advises that the request shall be given to as many persons as necessary to ensure effective competition. The Project Management Committees were therefore in contravention of the law.

Basis for Conclusion

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 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.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain 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 manner.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

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 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 Fund's ability to continue 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 to continue 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 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

11 February, 2022