

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NYERI TOWN 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 - Nyeri Town Constituency set out on pages 13 to 48, which comprise the statement of assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows, 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- Nyeri Town 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Misstated Net Assets

The statement of assets and liabilities as at 30 June 2020 reflects net financial assets and total financial liabilities balances of Kshs.32,385,611 and Kshs.484,074, respectively. However, the statement indicates the net effect to be net liabilities instead of the true financial position of net assets balance of Kshs.32,385,611. No explanation was provided for this anomaly.

In the circumstances, the accuracy of the net liabilities of Kshs.32,385,611 reflected in the statement of financial position as at 30 June, 2020 cannot be confirmed.

2. Bank Balances

As disclosed under Note 10A to the financial statements, the statement of assets and liabilities as at 30 June, 2020 reflects a bank balance of Kshs.32,869,685. However, the bank reconciliation statement for the month of June, 2020 includes unrepresented cheques totaling Kshs.48,983,408.26 out of which cheques amounting to Kshs.1,280,309.71 were stale as at that date with some dating back to the year 2016. No explanation was provided for failure to reverse the cheques in the cash book. Consequently, the accuracy of the bank balance of Kshs.32,869,685 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 National Government Constituencies Development Fund - Nyeri Town 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 summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.253,692,482 and Kshs.153,824,758 respectively and final expenditure receipts and actual on comparable basis of Kshs.252,492,482 and Kshs.121,341,014 respectively resulting to an under-funding of Kshs.99,867,725 or 39% of the budget and an under-absorption rate of 48%. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Nyeri Town Constituency.

In addition, the statement as prepared is not balanced with an unexplained variance of Kshs.1,200,000.

Failure to implement projects fully and to absorb in full the funds budgeted for denied the residents the benefits accruing from the planned projects, programmes and activities.

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. Acquisition of Assets – Purchase of Laptop at Inflated Price

As disclosed in note 8 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.3,305,767 in respect of acquisition of assets which included an amount of Kshs.929,100 for purchase of other office equipment, out of which, Kshs.397,000 was incurred on purchase of a laptop computer. A review of records indicates that the procurement was through request for quotations method. According to tender evaluation signed by three members, three bids with prices of Kshs.397,000, Kshs.560,000 and Kshs.605,000 in respect to quotation No. NGR/COMP/2019/2020/004 for supply of HP x360 spectre core 17, Ram 16GB laptop were evaluated, and the lowest bidder was recommended to supply the laptop at a price of Kshs.397,000.

However, the bids submitted appear incomparable in determining the least cost, and the pre-qualified list of suppliers for the year under review was not provided. Further, a comparison of purchase price of Kshs.397,000 with known market prices, was far much higher and above the prevailing market prices of between Kshs.105,000 and Kshs.165,000 price index of February, 2021 resulting in a possible loss of Kshs.232,000 contrary to Section 54(2) of the Public Procurement and Asset Disposal Act, 2015 which requires standard goods, services and works with known market prices to be procured at the prevailing market prices.

As a result, the value for money and regularity of the Kshs.397,000 incurred on purchase of laptop could not be confirmed.

2. Delayed Implementation of Projects

As disclosed under notes 6 and 7 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.57,100,000 and Kshs.46,736,523 in respect of transfer to other government entities and other grants and other payments respectively.

A review of the project implementation status report provided revealed that transfers totaling Kshs.18,800,000 disbursed to project management committees for implementation of thirteen projects had not been utilized as at the time of audit in January, 2021 as follows:

Financial year contract awarded	Project name	Project amount (Kshs)
2019/2020	King'ong'o Primary School	2,500,000
2019/2020	Kiganjo Primary School	1,600,000
2019/2020	Tetu Boys Primary School	2,000,000
2019/2020	Mairwe Primary School	1,600,000
2019/2020	St Vincent Kiamuiru Secondary School	1,500,000
2019/2020	Ngangarithi Secondary School	2,000,000
2019/2020	Nyeri High Secondary School	1,500,000
2017/2018	Mununga-ini chief camp	200,000
2018/2019	Ndurutu Police Post	1,000,000
2018/2019	Githiru Police post	2,000,000
2019/2020	Nyaribo Police Post	1,500,000
2019/2020	Kandara Police Post	1,000,000
2019/2020	Ndurutu Police Post	400,000
Total		18,800,000

No explanation was given as to why the funds were lying idle in the bank accounts for such a long time and hence denying the constituents of Nyeri town the benefits accruing from the use of the funds.

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 governance.

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 way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the 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.

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

04 February, 2022