

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – THIKA 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 – Thika Town Constituency set out on pages 19 to 49, which comprise the statement of assets and liabilities as at 30 June, 2020 and, the statement of receipts and payments, statement of cash flows and summary statement of appropriation - recurrent and development 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 - Thika 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 the Public Finance Management Act, 2012 and National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Cash and Cash Equivalents

1.1 Bank Balances

The statement of assets and liabilities reflects bank balances of Kshs.7,364,881 as at 30 June, 2020. However, included as part of reconciling items in the bank reconciliation statement were un-presented cheques amounting to Kshs.472,471 which were already stale as at 30 June, 2020 and had not been reversed in the cash book.

No reason was given for failure to reverse the stale cheques or reconcile and clear the long outstanding items.

As a result, the accuracy and completeness of bank balances of Kshs.7,364,881 30 June, 2020 could not be confirmed.

1.2. Un-Utilized Balances

Note 17.3 to the financial statements reflects unutilized fund balances of Kshs.77,130,284 and Kshs.65,416,640 as at 30 June, 2020 and 30 June, 2019 respectively and as detailed under Annex 3. However, computation of the unutilized balances amounted to Kshs.75,961,027 and Kshs.72,307,616 resulting in an unexplained difference of

Kshs.1,169,257 and Kshs.6,890,976 for the 2019/2020 and 2018/2019 financial years respectively.

As a result, the accuracy of unutilized fund balances of Kshs.77,130,284 could not be confirmed.

2. Project Management Committees (PMC) Bank Accounts

Disclosed under Annex 3 to the financial statements are unutilized balances totalling Kshs.77,130,284 in respect of Project Management Committee (PMC) bank accounts as at 30 June, 2020. However, the balance excludes bank balances amounting to Kshs.3,000,000 and Kshs.500,000 in respect of Ngoigwa Police Post and Ngoliba Police Division projects respectively. The disbursements for the two projects were made in 2019/2020 but had not been utilized as at the time of the audit in February, 2021. Available information indicates that the delay in utilization of the funds is due to failure by Deputy County Commissioner to identify and allocate space for construction of Ngoigwa Police Post to completion.

Further, the Constituency Committee requested to reallocate the funds allocated to Ngoliba Police Division project intended for construction of semi-permanent houses to Kimuchu Police Post for renovation works which was declined by the CDF Board. No reason has however been provided as to why the balances were excluded as part of the PMC unutilized funds reported in the financial statements.

Failure to include the two bank balances understated the total available unutilized balance totalling Kshs.77,130,284 by Kshs.3,500,000.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Thika 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

1. Budgetary Performance

The summary statement of appropriation, during the financial year under review, Thika Town NG-CDF received a total of Kshs.127,506,587 from the National Government Constituencies Development Fund Board and other receipts against a budget of Kshs.196,874,311 resulting in a shortfall of Kshs.69,367,724 or 35% of the budgeted receipts.

Further, the CDF incurred a total expenditure of Kshs.120,141,707, which is equivalent to 94% of the actual receipts of Kshs.127,506,587. The under-utilization of the approved budget impacted negatively on service delivery to the residents of Thika Town Constituency.

2. Project Implementation

2.1 Implementation of Schools Projects

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other government units of Kshs.76,495,123 which includes transfers to primary schools and transfers to secondary schools totalling Kshs.48,600,000 and Kshs.27,895,123 respectively. The funds disbursed were for implementation of various projects approved by the CDF Board. However, out of the forty (40) projects the Fund Management intended to implement during the year under review, only five (5) were completed, twelve (12) were at different stages of implementation, while twenty-three (23) had not commenced, as of 30 June, 2020, respectively. The projects not commenced comprised of fourteen (14) in primary schools, eight (8) in secondary schools and one (1) tertiary institution.

Although the Management attributes the low absorption of funds mainly to delay by the National Government Constituencies Development Fund Board in releasing funds to the Fund, the CDF Committee should take appropriate measures to ensure that approved projects were implemented within the set timelines.

2.2 Other Grants and Transfers Projects

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects Kshs.33,199,515 spent on other grants and transfers. The CDF Committee had allocated the funds to undertake thirty-eight (38) projects. However, only fifteen (15) projects were completed, one (1) was on going while twenty-two (22) had not commenced during the year under review.

Failure to implement and complete projects impacted negatively on service delivery to the residents of the Thika Town Constituency.

3. Prior Year Audit Issues

The financial statements for the year ended 30 June, 2020 presented for audit did not capture unresolved issues raised in the Auditor-General's report for 2018/2019 contrary to the guidelines provided by the Public Sector Accounting Standards Board on follow up of the Auditor-General's recommendations.

No explanation has been provided for the omission.

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. Emergency Reserve Fund

The statement of appropriation - recurrent and development combined budget for the year ended 30 June, 2020 revealed that, out of the total budget allocation of Kshs.196,752,311, the CDF Committee set aside Kshs.11,008,461 or 5.6% for emergencies thus over funding the item by Kshs.1,170,845. This is contrary to Section 8 (1) of the National Government Constituencies Development Fund Act, 2015 which states that a Constituency Committee shall apportion an equivalent of five percent (5%) of the total allocation to emergency and shall be available for emergencies that may occur within the Constituency.

Consequently, the Management was in breach of the law.

2. Project Verification

2.1 Delay in Implementation of Kiangombe Primary School Project

Included in transfer to primary schools' expenditure of Kshs.48,600,000 are disbursements totalling Kshs.4,000,000 to Kimuchu Primary School for in respect of construction of 3 new classrooms and 400 metres of barbed wire and concrete poles fence for the proposed Kiangombe Primary School. Records indicated that the funds were disbursed on 4 April and 14 June, 2020 to Kimuchu Primary School's account incorporating the PMC members from both Kiang'ombe area and Kimuchu Srimary School.

However, a review of project file revealed that the funds had not been utilized as at the time of audit in March 2021. Management attributed the failure to utilize funds to disputes on land for the proposed school. However, the funds had not been returned to the CDF account as provided for under Section 6 (3) of National Government Constituencies Development Fund Act, 2015 which requires that if for any reason a particular project is cancelled or discontinued during the financial year, funds allocated for such a project shall be returned to the Fund and credited to the account of the Constituency from which the funds were withdrawn.

2.2 Poor Workmanship in Construction of Police Posts

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and other payments totalling Kshs.33,199,515 which includes Kshs.19,851,343 on security projects. Included in this expenditure are payments of

Kshs.1,500,000 each disbursed to Munyu for face-lifting and construction of two septic tanks and for construction of a police post in Makongeni respectively.

An audit inspection carried out in March, 2021 revealed poor workmanship. At Munyu Police Post, the ceiling was poorly done, windowpanes and verandah were incomplete, verandah and there was no washroom at the cell, while the door to one out of the build three offices had not been fixed.

Further, installation of floor tiles at Makongeni was incomplete, the doors were poorly fitted and were not painted. No evidence was provided indicating that the works were supervised by the Constituency Development Fund Committee and the County Public Works.

Consequently, value for money on the expenditure of Kshs.3,000,000 incurred on the two projects as at 30 June, 2020 could not be confirmed.

2.3 Unauthorized Change of Project Activity

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and other payments totalling Kshs.33,199,515 which includes Kshs.19,851,343 on security projects. Included in this expenditure is a disbursement of Kshs.1,000,000 to Kimuchu Police Post for fencing of the station compound using barbed wire and concrete posts. However, the Project Management Committee (PMC) reallocated the amount to partitioning and renovation at the police post at an unspecified cost.

A physical inspection of the project on 10 March, 2021 revealed that the proposed fencing had not been done while the PMC had incurred a total of Kshs.489,685 for the new project. No evidence was provided indicating that the reallocation of funds from the initial project of fencing to partitioning and renovation contrary to Section 6(2) of the National Government Constituencies Development Fund which states that once funds are allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose during the financial year with the approval of the Board.

As a result, the propriety and value for money of the expenditure of Kshs.1,000,000 disbursed to Kimuchu Police Post during 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 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 sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to either 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.

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 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.

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 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 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

08 February, 2022