

REPORT OF THE AUDITOR-GENERAL ON THE NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - VIHIGA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund - Vihiga Constituency set out on pages 15 to 39, which comprise the statement of assets and liabilities as at 30 June, 2020, statement of receipts and payments, statement of cash flow, 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 - Vihiga 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

1.0 Inaccuracies in the Financial Statements

1.1 Statement by the Chairman

The financial statements had the following inaccuracies and misstatements:

- (i) The forward statement by the chairman at Note II, paragraph 3 states that as at 30 June, 2020 Kshs.69,367,724 had not been disbursed but in the summary statement of appropriation - recurrent and development combined reflects budget underutilization figure of Kshs.76,058,852 resulting to a variance of Kshs.6,691,128 which has not been explained or reconciled.

1.2 Unsupported Project Management Committee Bank Balances

The financial statements reflects under Note 17.4 a balance of Kshs.7,982,570 as PMC bank balances. However, bank confirmation certificates for eight (8) PMC bank balances totalling Kshs.375,361 were not provided and the balance disclosed in the financial statements were not supported. This is contrary to Section 100 of the Public Finance Management (National Government) Regulations, 2015 which states that Accounting

Officers shall keep in all offices concerned with receiving cash or making payments a cash book showing the receipts and payments and shall maintain such other books and officers' registers as may be necessary for the proper maintenance and production of the accounts of the Vote for which he or she is responsible.

1.3 Summary Statement of Appropriation

The summary statement of appropriation reflects the payments final budget of Kshs.202,732,450 which differs from the computed figure of Kshs.201,638,068 resulting to a variance of Kshs.1,094,382 that has not been explained.

Consequently, the accuracy of the financial statements for the year ended 30 June, 2020 could not be confirmed.

2.0 Unsupported Expenditure on Transfer to Other Government Entities

Included in the statement of receipts and payments under Note 6 to the financial statements is transfer to other government units balance of Kshs.72,760,000 which includes transfers to secondary schools of Kshs.35,600,000 out of which Kshs.14,300,000 was disbursed to various schools which however, were not supported by payment vouchers. This is contrary to Section 100 of the Public Finance Management (National Government) Regulations, 2015 which states that Accounting Officers shall keep in all offices concerned with receiving cash or making payments a cash book showing the receipts and payments and shall maintain such other books and officers registers as may be necessary for the proper maintenance and production of the accounts of the Vote for which he or she is responsible.

Consequently, the accuracy of the expenditure of Kshs.14,300,000 as at 30 June, 2020 could not be confirmed.

3.0 Unsupported Bursary to Secondary Schools

Included in the statement of receipts and payments under Note 7 to the financial statements is other grants and transfers balance of Kshs.43,315,578 which includes bursaries to secondary schools of Kshs.13,987,618 out of which an amount of Kshs.3,430,000 was disbursed to Vihiga High School and Kshs.800,000 to Ikumba Secondary School. However, the schools' managements have acknowledged receipt of Kshs.3,020,000 and Kshs.406,000, leading to unexplained variances of Kshs.410,000 and Kshs.394,000 respectively all totalling to Kshs.804,000. This is contrary to Section 100 of Public Finance Management (National Government) Regulations, 2015 which states that Accounting Officers shall keep in all offices concerned with receiving cash or making payments a cash book showing the receipts and payments and shall maintain such other books and officers registers as may be necessary for the proper maintenance and production of the accounts of the Vote for which he or she is responsible.

Consequently, the accuracy of the expenditure of Kshs.804,000 for the year ended 30 June, 2020 could not be confirmed.

4.0 Unsupported Unutilized Fund Budget

The financial statements under Note 17.3 reflects unutilized fund balance of Ksh.76,058,852 as at 30 June, 2020. However, the figure is not supported by detailed schedules of the beneficiaries of the un-utilized funds as required by the reporting format recommended by the Public Sector Accounting Standards Board (PSASB).

Consequently, the accuracy, validity and completeness of the unutilized fund balance of Kshs.76,058,852 as at 30 June, 2020 could not be confirmed.

5.0 Unexplained Adjustments

The financial statements were revised but they were however not supported as shown below:

	Revised Financial Statement Dated 30 June, 2020 Kshs.	Unsupported Balance Kshs.
Use of Goods and Services	6,407,045	239,385
Compensation of Employees	3,096,594	551,412
Other Grants and Transfers	43,315,578	1,532,675

Consequently, the accuracy of the financial statements could not be confirmed for the year ended 30 June, 2020.

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

1.0 Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.202,732,450 and Kshs.120,560,058 respectively resulting to an under funding of Kshs.82,172,392, or 41% of the budget.

Similarly, the actual expenditure reflects a balance of Kshs.125,579,217 against an approved budget of Kshs.202,732,450 resulting to an under-expenditure of Kshs.77,153,233 or 38% of the budget. The under-funding and under performance affected the planned activities and may have impacted negatively on service delivery to the people of Vihiga.

2.0 Project Implementation Status

The project implementation status report made available for audit review shows that eighteen (18) projects valued at Kshs.19,980,817 were not fully implemented during the year under review. Of the eighteen (18) projects, eight (8) projects valued at Kshs.4,480,818 had not yet started while ten (10) projects valued at Kshs.15,500,000 were still ongoing at various levels of completion as at 30 June, 2020.

The under-performance in project implementation affected the planned activities and may have impacted negatively on service delivery to the people of Vihiga.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the 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

1.0 Construction of Classrooms at Mahanga Primary School

Included in the financial statements under transfers to other government entities balance of Kshs.72,760,000 as disclosed in Note 6 is transfers to primary schools of Kshs.37,600,000 out of which Kshs.1,200,000 was disbursed to Mahanga primary school for the construction of 2 No. classrooms at a contract sum of Kshs.1,200,948. However, no contract agreement and acceptance letter were provided for audit review.

In addition, payment certificates availed for audit were not detailed as per the works done from the bill of quantity (BQ) instead a block figure is reflected in the payment certificate thus not possible to ascertain the works being certified for payment.

A physical verification carried out in the month of March, 2021 revealed that the floor was poorly done and the walls of the classrooms had developed cracks.

This is contrary to section 150(1) of the Public Procurement and Asset Disposal Act 2015 which states that an Accounting Officer or his or her appointed representative shall be responsible for ensuring that the goods, works and services are of the right quality and quantity. Further section 150(2) states that the head of the procurement function shall be

responsible for assisting the accounting officer to confirm that the right quality and quantity of goods, works and services have been delivered to the procuring entity and shall issue a certificate of acceptance to the accounting officer except where technical specifications are from another technical department or professionals engaged to work.

Consequently, the residents of Vihiga Constituency did not get value for money.

2.0 Incomplete Works at the Children Detention Centre

Included in other grants and transfers balance of Kshs.43,315,578 is security expenditure of Kshs.9,203,142 as disclosed under Note 7 to the financial statements which includes a payment of Kshs.1,000,000 for the construction of a Children Detention Centre at a contract sum of Kshs.1,745,357. However, acceptance letter and signed contract agreement were not provided for audit.

A physical verification of the Project carried out in the month of March, 2021 revealed that the construction works had stalled and the contractor was not on site. Roofing had been done though, there was no ridge caps, hence the roofing timber is exposed to rains and may be damaged before the completion of the building.

Consequently, the residents of Vihiga Constituency did not get value for money so far spent on the project.

3.0 Unlabelled Primary Schools

Included in the financial statements under Note 6 is transfers to other government entities balance of Kshs.72,760,000 which includes transfer to primary schools of Kshs.37,600,000 out of which Kshs.2,700,000 was disbursed to three (3) primary schools for various activities. A physical verification carried out in the month of March, 2021 revealed that the schools were completed but not labelled hence it was not possible to ascertain if the activities were done by the Fund.

Consequently, the accountability of the funding could not be confirmed.

4.0 Unlabelled Kegoye Administrative Police Camp

Included in the financial statements under Note 7 is other grants and transfers balance of Kshs.43,315,578 which includes security balance of Kshs.9,203,142, out of which Kshs.2,000,000 was disbursed to Kegoye Administrative Police Camp for the purchase of land and construction of a police camp. A physical verification carried out in the month of March, 2021 revealed that the camp was completed but not labelled and therefore it was not possible to ascertain if the activities were done by the Fund.

Consequently, the accountability of the funding 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 review so as to obtain limited assurance as to 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 review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance was maintained 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 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 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.

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 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.
- 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

04 February, 2022