

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - YATTA 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 - Yatta Constituency set out on pages 16 to 42, 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 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 - Yatta 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. Unsupported Expenditure on Gratuity - Contract Employees

Note 4 to the financial statements reflects expenditure of Kshs.3,869,422 in respect of compensation of employees which includes an amount of Kshs.683,661 for gratuity-contractual employees. However, supporting documents were not provided for audit verification. Further, a review of employment records revealed that, none of the Fund's employees qualified for gratuity payment during the year since their employment contracts were still running.

In the circumstances, it was not possible to confirm the accuracy and validity of the expenditure of Kshs.683,661 which was incurred on gratuity for contract employees.

2. Errors in Comparative Figures

The statement of receipts and payments reflects a comparative figure of Kshs.7,640,165 in respect of use of goods and services which differs from the confirmed amount from prior year audited financial statements of Kshs.9,108,317. In addition, the statement reflects a comparative figure of Kshs.6,145,179 for other payments instead of the Kshs.4,677,027 verified from the audited financial statements for 2018/2019 financial

year. The statement of cash flows also reflected the same variances in the comparative figures.

In the circumstances, the accuracy and completeness of the comparative figures 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 - Yatta 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 communicate in my report.

Other Matter

Budgetary Control and Performance

The summary statement of appropriation: recurrent and development combined reflects the budgeted receipts and actual amount on comparable basis of Kshs.165,126,760 and Kshs.95,759,036 respectively resulting to underfunding of Kshs.69,367,724 or 42% of the approved budget. Further, the actual expenditure amounted to Kshs 92,712,408 resulting into a Kshs.3,046,628 or 3% under absorption of the available funds.

The underfunding and under absorption of the available funds affected the planned activities and projects which may have impacted negatively on service delivery for the residents.

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 of Conclusion

1. Project Implementations Status

1.1 Un-implemented Projects

Scrutiny of the project implementation status report as at 30 June, 2020 revealed that, a total of one hundred and fifty-seven (157) projects costing Kshs.132,728,831 were budgeted for implementation in the 2018/2019 and 2019/2020 financial years' budgets. However, only seventy-two (72) projects costing Kshs.49,683,763 were completed while four (4) projects costing Kshs.9,726,567 were ongoing. The remaining eighty-one (81) projects with a total allocation of Kshs.73,318,501 had not commenced.

Failure to implement projects to which funds had been allocated implies that, the residents of the Constituency did not get services of equivalent value and may be indicative of weaknesses in project planning and implementation.

1.2 Un-satisfactory Project implementation

The physical verification of the projects revealed anomalies in the implementation of eight (8) projects with a combined allocation of Kshs.9,350,752 as detailed below:

No.	Project Name	Projects Activity	Amount (Kshs.)	Remarks
1.	Ngumbulu Chief's Office	Construction of Chief's Office with 3 rooms	900,000	The works is about 95% done. However, one inside door was not properly fixed.
2.	Ngumbulu Primary School	Renovation of 2 classrooms	600,000	Renovation of 2 classrooms is complete, project branding is done but the floor of one of the classrooms is chipping off.
3.	Munina Primary School	Construction of one classroom to completion	850,000	Project is complete and in use. However, Poor workmanship was observed since there are big cracks on the floor.
4.	Mukalala Secondary School	Construction of a science laboratory to completion	2,000,000	Poor workmanship was noted. Sections of the wall were done without electrical conduits and had to be redone and wall reconstructed. Project has delayed since 2019 and was yet to be completed.

No.	Project Name	Projects Activity	Amount (Kshs.)	Remarks
5.	Dr. Charles Mulli Secondary School	Completion of laboratory under emergency project.	250,752	Nine gas systems were installed instead of fourteen as specified in the BOQs. Project was not complete but is in use. Benches and chairs have not been purchased to equip the laboratory.
6.	Ndalani Primary School	Renovation of four classrooms – plastering, painting and flooring	1,400,000	Poor workmanship was observed as evidenced by huge cracks on the floor and on the walls.
7.	Kivingoni Primary School	Construction of one classroom to completion	850,000	Poor workmanship was observed as evidenced by cracks on the floor and application of insufficient red oxide on the floor.
8.	Tinga'ng'a Secondary School	Purchase of 5 acres of land	2,500,000	The title deed of the land had not been acquired.
	Total		9,350,752	

In view of the foregoing, value for money may not have been fully realized from the expenditure of Kshs.9,350,752 which was incurred the projects.

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.

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, risk management and overall 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 intention to abolish 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 Fund's 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 noncompliance. 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 Fund's 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 going concern 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 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

03 February, 2022