

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KAJIADO CENTRAL CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Kajiado Central Constituency set out on pages 14 to 53, which comprise of the statement of assets and liabilities as at 30 June, 2021, statement of receipts and payments, statement of cash flows and the summary statement of appropriation for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with 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 - Kajiado Central Constituency as at 30 June, 2021, 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. Inaccuracies in the Financial Statements

Review of the financial statements presented for audit revealed the following issues:-

- i. As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services amounting to of Kshs.9,253,678. However, review of the supporting schedules reflected an amount of Kshs.9,553,679 resulting to an unexplained variance of Kshs.300,000. Further, review of payment vouchers in respect to the expenditure revealed that an amount of Kshs.3,407,000 under monitoring and evaluation and public participation was not supported by monitoring and evaluation reports, work tickets and the site minutes.
- ii. In addition, although the budget execution by sectors and projects reflects the total budget and actual expenditure under emergency projects, the respective programmes under emergency projects have been omitted.
- iii. Further, review of records provided for audit revealed that AIE forms B126122 and B140558 for transfers of amounts totalling Kshs.7,000,000 and Kshs.12,000,000 respectively, although disclosed in the ledger were not provided for audit.

In the circumstances, the validity, accuracy and completeness of the statement of receipts and payments could not be confirmed.

2. Unconfirmed Bursary Funding

The statement of receipts and payments reflects other grants and transfers amount of Kshs.93,784,789 as disclosed in Note 7, which includes bursary totalling Kshs.61,079,414 comprising bursary to secondary schools and tertiary institutions of Kshs.23,779,460 and Kshs.37,299,954 respectively, disbursed in the year under review.

However, details in respect to the benefiting schools and respective students, dates of payment, cheque numbers and payment voucher numbers were not provided for audit. In addition, the respective minutes approving the bursaries and confirmations of receipts by the respective schools were not provided for verification.

Further, the Management issued other grants and transfers amounting to Kshs.93,784,789. This translates to 45% of the total funds hence, exceeding the ceiling of 10% set by the Act.

In the circumstances, the accuracy, completeness of other grants and transfers amounting to Kshs.61,079,414 could not be confirmed.

3. Irregular Expenditure on Emergency Projects

The statement of receipts and payments reflects other grants and transfers amount of Kshs.93,784,789 and as disclosed in Note 7 to the financial statements, which includes security projects expenditure amounting to Kshs.11,358,775. Review of records provided revealed that the expenditure includes an amount of Kshs.205,000 and Kshs.240,000 paid vide cheque No.7054 dated 29 January, 2021 and No.8458 dated 8 April, 2021 under cash for office use. However, the nature of emergencies in the expenditures were not provided.

In the circumstances, the validity and completeness and regularity of security projects amounting to Kshs.11,358,775 could not be confirmed.

4. Transfers to Other Government Entities

The statement of receipts and payments reflects transfers to other Government entities amounting to Kshs.36,623,732 and as disclosed in Note 6 to the financial statements. Examination of records provided revealed the following issues:-

4.1 Unaccounted for Transfers to Primary Schools

Included in the transfers to other Government entities amount of Kshs.36,623,732 is transfers to primary schools totalling to Kshs.25,823,732. Although details in respect to the respective schools and amounts received were provided, the specific projects in which the funds relate to and their current status have not been provided. Further, it was noted that from these payments, the Fund paid provisional sums of Kshs.1,181,000 to various contactors for construction of classrooms, staff quarters and boreholes. However, the provisional sums were not accounted for and the contracts detailing the terms of engagement for construction of the classrooms, staff quarters and boreholes were not provided for audit.

Further, it was noted that Nalepo Taegon Primary School had a project account balance of Kshs.852,773 as at 30 June, 2021 but was not reflected in the financial statements in the year under review. Similarly, Oloirimirimi Primary School had a bank balance of Kshs.4,281,140 as at 30 June, 2021 but only Kshs.2,552,000 was indicated as disbursed in the year under review, resulting to an unexplained variance of Kshs.1,729,140.

4.2 Unconfirmed Transfers to Secondary Schools

The financial statements reflects transfers to secondary schools totalling Kshs.10,500,000. However, analysis in respect to the projects, cheque numbers, and projects status were not provided for audit. Further the projects contract documents and status reports were not provided for verification.

In the circumstances, the validity, completeness, accuracy and value for money for transfers to other Government entities amounting to Kshs.36,623,732 could not be confirmed.

5. Unconfirmed Acquisition of Assets

As disclosed in Note 8 to the financial statements, the statement of receipts and payments reflects acquisition of assets amounting to Kshs.4,735,620. Included in the expenditure is an amount of Kshs.3,000,000 incurred for construction of a perimeter wall within the Kajiado County Constituency Office. However, the procurement records, payment vouchers and other supporting documents for the works undertaken during the year under review were not provided for audit.

Further, the Fund Management made a payment of Kshs.600,620 for the refurbishment of the Kajiado Central CDF buildings. However, there was no inspection and acceptance report to verify if the works were complete and up to standard.

In the circumstances, the accuracy, validity and value for money of acquisition of assets amounting to Kshs.4,735,620 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 - Kajiado Central 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 reflects final expenditure budget and actual on comparable basis of Kshs.254,746,530 and Kshs.148,728,210 respectively resulting to an under-expenditure of Kshs.106,018,320 or 42% of the budget.

Similarly, the Fund spent Kshs.148,728,210 against an approved budget of Kshs.254,746,530 resulting to under-expenditure of Kshs.106,018,320 or 42% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

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. Delay in Project Completion - Security Projects

The statement of receipts and payments reflects other grants and transfers amount of Kshs.93,784,789 and as disclosed in Note 7 to the financial statements. Included in the expenditure amounting to Kshs.14,850,000 is in respect to security projects.

Review of records provided revealed that, a contract for Ngatataek District Head Quarters was initiated on 27 July, 2020, and a Company awarded the contract for the construction of the district headquarters at a contract sum of Kshs.18,873,908. The Constituency had disbursed an amount of Kshs.13,000,000 towards the project during the year ended 30 June, 2021. However, inspection of the project in the month of May, 2022 revealed that the project had stalled at foundation level and the contractor was not site.

An interview with an area Sub-chief revealed that the contractor was last seen on site in the Month of June, 2021. It was also established that the PMC bank Balances did not include any balance in respect to the project as at 30 June, 2021.

Further, three additional projects under security in respect to Nkoile Chiefs Office, Olloiyani Kalani Chief's Office and Olkiliriti Sub Chief's office with amounts of Kshs.500,000, Kshs.500,000 and Kshs.850,000, respectively and earmarked for construction. However, the procurement process was being initiated at the time of the audit in the month of May, 2022 and no reason was provided for the delay. The existence of the amounts disbursed towards the projects could also not be confirmed.

In the circumstances, the expenditure of the Kshs.14,850,000 incurred under security projects may not be a proper charge to public funds.

2. Non-Implementation of Projects

Review of the budget execution by sectors and projects revealed that various projects under other grants and transfers were approved by the board and allocated funds for implementation during the year under review. However, as at 30 June, 2021, twelve (12) projects with an allocation of Kshs.12,552,000 had not been implemented.

In the circumstances, value for money on the implementation of the projects 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, 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 overall 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 its 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 Fund's 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 overall 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 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

19 August, 2022