

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KAJIADO SOUTH 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 South Constituency set out on pages 20 to 52, 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 South 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. Errors and Inaccuracies in the Financial Statements

The summary statement of appropriation reflects total actual expenditure of Kshs.163,290,600. However, a recast of the amounts gives a total of Kshs.146,891,323, resulting to an unexplained variance of Kshs.16,399,277.

Further, the financial statements have missing pages and Notes to the financial statements and several pages did not include headers to identify the financial statements.

In the circumstances, the financial statements for the year ended 30 June, 2021 as prepared and presented are not in the format prescribed by the Public Sector Accounting Standards Board (PSASB).

2. Variances between Financial Statements and the Ledger

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.7,652,251 as detailed in Note 5 to the financial statements. However, comparison of the financial statements and the ledger revealed variances as indicated in the table below which have not been explained or reconciled.

Item	Amount as per Financial Statement Kshs.	Amount as per the Ledger Kshs.	Variance Kshs.
Committee Expenses	2,800,000	5,130,420	2,330,420
Communication, Supplies and Services	700,000	-	700,000
Training Expenses	1,503,000	860,000	643,000
Office and General Supplies and Services	870,000	0	870,000
Bank Service Commission and Charges	27,770	15,620	12,150

In the circumstances, the accuracy of the use of goods and services expenditure of Kshs.7,652,251 could not be confirmed.

3. Cash and Cash Equivalents

The statement of assets and liabilities as at 30 June, 2021 reflects cash and cash equivalents balance of Kshs.16,477,167. However, bank reconciliation statement as at

30 June, 2021 includes stale cheques totalling to Kshs.946,436 which had not been reversed in the cash book as at 30 June, 2021.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.16,477,167 as at 30 June, 2021 could not be confirmed.

4. Unsupported Committee Allowances

The statement of receipts and payments reflects use of goods and services amount of Kshs.7,652,251, which includes Committee expenses amount of Kshs.2,800,000 as disclosed in Note 5 to the financial statements. However, Committee meeting minutes and monitoring and evaluation reports were not provided for audit.

In the circumstances, the accuracy and of committee the expenditure of Kshs.2,800,000 could not be confirmed.

5. Unsupported Bursary Awards

During the year under review, the Bursary Committee awarded sixty-five 65 students of Kibwezi Technical Training College full scholarship totalling Kshs.1,625,000 in two tranches of Kshs.1,000,000 and Kshs.625,000. However, applications for the bursaries and minutes of the Bursary Committee as evidence of approval of the bursaries award were not provided for audit.

In the circumstances the accuracy and propriety of bursary payments of Kshs.1,625,000 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 South 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 receipts budget and actual receipts on comparable basis of Kshs.207,679,479 and Kshs.163,290,600 respectively, resulting into an under-funding of Kshs.44,388,879 or 21% of the budget. Similarly, the Fund

expended Kshs.146,891,323 against an approved budget of Kshs.207,679,479 resulting into an under-expenditure of Kshs.60,788,156 or 29% of the budget.

Further, during the year under review, Management allocated an amount of Kshs.48,139,740 towards bursary as per the budget execution by sectors and projects. However, only a total of Kshs.15,683,240 was disbursed, an indication that deserving students were denied the much needed bursaries.

In the circumstances, the under-funding and under expenditure may have impacted negatively on service delivery to the residents of Kajiado South Constituency.

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 Failure to Maintain an Imprest Register

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.7,652,251 which includes an amount of Kshs.339,400 in respects of domestic travel and subsistence as disclosed in Note 5 to the financial statements. However, the Fund did not maintain an imprest register. This was contrary to Regulation 92(4)(c) of the Public Finance Management (National Government) Regulations, 2015 which states that before issuing temporary imprests under paragraph (2), the Accounting Officer shall ensure that the applicant has been recorded in the imprest register including the amount applied for.

In the circumstances, Management was in breach of the law.

2.0 Transfers to Other Government Units

The statement of receipts and payments reflects transfers to other Government units amount of Kshs.111,487,450. Review of records provided for audit and physical verification of projects carried out on 07 April, 2022 revealed the following anomalies:

2.1 Erection of Masonry Fence at the Constituency Offices

During the year under review, the Fund contracted a firm to erect a masonry fence at the Constituency Offices at a contract price of Kshs.1,997,566. However, appointment letters for the Evaluation Committee Members and signed Inspection Reports were not provided for audit review. This was contrary to Section 68(1) of the Public Procurement and Assets

Disposal Act, 2015 which provides that an accounting officer of a procuring entity shall keep records for each procurement for at least six years after the resulting contract has been completed or, if no contract resulted, after the procurement proceedings were terminated. Further, the signed contract did not specify the defect liability period.

In the circumstances, the validity of procurement process could not be confirmed, and Management was in breach of the law.

2.2 Completion of Sixty Capacity Modern Laboratory

During the financial year 2019/2020, the Fund awarded the contract for Completion of sixty (60) Capacity Modern Laboratory at Illasit Secondary School to a firm at a contract sum of Kshs.7,210,110. Review of the project records revealed that a total of Kshs.7,380,110 had been disbursed to the project as at 30 June, 2021. Although the full contract amount had been disbursed, physical verification of the project carried out on 07 April, 2022 revealed that the project was incomplete, and the contractor was not on site.

2.3 Completion of 1130 - Capacity Multipurpose Hall

The Fund awarded the contract for completion of 1130-Capacity Multipurpose Hall to a firm at a contract sum of Kshs.12,495,410 in 2019/2020 financial year. Review of the project record revealed that a total of Kshs.14,490,820 had been disbursed to the project as at 30 June, 2021, which had exceeded the contract price by Kshs.1,995,410. Although, the full disbursement had been done, physical verification of the project carried out on 07 April, 2022 revealed that the project was incomplete, and the contractor was not on site.

In the circumstances, the public may have achieved value for money from 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.

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 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 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 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 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

29 July, 2022