

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – MATHARE 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 – Mathare Constituency set out on pages 15 to 47, 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 – Mathare 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. Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.48,490,617. The bank reconciliation statement provided reflected payments in cash book not recorded in bank statement totalling Kshs.5,400,393 which included an amount of Kshs.222,037 in respect of a stale cheque. The bank reconciliation also reflected payments in bank statement not yet recorded in cash book totalling to Kshs.30,780 whose schedule was not provided for audit verification.

In the circumstances, the accuracy of the cash and cash equivalents balance could not be confirmed.

2. Other Grants and Other Payments

2.1 Unsupported Bursary Disbursements

The statement of receipts and payments reflects other grants and transfers balance of Kshs.63,174,477, which include Kshs.55,512,900 in respect of bursaries issued to students in secondary schools and tertiary institutions. Records provided for audit review however reflected an amount of Kshs.54,080,400 for bursary issued, resulting to an unreconciled variance of Kshs.1,432,500. Further, the analysis provided did not separate the bursaries issued to secondary schools from those issued to tertiary institutions.

In addition, bursaries issued to secondary schools and tertiary institutions amounting to Kshs.31,378,000 lacked such details as the payees, dates of payment, cheque numbers and payment voucher numbers. Similarly, bursary acknowledgements from two institutions were not provided for audit verification. In addition, bursary policy guidelines were not provided for audit verification.

In the circumstances, the accuracy and completeness of the amount of Kshs.55,512,900 in respect to bursaries issued to secondary schools and tertiary institutions could not be confirmed.

2.2 Emergency Project Payments

The balance of Kshs.63,174,477 on other grants and other payments includes expenditure on emergency projects amounting to Kshs.1,695,286. The expenditure was in respect of emergency supplies for the Covid-19 mitigating measures. However, the

payment was not supported by distribution schedules and acknowledgments of receipts of the items issued to identify the intended beneficiaries.

In the circumstances, the accuracy and validity expenditure on emergency projects amounting to Kshs.1,695,286 could not be confirmed.

3. Unsupported Fixed Assets Balance

The financial statements, as detailed at Annex 4 reflects fixed assets with a total historical value of Kshs.53,635,262. However, the assets register reflected fixed assets balance of Kshs.6,970,545 resulting in an unreconciled variance of Kshs.46,664,717. Further, there was no evidence that the equipment and machinery reflected in the financial statements physically existed. In addition, title deeds for the land and log books for motor vehicles were not provided for audit verification while a building constructed by the Fund for use as the Fund's office in the year 2018, was forcefully occupied by Mathare Depot Police Station staff.

In the circumstances, the accuracy, existence and ownership of the fixed assets balance of Kshs.53,635,262 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 – Mathare 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 a final expenditure budget of Kshs.243,435,740 against actual expenditure of Kshs.147,115,243 resulting in budget under-utilization of Kshs.96,320,497 or 40% of the approved budget. In addition, the Fund had an approved receipts budget of Kshs.243,411,740 but received an amount of Kshs.195,581,860 resulting in a underfunding of Kshs.47,829,880 or 20% of the budget.

Failure to achieve the approved budget may have negatively affected service delivery to the residents of Mathare 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. Irregularities in Compensation of Employees

The statement of receipts and payments reflects compensation of employees' amount of Kshs.3,593,490. Examination of records provided revealed that the Fund engaged thirteen (13) temporary employees during the year under review. However, the recruitment records for twelve (12) employees were not provided for audit review and it was established that duties of the clerical officer and the administrative clerk were overlapping.

In the circumstances, the validity of the compensation of employees amount of Kshs.3,593,490 could not be confirmed.

2. Transfers to Other Government Units

The statement of receipts and payments reflects transfers to other government units amounts of Kshs.63,880,177. However, physical verifications carried out on 21 April, 2022 revealed that although full payments were made in respect projects, works were not completed as detailed below:

2.1 St. Theresa Primary School

Examination of records provided revealed that a contractor was paid the full contract sum of Kshs.2,000,000 for renovation of seven (7) classrooms in the school. However, physical verification of the classrooms revealed that one classroom was not yet renovated. No explanation was provided for the failure to complete the works more than one year since the payment was made.

2.2 Salama Primary School

A contractor was awarded a contract for the completion of a perimeter wall in the school. Examination of records revealed that although an amount of Kshs.2,105,686 was paid to the contractor on 3 March, 2021, some anomalies were noted. The bills of quantities summary indicated that the scope of works included Huruma Primary School Kshs.2,067,905, Salama Primary School Kshs.3,912,400 and Salama Annex Kshs.2,187,960. It was not clear why the scope covered projects in three different localities yet the entire amount was paid to the same contractor.

2.3 Huruma Secondary School

A contractor was awarded a contract for the construction of phase 2, and phase 3 of a two (2) storey building comprising of twenty-four (24) classrooms, two (2) laboratories, five (5) door ablution block and a urinal at a contract sum of Kshs.45,781,488. Examination of records provided revealed that payment was made on 24 March, 2021. Retention money amounting to Kshs.6,000,000 was however not withheld. It was further noted that four (4) classrooms, two (2) laboratories and an ablution block had not been constructed. In addition, the project manager's office was not in existence yet a payment of Kshs.250,000 had been made for the same.

2.4 St. Theresa Secondary School

Examination of records provided revealed that a contractor was awarded a contract for the construction of two (2) classrooms and relocation of sewer line at a contract sum of Kshs.8,456,580. Although the final payment for the contract was made on 10 July, 2020, one classroom had not been constructed two (2) years after payment was made.

In the circumstances, it was not possible to confirm the validity of transfers to other government units balance.

3. Failure to Transfer Funds to Projects Management Committees

Review of documents provided revealed that payments for projects worth Kshs.21,695,246 were made directly to the contractors from the Fund main bank account. Although Projects Management Committees (PMCs) for the projects were formed funds were not transferred to the PMC accounts to facilitate implementation of the projects by PMCs. Further, it was also established that the projects were not disclosed in the Project Implementation Status Report.

In the circumstances, it was not possible to confirm whether there was effective implementation and monitoring of the projects.

4. Unutilized Project Management Committee Bank Account Balances

The financial statements at Annex 5 reflects Project Management Committee (PMC) accounts balances as at 30 June, 2021 totaling to Kshs.41,899,335 which includes balances brought forward from the prior year amounting to Kshs.26,066 in respect to Old Mathare Secondary PMC and Salama Primary PMC of Kshs.666 and Kshs.25,400 respectively. No explanation was provided for the failure to return the PMC account balances to the constituency account as the respective projects had been completed.

5. Un-Authorized Over Expenditure

The summary statement of appropriation reflects expenditure on use of goods and services of Kshs.15,343,402 against an approved budget of Kshs.7,817,166. Management did not provide approval for the resultant expenditure of Kshs.7,526,696. This was in violation of Regulation 5(1) of the Public Finance Management (National Government) Regulations, 2015 which provides that except as provided for in the Act and these Regulations, an Accounting Officer of an entity may not authorize payment to be

made out of funds earmarked for specific activities for purposes other than those activities.

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

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 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 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

29 July, 2022