

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - TIATY 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 - Tiaty Constituency set out on pages 14 to 69, which comprise of the statement of assets and liabilities as at 30 June, 2021 and the statement of receipts and payments, statement of cash flows and summary statement of appropriation 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 National Government Constituencies Development Fund - Tiaty Constituency as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Cash and Cash Equivalents

The statement of assets and liabilities reflects bank balances (as per the cashbook) under Note 10A to the financial statements of Kshs.47,757,713. However, review of bank reconciliation statement as at 30 June, 2021 indicated payments in cash book not in bank statement (un-presented cheques) amounting to Kshs.6,286,234 out of which Kshs.90,000 related to stale cheques which had not been reversed in the cash book as at 30 June, 2021.

In the circumstances, the accuracy and completeness of the reported cash and cash equivalents balance of Kshs.47,757,713 as at 30 June, 2021 could not be confirmed.

2. Project Management Committee (PMC) Bank Balances

Annex 5 to the financial statements reflects Kshs.10,572,188 (2019/2020 - Kshs.14,597,577) in respect of PMC bank balances. However, funds amounting to Kshs.13,950,000 were transferred to the various PMCs bank accounts during the year whose closing balances were not disclosed in Annex 5. Further, the certificates of bank balances were not provided to confirm the closing balances as at 30 June, 2021.

In the circumstances, the accuracy and completeness of Kshs.10,572,188 in respect of PMC Bank Balance as at 30 June, 2021 could not be confirmed.

3. Unsupported Other Grants and Transfers

3.1 Sports Projects

Included in the other grants and transfers balance of Kshs.52,100,854 reflected in Note 7 to the financial statements is sports projects expenditure amount of Kshs.2,100,000. However, expenditure of Kshs.1,160,000 was not supported by documents such as, approved minutes by the Board, motor vehicle work tickets, certificates of participation to participants and photos to prove that the sports tournament took place.

3.2 Emergency Projects

Included under grants and other payments balance of Kshs.52,100,854 is an amount of Kshs.9,700,000 on emergency projects. Out of the expenditure, an amount of Kshs.7,100,000 was not supported with documents such as tenders, quotations, bills of quantities and certificates.

In the circumstances, the propriety, occurrence and completeness of expenditure of Kshs.1,160,000 for sports projects and Kshs.7,100,000 for emergency projects could not be confirmed.

4. Unsupported Transfer to Other Government Entities

4.1 Primary Schools Projects

The statement of receipts and payments and Note 6 to the financial statements reflects transfers to other Government entities balance of Kshs.57,136,570 which also includes an amount of Kshs.28,500,000 relating to transfers to Primary Schools. However, project files, procurement documents as tender opening minutes, evaluation minutes, bills of quantities, contract agreements and photos showing physical status of the project were not provided for review.

4.2 Secondary Schools Project

The statement of receipts and payments under Note 6 to the financial statements reflects an amount of Kshs.28,636,570 which includes Kshs.2,500,000 made to Kapunyany Secondary school for proposed construction of girl's dormitory block. The contract agreement between the contractor and the school was signed on 4 May, 2020. However, minutes for tender evaluation, tender award notification letter, valuation and completion of work certificates were not provided for review.

In the circumstances, the validity, accuracy and propriety of payments totalling Kshs.28,500,000 to primary schools and of Kshs.2,500,000 for works to a secondary school for the year ended 30 June, 2021 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 - Tiaty 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.

Other Matter

Budgetary Controls and Performance

The summary statement of appropriation reflects a final receipts budget for the year under review totalling Kshs.214,274,235 against total actual receipts of Kshs.169,185,356 resulting to budget under funding amounting to Kshs.45,088,879 or 27% of the budget. Similarly, the Fund expended a total of Kshs.122,281,756 against the approved budget of Kshs.214,274,236 resulting to budget under expenditure amounting to Kshs.91,992,480 or 43% of the budget.

The underfunding and under expenditure affected the planned activities and impacted negatively on service delivery to the citizens of the Tiaty Constituency.

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.

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 for Conclusion

1. Security Projects

Included in the security projects' balance of Kshs.2,975,000 in Note 7 to the financial statements is an expenditure of Kshs.380,000 incurred for the Kapedo East Chief's Office. However, the contract agreement signed on 18 October, 2020 was not supported with approvals for payments and valuation certificates.

In the circumstances, the regularity and lawfulness of the payments for the year ended 30 June, 2021 could not be determined.

2. Routine Maintenance (Vehicles and Other Transport Equipment)

The statement of receipts and payments under Note 5 to the financial statements reflects use of goods and services balance of Kshs.7,727,790 which in turn includes Kshs.1,090,077 on routine maintenance of vehicles and other transport equipment. However, out of this expenditure an amount of Kshs.601,188 was not supported by request for quotation and service orders.

In the circumstances, the validity and propriety of the payment of Kshs.601,188 on routine maintenance for the year ended 30 June, 2021 could not be confirmed.

3. Management of Bursary Funds

The statement of receipts and payments at Note 7 to the financial statements reflects other grants and other payments of Kshs.52,100,854. The amount includes Kshs.23,777,716 and Kshs.11,448,138 transferred to Secondary and Tertiary Institutions respectively. However, the following anomalies were noted:

i) Unaccounted for Bursary

A list of beneficiaries in support of the financial statement amounts revealed a total amount of Kshs.35,358,854 which differed with the reported amount of Kshs.35,225,854 resulting to an unexplained variance of Kshs.133,000.

ii) Non-Adherence to the Bursary Allocation Policy

Section 3 of the Tiaty Bursary Policy states that bursary shall be granted by the bursary committee and allocated as follows; 48% to day and boarding secondary schools, 50% to Tertiary and Colleges/University, 1% to special needs and 1% allocated to staff

career development. However, an analysis of the amount of Kshs.35,358,854 issued during the year revealed that special needs category and staff were deprived of their scholarship benefits.

In the circumstances, Management was in breach of the bursary guidelines.

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 complying, 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 governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue as 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 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 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 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 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's 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

01 September, 2022