

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KAJIADO EAST CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2022

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 the 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 the National Government Constituencies Development Fund - Kajiado East Constituency set out on pages 1 to 62, which comprise the statement of assets and liabilities as at 30 June, 2022, 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 - Kajiado East Constituency as at 30 June, 2022, 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Unpresented Bursary Cheques

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects an amount of Kshs.58,584,570 being other grants and transfers, which includes bursaries disbursements to secondary schools and tertiary institutions of Kshs.20,096,000 and Kshs.15,496,836 respectively.

The bank reconciliation statements reflect unpresented cheques amounting to Kshs.3,742,305 which includes cheques for bursaries payments of Kshs.3,139,300. No explanation was provided for the large number of bursaries cheques that had remained unpresented as at 30 June, 2022 with some dated back to January, 2022.

In the circumstances, the accuracy and completeness of the other grants and transfers amount of Kshs.3,139,300 could not be confirmed.

2. Inaccuracies in Cash and Cash Equivalents Balance

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.69,365,430 as disclosed in Note 10A to the financial statements. Review of the bank reconciliation statements revealed unpresented cheques amounting to Kshs.3,742,305, which includes stale cheques totalling to Kshs.447,626. The stale cheques include some which were issued way back in 2019. No explanation was given for failure to write back the stale cheques in the cash book.

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

3. Unsupported Bursary Awards

The statement of receipts and payments reflects an amount of Kshs.58,584,570 being other grants and transfers, which includes bursaries disbursements to secondary schools and tertiary institutions of Kshs.20,096,000 and Kshs.15,496,836 respectively, and as disclosed in Note 7 to the financial statements.

However, Management did not provide minutes of vetting and approval indicating how the beneficiaries were selected, list of beneficiaries and a cheque register in support of cheques disbursements.

Further, the disbursement to tertiary institutions of Kshs.15,596,836 includes an amount of Kshs.1,499,980 paid to a Hair and Beauty College. The documents on the process of

identification and selection of the college for training the bursary beneficiaries were however, not provided.

In the circumstances, the accuracy and completeness of bursary awards to secondary schools and tertiary institutions of Kshs.20,096,000 and Kshs.15,496,836 respectively could not be confirmed.

4. Unsupported Sports Projects

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects an amount of Kshs.58,584,570 on other grants and other transfers which includes expenditure on sports projects of Kshs.5,195,867. However, the sports project expenditure of Kshs.5,195,867 was unsupported.

In the circumstances, the accuracy and completeness of expenditure on sports project of Kshs.5,195,867 could not be confirmed.

5. Unconfirmed Assets Balance

Annex 4 to the financial statements on summary of fixed assets register reflects assets with historical cost of Kshs.34,035,829. The Management did not however, provide an asset register in support of the assets balance of Kshs.34,035,829. Further, the ownership documents for the land, valued at Kshs.23,905,668 on which the Constituency Office is located was not provided for audit. In addition, the logbook for motor vehicle valued at Kshs.5,130,161 was also not provided for audit.

In the circumstances, the accuracy, ownership and completeness of the assets balance of Kshs.34,035,829 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund Kajiado East - 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

1. Budgetary Control and Performance

The Fund expended an amount of Kshs.160,215,060 against budgeted amount of Kshs.241,669,369 resulting to an under-expenditure of Kshs.81,454,309 or 34% of the budget.

In circumstances, the under-expenditure affected implementation of the planned activities and programs and may have impacted negatively on services delivery to the residents of Kajiado East Constituency.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the template prescribed by the Public Sector Accounting Standards Board.

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. Project Implementation Status for Schools

The statement of receipts and payments and Note 6 to the financial statements reflects transfers to other government units of Kshs.91,800,000 for projects implementation. Physical verification of the projects in the month of March, 2023 revealed the following anomalies:

a. PJ Dave Primary School

The Fund awarded a contract for the construction of a forty (40) capacity bed dormitory at PJ Dave Primary School, to completion at a contract sum of Kshs.3,000,000. The contract was awarded on 26 June, 2022, to the lowest evaluated bidder. Review of the procurement files revealed that the contract was signed on 16 June, 2022, hence inconsistencies on dates. Further, there was no inspection and acceptance committee appointed to confirm quality and implementation of the project.

b. Utumishi Secondary School Project

The contract was for the construction of an administration block at a contract sum of Kshs.2,952,154. The bill of quantities included paving slabs around the building, fitting of seventy-eight (78) ceramic tiles, electrical works and fitting of six (6) steel casement windows of size 2000 mm by 2000 mm to the administration block at Kshs.33,000,

Kshs.15,600, Kshs.100,000 and Kshs.96,000 respectively. However, the work was not done.

c. Enkasiti Secondary School Project

The contract was for the construction of an administration block at a contract sum of Kshs.2,999,535.52. The bill of quantities included paving slabs around the building, fitting of 78 ceramic tiles, electrical works and fitting of curtain tracks rods at Kshs.28,270, Kshs.62,400, Kshs.100,000 and Kshs.15,000 respectively but the work was not done.

The failure to complete the projects was contrary to Section 68(1)(a)(b) of the Public Finance Management Act, 2012, which provides that, an Accounting Officer for a National Government, Parliamentary Service Commission and the Judiciary, shall be accountable to the National Assembly for ensuring that the resources of the respective entity for which he or she is the Accounting Officer are used in a way that is lawful and authorised, and effective, efficient, economical and transparent.

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

2. Delay in Completion of Projects

The Fund budgeted for the construction of four (4) standard classrooms in Sholinke Secondary School with a total allocation of Kshs.5,000,000 in the financial year 2019/2020. The project had not been completed as at the end of 2021/2022 financial year contrary to Regulation 11(1) (j) of the National Government Constituencies Development Fund Regulations, 2016, which requires all projects to receive adequate funding and be completed within three years.

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

3. Project Implementation Status- Security Projects

The statement of receipts and payments reflects other grants and transfers of Kshs.58,584,570 which includes security projects expenditure of Kshs.8,000,000 as disclosed in Note 7 to the financial statements. Physical verification of projects with a total cost of Kshs.4,984,949, conducted in March, 2023 revealed allocation of funds to Korrompoi Chief's Office Project for the construction of administration block at a contract sum of Kshs.2,998,774. However, review of the bill of quantities revealed that the following works were not done contrary to the specifications:

- i. Paving slabs around the building at a cost of Kshs.13,200.
- ii. Fitting of curtain tracks rods at a cost of Kshs.3,900.
- iii. Fitting the floor with 78 ceramic tiles at a cost of Kshs.171,600.
- iv. Fitting celotex ceiling surfaces at Kshs.17,940.
- v. Supply of six (6) steel casement windows size 2000 mm by 2000 mm costing Kshs.24,000 each and totalling to Kshs.144,000.
- vi. Electrical works at Kshs.100,000.

This was contrary to Section 11(1)(j) of the National Government Constituencies Development Fund Regulations, 2016, which states that ‘the functions of a Constituency Committee shall be to ensure that all projects receive adequate funding and are completed within three years’.

In the circumstances, Management was in breach of the law and the value for money spent 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, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Lack of Risk Management and Information Communication Technology

Review of the Fund’s internal control system revealed that the Management has not established a risk management policy to identify, mitigate and control operational and other risks that the Fund may encounter from time to time. In addition, the Fund has not conducted risk assessment to identify and address key areas of concern and document specific controls in response to any risks identified.

The audit also revealed that the Management is yet to establish an Information Technology Strategic Plan to leverage the Fund operations on information technology. There is also no documented disaster recovery plan to provide guidance in the event of an ICT related emergency. Further, there is no established information technology strategic committee to oversee its ICT operations.

In the circumstances, lack of documented risk management policy and information technology strategic plan and policy expose the Fund’s operations to risks.

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 controls, 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 controls 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 controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability 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 to cease its 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 controls 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 controls would not necessarily disclose all matters in the internal controls 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 controls 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 controls.
- 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 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 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 controls 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 June, 2023