

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – CENTRAL IMENTI CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Central Imenti Constituency set out on pages 8 to 23 which comprise of the statement of financial assets as at 30 June, 2019, statement of receipts and payments, statement of cash flows and the summary statement of appropriation: recurrent and development combined 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 effects of the matter 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 – Central Imenti Constituency as at 30 June, 2019, 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 Statement of Financial Assets

As disclosed in Note 10A to the financial statements, the statement of financial assets reflects a bank balance of Kshs.8,766,362. However, the respective bank reconciliation statement reflected payments in bank statements which had not been recorded in the cashbook amounting to Kshs.24,597 thereby overstating the cashbook balance by the same amount.

Further, the statement reflects net liabilities at the bottom instead of net financial position balance of Kshs.8,766,362. The error was not corrected.

In the circumstance, the accuracy of bank balance of Kshs.8,766,362 reflected in the statement of financial assets as at 30 June, 2019 could not be ascertained.

2. Unsupported Committees Bank Balances

As disclosed in Note 6 and Note 7 to the financial statements, the statement of receipts and payments reflects transfer to other Government Entities amount of

Kshs.64,950,000 and other grants and other payments amount of Kshs.33,159,771, both totalling to Kshs.98,109,771 being project funds disbursed to various institutions. Included in this balance is an amount of Kshs.31,443,028 reflected in Note 15.4 as Project Management Committee (PMC) bank balances being the unspent project funds held by PMCs. However, the respective cashbooks, bank certificates and bank reconciliation statements were not provided.

In the circumstances, the accuracy, completeness and validity of PMC bank balances totalling to Kshs.31,433,028 as at 30 June, 2019 could not be confirmed.

3. Unsupported Use of Goods and Services

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services totalling to Kshs.9,842,890. However, Management did not provide supporting documents for an amount of Kshs.1,963,380 as shown below:

No	Item	Unsupported Amount (Kshs)	Missing Supporting documents
1	Committee allowances	175,000	Cheque distribution register and justification for paying allowances yet institutions ought to have collected the cheques
2	Fuel, oil and lubricants	320,000	Approved requests stating the reasons for fueling vehicles not owned by the Fund and their respective original work tickets
3	Training expenses	1,468,380	Invitation letters, approved rates of trainee allowance of between Kshs.500 to Kshs.8,000, quotations/ tender documents, procurement committee minutes
	Total	1,963,380	

In the circumstances, the accuracy, completeness and validity of use of goods and services expenditure totalling to Kshs.1,963,380 for the year ended 30 June, 2019 could not be ascertained.

4. Transfers to Other Government Entities

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other Government Entities totalling to Kshs.64,950,000 which includes Kshs.52,450,000 in respect to transfers to primary schools. The following unsatisfactory observations were made:

4.1. Gatuatine Primary School

The balance includes an amount of Kshs.1,550,000 transferred to Gatuatine Primary School for levelling of the school field. However, review of records revealed that request for quotations method of procurement was used instead of open tendering. Further, tender opening minutes, Tender Evaluation Committee minutes, letters of offer and acceptance, and regret letters were not provided.

Further, the contract agreement was signed on 27 August, 2018 while the quotations were opened on 22 August, 2018 which is five (5) days before the contract award. This is contrary to Section 135 of the Public Procurement and Asset Disposal Act, 2015 which requires that the agreement is entered into within the period specified in the notification but not before fourteen (14) days have elapsed.

In addition, the winning bidder quoted a total of Kshs.1,657,640 but the signed contract reflected a total of Kshs.1,541,640 while the valuation certificate dated 02 October, 2019 reflected contract sum total of Kshs.1,772,873. No explanation was provided for variances in contract sum in the three records.

Also, included in the bills of quantities was an amount of Kshs.36,000 for planting grass but physical verification done in November, 2019 showed that the grass had only been planted to about 50% of the field and the contractor was not on site.

In the circumstances, the accuracy, completeness and validity for the expenditure amounting to Kshs.1,550,000 for the year ended 30 June, 2019 could not be ascertained.

4.2. Ngeene Primary School

Also, the balance includes expenditure totalling to Kshs.1,000,000 transferred to Ngeene Primary School for plastering, flooring and painting of three (3) classrooms and electrification respectively. However, physical verification done in November, 2019 revealed that a total of Kshs.800,000 was utilized on re-roofing of eleven (11) classrooms instead of the approved works. No approval documents were provided for change of project.

Further, supporting documents showing how an amount of Kshs.200,000 for electrification was used were not provided and electrical wires were not properly fitted.

In the circumstances, the accuracy, completeness and validity of the expenditure amounting to Kshs.1,000,000 for the year ended 30 June, 2019 could not be ascertained.

4.3. Kirigara Primary School

In addition, the balance includes an amount of Kshs.3,500,000 transferred to Kirigara Primary School for plastering, flooring and painting of eleven (11) classrooms. However, physical verification done in November, 2019 revealed that re-roofing of the eleven (11) classrooms was done instead of the approved works. No approval documents were provided showing the change of project.

Further, the Project Management Committee (PMC) signed a contract amounting to Kshs.2,400,000 with the contractor on 23 January, 2019 for the works. However, a review of records revealed that the contractor's bid document amount of Kshs.4,537,618 was adjusted to Kshs.2,400,000 by handwriting. No explanation was provided for the adjustment.

In the circumstances, the accuracy, completeness and validity of the expenditure totalling to Kshs.3,500,000 for the year ended 30 June, 2019 could not be ascertained.

5. Other Grants and Transfers

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and other payments totalling to Kshs.33,159,771. The following unsatisfactory observations were made:

5.1. Unsupported Emergency Project

The balance includes emergency projects totalling to Kshs.1,300,000 which was transferred to Kauthene Police Post for completion of the Police Post. The project comprised of doors fixing, electrification, water works, purchase of water tanks and furniture, construction of a reception counter and waiting bay. However, a report on the urgent unforeseen situation and bills of quantities were not provided.

Further, a request for funding letter revealed that the estimated cost for the project totalled to Kshs.350,000 resulting in an unexplained and unreconciled variance of Kshs.950,000.

In the circumstances, the accuracy, completeness and validity of expenditure totalling to Kshs.1,300,000 for the year ended 30 June, 2019 could not be ascertained.

5.2. Unsupported Bursaries

The balance also includes bursaries totalling to Kshs.27,448,565. However, the Management did not provide; a list of applicants, and Bursary Committee minutes showing how beneficiaries were vetted and awarded.

Further, bursaries totalling to Kshs.5,859,226 were not supported by an acknowledgement from the recipient institutions.

In the circumstances, the accuracy, completeness and validity of bursaries amounting to Kshs.27,448,565 for the year ended 30 June, 2019 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 – Central Imenti 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 Matters

1. Budgetary Control and Performance

The summary statement of appropriation: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.173,789,505 and Kshs.118,748,629 respectively, resulting to an under-funding of Kshs.55,040,876 or 32% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.173,789,505 and Kshs.109,982,267 respectively, resulting to an under expenditure of Kshs.63,807,238 or 37% of the budget.

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

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

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. Non-compliance with Public Sector Accounting Standards Board Requirements

Review of the annual report and financial statements revealed that Management prepared statement of financial assets instead of “statement of assets and liabilities” and title for the statements of financial assets did not include accounting year as at “30 June, 2019”. Also, the statements of receipts and payments, statement of cash flows, summary statement of appropriation: recurrent and development combined did not include the phrase “for the year ended 30 June, 2019”. Further, summary statement of appropriation: recurrent and summary statement of appropriation: development and budget execution by programmes and sub-programmes were not included in the financial statements. This is contrary to Public Sector Accounting Standards Board (PSASB) financial reporting template issued in June, 2019 for a National Government entity and The National Treasury’s Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

Consequently, the Management is in breach of the law.

2. Delay in Project Implementation

The Project Implementation Status provided showed that one hundred and forty-five (145) projects with a budget allocation totalling to Kshs.155,218,489 were to be implemented during the year. However, only one (1) project amounting to Kshs.314,000 (0.2%) had been completed, one hundred twenty-three (123) projects worth Kshs.152,382,292 (98.2%) were on-going and twenty-one (21) worth projects Kshs.2,522,197 (1.6%) had not started as at 30 June, 2019.

In the circumstances, the public did not get the expected services equivalent to an amount of Kshs.152,382,292 for ongoing projects and an amount of Kshs.2,522,197 for projects not started all totalling to Kshs.154,904,489 for the year ended 30 June, 2019.

3. Irregular Contracts

3.1. Kirigara Mixed Day Secondary School

The Management incurred an expenditure totalling to Kshs.1,000,000, under transfers to other Government units transferred to Kirigara Mixed Day Secondary School for laboratory construction. Review of records revealed that an amount of Kshs.150,510 was paid to a supplier for installation of gas system in the laboratory. However, the lowest bidder, who quoted an amount of Kshs.107,737 was disqualified due to lack of National Construction Authority (NCA) certificate and award was therefore given to the second lowest bidder whose NCA certificate was expired at the time of the award. Further, the supplier invoiced the school on the same day the Tender Committee evaluated the bids.

In addition, the last date for submission of request for quotations issued to bidders for the supply of materials was not stated in the quotations. This is contrary to Section 70(6)(f) of the Public Procurement and Asset Disposal Act, 2015 which requires that the deadline for tender submission be indicated in the tender documents.

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

3.2. Kiagu District Officers' Office

The Management incurred an amount of Kshs.675,000, under security projects, transferred in January, 2019 to Kiagu District Officer's (DO's) office for painting, plumbing, electricity connection, septic tank and purchase of furniture. However, review of records and physical verification done in November, 2019 revealed that electricity connection, septic tank construction and purchase of furniture had not been done. Although an amount of Kshs.389,975 was in the bank as at 14 January, 2020, no explanation was provided for the project delay.

Further, the Management spent an amount of Kshs.75,000 on felling of trees, removal of stumps, excavation works, hiring of a crane, tiling works and shower installation which were not part of the budgeted and approved works.

In the circumstances, the 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, 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

Untagged Fixed Assets

Annex 5 to the financial statements reflects a balance of Kshs.38,874,585 in respect to fixed assets as at 30 June, 2019. However, review of the fixed assets registers and physical verification of the assets revealed that the assets were not tagged for ease of identification and movement.

In the circumstances, I am unable to confirm existence of effective internal controls on the security, location and condition of the Kshs.38,874,585 fixed assets as at 30 June, 2019.

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 financial reporting process, reviewing the effectiveness of how the Fund 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 overall 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

01 October, 2021