

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - IGEMBE SOUTH 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 - Igembe South Constituency set out on pages 12 to 40, which comprise the statement of assets and liabilities as at 30 June, 2019, and the 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 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 - Igembe South 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

1.0 Inaccuracies in the Financial Statements

1.1 Unsupported Budgetary Adjustments and Unreconciled Variances in Unutilized Funds

The summary statement of appropriation - recurrent and development combined reflects Kshs.74,658,488 in respect of budgetary adjustments for the year being the unspent funds in the previous year. However, the audited 2017/2018 financial statements reflect an unspent funds balance of Kshs.51,008,489 resulting into an unreconciled and unexplained variance of Kshs.23,649,999.

In the circumstances, the accuracy of the Kshs.74,658,488 in respect to the budgetary adjustments could not be confirmed.

In addition, the statement reflects Kshs.59,244,045 with respect to unutilized funds for the financial year 2018/2019 which differs with the balance of Kshs.55,040,875 reflected under Note 15.3 to the financial statements and Annex 3 by an unreconciled and unexplained variance of Kshs.4,203,170.

In the circumstances, the accuracy of the budgetary adjustments and the unutilized funds reflected in the summary statement of appropriation - recurrent and development combined, could not be confirmed.

1.2 Overstated Expenditure on Use of Goods and Services

The statement of receipts and payments and Note 5 to the financial statements, reflect use of goods and services expenditure of Kshs.14,051,767. However, the recomputed total under Note 5 to the financial statements, is Kshs.14,029,317 resulting to an unexplained and unreconciled variance of Kshs.22,450.

In the circumstances, the accuracy of the Kshs.14,051,767 with respect to use of goods and services, could not be ascertained.

2.0 Stale Cheques and Undisclosed Bank Balances

The statement of assets and liabilities and Note 10A to the financial statements reflect cash and cash equivalents balance of Kshs.4,316,169. However, the June 2019 bank reconciliation statement reflected unrepresented cheques totaling to Kshs.3,421,120 of which cheques totaling to Kshs.1,055,847 were stale.

Further, records available indicated that the Fund operated another bank account at a local bank which had a credit balance of Kshs.62,310 as at 30 June, 2019. However, the balance was not disclosed in the financial statements.

In the circumstances, the accuracy of the reported cash and cash equivalents balance of Kshs.4,316,169 as at 30 June, 2019, could not be ascertained.

3.0 Unsupported Project Management Committees (PMC) Bank Balances

Note 15.4 to the financial statements and Annex 5 reflect Kshs.10,196,779 being the balances held in PMC bank accounts as at 30 June, 2019. However, the recomputed total of the balances under Annex 5 is Kshs.10,195,708 resulting to unexplained and unreconciled variance of Kshs.1,071. Further, the supporting documents including bank reconciliation statements, cash books and bank confirmation certificates were not provided for audit.

In the circumstances, the accuracy and existence of Kshs.10,196,779 in respect to PMC bank balances as at 30 June, 2019, could not be ascertained.

4.0 Unsupported Bursary Payments

The statement of receipts and payments reflects other grants and transfers of Kshs.56,846,528 which as disclosed at Note 7 to the financial statements, includes Kshs.8,229,231 and Kshs.28,791,750 in respect to bursary disbursements to secondary schools and tertiary institutions respectively, both totaling to Kshs.37,020,981. However, acknowledgements by the recipient schools and institutions for bursaries totaling to Kshs.15,337,646 were not provided.

In addition, Kshs.3,925,000 was paid in respect to mobilization, registration, training and examination of 1,726 motor cycle riders in a driving school. However, documentary evidence including bursary award criteria, identification of the beneficiaries and minutes of the vetting committee were not availed for audit review. Further, the Fund Management used the request for quotations procurement method to identify the driving school even though the amount involved was above the Kshs.500,000 threshold provided for in the First Schedule of the Public Procurement and Disposal (Amendment) Regulations, 2013.

In the circumstances, the accuracy and propriety of the payments could not be confirmed.

5.0 Unsupported Expenditure on Purchase of Seedlings

The other grants and transfers balance of Kshs.56,846,528 reflected in the statement of receipts and payments and Note 7 to the financial statements, includes Kshs.4,308,403 in respect to environment projects of which Kshs.517,586 was for purchase and planting of tree seedlings. However, procurement records including quotations, purchase orders, delivery notes and distribution schedules were not provided for audit.

In addition, the Fund Management procured more tree seedlings worth Kshs.900,000 from a firm through request for quotations procurement method contrary to the First Schedule of the Public Procurement and Disposal (Amendment) Regulations, 2013 which limits the amount for procurement using request for quotations to Kshs.500,000 for class C procuring entities.

In the circumstances, the accuracy, regularity and value for money for the expenditure of Kshs.1,417,586 in respect to tree seedlings procured during the year could not be ascertained.

6.0 Unreconciled Unutilized Funds Balance

The summary statement of appropriation - recurrent and development combined reflects a budget under-utilization of Kshs.59,244,045 which differs with the balance of Kshs.55,040,876 reflected under Note 15.3 to the financial statements and Annex 3 by Kshs.4,203,169. The difference has not been reconciled or explained.

Consequently, the accuracy of the unutilized funds balance 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 - Igembe 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

1.0 Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects a final receipts budget and actual receipts on comparable basis of Kshs.183,699,363 and Kshs.128,771,488 respectively, resulting into an under-funding of Kshs.54,927,876 or 30% of the budget. Similarly, the Fund expended Kshs.124,455,319 against an approved budget of Kshs.183,699,364 resulting to an under-expenditure of Kshs.59,244,045 or 32% of the budget.

The under-funding and under-performance affected the planned activities and may have impacted negatively on service delivery to the constituents.

2.0 Unresolved Prior Year Audit Matters

Various prior year audit issues remained unresolved as at 30 June, 2019. Management has not provided adequate reasons for the delay in resolving the prior year audit issues.

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

1.0 Unreconciled Variance on Development Budget and Delayed Completion of Projects

The Fund's Project Implementation Status (PIS) report provided for audit reflected a budget of Kshs.164,753,441 for development projects. However, the summary statement of appropriation - recurrent and development combined reflects a development budget of Kshs.167,528,717 comprising of Kshs.99,698,276, Kshs.58,953,414 and Kshs.8,877,027 in respect to transfers to other government entities, other grants and transfers and other payments respectively, resulting into an unexplained and unreconciled variance of Kshs.2,775,276.

In addition, according to the PIS report, nineteen (19) projects with a combined budget of Kshs.104,342,664 were still ongoing while eight (8) projects with a combined budget of Kshs.15,986,986 had not been started as at 30 June, 2019.

Delayed completion of projects may have impacted negatively on service delivery to the residents of Igembe South Constituency.

2.0 Irregular Expenditure on Other Grants and Transfers

The statement of receipts and payments reflects other grants and transfers of Kshs.56,846,528 which as disclosed at Note 7 to the financial statements, includes Kshs.4,396,000 spent on Mocks and Continuous Assessment Tests (CATS) of which Kshs.3,884,138 was spent on purchase of metallic boxes, mathematical sets, scientific calculators, and large cotton towels. However, the method of procurement used was request for quotations contrary to the First Schedule of the Public Procurement and Disposal (Amendment) Regulations, 2013, which limits use of the method to procurements involving a maximum of Kshs.500,000 for class C procuring entities. Further, the goods procured were given as a reward to public primary school students in the Constituency who scored above 300 marks in the Kenya Certificate of Primary Education (KCPE) in 2018 contrary to Section 47 of the National Government Constituencies Development Fund Act, 2015 which provides that a project or any part thereof which involves personal awards to any person whether in cash or in kind, shall be excluded from the list of projects submitted in accordance with Section 27 of the Act.

Expenditure on other grants and transfers also includes Kshs.6,673,144 in respect to sports projects which further includes Kshs.890,602 paid for the supply of thirty-three (33) goal keeper boots, seventy-five (75) Mikasa foot-balls and seventy-five (75) referee uniforms all procured through request for quotations method of procurement even though the amount involved exceeded the threshold for use of the method provided under the First Schedule of the Public Procurement and Disposal (Amendment) Regulations, 2013.

In the circumstances, the Fund Management was in breach of the Law

3.0 Unauthorized Airtime

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.14,051,767 which as disclosed in Note 5 to the financial statements, includes expenditure of Kshs.629,355 with respect to communication, supplies and services of which Kshs.180,000 was paid as airtime allowances to the Fund Committee members. However, no records were provided for audit including the guidelines on allowances to the Committee members as required under Regulation 33 of the National Government Constituencies Development Fund Regulations, 2016 which provides that the Cabinet Secretary shall, with the approval of the National Assembly Select Committee on National Government Constituencies Development Fund, issue guidelines on allowances payable to members of a constituency committee and other Government officers involved in the management of the Fund.

In the circumstances, the Fund 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, 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 so as to obtain assurance about whether effective processes and systems of internal control, risk management and 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 sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the 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 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 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 the going concern 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 as a going concern or 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 as a going concern or 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

15 October, 2021