

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - RUNYENJES 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 - Runyenjes Constituency set out on pages 7 to 45, which comprise the statement of assets and liabilities as at 30 June, 2019, statement of receipts and payments, statement of cash flows and a 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 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 - Runyenjes 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Accuracy of Financial Statements

1.1 Prior Year Adjustment

As disclosed under Note 14 to the financial statements, the statement of assets & liabilities as at 30 June, 2019 reflects Kshs.1,687,162 in respect to prior year adjustment relating to reversed stale cheques during the year under review. However, prior year adjustment may arise either as a correction of an error in the financial statements reported for a prior period or change in accounting policy/estimate from the previous year in accordance with the International Public Sector Accounting Standards (IPSAS) 3.

In the circumstances, this treatment does not conform to the International Public Sector Accounting Standards (IPSAS 3) and hence the accuracy of the statement of assets and liabilities as at 30 June, 2019 could not be confirmed.

1.2 Variances in Summary Statement of Appropriation - Recurrent and Development Combined

The summary statement of appropriation - recurrent and development combined reflects Kshs.68,327,762 in respect to budget adjustments for the year ended 30 June, 2019

which should comprise any unutilized funds and cash balances from the previous year. However, the audited financial statements for 2017/2018 reflect unutilized funds and cash balances of Kshs.67,502,402 and Kshs.13,543,278 respectively as at 30 June, 2018 both totalling Kshs.81,045,680 resulting to unexplained and unreconciled variance of Kshs.12,717,918.

Further, the summary statement of appropriation - recurrent and development combined reflects Kshs.1,688,162 in respect to other receipts for the year ended 30 June, 2019 which was not supported by documentary evidence.

In addition, the summary statement of appropriation - recurrent and development combined reflects actual receipts of Kshs.122,327,761 in respect to transfers from CDF Board while the statement of receipts and payments reflects Kshs.108,784,483 hence resulting to a variance of Kshs.13,543,278.

In the circumstances, the accuracy and completeness of the receipts relating to transfers from CDF Board of Kshs.122,327,761 reflected in the summary statement of appropriation: recurrent and development combined for the year ended 30 June, 2019 could not be confirmed.

2.0 Understated Cash and Cash Equivalents

As disclosed under Note 10A to the financial statements, the statement of assets and liabilities as at 30 June, 2019 reflects Kshs.15,777,006 in respect to cash and cash equivalents balance as at 30 June, 2019 held in one bank account. However, the respective bank reconciliation statement reflects unrepresented cheques totalling Kshs.12,214,451 out of which twelve (12) stale cheques totalling Kshs.342,000 had not been replaced or reversed in the cash book as at 31 December, 2019 thereby understating the cash and cash equivalents balance of Kshs.15,777,006 by the same amount.

In view of the above, the validity and accuracy of the cash and cash equivalents balance of Kshs.15,777,006 as at 30 June, 2019 could not be ascertained.

3.0 Unsupported Committee Allowances

As disclosed under Note 5 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2019 reflects Kshs.6,534,526 in respect to use of goods and services which includes Kshs.1,781,400 in respect to committee allowance and expenses out of which Kshs.324,400 was spent on monitoring and evaluation.

However, supporting documents such as program of activities, the National Government Constituencies Development Fund Committee plan, attendance register and committee minutes were not provided for audit.

In the circumstances, the validity, occurrence and value for money for the Kshs.324,400 expenditure for the year ended 30 June, 2019 could not be confirmed.

4.0 Transfer to other Government Entities

4.1 Unsupported Expenditure on Construction of Class Room

As disclosed under Note 6 to the financial statements, the statement of receipts and payments reflects Kshs.42,000,690 in respect to transfer to other government entities. The amount includes Kshs.19,216,552 in respect to transfers to primary schools out of which Kshs.2,600,000 was disbursed to Nica Kathuriri Primary school for construction of one classroom, wall gate, fencing and renovation of five classrooms during the year ended 30 June, 2019.

However, quotations, evaluation committee minutes, professional opinion, partial and completion certificate from a public works officer were not availed for audit review. This is contrary to Section 15(1) of the National Government Constituencies Development Fund Regulations, 2016 which stipulates that the Project Management Committee (PMC) should implement projects in consultation with the relevant departments of government, maintain proper records of all minutes, accounting documents and other records in relation to projects being implemented, account for funds, undertake project closure, labelling and handover upon completion.

In the circumstances, it was not possible to confirm the regularity of the expenditure and value for money for the Kshs.2,600,000 for the year ended 30 June, 2019.

4.2 Transfer to Secondary Schools

4.2.1 Unapproved and Unsupported Purchase of One Acre of Land and Construction of Classrooms

As disclosed under Note 6 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2019 reflects Kshs.42,000,690 in respect of transfers to other government entities which includes Kshs.22,784,138 transfer to secondary schools out of which Kshs.5,600,000 was disbursed to Rukuriri Secondary School for purchase of three acres of land.

However, the school purchased one acre of land at a valuation price of Kshs.3,500,000 and the balance of Kshs.2,100,000 was utilized in construction of classrooms without an approval from the National Government Constituencies Development Fund Board (NGCDFB) for the reallocation of the funds. This is contrary to Section 6(2) of the National Government Constituencies Development Fund Act, 2015 that stipulates that once funds are allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose during the financial year with the approval of the Board.

Further, ownership document for the land, evaluation committee minutes including advertisement for tenders, letter of offer, letter of acceptance, professional opinion, contract agreement, completion certificates and inspection reports were not availed for audit contrary to Section 15(1) of the National Government Constituencies Development Fund Regulations, 2016 which states that project management committee should implement projects in consultation with the relevant departments of government, maintain proper records of all minutes, accounting documents and other records in relation to projects being implemented, account for funds, undertake project closure, labelling and handover upon completion report.

In addition, even though consent to transfer the land was granted on 10 July, 2019, the land title deed was not provided for verification as at the time of this audit.

In the circumstances, the regularity and value for money for the Kshs.5,600,000 expenditure for the year ended 30 June, 2019 could not be ascertained and whether it was a proper charge to public funds.

4.2.2 Incomplete Construction of a Dining Hall

As disclosed under Note 6 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2019 reflects Kshs.42,000,690 in respect to transfer to other government entities which includes Kshs.22,784,138 in respect to transfers to secondary schools out of which Kshs.2,500,000 was disbursed to Gatumbi Secondary school for construction of a dining hall.

However, although the contract signed on 16 May, 2019 reflected a contract period of two (2) years ending 30 June, 2021, physical verification conducted in December, 2019 revealed that works costing Kshs.420,000 comprising of hall roofing and placement of facial boards had not been done and the contractor was not on site.

In the circumstances, regularity and value for money for the expenditure of Kshs.420,000 for the year ended 30 June, 2019 could not be ascertained.

5.0 Other Grants and Other Payments

5.1 Unaccounted Bursaries

As disclosed under Note 7 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2019 reflects Kshs.56,740,700 in respect of other grants and other payments which includes Kshs.21,452,500, Kshs.21,367,000 and Kshs.3,000,000 respectively relating to bursary to secondary schools, tertiary institutions and special schools respectively all totaling to Kshs.45,819,500.

However, out of the Kshs.45,819,500 bursaries disbursed during the year under review, only bursaries totalling to Kshs.36,302,000 (79%) were acknowledged through acknowledgement letters/receipts by the beneficiary schools and institutions. The balance of Kshs.9,517,500 (21%) remains unacknowledged contrary to Section 104(1) of the Public Finance Management National Government Regulations, 2015 which stipulates that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

In the circumstances, it was not possible to ascertain whether the Kshs.9,517,500 relating to bursaries benefited the intended recipients.

5.2 Unsupported Security Projects

As disclosed under Note 7 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2019 reflects Kshs.56,740,700 in respect to other grants and payments which includes Kshs.7,700,000 relating to security projects out of

which Kshs.900,000 and Kshs.500,000 respectively was incurred in construction of Kiangungi and Kigaa assistant chiefs' offices respectively both totalling Kshs.1,400,000.

However, professional opinion, quotations/ tenders, evaluation committee minutes and inspection and acceptance committee minutes, partial and final completion certificates from the department of public works were not provided for audit contrary to Section 15(1) of the National Government Constituency Fund Regulations, 2016 which stipulates that project management committee should implement projects in consultation with the relevant departments of government, maintain proper records of all minutes, accounting documents and other records in relation to projects being implemented, account for funds, undertake project closure, labelling and handover upon completion.

In the circumstances, the regularity and value for money for the Kshs.1,400,000 expenditure for the year ended 30 June, 2019 could not be ascertained.

6.0 Unsupported Project Management Committees (PMCs) Bank Account Balances

Note 15.4 to the financial statements reflects Kshs.13,886,177 in respect to the PMCs bank account balances as at 30 June, 2019. These balances are part of the Fund's development budget of Kshs.163,760,433 for the year under review which was disbursed to PMCs to undertake various projects but remained unutilized as at 30 June, 2019. However, bank confirmation certificates for these PMCs accounts were not provided for audit.

In the circumstances, the existence and accuracy of Kshs.13,886,177 PMCs bank accounts balances as at 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 - Runyenjes 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 statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.177,368,637 and Kshs.124,015,923 respectively resulting to an under-funding of Kshs.53,352,714 or 30% of the budget.

Similarly, the Fund spent Kshs.108,238,918 against an approved budget of Kshs.177,368,636 resulting to an under-expenditure of Kshs.69,129,718 or 31% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Runyenjes Constituency.

1.1 Projects Implementation Status

Review of the project implementation status report compiled by the Fund revealed that out of one hundred sixty-seven (167) projects budgeted during the financial year under review at a cost of Kshs.163,740,433, a total of seventy-eight (78) projects had been completed at a cost of Kshs.73,955,931. Out of the remaining projects, twenty-nine (29) projects budgeted to cost Kshs.22,745,386 were on going while sixty (60) projects with a cost budget of Kshs.67,039,116 had not commenced as at 30 June, 2019.

Consequently, due to delay in project implementation, the residents of the Constituency may not have received the planned benefits from implementation of the projects.

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 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 Non Paging of the Financial Statements

The presentation of the financial statements for the year under review reflects two pages that have both been paginated as Page 1.

In the circumstances, the presentation of the financial statements for the year under review did not conform to the International Public Sector Accounting Standards (Cash Basis) reporting template prescribed by the Public Sector Accounting and Standard Board (PSASB).

2.0 Irregular Procurement of Training Expenses

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects Kshs.6,534,526 in respect to use of goods and services which includes Kshs.1,903,150 relating to training expenses out of which Kshs.1,426,900 was spent on full board accommodation, conference facilities and car hire services for the year ended 30 June, 2019.

However, the respective training venues and the conference facilities were not sourced from the list of registered supplier's contrary to the requirements of Section 57(1) of the

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Public Procurement and Asset Disposal Act, 2015 which requires that the head of the procurement function of a procuring entity shall maintain and update lists of registered suppliers, contractors and consultants in the categories of goods, works or services according to its procurement needs.

Consequently, value for money on the expenditure of Kshs,1,426,900 could not be ascertained.

3.0 Non Construction of a Dining Hall

As disclosed under Note 6 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2019 reflects Kshs.42,000,690 in respect of transfer to other government entities which includes Kshs.22,784,138 relating to transfer to secondary schools out of which Kshs.1,000,000 was disbursed to Ciamanda Secondary School for construction of a dining hall.

However, physical inspection done in December, 2019 revealed that the project had not been implemented yet the funds were disbursed in January, 2019. This was contrary to Section 36(1) of the National Government Constituencies Development Fund Act, 2015 which states that projects under this Act shall be implemented by the project management committee appointed in accordance with the regulations made with the assistance of the relevant department of Government and all payments through cheques or otherwise shall be processed and effected in accordance with government regulations for the time being in force.

Consequently, existence and effectiveness in use of public resources of the disbursement of Kshs,1,000,000 could not be ascertained.

4.0 Unsupported Payment for Strategic Plan

As disclosed under Note 9 to the financial statements the statement of receipts and payments for the year ended 30 June, 2019 reflects Kshs.42,000,690 in respect of transfer to other government entities which includes reflects Kshs.755,000 relating to other payments and which was spent on a strategic plan.

However, no documents were made available for audit to show that the draft strategic plan was circulated to the residents of the Constituency for public participation as required by Section 3(d) of the National Government Constituencies Development Fund Act, 2015 which provides for the participation of the people in the determination and implementation of identified national government development projects at the constituency level pursuant to Article 10(2)(a) of the Constitution and also Section 3(n) which states that provide a platform for citizens participation in service delivery.

Further, the signed professional opinion was not made available for verification contrary to Section 84(1) of the Public Procurement and Asset Disposal Act, 2015 that states that the head of procurement function of a procuring entity shall, alongside the report to the evaluation committee as secretariat comments, review the tender evaluation report and provide a signed professional opinion to the accounting officer on the procurement or asset disposal proceedings.

Consequently, regularity and value for money on the expenditure of Kshs,1755,000 could not be ascertained

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 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 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 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 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 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 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 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

07 October, 2021

