

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - AINABKOI 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 - Ainabkoi Constituency set out on pages 7 to 43, which comprise of the statement of assets and liabilities 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 - Ainabkoi Constituency as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and comply with the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Statement of Assets and Liabilities

The statement of assets and liabilities reflects surplus/deficit comparative balance amounting to negative Kshs.68,457,177 whereas prior year audited financial statements reflected an amount of Kshs.2,109,006 resulting to an unreconciled variance amount of Kshs.66,348,171.

Further, the statement reflects bank balance totalling to Kshs.14,194,124. The bank reconciliation statement for the month of June, 2019 reflected unrepresented cheques amounting to Kshs.5,455,435 out of which cheques amounting to Kshs.290,924 were stale. However, the cheques had not been reversed in the cashbook.

Consequently, the accuracy, completeness and validity of the above balances reflected in the statement of financial assets as at 30 June, 2019 could not be confirmed.

2. Unsupported Committee Allowances

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services totalling to Kshs.7,917,640. The balance includes committee expenses amount of Kshs.3,928,000. However, Management did not provide documentary evidence to show that the Secretary in consultation with the officer of the Board seconded to the constituency actually prepared and tabled before a Constituency Committee a schedule. Further, there was no evidence that copies of the minutes were submitted to the Board within thirty (30) days after the confirmation and execution of the minutes in the manner prescribed by the Board and attendance register and notices for the committee meetings were not provided.

Consequently, the accuracy, completeness and validity of committee expenses amount of Kshs.3,928,000 for the year ended 30 June, 2019 could not be confirmed.

3. Unsupported Committee Account Balances

Annex 5 to the financial statements reflects Project Management Committee (PMC) bank balances totalling to Kshs.22,451,914 in sixty-three (63) accounts held in various banks as at 30 June, 2019. However, the Management did not provide cashbooks, bank statements and certificates of bank balance to ascertain the balances indicated.

Consequently, the accuracy, completeness and validity of the PMC bank balances totalling to Kshs.22,451,914 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 – Ainabkoi 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 summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.169,544,882 and Kshs.114,504,006 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.169,544,882 and Kshs.100,309,881 respectively, resulting to an under expenditure of Kshs.69,235,001 or 41% 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. Project Implementation

1.1. Delay in Project Implementation

According to the Project Implementation Status Report as at 30 June, 2019 provided, the Fund had budgeted to spend a total of Kshs.99,227,197 towards implementation of fifty-three (53) projects during the financial year 2018/2019. An amount of Kshs.43,274,043 was disbursed to nine (9) projects which were completed but completion certificates were not provided. Further, an amount of Kshs.11,751,807 was disbursed to twelve (12) projects which were still ongoing at various levels of completion of between 60% and 95% while an amount of Kshs.44,201,347 was disbursed to thirty-two (32) projects which had not started.

In addition, Management incurred a total of Kshs.1,900,000 disbursed to primary and secondary schools for planting trees in school compounds and leveling of

school fields. However, the funds disbursed to the projects had not been utilized and were still held in the Project Management Committee Bank accounts. No justification was provided for failure to implement the projects.

1.2. Unsatisfactory Implementation of Projects

During the year under review, nineteen (19) projects costing Kshs.22,357,027 were physically verified in January, 2020. However, several unsatisfactory observations were made on eleven (11) projects costing Kshs.13,600,000 as shown in **Appendix I**.

In the circumstances, I am unable to confirm whether the public will obtain value for money from the planned projects.

2. Compensation of Employees

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects compensation of employees totalling to Kshs.1,989,905. Included in the balance is basic wages of contractual employees amount of Kshs.1,603,762. However, review of records revealed that five (5) members of staff were over paid by a total of Kshs.582,000.

Under the circumstances, the validity and propriety of basic wages of contractual employees expenditure of Kshs.1,603,762 for the year ended 30 June, 2019 could not be confirmed.

3. Irregular Emergency Fund

The Constituency Committee in its meeting approved funding of emergency projects amounting to Kshs.5,000,000 towards the construction of pit latrines. However, no evidence was provided to show that the activities that were funded were indeed unforeseen and that they qualify to be funded under emergency needs. This is contrary to the National Government Constituency Development Act, 2015. Further, an audit inspection of the construction works for some of the above projects revealed that they were not complete and funds were still in the bank accounts. No reason or justification was provided for failure to implement the projects.

Consequently, the Management is 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

Lack of Risk Management Policy and ICT Committee

During the year under review, the Management did not have in place a risk management policy, risk management strategies and a system of risk management to enable them develop appropriate risk strategies in order to improve on effective and efficient management of public resources. In addition, there was no ICT strategic committee.

In the circumstances, I am unable to confirm existence of effective internal controls at the Fund.

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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

08 October, 2021

Appendix I: Unsatisfactory Implementation of Projects

No.	Payee	Project Activity	Amount (Kshs.)	Observation
1	Ainabkoi Secondary School	Construction of a 8-Door pit latrine	1,500,000	<ul style="list-style-type: none"> The toilets were stalled without doors and painting. Although money was received in February, 2019 the construction was not going on and the contractor was not on site. Interim certificates of completion and approved bill of quantities were not provided.
2	Cheplelachbei Secondary School	Construction of a six (6) door pit latrine	500,000	<ul style="list-style-type: none"> The toilets were complete and in use but the walls and floors had cracks. Completion certificates and approved bill of quantities were not provided.
3	Ainabkoi Kenya Medical Training College (KMTC)	Construction of ultra-modern tuition block currently at 1 st floor	4,000,000	<ul style="list-style-type: none"> The Project has Stalled. No contractor on site. Lack of agreement with KMTC
4	Tendwo Secondary School	Construction of a dining hall	800,000	<ul style="list-style-type: none"> Construction almost complete only undercoat paint and floor terrazzo remaining. Interim certificates of completion not provided Lack of independent Project Management Committee.
5	Tendwo Secondary School	Construction of a 6-door pit latrine	200,000	<ul style="list-style-type: none"> Toilets were almost complete but fixing of the doors was ongoing but interim certificate of completion was not provided. Lack of independent Project Management Committee.
6	Rcea Biwot Ngelelitarit	Construction of administration block and a classroom	1,200,000	<ul style="list-style-type: none"> Two classrooms were in use. Flooring in progress but interim certificate of completion was not provided.

No.	Payee	Project Activity	Amount (Kshs.)	Observation
7	AIC Kaptagat Children's Home Primary School	Purchase of land	2,200,000	<ul style="list-style-type: none"> Land purchased but ownership documents were not provided
8	Kipkorgot Multipurpose Hall	Construction of hall	2,000,000	<ul style="list-style-type: none"> The project not yet complete. Certificate showing the level of completion was not provided
9	Lotonyok Primary School	Purchasing and planting of trees in school compound	100,000	<ul style="list-style-type: none"> Although most of the trees were planted they were thriving in the bush since no weeding had taken place
10	Munyaka Primary School	Levelling of school field	600,000	<ul style="list-style-type: none"> Levelling of the field had not started as at January, 2020. The money was still in the bank account.
11	Usalama Primary School	Levelling of school field	500,000	<ul style="list-style-type: none"> Levelling of the field had started but the contractor was not on site as at the time of field verification in January, 2020.
	Total		13,600,000	