

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – GARISSA TOWNSHIP 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 – Garissa Township Constituency set out on pages 1 to 25, which comprise of the statement of financial 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 – Garissa Township 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. Unsupported Transfer to Other Government Entities

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfer to other government entities totalling to Kshs.47,058,403. The balance includes transfer to primary schools' amount of Kshs.27,648,058 from which an amount of Kshs.3,000,000 was transferred to Al-Farouq Primary School for the renovation of eight (8) classrooms and one administration block. Physical verification conducted in January, 2020 revealed that the project was complete. However, the Management did not avail the project file, bill of quantities and other tender documents.

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

2. Unsupported Other Grants and Other Payments

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and other payments totalling to Kshs.31,329,000. The balance includes bursaries totalling to Kshs.28,129,000. However, review of records revealed that an amount of Kshs.13,459,000 was not supported by acknowledgement letters from the

learning institutions and evidence of cheques' dispatch. Further, the balance includes Kshs.3,200,000 for construction of police offices in Garissa Town. Physical verification conducted on 30 January, 2020 revealed that the project was complete. However, the Management did not avail the project file, bill of quantities and other tender documents.

Consequently, the accuracy, completeness and validity of bursaries expenditure and construction of police offices amounting to Kshs.13,459,000 and Kshs.3,200,000 respectively spent during the year ended 30 June, 2019 could not be confirmed.

3. Unsupported Committee Expenses

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects use of goods and services totalling to Kshs.8,347,280. The balance includes committee expenses amounting to Kshs.5,444,710. Review of records revealed that an amount of Kshs.650,000 was spent on monitoring and evaluation exercise within the Constituency. However, the Management did not provide supporting documents such as; copies of the temporary work tickets, logbooks, insurance stickers, drivers licenses for the hired vehicles and list of the visited projects.

In the circumstances, the accuracy, completeness and validity of the monitoring and evaluation exercise expenditure for totalling to Kshs.650,000 for the year ended 30 June, 2019 could not be confirmed.

4. Unsupported Cash and Cash Equivalents

As disclosed in Note 10A to the financial statements, the statement of financial assets and liabilities reflects cash and cash equivalents balance of Kshs. 37,387,706. Review of records revealed that cheques amounting to Kshs.212,150 that dates back to June, 2018 were stale and had not been written back in the cashbook or replaced. Further, Management only provided bank reconciliations for September, 2018, December, 2018, March, 2019 and June, 2019. In addition, Counterfoils for three (3) cheques Nos.001679, 001682, 001716 and bank statements for all Project Management Committee Bank accounts were not provided.

In the circumstances, the accuracy, completeness and validity of cash and cash equivalents balance of Kshs.37,387,706 reflected in the statement of financial assets and liabilities as at 30 June, 2019 could not be confirmed.

5. Lack of Fixed Asset Register

Annex 2 of the financial statements reflects a summary of fixed assets register which discloses the value of the fixed assets of Kshs.850,000 as at 30 June, 2019. However, the Management did not provide a fixed asset register and no valuation was conducted on the assets.

In the circumstances, it was not possible to ascertain the validity completeness and accuracy of the fixed assets balance of Kshs. 850,000 as at 30 June, 2019.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies

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Development Fund – Garissa Township 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

Budgetary Control and Performance

The summary statement of appropriation: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.117,134,719 and Kshs.108,514,515 respectively resulting to an underfunding of Kshs.8,620,204 or 7% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.117,134,719 and Kshs.87,220,633 respectively resulting to an under expenditure of Kshs.29,914,086 or 26% of the budget.

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

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 the Public Sector Accounting Standards Board Requirements

Review of annual reports and financial statements for the year ended 30 June, 2019 revealed the following errors; follow up on audit recommendations has shown all issues as resolved but the report has not been discussed in parliament, the report contains instruction materials. This is contrary to the template Public Sector Accounting Standards Board templates 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 Projects' Implementation

Analysis of the project implementation status revealed that during the year under review, the Management allocated a total of Kshs.99,938,693 to thirty-seven (37) projects in various sectors. During the year, fourteen (14) projects were completed while twenty-three (23) projects with an allocation total of Kshs.49,680,290 had not been started.

In the circumstances, I am unable to confirm when and whether the public will obtain value for money on the delayed projects totalling Kshs.49,680,290.

3. Unsatisfactory Implementation of Projects

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfer to other government entities total of Kshs.47,058,403. The balance includes transfer to secondary schools' amount of Kshs.19,410,345 for projects through open tender. Review of records and physical verifications on 30 January, 2020 revealed the following unsatisfactory matters:

3.1. Construction of Libraries

The balance includes an amount of Kshs.5,200,000 transferred to Tetu Secondary School and Kshs.5,200,000 to County High School for the construction of libraries. However, tender opening was done twenty-eight (28) days before the official deadline of 18 September, 2018 and the winning bidder did not avail performance security or bank guarantee and the execution program.

At County High School two coats bituminous painting was not done but instead an undercoat was applied and gauge 30 roofing iron sheets were used instead gauge 28 indicated on the bill of quantities. Clearing of the site and labelling of the project had not been undertaken.

3.2. Construction of Classrooms

Further, the Management allocated a total of Kshs.1,800,000 to Yathrib Girls Secondary School for the construction of two (2) classrooms. However, tender opening was done twenty-eight (28) days before the official deadline of 18 September, 2018, the winning bidder did not avail performance security or bank guarantee and the execution program and the project had not been labelled.

In the circumstances, the validity and value for money of the expenditure in the above projects for the year ended 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, 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 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

15 September, 2021