

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - GARSEN 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 - Garsen Constituency set out on pages 6 to 34, 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 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 - Garsen Constituency as at 30 June, 2019 and 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. Use of Goods and Services

1.1 Un-Supported Expenditure

The statement of receipts and payments and Note 5 of the financial statements for the year under review reflects use of goods and services figure of Kshs.12,082,482. Included in this is an amount of Kshs.1,093,500 spent on fuel, oil and lubricants and Kshs.6,593,081 for committee expenses. However, the Fund did not avail the relevant supporting documents for payments totalling Kshs.327,820 for fuel, oil and lubricants and Kshs.909,950 for committee expenses. This is contrary to the provisions of Section 104(1) of the Public Finance Management (National Government) Regulations, 2015 which provides that all receipts and payments vouchers of public moneys shall be properly supported by the appropriate authority and documentation.

Consequently, the validity and completeness of the expenditure on goods and services of Kshs.1,237,770 as at 30 June, 2019 could not be confirmed.

1.2 Irregular Allowances on Training

Included in the use of goods and services in Note 5 to the financial statements is training expenses figure of Kshs.1,997,000 out of which an amount of Kshs.1,270,000 was spent on a training at Seven Island Beach Resort in Watamu for full board accommodation and transport for participants. However, audit examination of expenditure revealed that fifty-seven (57) participants who attended the training were also paid an allowance of Kshs.4,000 each all totalling to Kshs.228,000. It was not clear why the participants were paid additional allowances while they were on full board package.

In the circumstances, the validity of the expenditure of Kshs.228,000 as at 30 June, 2019 could not be confirmed.

2. Unsupported Transfer to Other Government Entities

The statement of receipts and payments and Note 6 of the financial statements reflects total figure of Kshs.59,398,000 on transfers to other government units. However, audit review of documents availed for audit revealed that expenditure totalling to Kshs.18,974,000 was not supported with the relevant documents like tender register, list of prequalified suppliers, advertisement notices, contract agreement, procurement plan, signed inspection and acceptance committee report. It was further observed that tender opening minutes for the contracts were not signed by all the members of the committee as required by Section 78(9)(a) of the Public Procurement and Asset Disposal Act, 2015.

Consequently, the validity and completeness of the expenditure on transfer to other government units of Kshs.18,974,000 as at 30 June, 2019 could not be confirmed.

3. Other Grants and Transfers

3.1 Un-Acknowledged Bursary Payments

The statement of receipts and payments and Note 7 to the financial statements reflects other grants and transfers figure of Kshs.60,028,010. Included in this figure is an amount of Kshs.37,632,500 representing payments for bursary to needy students. However, audit review of the expenditure revealed that bursary payments amounting to Kshs.2,542,000 were not acknowledged by the recipient institution. In addition, a bursary applications register was not maintained to record details of all applicants. It was further observed that a cheque dispatch register for outgoing bursary cheques was not maintained.

Consequently, the validity and accuracy of the expenditure on bursary of Kshs.2,542,000 as at 30 June, 2019 could not be confirmed.

3.2. Un-Supported Expenditure

Included in other grants and transfers figure of Kshs.60,028,010 in Note 7 to the financial statements is an amount of Kshs.22,395,510 for security, emergency, environment, sports and strategic plan projects. However, audit review of the expenditure revealed that payments totalling to Kshs.5,055,000 were not supported with inspection and acceptance

committee report, distribution schedules for goods distributed to beneficiaries, local purchase orders, local service orders and invoices. It was further noted that an amount of Kshs.1,207,800 for supply of emergency relief food to internally displaced persons were not supported by relevant documents such as inspection and acceptance documents and appeal for emergency intervention.

In the circumstances, the validity of the expenditure on security, emergency, environment, sports and strategic plan projects of Kshs.6,262,800 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 - Garsen 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 other 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 that, the Fund spent Kshs.135,854,429 against an approved budget of Kshs.165,843,178,158 resulting to an under-expenditure of Kshs.29,988,748 or 18% of the budget. The underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Garsen Constituency.

1.1 Project Implementation and Management

During the financial year under review, the Fund allocated Kshs.129,607,400 to fifty nine (59) projects in various sectors including education, security, sport, environment and social security.

The analysis as per Project Implementation Status (PIS) availed for audit review revealed that fifty-five (55) projects were completed, two (2) projects were on going and two (2) projects had not started.

Non-implementation of development projects affects service delivery to the constituents.

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 of Conclusion

1. Irregular Procurement of Laptops

During the year under review, the Fund acquired three laptops (Apple 13.3” MacBook’s) at a total cost Kshs.747,000. However, the following anomalies were noted:-

- i). A list of prequalified suppliers was not provided for audit review to confirm whether the company which supplied the laptops was prequalified.
- ii). Procurement records such as tender opening minutes, tender evaluation minutes and professional opinion were not provided to support the procurement process.
- iii). One of the laptops was not availed for physical verification hence it was not possible to confirm whether it was being utilized for service provision to the Fund.

In the circumstances, the validity and value for money of the expenditure of procurement of laptops for Kshs.747,000 as 30 June, 2019 could not be ascertained.

2. Late Remittance of Statutory Deductions

The statement of receipts and payments and Note 4 of the financial statements reflects compensation of employees figure of Kshs.2,003,869 as at 30 June, 2019. Included in this figure is an amount of Kshs.492,958 paid to National Social Security Fund which included Kshs.464,608 as penalties for late remittance of employees’ deductions. However, it was observed that the Fund had adequate budgetary allocation to cater for the statutory deductions and there was no clear justifiable reason for late remittance.

3. Failure to Maintain an Asset Register

Annex 4 to the financial statements is a summary of fixed asset register which reflects a historical fixed assets balance of Kshs.14,472,068 comprising of five (5) classes of assets. However, it was observed that an asset register was not maintained.

Failure to maintain the asset register may expose the Fund to loss of vital assets.

4. Long Outstanding Imprest

The statement of assets and liabilities and Note 11 of the financial statements reflects an outstanding imprest balance of Kshs.2,323,131 as at 30 June, 2019. As reported in the Auditor-General’s report for 2017/2018, the imprest comprise of thirteen (13) temporary

imprests issued to a former Fund Accounts Manager between 3 August, 2017 and 26 March, 2018 and had not been surrendered by 30 June, 2019. This is contrary to the provisions of Section 93(5) of the Public Finance Management (National Government) Regulations, 2015 which provides that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station.

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 matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, 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

1. Lack of Risk Management Policy and Disaster Recovery Plan

During the year under review the Fund did not develop and document a risk management policy. It was further observed that the Fund had not put in place a disaster recovery plan, contrary to Section 165(1) of the Public Finance Management (National Government) Regulations, 2015 which provides that the accounting officer shall ensure that the national Government entity develops: -

- (i) Risk management strategies, which include fraud prevention mechanism; and
- (ii) A system of risk management and internal control that builds robust business operations.

In view of the above, the Fund is in breach of the law.

2. Lack of a Constituency Oversight Committee

The Fund did not have a Constituency Oversight Committee for the period under review contrary to Section 53 (1) of the National Government Constituencies Development Fund Act, 2015 which provides for establishment of a Constituency Oversight Committee for projects undertaken under the Act.

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

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 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 the 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 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 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 noncompliance. 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

29 October, 2021