

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – IJARA 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 - Ijara Constituency set out on pages 6 to 36, which comprise the statement of financial 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 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 - Ijara 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. Transfers to Other Government Entities

1.1 Unsupported Transfers to Primary Schools

Included in the transfer to other government entities figure of Kshs.23,864,245 in Note 6 to the financial statements is an amount of Kshs.14,307,500 transferred to various Project Management Committees (PMCs) as transfers to primary schools. However, examination of payment records, project files and other documents supporting the expenditure revealed that payments worth Kshs.9,182,500 were not properly supported. The payments lacked bill of quantities, professional opinion, form of agreements, inspection and acceptance minutes and certificates of practical completions. In some instances, tender opening committee members did not sign the bill of quantities and opening minutes as required by procurement laws.

In the circumstances, the validity and completeness of the expenditure on transfers to primary schools of Kshs.14,307,500 as at 30 June, 2019 could not be ascertained.

1.2 Unsupported Transfers to Secondary Schools

Included in the transfer to other government entities figure of Kshs.23,864,245 in Note 6 to the financial statements is Kshs.9,200,000 transferred to various Project Management Committees (PMCs) as transfers to secondary schools. However, tenders for the projects were awarded without professional opinions and contract agreements. In some instances, tender documents were not signed by opening committee members. In addition, the Fund did not avail site handing over minutes for the projects which were completed and in use.

In the circumstances, the validity and completeness of the expenditure on transfers to secondary schools of Kshs.9,200,000 as at 30 June, 2019 could not be confirmed.

2. Unsupported Other Grants and Transfers

Included in the other grants and transfers figure of Kshs.39,016,811 in Note 7 to the financial statements is an amount of Kshs.6,671,500 and Kshs.15,528,311 for bursary transfers to secondary schools and tertiary institutions respectively. However, audit review of the records for the same revealed that bursaries amounting to Kshs.8,484,000 were not acknowledged through official receipts or acknowledgement letters from the beneficiary institutions.

In the circumstances, the validity and completeness of expenditure on bursary to secondary schools and tertiary institutions of Kshs.22,191,811 as at 30 June, 2019 could not be confirmed.

3. Use of Goods and Services

3.1 Unaccounted for Committee Expenses

Included in the use of goods and services balance of Kshs.7,695,592 in Note 5 to the financial statements is an expenditure of Kshs.2,204,000 spent on committee expenses. However, a review of the expenditure revealed that an amount of Kshs.944,000 was not supported with signed minutes of the Fund committee members, monitoring and evaluation reports, payment schedules for the allowances paid and work tickets for the vehicles hired during the monitoring and evaluation exercise.

In the circumstances, the validity and completeness of the expenditure on committee expenses of Kshs.2,204,000 as at 30 June, 2019 could not be confirmed.

3.2 Unaccounted for Training Expenses

Included in the use of goods and services balance of Kshs.7,695,592 in Note 5 to the financial statements is an expenditure of Kshs.950,000 spent on training. However, examination of payment records and other supporting documents availed for audit revealed that the expenditure was not supported with attendance registers and

training programs. In addition, payment for the catering services was directly procured without competitive bidding.

In the circumstances, the validity and completeness of the expenditure on training of Kshs.950,000 as at 30 June, 2019 could not be confirmed.

3.3 Unsupported Printing & Advertising Expenses

Included in the use of goods and services balance of Kshs.7,695,592 is an amount of Kshs.910,300 spent on printing, advertising and information supplies and services. However, audit review of the expenditure and other supporting documents for the expenditure revealed that an amount of Kshs.506,700 was not supported with imprest warrants, counter receipt vouchers (S13), counter requisition and issue notes (S11), stores ledgers and delivery notes.

In the circumstances, the validity and completeness of the expenditure on printing and advertising of Kshs.910,300 as at 30 June, 2019 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund – Ijara 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 reflects final receipts budget and actual on comparable basis of Kshs.137,896,737 and Kshs.82,855,861 respectively resulting to an under-funding of Kshs.55,040,876 or 40% of the budget. Similarly, the Fund spent Kshs.74,232,247 against an approved budget of Kshs.137,896,737 resulting to an under-expenditure of Kshs.63,664,490 or 46% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Ijara Constituency.

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 money has not been applied lawfully and in an effective way.

Basis for Conclusion

Project Implementation and Management

During the year under review, the Fund allocated Kshs.59,800,500 to implement fifty (50) projects in various sectors including education, sports and security. A review of the project implementation status revealed that twenty-four (24) projects were complete while twenty-six (26) projects were on going.

The incomplete projects may lead to poor service delivery to the constituents.

Failure to Maintain Fixed Assets Register

Annex 4 to the financial statements is a summary of fixed assets register which reflects Kshs.21,486,874 being total assets owned by the Fund as at 30 June, 2019. However, the Fund did not maintain a permanent fixed assets register to record its assets contrary to Section 143 of the Public Finance Management Regulations, 2015 which states that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws. In the absence of detailed fixed assets register, it was not possible to ascertain the balances and the make-up of the fixed assets disclosed.

In the circumstances, the completeness, accuracy and existence of the assets balance of Kshs.21,486,874 as at 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 Constitution 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 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 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 policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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

20 December, 2021