

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KAJIADO EAST CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Kajiado East Constituency set out on pages 19 to 58, which comprise of the statement of assets and liabilities as at 30 June, 2020, statement of receipts and payments, statement of cashflow 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 - Kajiado East Constituency as at 30 June, 2020, 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 Bank Balances

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities reflects bank balances totalling to Kshs.8,600,315. However, bank reconciliation statements for ten (10) months and bank statements for twelve (12) months were not provided. The statement also reflects net liabilities at the bottom instead of net financial position balance of Kshs.8,600,315.

Further, the bank reconciliation statement for June, 2020 revealed undated stale cheques amounting to Kshs.100,000. However, the cheques had not been reversed in the cash book as at 30 June, 2020.

In addition, payments in bank statement not recorded in cash book amounting to Kshs.938,200 and receipts in bank statement not recorded in the cash book amounting to Kshs.395,000 were not dated.

In the circumstances, the accuracy, completeness and validity of bank balances totalling to Kshs.8,600,315 reflected in the statement of assets and liabilities as at 30 June, 2020 could not be confirmed.

2. Unsupported Expenditure

The statement of receipts and payments reflects payments totalling to Kshs.78,934,027. However, use of goods and services payments amounting to Kshs.346,617 and other grants and other payments amounting to Kshs.2,455,172 all totalling to Kshs.2,801,789 were not supported.

Further, as disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services expenditure amount of Kshs.5,190,401 which includes other committee expenses and allowances totalling to Kshs.1,640,000. However, invitation letters, agendas, reports, schedule of projects visited, project progress reports and their recommendations were not provided.

Consequently, the accuracy, completeness and validity of the expenditure totalling to Kshs.2,801,789 and other committee expenses and allowances totalling to Kshs.1,640,000 for the year ended 30 June, 2020 could not be confirmed.

3. Unsupported Summary of Fixed Assets

Annex 4 to the financial statements reflects summary fixed assets with a total historical cost of Kshs.34,035,829. However, the fixed assets register provided did not include the dates of purchase and historical costs for each asset. Further, included in the assets is a grounded motor vehicle worth Kshs.5,000,000 which Management did not explain when and why it was grounded.

In the circumstances, the accuracy, completeness and validity of the fixed assets balance totalling to Kshs.34,035,829 as at 30 June, 2020 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 - Kajiado East 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 totalling to Kshs.225,487,304 and Kshs.87,534,342 respectively, resulting to an under-funding amounting to Kshs.137,952,962 or 61% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.225,487,304 and Kshs.78,934,027 respectively, resulting to an under expenditure amounting to Kshs.146,553,277 or 65% 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

The audit report of the previous year, several issues were raised. However, the Management has not resolved all 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. Unutilized Committees Bank Balances

Project Management Committees bank balances confirmation certificate as at 30 June, 2020 reflected bank balances held at a commercial bank totalling to Kshs.19,985,179 which had not been utilized as at the time of audit on 4 March, 2021. No explanation was provided for not having put the funds for the purpose they were appropriated for.

In the circumstances, I am unable to confirm whether Management utilized public funds totalling to Kshs.19,985,179 effectively for the benefits of the public for the year ended 30 June, 2020.

2. Irregular Funding of Project - Enkoinerei M.C.K Kiboko Primary School

The Management allocated a total of Kshs.7,000,000 or 13.5% of annual receipts totalling to Kshs.52,000,000 to Enkoinerei M.C.K Kiboko Primary School. However, the allocation

was above the required limit of 5% which translates to an amount of Kshs.2,600,000 contrary to Section 8(1) of the National Government Constituencies Development Fund Act, 2015.

The scope of works according to the bills of quantities included roofing, supply of two (2) water tanks of 10,000 litres capacity with concrete base and all connections from the roof catchment. Others included bringing down wooden doors and replacement with standard size steel doors and windows, preparation of verandas, painting of the school, supply and installation of lighting points, switches, power points, socket outlets and internal power distribution. However, the project file, evaluation minutes, details of the contractor and date when the project was implemented were not provided. In addition, during physical verification, the tanks were not seen and the contractor was not on site.

In the circumstances, I am unable to confirm the validity and value for money for the expenditure totalling to Kshs.7,000,000 allocated to the project.

3. Irregular Funding of Project - Kikayaya Secondary School

Management awarded a contract for the construction of four (4) classrooms at Kikayaya Secondary School at a contract sum of Kshs.4,992,663. However, tenders were opened and evaluated by the same committee while the tender opening register and evidence that the bidders had an option of witnessing the opening exercise, technical evaluation, professional opinion and performance security documents were not provided.

Further, an amount of Kshs.2,657,978 or 53% of contract sum had been paid to the contractor. However, ownership documents of the land where the school had been constructed, proposal from the community and architectural plan for the project were not provided. A site inspection carried out in the month of March, 2021 revealed that the construction was at truss level and the contractor was not on site contrary to the Project Implementation Status Report which indicated that it was at the roofing stage.

In addition, the contractor's Business Registration Certificate, Tax compliance, National Construction Authority License and trading license were not provided. This is contrary to Public Procurement and Asset Disposal Act, 2015.

In the Circumstances, the validity and value for money for the expenditure totalling to Kshs.4,992,663 allocated to the project could not be confirmed.

4. Unsatisfactory Implementation of Project

Management awarded a contract for the construction of four (4) classrooms at Noonkopir Primary School at a contract sum of Kshs.4,989,928 and a total of Kshs.4,490,935 or 90% of the contract sum had been paid to the contractor and a Certificate of Practical Completion issued on 10 December, 2020. Physical verification in the month of March, 2021 revealed that the classrooms were in use but the floors were already chipping an indication of poor workmanship. Management did not explain steps it intended to take to repair the floors.

In the circumstances, I am unable to confirm whether the public obtained value for money for the expenditure totalling to Kshs.4,490,935.

5. Delay in Project Implementation

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and other payments amounting to Kshs.52,152,878. The balance includes an amount of Kshs.19,986,206 transferred to various Project Management Committee (PMC) Accounts. However, at the time of audit in the month of March, 2021, the projects had not been implemented and no explanation was given for failure to implement them. Further, there was no evidence showing who and how the members of the PMCs were identified

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

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

Weaknesses in Management of the Cash Book

Examination of the Cash book revealed that it was not systematically updated /posted with earlier dates posted after current dates. Further, it was not reviewed and approved by a senior official and the closing balances were not defined and dated. It was also noted that several cancellations, overwrites, calculations and notes were made.

In the circumstances, I am unable to confirm existence of effective internal controls and governance in the management of the cashbook.

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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

10 November, 2021