

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KIPIPIRI 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 - Kipipiri Constituency set out on pages 6 to 39, which comprise of the statement of assets and liabilities as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows and the summary 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 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 National Government Constituencies Development Fund - Kipipiri Constituency as at 30 June, 2019, and of its financial performance and its cash flows for the year ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Unsupported Bursary Payments

The statement of receipts and payments reflects other grants and transfers of Kshs.53,164,099 which as disclosed under Note 7 to the financial statements, included bursaries of Kshs.29,457,366 and Kshs.8,024,430 to secondary schools and tertiary institutions respectively, both totalling to Kshs.37,481,796. However, a detailed beneficiary listing indicating the school/college, student name, admission number and amounts disbursed for bursaries amounting to Kshs.12,529,191 was not provided.

In the circumstances, the accuracy and validity of the reported bursary payments could not be confirmed.

2. Irregular Payment of Committee Allowances

The statement of receipts and payments reflects payments of Kshs.3,100,155 for use of goods and services which as disclosed at Note 5 to financial statements, includes committee expenses of Kshs.1,904,000. However, an amount of Kshs.184,500 was paid to non-committee members. Further, supporting documents including approved reports and meeting minutes for payments amounting to Kshs.639,300 and Kshs.255,000 relating

to monitoring and evaluation expenses and projects inspection program respectively, were not provided.

In the circumstances, the accuracy and propriety of the reported payments of Kshs.1,904,000 for committee expenses could not be confirmed.

3. Unreconciled Variance for Accounts Payable - Staff Gratuity

The statement of assets and liabilities reflects nil accounts payable - staff gratuity. However, Note 12B to the financial statements reflects outstanding staff gratuity of Kshs.560,480 whose total is erroneously shown as Kshs.481,300.

In the circumstances, the accuracy and completeness of the reported nil balance for accounts payable - staff gratuity could not be confirmed.

4. Bank Balances

The statement of assets and liabilities and Note 10A to the financial statements reflect a bank balance of Kshs.11,369,889. However, the bank reconciliation statement for the month of June, 2019 reflected un-presented cheques amounting to Kshs.21,164,447 which included a cheque for Kshs.118,000 which was already stale but had not been written back into the cashbook.

In the circumstances, the accuracy of the reported bank balance of Kshs.11,369,889 as at 30 June, 2019, could not be confirmed.

5. Prior Year Adjustments

The statement of assets and liabilities reflects prior year adjustments of Kshs.1,310,400 which as disclosed under Note 14 to the financial statements, related to bank accounts adjustments. However, Paragraph 1.5 of International Public Sector Accounting Standard – Financial Reporting under the Cash Basis of Accounting requires that errors relating to prior periods be reported by adjusting the cash at the beginning of the period and comparative information to be restated accordingly. The disclosure requirements with regard to correction of errors have also not been met.

In the circumstances, the accuracy and validity of the prior year adjustments of Kshs.1,310,400 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 - Kipipiri 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

Report of the Auditor-General on National Government Constituencies Development Fund - Kipipiri Constituency for the year ended 30 June, 2019

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 receipts on comparable basis of Kshs.170,613,785 and Kshs.115,572,909 respectively, resulting into an underfunding of Kshs.55,040,876 or 32% of the budget. Further, of the receipts of Kshs.115,572,909 realized, only Kshs.105,513,420 was utilized resulting into under absorption of Kshs.10,054,489 or 9% of the receipts.

The underfunding and failure to implement all the planned activities may have impacted negatively on service delivery to the constituents of Kipipiri.

2. Unresolved Prior Year Audit Matters

As disclosed under the progress on follow up of auditor recommendations section of the financial statements, some of the prior year audit issues remained unresolved as at 30 June, 2019. No satisfactory explanation was provided for not resolving the issues.

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 Status

The project implementation status report as at 30 June, 2019 indicated that nine (9) projects with an allocation of Kshs.17,300,000 were still ongoing, implementation of forty-six (46) projects with a funding allocation of Kshs.28,538,993 had not started and that seventeen (17) prior year's projects with a funding allocation of Kshs.9,627,879 were not prioritized as required under Section 46(2) of National Government Constituencies Development Fund Act, 2015 which requires ongoing projects to take precedence over all other projects in funding.

In the circumstances, Management was in breach of the Law. In addition, delayed completion of projects might lead to loss of public funds through cost escalations.

2. Unsatisfactory Implementation of Projects

Audit inspection between 20 and 21 January, 2020 of twenty-one (21) projects with a funding allocation of Kshs.37,800,000 revealed lack of involvement of Project Management Committees, stalled projects, poor workmanship and other anomalies as shown in **Appendix I**.

Further, Project Management Committees (PMCs) were not operating independently in procurement of goods, services and works, implementation of projects and payment for goods, services and works as provided under Section 36(1) of the National Government Constituencies Development Fund Act, 2015.

The Fund Management was therefore, in breach of the Law.

3. Irregular Implementation of Sports Projects

The statement of receipts and payments reflects other grants and transfers of Kshs.53,164,099 which as disclosed at Note 7 to the financial statements, included Kshs.1,452,110 expended on sports projects. However, a Project Management Committee to implement the Project was not appointed as required under Section 15(6) of the National Government Constituencies Development Fund Act, 2015. Further, the items were procured using the direct procurement method although the conditions for use of the method as provided under Section 103 (2) of the Public Procurement and Assets Disposal Act, 2015 had not been met. In addition, supporting documents including stores records, proof of delivery of goods, requisitions and the list of distribution to the beneficiaries were not provided.

In the circumstances, the accuracy and propriety of the payment of Kshs.1,452,110 on sports activities could not be confirmed.

4. Irregular Emergency Projects

Note 7 to the financial statements reflects emergency projects payments of Kshs.5,738,993. However, no evidence was provided that the expenditure was an emergency as provided under Section 8(3) of the National Government Constituencies Development Fund Act, 2015 which provides that emergency shall be construed to mean an urgent, unforeseen need for expenditure for which it is in the opinion of the committee that it cannot be delayed until the next financial year without harming the public interest of the constituents. In addition, eight (8) projects with a funding allocation of Kshs.5,038,993 had not been implemented eight (8) months after the PMCs received the funds.

In the circumstances, the propriety of the expenditure amounting to Kshs.5,038,993 on emergency projects could not be confirmed.

5. Irregular Recruitment

The statement of receipts and payments and Note 4 to the financial statements, reflect payments of Kshs.1,309,212 for compensation of employees. However, signed letters of appointment and approval for the recruitment two (2) employees recruited and paid a total salary of Kshs.203,040 between March and June, 2019 were not provided.

Consequently, the propriety of the salaries amounting to Kshs.203,040 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, 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 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

Effectiveness of the Fund Committee

Available information indicated that on 10 May, 2019, the Fund Manager recorded the minutes of the Constituency Committee meeting held in the presence of the Fund Committee Secretary. This is contrary to Regulation 9(2)(c) of the National Government Constituencies Development Fund Regulations, 2016 which provides that recording of the proceedings of the Constituency Committee meeting is the responsibility of the Secretary. Further, the Secretary and the Chairperson did not sign the committee minutes for the meetings held on 13 July, 2018; 31 August, 2018; 8 October, 2018; 05 November, 2018; 03 December, 2018; 29 December, 2019; 30 March, 2019 and 10 May, 2019 contrary to Regulation 7(10) of the National Government Constituencies Development Fund Regulations, 2016.

Further, the schedule of Committee meetings held during the year prepared and tabled before the Committee as provided under Regulation 7(9) of the National Government Constituencies Development Fund Regulations 2016, was not provided. In addition,

various notices/minutes for the Committee meetings, provided for audit review indicated that the venue of the meetings was at the Kipipiri Member of Parliament's Boardroom in Nairobi. It was not clear why the meetings were not held within the boundaries of the Constituency.

In the circumstances, it was not possible to confirm whether internal controls and governance of the Fund was effective.

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 services, disclosing, as applicable, matters related sustainability of services and using the going concern 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 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,

Report of the Auditor-General on National Government Constituencies Development Fund - Kipipiri Constituency for the year ended 30 June, 2019

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 going concern 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 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

23 December, 2021

Appendix I - Unsatisfactory Implementation of Projects

Project Beneficiary and Details	Allocation (Kshs.)	Audit Observations
Jomo Primary - Trees Planting	100,000	<ul style="list-style-type: none"> • Pre and post distribution lists and evidence of delivery of 1,000 seedlings were not made available for audit review. • Seedlings could not be traced on the ground as it was explained to have weathered. • There was no evidence of PMC involvement in the Project.
St. Peters Mawingo Primary - Trees planting	150,000	<ul style="list-style-type: none"> • Pre and post distribution lists and evidence of delivery of 1,000 seedlings were not made available for audit review; • Seedlings could not be traced on the ground as it was explained to have weathered; • There was no evidence of PMC involvement in the Project.
Gathiriga Primary- Construction of Classrooms	2,800,000	<ul style="list-style-type: none"> • Project had been funded in 2017/2018 financial year but was incomplete one year later; • Contractor was paid in cash under unclear circumstances. • The mandate for operating the bank account was not adhered to: two signatories signed to withdraw the cash instead of the mandatory three.
Kiamboga Primary- Construction of Classrooms	1,850,000	<ul style="list-style-type: none"> • Project was incomplete and contractor was not on site; • Kshs.1,850,000 had been spent on the Project in 2017/2018 financial year. However, works not done included roofing, doors and windows, and finishes with provisions of Kshs.98,400, Kshs.80,000 and Kshs.67,000 respectively; • Works paid for but not done amounted to Kshs.245,400.

Project Beneficiary and Details	Allocation (Kshs.)	Audit Observations
Mumoi Primary- Construction of Classrooms	1,400,000	<ul style="list-style-type: none"> • Contract was awarded on 13/3/2019 but remained incomplete almost one (1) year later; • Works remaining included roofing, fixing windows, doors, plastering, keying, painting, wiring and site clearing; • Kshs.975,000 had been paid to the contractor leaving out a balance of Kshs.425,000 which was not commensurate with the remaining works; • Variation of Kshs.600,000 had been effected without the requisite approvals; • Cracks had formed on the veranda.
Wanjohi Primary School - Construction of Toilet	150,000	Project was incomplete with the entrance cover wall undone; and the foundation not satisfactorily completed.
Kabati Primary School - Flooring of classrooms	300,000	Six (6) months after the floors were done there were noticeable cracks and surfaces peeling off yet the contractor had been paid a substantial amount of Kshs.245,490 as at 2 August, 2019.
Marimu Primary School - Flooring of Classrooms, Levelling of the playground	800,000	The floors were unsatisfactorily done with cracks and peeling of the surface evident; and Levelling of the playground had not been done.
Migaa Primary School - Construction of classrooms	1,700,000	<ul style="list-style-type: none"> • The Project was incomplete but the contractor was not on site; • Two (2) classrooms had been done up to the roofing level with one (1) classroom partitioned to serve as an office; • The other two (2) classrooms had been constructed up to the lintel level; • Both Projects had stalled despite the Projects account having a balance of Kshs.3,053,870 as at 13 February, 2020.

Project Beneficiary and Details	Allocation (Kshs.)	Audit Observations
Ririchua Primary School - Construction of classrooms, staff and boy's toilets and levelling of playground.	3,050,000	Levelling of the playground had not been done.
Rutuba Primary School - Construction of Classrooms. Flooring of classrooms	2,400,000	<ul style="list-style-type: none"> • The Project started in January 2019 and was scheduled for completion on 30 April, 2019. The Project was therefore behind schedule; • The rafters were freshly done; • The flooring works were fairly done
Manunga Mixed Secondary - Construction of Science Laboratory	3,000,000	Project was incomplete, and had taken significantly long to complete.
Wanjohi Girls' Secondary School - Dormitory Plumbing of Drainage	700,000	<ul style="list-style-type: none"> • Project was incomplete and the Contractor was not on site; • Several works with a value of Kshs.272,000 in the bill of quantities (BQ) were undone; • Styling works done was not in the BQ; • Works were varied by Kshs.266,000 to cover drainage works. However, the varied works had already been provided for in the BQ; • Kshs.35,000 being PMC allowance and stationary had not been accounted for.
Kimuru Secondary School - Construction of Science Laboratory	3,000,000	<ul style="list-style-type: none"> • Project was incomplete and the contractor was not on site; • Works not done included painting works costing Kshs.28,210, internal walls costing Kshs.95,550 and electrical fittings costing Kshs.50,000; • Walling had not been plastered to smooth surface.
Malewa Secondary School - Construction of Classrooms	1,600,000	<ul style="list-style-type: none"> • Project was incomplete and the contractor was not on site; • Works not done included installation of 2 windows and 2 doors costing Kshs.160,000, plastering, painting costing Kshs.134,000, electrical fittings, writing board, ceiling board.

Project Beneficiary and Details	Allocation (Kshs.)	Audit Observations
		The pending works was attributed to inadequate funding.
Mumoi Secondary - Construction of Classroom	800,000	<ul style="list-style-type: none"> Project was incomplete while the Contractor was not on site; Kshs.760,000 has been paid to the contractor leaving out a balance of Kshs.40,000; Works not done included windows installation, wall plastering, painting works and electrical wiring; and Contract agreement was not available for review as the tendering process was conducted at the NG-CDF offices.
St. Peters Mawingo Primary - Construction of Science Laboratory	3,000,000	<ul style="list-style-type: none"> Construction was funded on 26 March, 2019 and remained incomplete almost one (1) year later; The contract agreement was not provided for review.
Wanjohi Girls Secondary School - Construction of a Twin Laboratory	4,000,000	<ul style="list-style-type: none"> The Project was funded in 2013/14 financial year but the contractor abandoned it; The building was in ruins and had been turned into storage for old school furniture; Works not done included fitting of windows, doors, plastering, screening of floor, fitting of fascia boards, painting and fitting of laboratory systems.
Kagongo Secondary School - Construction of Laboratory	3,000,000	<ul style="list-style-type: none"> The Project was incomplete and the contractor was not on site. Works not done included painting and decorations, rainwater installation, fascia board, ceiling, electrical works, sign board
Kianjogu Secondary School - Construction of Laboratory	3,000,000	<ul style="list-style-type: none"> Project was incomplete and the contractor was not on site; Works not done included; painting and decorations, rainwater installation, fascia board, electrical works, sign board; and cracks on the floor were notable.

Project Beneficiary and Details	Allocation (Kshs.)	Audit Observations
Ndemi AP Police Post - Construction of Officers houses	1,000,000	<ul style="list-style-type: none"> • Project had been completed but was yet to be put to use; • The houses had developed cracks on the walls and the foundation level was so low that whenever it rained, water flowed into the houses.
Total	37,800,000	