

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MBEERE SOUTH 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 - Mbeere South Constituency set out on pages 11 to 45, which comprise of the statement of assets and liabilities as at 30 June, 2020, 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 - Mbeere South 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. Unsupported Bursaries

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers totalling to Kshs.35,964,210. The balance includes bursary to secondary schools and tertiary institutions totalling to Kshs.23,956,875. However, the bursary schedules provided reflected an amount of Kshs.21,909,075 resulting to an unreconciled variance amounting to Kshs.2,047,800.

Further, names of approved Bursary Committee Members, Bursary Committee Minutes, Vetting Minutes, acknowledgement letters or receipts from the receiving institutions for

eight hundred and four (804) beneficiaries, and admission numbers for nine (9) beneficiaries were not provided.

In the circumstances, the accuracy, completeness and validity of bursaries totalling to Kshs.23,956,875 for the year ended 30 June, 2020 could not be confirmed.

2. Unsupported Prior Year Adjustments

As disclosed in Note 14 to the financial statements, the statement of assets and liabilities reflects prior year adjustments totalling to Kshs.415,000. However, supporting documents including journals and ledgers were not provided.

In the circumstances, the accuracy, completeness and validity of the prior year adjustments totalling to Kshs.415,000 reflected in the statement of assets and liabilities as at 30 June, 2020 could not be confirmed.

3. Inaccuracy in Unutilized Funds

Note 17.3 and Annex 3 to the financial statements reflects Unutilized Funds comparative balance totalling to Kshs.95,798,672. However, the 2018/2019 financial statements reflected an amount of Kshs.124,158,083 on the same item resulting to an unexplained variance amounting to Kshs.28,359,411.

In the circumstances, the accuracy, completeness and validity of the Unutilized Funds comparative balance totalling to Kshs.95,798,672 as at 30 June, 2020 could not be confirmed.

4. Lack of Motor Cycle Logbook

As disclosed in Note 8 to the financial statements, the statement of receipts and payments reflects acquisition of assets totalling to Kshs.8,680,898. The balance includes procurement of a motor cycle amounting to Kshs.511,415 whose logbook was not provided.

In the circumstances, the ownership of the motor cycle worth Kshs.511,415 as at 30 June, 2020 could not be confirmed.

5. Unsupported Committee Account Balances

Note 17.4 to the financial statements reflects Project Management Committee (PMC) account balances totalling to Kshs.44,187,157 in various institutions. However, the respective cashbooks and bank reconciliation statements were not provided.

In the circumstances, the accuracy, completeness and validity of PMC account balances totalling to Kshs.44,187,157 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 - Mbeere South 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.233,166,396 and Kshs.145,798,672 respectively, resulting to an under-funding amounting to Kshs.87,367,724 or 37% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.233,166,396 and Kshs.123,030,261 respectively, resulting to an under expenditure amounting to Kshs.110,136,135 or 47% 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

In the audit report of the previous year, several issues were raised. However, the Management has not resolved 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. Project Implementation Status Report

The summary statement of appropriation - recurrent and development combined reflects an amount of Kshs.213,681,438 comprising of Kshs.115,197,586, Kshs.71,525,258,

Kshs.23,394,424 and Kshs.3,564,170 in respect to transfers to other Government Units, other grants and transfers, acquisition of assets and other payments respectively. However, the Project Implementation Status Report provided reflected an allocation amount of Kshs.123,056,386 for projects resulting to an unreconciled variance amounting to Kshs.90,625,052.

Further, the Project Implementation Status Report showed that ninety-three (93) projects totalling to Kshs.123,056,386 were budgeted for implementation during the year under review. However, fifteen (15) projects totalling to Kshs.5,097,354 (4%) had been completed, seventy-six (76) projects totalling to Kshs.111,959,032 (91%) were on-going and two (2) project totalling to Kshs.6,000,000 (5%) had not started as at 30 June, 2020.

Under the circumstances, the validity of the Project Implementation Status Report and the value for money for projects not started as at 30 June, 2020 could not be confirmed.

2. Delay in Project Implementation

The Management disbursed total of Kshs.8,700,000 to SA Gategi Secondary School, Karaba Boys Secondary School and Nyangwa Boys Secondary School for various projects. However, as at the time of audit in December, 2020, the funds had not been utilized and no justification was provided for delay in implementation of the projects.

Further, Management disbursed an amount of Kshs.600,000 for the construction of Kiamuringa Assistant Chief's Office. However, three (3) firms quoted for the works but evidence showing how they were identified was not provided. The tender was won by one of the three (3) firms at a contract sum of Kshs.1,050,115. However, the contract document was not provided. In addition, the notification of award of the contract was issued on 14 October, 2020 but as at the time of the audit in December, 2020 the construction works had not started without any justification.

In the circumstances, the validity and value for money for the disbursements during the year ended 30 June, 2020 could not be confirmed.

3. Unsatisfactory Implementation of Projects

3.1 Makutano Primary School

The Management disbursed an amount of Kshs.1,100,000 to Makutano Primary School for construction of a dormitory. However, physical verification in December, 2020 revealed sinks and rainwater materials worth Kshs.15,200 had not been fixed. In addition, an inspection report by Sub-county Works Officer dated 30 March, 2020 revealed the following anomalies;

- i. The masonry piers acting as columns were not constructed as per the structural plan and Bills of Quantities (BoQ).
- ii. The dwarf walls internal partitions did not have enough structural support.

- iii. The walls partitioning the washrooms did not have a connecting beam as per the BoQ.
- iv. There was no internal opening at the center of the dormitory to enhance safety as per the BoQ.

Further, no evidence was provided to confirm that the anomalies were rectified.

In the circumstances, the propriety and value for money for the expenditure totalling to Kshs.1,100,000 for the year ended 30 June, 2020 could not be confirmed.

3.2 Kaninwanthiga Primary School

The Management disbursed an amount of Kshs.1,250,000 to Kaninwanthiga Primary School for construction of an administration block. However, physical verification in December, 2020 revealed that ceiling finishes amounting to Kshs.462,650 and electrical works amounting to Kshs.100,000 both totalling to Kshs.562,650 had not been done despite a certificate of completion having been issued on 27 August, 2020 by the Clerk of Works. In addition, five (5) locally made locks of unknown specifications were installed instead of five (5) two lever Union locks totalling to Kshs.22,500 as per the BoQ.

In the circumstances, the propriety and value for money for the expenditure totalling to Kshs.585,150 for the year ended 30 June, 2020 could not be confirmed.

3.3 Kamweli Primary School and ACK Kilia Primary School

The Management disbursed an amount of Kshs.1,500,000 and Kshs.1,000,000 both totalling to Kshs.2,500,000 for construction of administration blocks at Kamweli Primary School and ACK Kilia Primary School respectively. However, project verification in December, 2020 revealed that the administration blocks had stalled. It was explained that the funds disbursed had been exhausted.

In the circumstances, the value for money for the expenditure totalling to Kshs.2,500,000 for the year ended 30 June, 2020 could not be confirmed.

4. Stalled Projects

The Management transferred a total of Kshs.5,100,000 to five (5) secondary schools for projects as shown below;

Secondary School	Amount (Kshs)	Purpose
Kamweli Secondary School	750,000	Construction of administration block
Munyori Secondary School	650,000	Construction of administration block
Kanyonga Secondary School	1,000,000	Construction of dining hall
St Augustine Secondary School	1,500,000	Construction of Laboratory
Ngenge Secondary School	1,200,000	Construction of dining hall
Total	5,100,000	

However, projects verification in December, 2020 revealed that the projects had not been completed and appeared stalled.

In the circumstances, the value for money for the expenditure totalling to Kshs.5,100,000 for the year ended 30 June, 2020 could not be confirmed.

5. Unsupported Allocation of Funds

The Management transferred an amount of Kshs.3,000,000 on 19 May, 2020 to Jeremiah Nyaga Technical Institute for acquisition of a new mango juice preparation plant machine. However, supporting documents including feasibility reports and approvals by the Ministry of Education and the Institute's Board were not provided and the funds had not been utilized as at the time of audit in December, 2020.

In the circumstances, the validity and value for money for a total of Kshs.3,000,000 disbursed for the year ended 30 June, 2020 could not be confirmed.

6. Irregular use of Emergency Funds

The Management budgeted a total of Kshs.2,300,000 for ten (10) emergency projects implemented during the year under review. The balance includes an amount of Kshs.150,000 for the construction of a pit latrine at Kirima Assistant Chief's Office. However, physical verification carried out in December, 2020 revealed that the project had not been completed and the contractors were not on site.

Further, the project whose funds were released in June, 2020 and still not completed in December, 2020 appeared not to have been an emergency project.

In addition, a report on utilization of emergency reserve to the Board was not provided. This is contrary to Section 20(2) of the National Government Constituencies Development Fund Regulations, 2016 which states that utilization of the emergency reserve shall be reported to the Board within thirty days of the occurrence of the emergency.

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

7. Non-compliance with Public Sector Accounting Standards Board Requirements

Review of the annual reports and the financial statements showed that pages numbers 14 to 25 in the financial statements were not visible and Note 17.4 to the financial statements indicates that the PMC account balances is at Annex 4 instead of Annex 5. This is contrary to Public Sector Accounting Standards Board (PSASB) reporting template issued in June, 2019.

In the circumstances, the annual reports and the financial statements are not prepared in accordance with the prescribed format.

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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

15 November, 2021