

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KACHELIBA 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 - Kacheliba Constituency set out on pages 18 to 59, which comprise the statement of assets and liabilities as at 30 June, 2020, and the 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 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 - Kacheliba Constituency as at 30 June, 2020, 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

1.0 Cash and Cash Equivalents

The statement of assets and liabilities and Note 10A to the financial statements reflect a bank balance of Kshs.3,629,421 as at 30 June, 2020. The June, 2020 bank reconciliation statement reflected unrepresented cheques amounting to Kshs.30,656,065 and payments in the bank statement not recorded in the cash book amounting to Kshs.215,894 in respect of bank charges incurred. Cheques amounting to Kshs.1,112,996 became stale after the end of the financial year and were reversed in the cash book in October, 2020. However, no evidence was provided that the reversed cheques amounting to Kshs.1,112,996 were replaced.

Further, the bank charges amounting to Kshs.215,8934 had not been included in the expenses reported in the statement of receipts and payments.

Consequently, the accuracy of the reported cash and cash equivalents balance of Kshs.3,629,421 as at 30 June, 2020 and of the total payments of Kshs.159,688,459 could not be confirmed.

2.0 Project Management Committee Bank Balances

Note 17.4 and Annex 5 to the financial statements reflect a bank balance of Kshs.16,907,563 held in fifty-six (56) Project Management Committees' (PMCs) bank accounts as at 30 June, 2020. However, the cashbooks, bank reconciliation statements and certificates of bank balances as at 30 June, 2020, in respect of each Project Management Committee bank account were not provided for audit. Further, the project status report indicated that an amount of Kshs.102,837,785 was disbursed to one hundred and eleven (111) projects during the year. However, only balances relating to fifty-six (56) Projects were reported.

Consequently, the accuracy and completeness of the total Project Management Committees' bank balance of Kshs.16,907,563 as at 30 June, 2020, could not be confirmed.

3.0 Summary of Fixed Assets Register

The historical fixed assets cost balances for various asset classes reflected in the summary of fixed assets register under Annex 4 to the financial statements, differed with the corresponding balances reflected in the asset register as summarized in the table below:

	Assets Cost as per Fixed Assets Register	Assets Cost as per Summary of Fixed Assets Register	Variance
Asset Class	(Kshs.)	(Kshs.)	(Kshs.)
Buildings and Structures	37,000,000	24,480,000	12,520,000
Transport Equipment	14,747,606	30,134,112	(15,386,506)
Office Equipment, Furniture and Fittings	462,500	-	462,500
ICT equipment, Software and Other ICT Assets	115,999	526,500	(410,501)
Other Machinery and Equipment	16,240,000	-	16,240,000

The variances were not reconciled.

Consequently, the accuracy and completeness of the total fixed assets historical cost balance of Kshs.55,140,612 as at 30 June, 2020 could not be confirmed.

4.0 Constituency Development Fund Committee (CDFC) Membership

The statement of receipts and payments reflects use of goods and services of Kshs.7,493,032 which as disclosed in Note 5 to the financial statements, includes committee expenses of Kshs.2,837,540 paid to nine (9) members of the Constituency Committee. However, appointment and gazettelement of the members as provided under Section 43(4) of National Government Constituencies Development Fund Act, 2015 was not provided for audit.

Consequently, the accuracy and propriety of the committee expenses amounting to Kshs.2,837,540 could not be confirmed.

5.0 Transfers to Other Government Entities

The statement of receipts and payments reflects transfers of Kshs.96,272,819 to other government entities which as disclosed at Note 6 to the financial statements, includes transfers of Kshs.10,300,000 to tertiary institutions. The following observations were made regarding the expenditure:

5.1 Unsupported Construction Costs at Kacheliba Technical and Vocational College

The transfers included Kshs.10,000,000 disbursed to Kacheliba Technical and Vocational College for the construction of a workshop, three (3) lecture rooms and an office. However, tender documents including tender opening register and minutes, tender evaluation reports, contract agreement, expenditure returns and reports indicating how the funds disbursed to the contractor were utilized, details of the financing plan for the Project as well as evidence of ownership of the land on which the Institute was being established were not provided for audit. Further, audit inspection of the Project during the month of March, 2021 revealed that the excavation, foundation laying, walling and fixing of doors and windows had been done while roofing and other finishing works were yet to be done. In absence of progress reports, it could not be confirmed when the Project would be completed and put to use.

Consequently, the propriety and value for money of the expenditure of Kshs.10,000,000 on the project could not be confirmed.

5.2 Consultancy Services for Construction of Kodich Technical Training College

The amount of Kshs.10,300,000 includes payment of Kshs.300,000 made in respect of environmental impact assessment consultancy services for the proposed construction of Kodich Technical Training Institute. However, procurement records required to be maintained under Section 68(1) of the Public Procurement and Asset Disposal Act, 2015 including the advertisement, minutes of the tender opening, evaluation reports, notification of award, acceptance letter, signed professional opinion, notification of unsuccessful tenderers and consultancy report were not provided for audit.

Consequently, the propriety of the consultancy expenditure of Kshs.300,000 on the Project could not be confirmed.

6.0 Unacknowledged Bursary Payments and Lack of Vetting of Beneficiaries

The statement of receipts and payments reflects other grants and transfers of Kshs.37,302,232 which as disclosed in Note 7 to the financial statements, includes Kshs.4,668,500 and Kshs.10,766,750 being bursary to secondary schools and tertiary institutions respectively, both totalling to Kshs.15,435,250. However, no evidence was provided that vetting, identification and categorizing of needy students was done by the bursary subcommittee that should include Area Education Officer or a representative from

the Ministry of Education as provided by the Constituencies Development Fund Board Circular Reference VOL1/111 dated 13 September, 2010. Further, evidence of acknowledgement in the form of receipts and acknowledgement letters from the various institutions that received the bursary funds were not provided for audit neither did the Fund maintain an updated database of secondary schools, colleges and universities registered by the Ministry of Education to ascertain whether the students who applied for and received the bursary funds were undertaking their studies in registered institutions. In addition, the Ward Education Fund Appraisal Committees did not establish from the learning institutions whether the bursary applicants had received funding from other sources.

Consequently, the accuracy and propriety of the bursary payments amounting to Kshs.15,435,250 could not be confirmed.

7.0 Lack of Ownership Documents for Motor Vehicle

The statement of receipts and payments reflects expenditure of Kshs.15,925,722 on acquisition of assets which as disclosed in Note 8 to the financial statements includes Kshs.9,945,722 on purchase of vehicles and other transport equipment paid to a local motor vehicle dealer for a Land Cruiser Hardtop motor vehicle. Although the vehicle had been delivered and was in use, the logbook was not provided for audit.

Consequently, ownership of the vehicle 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 - Kacheliba Constituency's 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

Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects a final receipts budget and actual receipts on comparable basis of Kshs.232,685,603 and Kshs.163,317,880 respectively, resulting into an under-funding of Kshs.69,367,723 or 30% of the budget. Similarly, the Fund expended Kshs.159,688,459 against an approved budget of Kshs.232,685,603 resulting into an under-expenditure of Kshs.72,997,144 or 31% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on 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 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

1.0 Unfunded Projects, Lack of Ownership Documents for Land and Incomplete Projects

The project status report for the year ended 30 June, 2020 provided for audit, indicated that the Fund had an approved budget of Kshs.182,166,889 to finance one hundred and seventeen (117) projects out of which Kshs.135,215,406 was disbursed to one hundred and eleven (111) projects which had total budget of Kshs.159,897,141. However, six (6) projects with a total budget of Kshs.22,269,748 were not funded. Further, audit inspection in March 2021 of thirteen (13) projects whose total disbursements amounted to Kshs.40,700,000 revealed that ownership documents for the land on which the Projects were implemented - in schools and institutions including the Fund's offices - were not available contrary to Regulation 11(1)(k) of National Government Constituencies Development Regulations, 2016 which requires a Constituency Committee to ensure that where a project involves purchase of a parcel of land or a building, the ownership thereof should be duly verified and ownership documents authenticated with relevant government agencies. In addition, nine (9) projects with a combined funding of Kshs.20,200,000 had not been completed.

Delayed disbursement of funds and non-completion of projects denied the residents of Kacheliba Constituency the benefits that would have accrued from the projects. In addition, the Fund Management was in breach of the law.

2.0 Delayed Disbursements of Funds from the Board

The statement of receipts and payments and Note 1 to the financial statements, reflects transfers of Kshs.150,060,057 from the National Government Constituencies Development Fund Board during the year ended 30 June, 2020. This amount includes Kshs.82,060,056 or 55% of total receipts that was budgeted for between 2015/2016 and 2018/2019 financial years. Further, the Fund had total budget of Kshs.137,367,724 for the financial year 2019/2020 out of which an amount of Kshs.68,000,000 or 49% of budgeted funds was received resulting into a budget underfunding of Kshs.69,367,723 or 51% of the budgeted funds contrary to Section 16(a) of the National Government

Constituencies Development Fund Act, 2015 which provides that one of the functions of the Board shall be to ensure timely and efficient disbursement of funds to every Constituency and Section 39(2) of the National Government Constituencies Development Fund Act, 2015 which provides for quarterly disbursement of funds.

Consequently, the Board was in breach of the law.

3.0 Undisclosed Historical Cost of Land

Annex 4 to the financial statements on the summary of fixed assets register reflects a total historical asset cost balance of Kshs.55,140,612 which includes Kshs.24,480,000 on buildings and structures. However, the cost of the land was not disclosed.

Consequently, the accuracy of the summary could not be confirmed. In addition, it could not be confirmed that the Fund Management had complied with Regulation, 143(2) of the Public Finance Management (National Government) Regulations, 2015 which provides that the register of land and buildings shall record each parcel of land and each building and the terms on which it is held, with reference to the conveyance, address, area, dates of acquisition, disposal or major change in use, capital expenditure, lease hold terms, maintenance contracts and other pertinent management details.

4.0 Delayed Disposal of Non-Functional Grader

As previously reported, the Fund purchased a motor grader registration number GKA 454T in the year 2007. The grader broke down in May 2015 and the District Mechanical Officer was requested to assess and to provide mechanical services to the grader. The technical report issued on 22 June, 2016 revealed that repairing the grader would cost an estimated Kshs.3,074,500 which was un-economical.

On 12 October, 2016, the Fund wrote to the National Government Constituencies Development Fund Board requesting for the approval of the disposal of the grader. However, the grader was still lying down at the Kapenguria Public Works yard at the time of audit, exposed to rust and vandalism contrary to Section 162(3) of Public Procurement and Asset Disposal Act, 2015 which provides that stores, inventory and assets that are procured by a public entity shall not be allowed to suffer deterioration from any preventable cause.

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 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 governance.

In preparing the financial statements, Management is responsible for assessing the National Government Constituencies Development Fund - Kacheliba Constituency's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern 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 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 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 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 Fund's 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 as a going concern or 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 continue as a going concern or 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

13 January, 2022