

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – NDIA 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 – Ndia Constituency set out on pages 8 to 50, which comprise of the statement of assets and liabilities as at 30 June, 2019, 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 – Ndia Constituency as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracy of the Financial Statements

1.1 Summary Statement of Appropriation: Recurrent and Development Combined

The summary statement of appropriation: recurrent and development combined reflects actual receipts totalling to Kshs.166,140,011. However, the individual summary statements of appropriation: recurrent and development reflects receipts amounting to Kshs.10,701,597 and Kshs.154,679,732 respectively both totalling to Kshs.165,381,329 resulting to an unexplained and unreconciled variance of Kshs.758,682.

Further, the summary statement of appropriation: recurrent and development combined reflects Kshs.112,140,011 in respect to adjustments same as per disclosure Note 15.3, unutilized funds, opening balance. However, the same statement in the audited 2017/2018 financial statements reflected a budget utilization difference of Kshs.44,193,286 which ought to have been the budgeted adjustments for the year under review resulting to an unreconciled and unexplained variance of Kshs.67,946,725.

In addition, the summary statement of appropriation: recurrent reflects Kshs.11,460,279 in

respect to budget utilization difference being budgeted funds which were not transferred to the Fund by the National Government Constituencies Development Fund Board (NGCDFB). However, re-casting of the statement gave an amount of Kshs.10,512,408 in respect to the same item resulting to an unreconciled and unexplained variance totalling to Kshs. 947,871.

In the circumstances, the accuracy of the summary statement of appropriation: recurrent and development combined for the year ended 30 June, 2019 could not be confirmed.

1.2. Statement of Assets and Liabilities

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities reflects cash and cash equivalents of Kshs.12,145,702. However, the bank reconciliation statement reflected un-presented cheques of Kshs.2,003,032 which included Kshs.148,382 in respect to five (5) stale cheques which had not been reversed and adjusted in the cashbook as at 30 June, 2019 and therefore understating the cash and cash equivalents by the same amount.

In the circumstances, the accuracy of the Kshs.148,382 included in cash and cash equivalents as at 30 June, 2019 could not be confirmed.

2.0 Unsupported Bank Balances

The summary statement of appropriation: development reflects actual expenditure amounting to Kshs.143,292,712 which was disbursed to various institutions to implement projects through Project Management Committees (PMC). Disclosed in Annex 5 to the financial statements is PMC balances amounting to Kshs.11,629,877 being the unspent project funds as at 30 June, 2019. The balance includes an amount of Kshs.1,758,133 in respect of twelve (12) PMC bank balances. However, the respective bank statements reflected a balance of Kshs.9,712,107 resulting to an unreconciled and unexplained negative variance totalling Kshs.7,953,974.

In addition, no evidence was provided on why the balance totalling Kshs.11,629,877 was still held at the PMC accounts contrary to Section 12(8) of the National Government Constituencies Development Fund Act, 2015 which states that all unutilized funds of the Project Management Committee shall be refunded to the constituency account.

Further, Annex 5 to the financial statements reflects Kshs.11,629,877 in respect to PMC balances. However, re-casting of the balances gave a total of Kshs.8,101,940 resulting into an unexplained and unreconciled variance amounting to Kshs.3,527,937.

In the circumstances, the accuracy and validity of PMC bank balances totalling to Kshs.11,629,877 as at 30 June, 2019 could not be confirmed.

3.0 Unsupported Project Implementation Status

The summary statement of appropriation: development reflects a development expenditure amounting to Kshs.143,292,712 which was spent on various projects during the year. However, supporting documents including funds disbursed, date of projects completion, location of the projects and total funds allocated to budgeted projects in the 2018/2019 financial year were not provided for audit review. It was therefore, not possible to confirm the status of projects budgeted for in the year under review.

In the circumstances, the accuracy and value for money for the Kshs.143,292,712 expenditure for the year ended 30 June, 2019 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund – Ndia 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

1.0 Budgetary Control and Performance

The summary statement of appropriation: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.221,180,886 and Kshs.166,140,011 respectively resulting to an under-funding of Kshs.55,040,875 or 25% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.221,180,886 and Kshs.153,994,309 respectively resulting to an under expenditure of Kshs.67,186,578 or 30% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

2.0 Unresolved Prior Year Matters

The Management reflects progress on follow up of auditor's recommendations indicating that seven (7) issues were raised by the Auditor-General in the 2017/2018 financial year. However, in the audit report of the previous year, two (2) issues were raised. 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

1.0 Transfer to Other Government Units

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other government entities amount of Kshs.79,782,795. The balance includes Kshs.18,750,000 in respect to transfers to secondary schools. However, the following unsatisfactory observations were made:

1.1. Unimplemented Project

The balance includes an amount of Kshs.1,200,000 transferred to Kiaragana Girls Secondary School on 31 July, 2018 for the construction of a dormitory up to slab level. However, physical verification carried out in December, 2019, revealed that the project had not started and no explanations were provided.

In the circumstances, the propriety and value for money for the Kshs.1,200,000 expenditure for the year ended 30 June, 2019 could not be ascertained.

1.2. Irregular Diversion of Funds

Further, the balance includes an amount of Kshs.1,100,000 transferred to Kianjege West Secondary School for walling, plastering, flooring and installation of benches of a laboratory. However, physical verification carried out in December, 2019 revealed that the Project Management Committee diverted the funds into construction of two (2) classrooms. This is contrary to Section 6 (2) of the National Government Constituencies Development Fund Act, 2015 that states that "once funds are allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose during the financial year with the approval of the Board".

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

1.3. Irregular Holding of Project Funds

The balance also includes funds totalling to Kshs.750,000 transferred to Gakindu Secondary School in January, 2019 for purchase and installation of a transformer. However, the transformer had not been purchased as at the time of the physical verification in December, 2019. Further, the unutilized balance had not been included under Annex 5 to the financial statements on Project Management Committee bank balances as at 30 June, 2019. This is contrary to Section 12 (8) of the National Government Development Fund Act, 2015 which states that all unutilized funds of the Project Management Committee shall be refunded to the constituency account.

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

2.0 Other Grants and Transfers

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and other transfers totalling to Kshs.62,281,647. The following unsatisfactory observations were made:

2.1 Unsatisfactorily Implemented Project

The balance includes an amount of Kshs.1,650,000, under security projects, used for construction, electrification and equipping of Sagana Assistant Chief's Office. Review of records revealed that the amount was paid to a firm to carry out the project as per the bill of quantities. However, physical verification carried out in December, 2019 revealed that works totalling to Kshs.323,200 were not done as per the bills of quantities.

In the circumstances, the propriety and value for money for the Kshs.323,200 expenditures for the year ended 30 June, 2019 could not be ascertained.

2.2 Non-Compliance with Bursary Circular

Further, the balance includes bursaries totalling to Kshs.45,632,814. Review of records revealed that amounts allocated to every Sub-location was subdivided equally among all applicants without any criterion. This is contrary to the NG-CDF Board Circular/Vol I/111 dated 13 September, 2010 which states that a bursary applicant must be a deserving student, orphaned totally or partially, or socially or economically disadvantaged including vulnerable students.

In the circumstances, the Management is in breach of the Board's circular.

3.0 Irregular Procurement of Strategic Plan

As disclosed in Note 5 to the financial statements, the statement of receipts reflects use of goods and services amounting to Kshs.8,789,184. The balance includes an amount of Kshs.2,950,000 paid as part payment to a Company in respect to development of a

strategic plan for a contract sum of Kshs.3,500,000. However, review of records revealed that the procurement was not in the annual procurement plan. This is contrary to Section 45(3)(a) of the Public Procurement and Asset Disposal Act, 2015 which states that all procurement processes shall be within the approved budget of the procuring entity and shall be planned by the procuring entity concerned through an annual procurement plan.

Further, there was no evidence that there was pre-qualification of bidders and review of documents revealed that all members of the tender opening committee were directly involved in the tender evaluation contrary to Section 78(1)(b) of the Public Procurement and Asset Disposal Act, 2015 which requires that at least one of the members shall not be directly involved in the processing or evaluation of the tenders.

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

4.0 Non-Compliance with Law on Annual Report and Financial Statements

The annual report and financial statements did not provide for the report of the independent auditor, the financial statements do not disclose the appropriate dates, whereas page 2 discloses the year as 2018 instead of 2019. The headers to Annexures 3, 4 and 5 to the financial statements indicate that the balances are in thousands of shillings (Kshs.000). However, the balances are presented in absolute terms thereby overstating the balances.

This is contrary to the template Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

Consequently, the Management is in breach of the law.

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 dissolve 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

07 September, 2021