

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - OLKALOU 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 - Olkalou Constituency set out on pages 6 to 37, 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 - Olkalou Constituency as at 30 June, 2019, 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. Inaccuracy in Transfers from NGCDF Board

As disclosed in Note 1 to the financial statements, the statement of receipts and payments reflects transfers from the NGCDF Board totalling to Kshs.33,379,310. However, the summary statement of appropriation - recurrent and development combined reflects actual transfers from the NGCDF Board totalling to Kshs.56,663,403 resulting in an unexplained and unreconciled variance of Kshs.23,284,093.

Consequently, the accuracy, completeness and validity of the transfers from the NGCDF Board amount of Kshs.33,379,310 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

2. Unsupported Bursaries

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and payments totalling to Kshs.42,017,259. The balance includes bursaries amounting to Kshs.32,379,500 which were not supported by details such as

student's name, admission numbers, school, and amounts disbursed. Further, there was no evidence of existence of a Bursary Policy and a Bursary Committee.

Consequently, the accuracy, completeness and validity of bursaries totalling to Kshs.32,379,500 for the year ended 30 June, 2019 could not be confirmed.

3. Other Unsupported Payments

Expenditure amounting to Kshs.22,860,359 whose details are as tabulated below were unsupported: -

Expenditure Item	Amount (Kshs.)	Observation
Bursary Committee-Administrative Cost	12,000,000	-The expenditure was in excess of allowable 5% of allocated amount; and -Schedules and expenditure returns were not provided.
Sports Projects	1,007,759	-Schedules and expenditure returns were not provided.
Roads and Bridges Projects	5,900,000	-Schedules and expenditure returns were not provided. -Location of the projects were not provided to ease physical verification.
Use of Goods and Services	5,592,950	-Supporting documents were not provided.
Total	22,860,359	

Consequently, the accuracy, validity and completeness of expenditure totalling to Kshs.22,860,359 for the year ended 30 June, 2019 could not be confirmed.

4. Unsupported Bank Balances

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities reflects bank balances totalling to Kshs.11,898,715. However, the certificate of bank balance, bank reconciliation statements and the cash book provided were for a period of five (5) months (February to June, 2019) instead of the entire financial year.

Further, the Fund operated four (4) bank accounts without the approval of the Constituency Committee and NGCDF Board. In addition, the accounts' bank reconciliation statements, certificates of bank balance and cash books were not provided and the account balances have not been disclosed in the financial statements.

Consequently, the accuracy, completeness and validity of the reported bank balances totalling to Kshs.11,898,715 reflected in the statement of assets and liabilities as at 30 June, 2019 could not be confirmed.

5. Unsupported Committee Account Balances

Note 15.4 to the financial statements discloses Project Management Committee (PMC) bank accounts balances totalling to Kshs.1,695,494. However, the total is not indicated in the note and there were no supporting documents such as; bank reconciliation statements, certificate of bank balances and bank statements.

Consequently, the accuracy and completeness of the reported Project Management Committee balance totalling to Kshs.1,695,494 as at 30 June, 2019 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 - Olkalou 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.151,602,994 and Kshs.56,663,403 respectively, resulting to underfunding of Kshs.94,939,592 or 63% % of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.151,602,994 and Kshs.56,663,403 respectively, resulting to an under expenditure of Kshs.94,939,591 or 63% of the budget.

The underfunding and under expenditure affected the planned activities and projects which may have impacted negatively on service delivery for 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. Non-compliance with Public Sector Accounting Standards Board Requirements

The annual report and the financial statements have numerous errors and omissions including; word the "revised template 30 June, 2019", office location, indicates Public Finance Management Act, 2013 instead of 2012, wrong financial years on the headers among others. This is contrary to Public Sector Accounting Standards Board (PSASB) reporting template issued in June, 2019.

In the circumstances, the presentation of the financial statements for the year under review is not in accordance with the prescribed PSASB format.

2. Projects Implementation

2.1. Lack of Project Status Report

The Project Implementation Status Report did not incorporate projects implemented during the 2018/2019 financial year. Projects with a funding allocation total of Kshs.29,154,027 were reflected as on going with no evidence of financing during the year. Failure to prepare project status report is contrary to regulation 11(1) (t) of the National Government Constituencies Development Fund Regulations, 2016 which requires the constituency committee to submit to the Board the report stipulated in section 5(5) of the Act, that contains list of all the new projects commenced during the financial year and their completion status; as well as list of all projects approved, funded and commenced during previous financial years, and their completion status.

Therefore, the Management is in breach of the law.

2.2. Unsatisfactory Implementation of Projects

Ten (10) projects with funding allocation total of Kshs.3,780,000 were physically verified during the month of February, 2020 and observations were made as shown in **Appendix I**.

Consequently, I am unable to confirm whether the public will obtain value for money from the expenditure totalling to Kshs.3,780,000 incurred on the projects during the year ended 30 June, 2019.

2.3. Delay in Implementation of Project

As previously reported, the Management had budgeted an amount of Kshs.4,677,027 for establishment of four (4) innovation hubs in the Constituency. The budget was to cover supply, installation, testing and commissioning of the equipment. However, only Wi-Fi had been installed at Kaimbaga Ward but was yet to be commissioned due to lack of digital access kit costing Kshs.505,000 that was yet to be supplied by the service provider. No satisfactory explanation was rendered for the continued delays in completing the project.

Consequently, it has not been possible to confirm if value for money will be realized from the expenditure on the innovation hubs project.

3. Non-Remittance of Statutory Deductions

As previously reported, the Fund continues to deduct statutory deductions from employees for National Social Security Fund, National Hospital Insurance Fund and Pay As You Earn with no evidence of remittance to the relevant recipients.

Consequently, the Management is in breach of the law.

4. Irregular Payment of Basic Wages

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects compensation of employees amount of Kshs.3,173,593. Included in this balance is amount of Kshs.2,233,000 incurred on basic wages for contractual employees. However, one employee was over-remunerated by a total of Kshs.316,056 above the entry point for new recruits as stipulated by the NG-CDF Board. Further, three (3) other staff members who were above the stipulated retirement age of 60 years were appointed through un-referenced appointment letters dated 3 April, 2018.

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

5. Irregular Payment of Gratuity

Included in the compensation of employees cost is expenditure totalling to Kshs.940,593 incurred on payment of gratuity. However, the appointment letters for all the eight (8) employees paid gratuity did not indicate the duration of their contracts.

In the circumstances, lawfulness of the payment of gratuity of Kshs.940,593 for the year ended 30 June, 2019 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 matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Risk Management Policy

The Fund did not have a risk management policy that guides on assessment and evaluation of risk and to develop the strategies to mitigate them. This is contrary to Regulation 165(1) of the Public Finance Management Act (National Government) Regulations, 2015 which require the Accounting Officer to ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism; and a system of risk management and internal control that builds robust business operations.

Consequently, it has not been possible to confirm whether the risks faced have been identified and appropriately mitigated.

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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

06 January, 2022

Appendix I: Unsatisfactory Implementation of Projects

Project Beneficiary and Details	Allocation (Kshs.)	Observation
Munyeki Primary School-Completion of administration block: Flooring, plastering, fixing doors, windows and window panes.	200,000	-Bank statements, approved BQs, inspection certificate, certificate of completion were not provided and -There was no signage.

Project Beneficiary and Details	Allocation (Kshs.)	Observation
Kahonge Primary School - Construction of one (1) classroom	700,000	-The was no signage while the classroom was not painted -Title deed and project file were not provided.
Nyakiambi Girls Secondary School- Construction of one (1) classroom	700,000	-The project was unlisted in the budget approved code list -Bank statements were not provided.
Karugutu Primary School- Facelift of four (4) classrooms: flooring, plastering and painting.	700,000	-Project file was not provided -There was evidence of poor workmanship with huge cracks on the floor.
Plot 11 Primary School- Buy one (1) acre of land for the school	250,000	-Valuation for the land, sales agreement, bank statements and the title deed were not provided.
Gichungo Assistant Chief's camp - completion of office: ceiling and painting.	200,000	-The project was not labeled.
Bahati Primary School- Construction of one (1) classroom	700,000	-The transfer was for the financial year 2017/2018 while the expenditure was reported under 2018/2019 financial year; -Documents not provided included procurement process, inspections and completion certificates, signed copy of notification of award, signed copy of acceptance letter, title deed, list of committee members and their minutes and the bank statements.
Micharage Primary School - Construction of toilets	250,000	-The Proposal was not dated; -There were no toilets in place; -There was no needs analysis of the school's population and the available toilets; and no bills of quantities for the toilets to be constructed.
Gachwe Primary School- Exhaustion of pit latrines	40,000	-Report from public health, the number of latrines evacuated and schedule of deliveries certified by the Management were not provided.
Mugathika Primary School- Exhaustion of pit latrines	40,000	-Report from public health, the number of latrines evacuated and schedule of deliveries certified by the Management were not provided.

Project Beneficiary and Details	Allocation (Kshs.)	Observation
Total	3,780,000	