

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - OLKALOU CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Olkalou Constituency set out on pages 11 to 59, 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, because of the significance of the matter discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the National Government Constituencies Development Fund - Olkalou 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 Adverse Opinion

1. Inaccuracies in Transfers from NGCDF Board

As disclosed in Note 1 to the financial statements, the statement of receipts and payments reflects transfers from NGCDF Board totalling to Kshs.134,040,876. However, the balance excluded two AIEs numbered B104114 amounting to Kshs.10,000,000 and B096636 amounting to Kshs.11,000,000 received from NGCDF Board on 25 February, 2020 and 01 April, 2020 respectively that were not disclosed in the financial statements.

In the circumstances, the accuracy, completeness and validity of the reported transfers from NGCDF Board totalling to Kshs.134,040,876 reflected in the statement of receipts and payments for the year ended 30 June, 2020 could not be confirmed.

2. Variances between Financial Statements and Supporting Schedules

There were variances noted between the balances in the financial statements and the supporting schedules on use goods and services under Note 5 to the financial

statements resulting to an unreconciled variance amounting to Kshs.8,053,000 as detailed below: -

Details	Balance as Per Note 5 (Kshs)	Balance as Per the Schedule (Kshs)	Variance (Kshs)
Office Rent	270,000	90,000	180,000
Communication, Supplies and Services	246,000	162,000	84,000
Domestic Travel and Subsistence	266,000	95,000	171,000
Training Expenses	919,000	128,000	791,000
Other Committee Expenses	612,000	902,500	290,500
Committee Expenses	2,886,500	636,000	2,250,500
Insurance Costs	-	3,736,000	3,736,000
Office and General Supplies	715,800	165,800	550,000
Total	5,915,300	5,915,300	8,053,000

In the circumstances, the accuracy, completeness and validity of the above payments totalling to Kshs.5,915,300 for the year ended 30 June, 2020 could not be confirmed.

3. Unsupported Use of Goods and Services

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services totalling to Kshs.6,875,180. However, balances included various expenditure totalling to Kshs.5,825,300 being payment to the Fund Manager that was not supported by detailed schedules of goods purchased or services provided.

Further, the balance includes committee allowance amount of Kshs.2,886,500, and other committee expenses amount of Kshs.612,000 respectively. However, the balances were not supported by detailed payment schedules, minutes of committee meetings held and monitoring and evaluation reports.

In the circumstances, the accuracy, completeness and validity of use of goods and services expenditure totalling to Kshs.6,875,180 reflected in the statement of receipts and payments for the year ended 30 June, 2020 could not be confirmed.

4. Unsupported Other Grants and Transfers

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers totalling to Kshs.30,922,575. The balance includes bursary for secondary schools amount of Kshs.10,184,758 and bursary for tertiary schools amount of Kshs.2,629,000 both totalling to Kshs.12,813,758. However, the balance was not supported by documents such as; beneficiary listing detailing out students' names, admission numbers, and amounts disbursed. Similarly, there was no evidence that bursary applications were vetted.

Further, the balance includes emergency projects totalling to Kshs.3,408,000. However, transfers totalling to Kshs.3,108,000 to eight (8) institutions were not supported by documentary evidence indicating the nature of emergency, funding requests or proposals and Constituency Development Fund Committee minutes supporting payments from the constituency emergency reserve.

Under the circumstances, the accuracy, completeness and validity of bursaries totalling to Kshs.12,813,758 and emergency expenditure amounting to Kshs.3,108,000 both totalling to Kshs.15,921,758 for the year ended 30 June, 2020 could not be confirmed.

5. Inaccuracies in Bank Balances

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities reflects bank balances totalling to Kshs.20,572,209. The bank reconciliation statement reflected payments in cashbook not recorded in the bank statement of unrepresented cheques amounting to Kshs.66,989,425 which included stale cheques totalling to Kshs.2,458,965. However, the stale cheques were not reversed in the cashbook as at 30 June, 2020.

Similarly, the statement reflected receipts in bank not recorded in cashbook amounting to Kshs.21,020,495. These were salary refunds and transfers from the NGCDF Board received in bank statement between February, 2016 and April, 2020. The Management had however not recorded the transactions in cashbook.

In the circumstances, the accuracy, completeness and validity of the reported bank balances totalling to Kshs.20,572,209 reflected in the statement of assets and liabilities as at 30 June, 2020 could not be confirmed.

6. Unsupported Committee Account Balances

Note 17.4 to the financial statements reflects Project Management Committee account balances totalling to Kshs.6,453,996 held in sixty-six (66) accounts as disclosed in Annex 5 to the financial statements. However, supporting documents such as bank reconciliation statements, certificate of bank balances and bank statements were not provided.

Further, a review of the Projects Implementation Status Report as at 30 June, 2020 indicated that an amount of Kshs.63,830,000 had been released to various Project Management Committee accounts whose various projects had either not started or were ongoing. However, these account balances were not disclosed.

In the circumstances, the accuracy, completeness and validity of the reported Project Management Committee account balances totalling to Kshs.6,453,996 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 - 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 adverse 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.236,307,315 and Kshs.134,040,876 respectively, resulting to an underfunding amounting to Kshs.102,266,440 or 43% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.236,307,315 and Kshs.125,367,382 respectively, resulting to an under expenditure amounting to Kshs.110,939,933 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 and Planning Circular reference No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

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; table of contents omits annexures to the financial statements, the statement of Management responsibilities at page 9 indicates Public Finance Management Act, 2013 instead of 2012, approval date is not disclosed at pages 9-14, the summary statement of appropriation-recurrent and development combined reflects unsupported budget utilization differences totalling to Kshs.110,939,932 and the statement of budget execution by programmes and sub-programmes has an unreconciled variance. The summary statement of appropriation for both the recurrent and development expenditures are not separately disclosed.

Further, there is a blank page 15, Annex 3 does not indicate the description of unutilized funds for the respective sub-components, the follow up of auditor's recommendations at page 59 is blank.

This is contrary to Public Sector Accounting Standards Board templates and The National Treasury and Planning Circular reference No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

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

2. Delay in Project Implementation

Review of the Project Implementation Status Report as at 30 June, 2020 indicated that two hundred and twelve (212) projects with an allocation totalling to Kshs.136,960,447. However, one hundred and eighty-three (183) projects valued at Kshs.112,435,878 were incomplete due to the slow tendering processes and delays in receipt or reallocation of funds from the NGCDF Board.

In the circumstances, I am unable to confirm whether the public will obtain value for money for the above delayed projects for the year ended 30 June, 2020.

3. Unsatisfactory Implementation of Projects

The Management paid a total of Kshs.13,216,569 to various projects. However, physical verification in January, 2021 revealed unsatisfactory implementation of the projects as shown in **Appendix I**.

In the circumstances, I am unable to confirm whether the public will obtain value for money for the unsatisfactory implemented projects with an allocation totalling to Kshs.2,766,569.

4. Irregular Emergency Transfers

During physical verification in January, 2021, emergency projects amounting to Kshs.2,678,000 had not been implemented and the funds were still in the respective Project Management Committee accounts.

This was contrary to section 8(3) of the NGCDF Act, 2015 which states that an emergency shall be construed to mean an urgent, unforeseen need for expenditure for which it is in the opinion of the committee that it cannot be delayed until the next financial year without harming the public interest of the constituents.

In the circumstance, the Management was in breach of the law.

5. Non-Remittance of Statutory Deductions

Review of records established that the Management did not deduct and remit National Social Security Fund. This is contrary to Section 20(1) of NSSF Act of 2013 which states that; 'an employer shall pay to the Pension Fund in respect of each employee in his or her employment the employer's contribution at six per centum of the employee's monthly pensionable earnings; and the employee's contribution at six per centum of the employee's pensionable earnings deducted from the employee's earnings.'

Consequently, the Management is in breach of the law.

6. Delay in Olkalou Technical and Vocational College

The Management disbursed a total of Kshs.10,000,000 to Olkalou Technical Vocational College for erection and completion of twin workshop, classrooms and offices' block (2 storey). The project was co-financed with the Ministry of Education at a total contract cost of Kshs.52,000,000 with the Fund contributing a total of Kshs.10,000,000. However, the NGCDF disbursed the allocated amount of Kshs.10,000,000 without any defined phase or component of the project contrary to Section 25(1) of the NGCDF Act, 2015.

Audit verification noted delays in its implementation for almost one year with the initial completion date set at February, 2020.

Pending works included; wall finishes, floor finishes, construction of septic tank, electrical and plumbing works.

In the circumstances, I am unable to confirm whether the public will obtain value for money for the delayed project for the year ended 30 June, 2020.

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.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

17 January, 2022

Appendix I: Unsatisfactory Implementation of Projects

No.	Beneficiary	Details	Amount (Kshs)	Observations
1.	Wangatabuthi Primary School	Construction of one classroom to completion	900,000	-One year after completion, the floor was already worn out -Some window glasses were missing -Painting and branding were not done -The contractor was paid on 5 October, 2019 before completion of works
2	Kiaduba Primary School	Construction of six (6) door toilet block to completion	350,000	-The project was worn out and doors were broken -PMC was not involved in the project implementation -Bills of quantities (BoQ) was not provided -Branding had not been done although the contractor was fully paid.
3.	Mukindu Primary School	Construction of a six-door toilet block to completion	300,000	-The project had already worn out and floors peeled off -PMC was not involved in the project implementation -BoQ was not provided -Branding had not been done although the contractor was fully paid.
4.	Gathima Primary School	Construction of one classroom to completion	900,000	-Classroom had been put to use before completion -The contractor after being paid the full amount, abandoned the project site -Pending works included; branding, window panes, internal and external wall finishes and fixing of a broken door. -The floor was already fully worn out, three months after construction.
5.	J.M Kariuki Primary School	Construction of one classroom to completion	1,000,000	-The project was being implemented by the Fund instead of the PMC -Procurement records were not provided -The contractor was not on site, project was incomplete and in use -The pillars were falling.

No.	Beneficiary	Details	Amount (Kshs)	Observations
6.	Kio Primary School	Construction of an administration block to completion	1,400,000	-The administration block has been put into use before completion while the contractor after being paid the full amount abandoned the project site -Procurement records were not provided -Pending works included ceiling cornice, and electrical works.
7.	Kagaa Primary School	Construction of one classroom to completion	900,000	-The classroom had been put into use before completion -The contractor abandoned the project site after being paid the full amount -Procurement records were not provided -Pending works included painting, electrical works and branding.
8.	Rumathi Secondary School	Construction of two classrooms to completion	1,900,000	-The project was incomplete but put in use with the contractor having been fully paid -Procurement records and BoQ were not provided. -Branding had not been done.
9.	Matunda Secondary School	Construction of one classroom to completion	1,000,000	-The class was incomplete but put in use with the contractor having been fully paid -Pending works included painting and partitioning -Procurement records and BoQ were not provided -Substandard works were noted including wearing out of the floor.
10.	Kibendera Primary School	Construction of one classroom to completion	900,000	The project was complete and in use but not branded.

11.	Micharage Primary School	Construction of one classroom to completion	900,000	-The project was complete and in use -The project was initiated without proposal from the PMC. -Procurement records were not provided.
No.	Beneficiary	Details	Amount (Kshs)	Observations
12.	Micharage Primary School	Renovation of four (4) classrooms (Flooring, plastering, painting, wall keying and construction of a verandah).	900,000	-One of the renovated classrooms has been turned into a kitchen despite the school having a designated kitchen -Procurement records were not provided -The contractor had been fully paid without completing the renovation works including fixing of window glasses and branding.
13.	Nyaituga Primary School	Construction of an eight (8) -door toilet block.	400,000	The project was complete and in use but it was initiated without proposal from the PMC. -Procurement records and BoQ were not provided. -Branding was not done.
14.	Rumathi Secondary School	Construction of a six (6) - door students toilet block and staff toilets to completion	666,569	-Both projects were completed and in use -Branding had not been done -Procurement records and BoQ were not provided.
15.	Kirima Location Welfare Association	Construction of a two-door toilet block and a urinal to completion	250,000	-The project was complete but there was no proof of ownership for confirmation of its eligibility for financing by NGCDF.
16.	Micharage Primary School	Construction of a six (6) - door toilet block to completion.	300,000	-The project was complete and in use -Branding had not been done -BoQ were not provided.

17.	Matunda Secondary School	Construction of a six (6) - door toilet block and urinal to completion.	250,000	-The project was complete and in use -Branding had not been done. -Procurement records and BoQ were not provided.
	Total		2,766,569	



Nancy Gathungu
AUDITOR-GENERAL

Nairobi