

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SAKU 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 - Saku Constituency set out on pages 7 to 41 which comprise the statement of assets and liabilities as at 30 June, 2019, 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 - Saku 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1.0 Use of Goods and Services

The statement of receipts and payments and Note 5 to the financial statements, reflect use of goods and services of Kshs.18,643,157. The following observations were made regarding the expenditure:

1.1 Unsupported Domestic Travel and Subsistence Allowance

Note 5 to the financial statements reflects Kshs.319,200 in respect to domestic travel and subsistence. However, supporting documents for allowances totalling Kshs.262,000 were not provided.

In the circumstances, the propriety and value for money for the Kshs.262,000 expenditure for the year ended 30 June, 2019 could not be confirmed.

1.2 Unsupported Strategic Plan Expenditure

Note 5 to the financial statements reflects Kshs.3,499,500 in respect to the strategic plan which further includes Kshs.2,000,000 paid to a firm for delivery of one thousand (1,000) copies of the strategic plan. However, evidence that the documents were delivered was not provided for audit.

In addition, the amount included Kshs.256,000 in respect of allowances paid to sixty-four (64) Locational Development Committee (LDC) members at a rate of Kshs.2,000 per day for attending a strategic plan workshop for two (2) days. However, the invitation letters, attendance register and the basis for paying allowances at the rate of Kshs.2,000 per day were not provided for audit.

In the circumstances, the accuracy, propriety and value for money for the expenditure on the strategic plan could not be ascertained.

2.0 Unsupported Bursary Payments

The statement of receipts and payments reflects Kshs.47,812,122 in respect to other grants and transfers which as disclosed at Note 7 to the financial statements, includes Kshs.23,414,902 and Kshs.13,550,850 with respect to bursary disbursements to secondary schools and tertiary institutions respectively, both totalling to Kshs.36,965,752. However, no evidence was provided that the bursary sub-committee was constituted as required by the Constituencies Development Fund Circular Reference No. Vol. 1/111 of 13 September, 2010 and that the bursary applications were vetted by the bursary sub-committee as required under Regulation 21(3) of National Government Constituencies Development Fund Regulations, 2016.

Further, acknowledgement by the beneficiary schools and institutions of bursaries amounting to Kshs.34,714,042 representing 94% of the total bursaries disbursed was not provided.

In the circumstances, it has not been possible to confirm the accuracy and propriety of bursaries totaling to Kshs.36,965,752.

3.0 Accuracy of Cash and Bank Balances

The statement of assets and liabilities and Note 10A to the financial statements, reflect bank balances of Kshs.4,099,956 held in a local commercial bank account as at 30 June, 2019. However, the June, 2019 bank reconciliation statement reflected un-presented cheques totaling Kshs.5,547,825 of which cheques totaling to Kshs.190,670 were stale and had not been replaced or reversed in the cashbook. Further, the bank reconciliation statement reflected Kshs.32,000 in respect to receipts in the bank statement not in cash book.

Consequently, the accuracy and validity of cash and cash equivalents balance of Kshs.4,099,956 as at 30 June, 2019, could not be confirmed.

4.0 Unreconciled Unutilized Funds Balance

The summary statement of appropriation - recurrent and development combined reflects a budget under-utilization of Kshs.59,140,831 which differs with the balance

of Kshs.4,099,956 reflected under Note 15.3 to the financial statements and Annex 3 by Kshs.55,040,875. The difference has not been reconciled or explained.

Consequently, the accuracy of the unutilized funds balance could not be confirmed.

5.0 Project Management Committee (PMC) Bank Balances

Notes 6 and 7 to the financial statements reflect Kshs.59,665,862 and Kshs.47,812,122 with respect to transfers to other Government entities and other grants and transfers respectively, both totaling to Kshs.107,477,984. The funds were disbursed to various PMCs of institutions for implementation of projects. Note 15.4 to the financial statements reflects Kshs.950 as the unutilized balance held in PMC bank accounts as at 30 June, 2019. However, the certificate of bank balances, cashbooks and bank reconciliation statements for the various PMC bank accounts were not provided for audit.

In the circumstances, it was not possible to ascertain the completeness, existence and accuracy of the bank balance of Kshs.950 as at 30 June, 2019.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Saku 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 Performance and Controls

The statement of appropriation – recurrent and development combined reflects final receipts budget and actual receipts on comparable basis of Kshs.187,154,886 and Kshs.132,114,011 respectively, resulting to an under-funding of Kshs.55,040,875 or 29% of the budget. Similarly, the Fund expended Kshs.128,014,055 against an approved budget of Kshs.187,154,886 resulting to an under-expenditure of Kshs.59,140,831 or 32% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Saku Constituency.

2.0 Unresolved Prior Year Audit Matters

As disclosed under the progress on follow up of auditor recommendations section of the financial statements, some of the prior year audit issues remained unresolved as at 30 June, 2019. Management has not provided satisfactory reasons for the delay in resolving the issues.

3.0 Chairman's Report

The Forward by the Chairman at page 4 of the annual report reflects Kshs.54,000,000 as the amount received from the National Government Constituencies Development Fund Board during the financial year 2018/2019. However, the statement of receipts and payments reflects receipts of Kshs.108,784,483 from the Board hence resulting into a material inconsistency between the Forward by the Chairman and the financial statements.

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 Transfers to Primary Schools

Note 6 to the financial statements reflects an amount of Kshs.59,665,862 in respect to transfers to other government entities which includes Kshs.21,468,620 with respect to transfers to primary schools. However, poor workmanship was noted in various projects implemented in primary schools:

1.1 Refurbishment of Office Block at Manyatta Jillo Primary School

An amount of Kshs.1,299,400 was spent on refurbishment of an office block at Manyatta Jillo Primary School. However, audit inspection of the project in December 2019, revealed that the office block had already developed cracks on the floors and walls.

In the circumstances, the propriety and value for money for the expenditure of Kshs.1,299,400 could not be confirmed.

1.2 Construction of Classroom in Loruko Primary School

Kshs.1,400,000 was spent on construction of a classroom at Loruko Primary School to completion. However, audit inspection of the Project in November, 2019 revealed that the classroom had cracks on floors and on the walls.

In the circumstances, the propriety and value for money for the expenditure amounting to Kshs.1,400,000 could not be confirmed.

2.0 Transfer to Secondary Schools

Note 6 to the financial statements reflects an amount of Kshs.59,665,862 in respect to transfers to other government entities which includes Kshs.38,197,242 in respect to transfers to secondary schools. Audit inspection of the projects implemented at the respective secondary schools revealed the following anomalies:

2.1 Construction of a Dining Hall and Kitchen at Karare Mixed Secondary School

An amount of Kshs.2,500,000 was spent on the construction of a dining hall and kitchen at Karare Mixed Secondary School. However, a review of the bill of quantities and audit inspection of the Project in November 2019, revealed that two (2) steel casement doors measuring 1200 by 2100mm at a cost of Kshs.24,000 had not been installed. Further, the supporting documents for the payment of provisional sums amounting Kshs.200,000 to the contractor were not provided for audit review.

Consequently, the propriety and value for money for the expenditure amounting to Kshs.224,000 could not be confirmed.

2.2 Construction of an Administration Block at Marsabit Boys Secondary School

An administration block at Marsabit Boys Secondary School was constructed at a cost of Kshs.3,000,000. However, a review of the bill of quantities and audit inspection done in November 2019, revealed that two (2) steel doors measuring 1200mm by 2400mm and 900mm by 2400mm at a cost Kshs.100,000 and Kshs.25,000 respectively, both totaling to Kshs.125,000 were not installed. Further, the contractor was to fix twelve (12) windows at a cost of Kshs.240,000 but only nine (9) windows at a total cost of Kshs.165,000 were fixed.

Consequently, the propriety and value for money for the expenditure of Kshs.200,000 relating to the items not fixed could not be confirmed.

2.3 Purchase of Beds and Construction of Classrooms at Saku High School

The amount of Kshs.38,197,242 with respect to transfers to secondary schools includes Kshs.750,000 and Kshs.2,779,000 both totaling to Kshs.3,529,000 spent on supply of one hundred (100) double decker beds and construction of two (2) classrooms respectively, at Saku High School. However, audit inspection in November 2019, revealed that the floors of the two (2) classrooms had developed major cracks an indication of poor workmanship by the contractor. Further, the supply of one hundred (100) double decker beds to the School had been made although the construction of the dormitory where the beds were to be utilized was not complete.

In the circumstances, the propriety and value for money for the expenditure of Kshs.3,529,000 could not be confirmed.

3.0 Failure to Observe Thresholds for Procurement Methods

First Schedule of the Public Procurement and Disposal (Amendment) Regulations, 2013 provides a threshold of Kshs.500,000 for use of the request for quotations method of procurement for Class C procuring entities including National Government Constituencies Development Funds. However, the Fund Management procured various works, goods and services using the method when the amounts involved were higher than the prescribed thresholds:

Project Location	Project Details	Amount (Kshs.)
Loruko Primary School	Construction of classrooms	1,400,000
County Commissioner's Office	Refurbishment of Office	1,499,360
Environment (Constituency)	Purchase of seedlings	999,000
Badasa – Jaldesa Chief's Office	Construction of Office	1,500,000

In addition, Note 7 to the financial statements, reflects expenditure of Kshs.1,000,000 with respect to sports of which Kshs.662,000 was used to purchase sports equipment in cash. However, the amount had exceeded the low value procurement threshold of Kshs.5,000 for class C procuring entities provided in the First Schedule of Public Procurement and Disposal (Amendment) Regulations, 2013. Further, the list of beneficiaries of the sports equipment and the criteria for identification of the beneficiaries were not provided for the audit.

In the circumstances, the Fund was in breach of the law.

4.0 Construction of Badasa - Jaldesa Chief's Office

Note 7 to the financial statements reflects Kshs.47,812,122 in respect to other grants and other payments which includes Kshs.5,747,740 in respect to security of which Kshs.1,500,000 was in respect to construction of Badasa - Jaldesa Chief's Office. However, audit inspection in November, 2019, revealed that the State Department for Public Works had issued a certificate of practical completion although works totaling Kshs.161,700 (or about 11% of the total works) had not been done as follows:

Details of Works not Done	Amount (Kshs.)
Installation of rain water goods (Gutters)	66,400
Installation of door stoppers screwed to the floor	400
Supply, assemble and fix three (3) mild steel casement doors	30,000
Supply, assemble and fix a semi solid core flush door	50,000
Supply, assemble and fix one (1) standard section purpose made steel casement window	8,500
Supply and install four (4) telephone plates	6,400
Total	161,700

In the circumstances, the Fund was in breach of the Law and the value for money for the expenditure could not be confirmed.

5.0 Project Implementation Status Report not Provided

Notes 6 and 7 to the financial statements reflect Kshs.59,665,862 and Kshs.47,812,122 in respect to transfers to other Government entities and other grants and other payments respectively both totalling to Kshs.107,477,984. The amounts were disbursed to various institutions for implementation of projects. However, the project implementation status report as at 30 June, 2019 was not provided for audit.

In the circumstances, it has not been possible to ascertain the implementation status of projects within the Constituency during the financial year 2018/2019.

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 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 so as 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 Fund's ability to continue sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the Management is aware of the intention to terminate the Fund or 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 going concern 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 offering 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 offering services as a going concern or sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate 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

15 October, 2021