

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SHINYALU 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 - Shinyalu Constituency set out on pages 8 to 34, 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 effect 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 - Shinyalu 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. Unreconciled Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance reflects Kshs.27,170,085 as at 30 June, 2019, while the reconciled cash book reflected a balance of Kshs.27,146,951 resulting in an unreconciled and unexplained variance of Kshs.23,134.

In addition, there were receipts of Kshs.25,000 in bank not recorded in the cash book and payments in bank not in cash book totalling Kshs.487,886 in respect of bank charges relating to the period between September, 2016 and April, 2019. The bank reconciliation statement further reflects receipts amounting to Kshs.4,308,138 in cash book not recorded in bank which related to the period March, 2019 and prior years.

Further, review of the bank reconciliation statement for the month of June, 2019 showed unrepresented cheques totalling Kshs.10,411,459 out of which cheques totalling Kshs.5,911,193 related to the period between February, 2015 and December, 2018 and were therefore stale and had not been reversed in the cash book.

Consequently, it has not been possible to confirm that the cash and cash equivalents balance of Kshs.27,170,085 as at 30 June, 2019 is fairly stated.

2. Unsupported Expenditure

The statement of receipts and payments reflects an expenditure of Kshs.9,568,088 in respect of use of goods and services. Included in the amount is an expenditure of Kshs.2,528,260 under various expenditure components as disclosed in Note 3 to the financial statements that were not properly supported contrary to Section 104(1) of Public Finance Management (National Government) Regulations, 2015. The details are as below.

Component	P.V No.	Amount Kshs.	Remarks
Committee Allowance	33	252,100	Imprest warrant, No. of days the meetings were held and minutes were not provided
Committee Allowance	34	425,000	Imprest warrant, attendance register duly signed and dates of the meeting not availed.
Committee Allowance	35	498,000	Imprest warrant, attendance register duly signed and dates of the meeting not availed.
Committee Allowance	57	136,000	Imprest warrant, signed attendance register & minutes not provided
Committee Allowance	76	227,000	No minutes and signed attendance register
Office and General Supplies and Services	18	200,000	No completion certificate
Office and General Supplies and Services	36	254,000	Evidence of receipt of goods and ledger record not availed
Office and General Supplies and Services	73	136,160	Evidence of receipt of goods and ledger record not availed
Office and General Supplies and Services	77	400,000	10 members were each paid Kshs.35,000 for a single committee meeting and no reason was provided. Also no imprest warrant, No minutes of the meeting.
Total		2,528,260	

Consequently, the propriety of the expenditure of Kshs.2,528,260 included in use of goods and services figure of Kshs.9,568,088 for the year ended 30 June, 2019 could not be confirmed.

3. Unexplained Variance in Other Committee Expenses

Included under use of goods and services of Kshs.9,568,088 is other committee expenses figure of Kshs.1,151,000 as disclosed in Note 3 to the financial statements and which was described as allowances for bursary preparation and filling. However, the supporting payment voucher No.78 dated 6 June, 2019 reflects an amount of Kshs.151,000 resulting to a variance of Kshs.1,000,000 which has not been explained or reconciled.

Consequently, the propriety of the expenditure of Kshs.1,151,000 could not be confirmed.

4. Un-Vouched Expenditure

The use of goods and services figure of Kshs.9,568,088 for the year under review included payments totalling to Kshs.4,017,800 whose payment vouchers together with the supporting documents were not availed for audit review as listed below:

Project Code	Sector/Project Title	Date/ month	P.V No.	Amount Kshs.
2210809	Committee Allowance	June	70	112,800
2211100	Office General Supplies & Services	May	67	371,200
2210809	Committee Allowance	June	79	458,794
2211100	Office General Supplies & Services	June		300,000
2211100	Office General Supplies & Services	June		653,000
2211100	Office General Supplies & Services	June		225,006
2211100	Office General Supplies & Services	June		680,000
2211100	Office General Supplies & Services	June		605,000
2211100	Office General Supplies & Services	June		612,000
				4,017,800

Further, there were no records to show what was purchased and whether the same was received and taken on charge.

In addition, other grants and payments expenditure of Kshs.63,770,984 includes a payment of Kshs.1,000,000 under cheque No. 004955 for environment sector whose payment voucher was not availed for audit review.

Consequently, the propriety of the expenditure of Kshs.4,017,800 and Kshs.1000,000 or the year ended 30 June, 2019 could not be confirmed.

5. Unsupported Expenditure on Development of the Strategic Plan 2018/22

The other payments figure of Kshs.3,500,000 as reflected under Note 7 to the financial statements relates to a payment made in October, 2018 being the contract price for the development of the Shinyalu National Government Constituency Development Fund Strategic Plan for 2018-2022. However, the payment voucher together with tender documents including tender advert, minutes of the tender opening and award committees were not availed for audit review.

In addition, there was no evidence that the strategic plan document had been finalised and accepted by the Management as having been prepared in accordance to the terms of the agreement. Although Management explained that the payment voucher together with the supporting documents were taken away by the Directorate of Criminal Investigation.

Consequently, the propriety of the expenditure of Kshs.3,500,000 for the year ended 30 June, 2019 could not be confirmed.

6. Net Financial Position

The statement of financial assets and liabilities reflects total financial assets balance of Kshs.27,170,085 and nil financial liabilities as at 30 June, 2019. However, contrary to the guidelines issued by the Public Sector Accounting Standards Board, the statement of financial assets and liabilities shows at the bottom net liabilities instead of net financial position of Kshs.27,170,085. No explanation was given for this anomaly.

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

The summary statement of appropriation: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.202,519,338 and Kshs.112,099,154 respectively, resulting to an under-funding of Kshs.90,420,184 or 44% of the budget.

Similarly, the Fund spent Kshs.85,107,056 against an approved budget of Kshs.202,519,338 resulting to an under-expenditure Kshs.117,412,282 or 58% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Shinyalu Constituency.

2. Unresolved Prior Year Issues

Although the Management has provided a statement on progress on follow up of auditor recommendations as required by the reporting format recommended by the Public Sector Accounting Standards Board, no evidence has been provided on the resolution of the previous year issues which has an impact on the current financial statements. The issues includes variance of Kshs.40,000 between the compensation of employees in the financial statements and supporting schedules; unreconciled variance of Kshs.365,508

between the cash and cash equivalents and the cash book balance; stale cheques that had not been updated in the cash book of Kshs.4,536,570; receipts in the cash book not yet recorded in the bank of Kshs.4,277,558 and irregular cheque replacement of Kshs.2,000,000 together with non-disclosure of pending receivables and payables.

Consequently, the resolution of the previous years' issues and completeness of the financial statements for the year ended 30 June, 2019 could not be ascertained.

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 Submission of Project Implementation Status Report

The Fund did not prepare and submit to the Board project implementation status (PIS) report as at 30 June, 2019 as provided by Regulation 11(1)(t) and stipulated in Section 5(5) of the Act.

From the financial records scrutinized, the Fund Management has not focused on major projects like construction of classrooms over the past two years but has instead given priority to payment of committee allowances, sports projects, environment projects and bursary disbursements.

2. Irregularities in the Environment Project

The statement of receipt and payments reflects other grants and transfers amount of Kshs.63,770,948, which includes environment expenditure of Kshs.2,374,137 as disclosed in Note 5 to the financial statements. This in turn includes Kshs.1,637,931 paid to two Project Management Committees in respect of purchase of tree seedlings.

However, there was no evidence to confirm public participation, procurement process, supply, delivery and report of the inspection and acceptance committee to confirm that the seedlings worth Kshs.1,637,931 were indeed supplied and planted.

Consequently, the accuracy and propriety of the expenditure of Kshs.1,637,931 for the year ended 30 June, 2019 could not be confirmed.

3. Irregular Disbursements to Two Primary Schools

Included under transfers to other government units of Kshs.7,400,000 is transfers to primary schools figure of Kshs.5,400,000, which in turn includes Kshs.2,000,000 paid to two primary schools. However, the two primary schools, Shimoli and Shivakala Primary Schools were in the previous year reported to have received Kshs.1,000,000 each for replacement of cheques for construction of two classrooms and pit latrines respectively which were not implemented.

In the previous report, concern was raised regarding two similar payments which were made to the same schools vide cheque Nos.008480 and 008481 respectively dated 3 June, 2018 which was described as replacement of stale cheques according to CDFC MIN. No.38/14/7/2018. The Fund Account Manager together with the respective Project Management Committees (PMCs) of the schools had withdrawn the Kshs.2,000,000 in July, 2018 purportedly to implement the envisaged projects in the two schools but the two projects had not commenced.

Further, no explanation or documentary evidence was provided in support of the withdrawn funds totalling Kshs.2,000,000 and why the two schools were given additional funds even when they were not in the approved budget.

Consequently, the Management was in breach of the law and the people of Shinyalu did not get value for the Kshs.2,000,000 disbursed to the two institutions.

4. Unsupported Expenditure on Sports Projects

Included in other grants and transfers amount of Kshs.63,770,948 is sports amount of Kshs.3,284,564 as disclosed in Note 5 to the financial statements which was disbursed for sports projects but which were not supported by the approval minutes of the Shinyalu CDFC.

In addition, there were no proposed budgets and expenditure returns in support of how the funds were utilised and no evidence was availed for purchase of uniforms, boots and balls and how the same were distributed.

Consequently, the propriety of Kshs.3,284,564 spent on sports for the year ended 30 June, 2019 could not be confirmed.

5. Irregularities in Emergency Projects

The other grants and transfers figure of Kshs.63,770,948 for the year ended 30 June, 2019 includes emergency projects amount of Kshs.5,460,434 as disclosed in Note 5 to financial statements out of which Kshs.3,862,434 was spent on five projects as follows:

Date	PV No	Details	Amount Kshs.	Remarks
19/06/19	75	Construction of toilets at Ihondolo	580,000	No inspection report/completion certificate

06/06/19	74	Renovation of Computer Laboratory	1,500,000	No inspection report/ completion certificate
01/10/18	24	Construction of 6 door pit latrine	600,000	No PMC file maintained/ no inspection report/ completion certificate
14/08/18	17	Construction of 6 door pit latrine- Senyende Primary School	591,217	No inspection report/ completion certificate
14/08/18	16	Construction of 6 door pit latrine-Mukuluso Primary	591,217	No inspection report/ completion certificate
		Total	3,862,434	

However, in all cases, there were no quotations, minutes of tender evaluation and award, letters of award, completion certificates and reports of the inspection and acceptance committee as required.

Consequently, the Management was in breach of the law.

6. Inadequacies in Renovation Works at St. Mary's Shibuye Primary School

During the year under review, the Fund under the emergency account released Kshs.1,500,000 for the renovation of a computer laboratory at St Mary's Shibuye Primary School said to have been blown off by wind. The works had been assessed by the Works Officer, Shinyalu Sub County Works Office at Kshs.1,488,180. However, it was noted that included in the bill of quantities were works for areas assessed not to have been affected by the blowing off by the wind.

During a site visit, it was noted that works measured and certified were about 49% of the actual cost on the ground resulting to an estimated loss of Kshs.635,780 as detailed below:

Ref	BQ Area	Actual	BQ Measure	Rate Kshs.	Actual Cost Kshs.	Certified Cost Kshs.	Loss Kshs.
A	Roof	312	365	800	249,600	292,000	42,400
B	Ridge Cap	28	50	450	12,600	22,500	9,900
H	Facial Board	80	114	450	36,000	51,300	15,300
I	Ceiling Board	168	360	800	134,400	288,000	153,600
J	Cornice	62	120	100	6,200	12,000	5,800
G & H	Branding	0	960	150	-	144,000	144,000
H	Facial Board Paint	80	114	120	9,600	13,680	4,080
A	Wall Interior	186	387	300	55,800	116,100	60,300
B	Wall Exterior	31	315	300	9,300	94,500	85,200
C	Ceiling Painting	168	360	300	50,400	108,000	57,600
D	Floor Painting	168	360	300	50,400	108,000	57,600
Total					614,300	1,250,080	635,780

Further, no monitoring report was availed to confirm that proper supervision was done despite the project site being only a few metres from the NGCDF offices in Shinyalu.

Consequently, the constituents may have not received value for the expenditure amounting to Kshs.1,500,000.

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 standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain 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 Fund's financial reporting process, reviewing the effectiveness of how the entity 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 policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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 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

01 October, 2021