

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - South Imenti Constituency set out on pages 14 to 62, which comprise the statement of assets and liabilities as at 30 June, 2020, 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 - South Imenti Constituency as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Unreconciled Variance on Unutilized Funds

The summary statement of appropriation-recurrent and development combined reflects Kshs.67,213,685 with respect to total budgeted expenditure adjustments which relates to unutilized funds brought forward from 2018/2019 financial year. However, Note 17.3 to the financial statements reflects a comparative balance Kshs.66,615,686 for unutilized funds resulting into an unexplained variance of Kshs.597,999.

In the circumstances, the accuracy of the budgetary adjustments of Kshs.67,213,685 reflected in the summary statement of appropriation-recurrent and development combined could not be confirmed.

2.0 Other Grants and Other Payments - Bursaries

The statement of receipts and payments and Note 7 to the financial statements reflect Kshs.67,509,618 in respect to other grants and other payments which includes Kshs.18,397,927 and Kshs.18,103,519 being bursaries to secondary schools and tertiary institutions respectively, both totalling to Kshs.36,501,446. However, admission numbers for three hundred and sixty-seven (367) beneficiaries issued with bursaries amounting to Kshs.4,156,710 were not provided.

It was therefore not possible to confirm that the beneficiaries were genuine students in the respective schools or tertiary institutions.

3.0 Cash and Cash Equivalents - Stale Cheques

The statement of assets and liabilities and Note 10A to the financial statements reflect a bank balance of Kshs.5,908,444 as at 30 June, 2020. However, a review of the bank reconciliation statement for the month of June, 2020 revealed unrepresented cheques of Kshs.2,702,062 of which cheques amounting to Kshs.834,388 were stale and had not been replaced or reversed in the cash book as at 30 June, 2020.

In the circumstances, the accuracy of the reported cash and cash equivalents balance of Kshs.5,908,444 as at 30 June, 2020 could not be confirmed.

4.0 Project Management Committees' (PMC) Bank Balances

Annex 5 to the financial statements reflects Kshs.18,083,540 being the balances held in PMC bank accounts as at 30 June, 2020. However, the respective cash books, bank certificates and bank reconciliation statements were not provided for audit review. It could therefore not be confirmed that monthly bank reconciliations were completed as required under Regulation 90(1) of the Public Finance Management (National Government) Regulations, 2015 which requires accounting officers to ensure bank accounts reconciliations are completed for each bank account held by that accounting officer, every month and to submit a bank reconciliation statement not later than the 10th of the subsequent month to the National Treasury with a copy to the Auditor-General and that cash books were maintained as required under Regulation 100 of the Regulations which stipulates that accounting officers shall keep in all offices concerned with receiving cash or making payments a cash book showing the receipts and payments and shall maintain such other books and registers as may be necessary for the proper maintenance and production of the accounts.

In the circumstances, the accuracy and existence of the Kshs.18,083,540 in respect to PMC bank balances as at 30 June, 2020 could not be confirmed. In addition, the Fund Management was in breach of the Law.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - South Imenti Constituency Management in accordance with ISSAI

130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1.0 Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects a final receipts budget and actual receipts on comparable basis of Kshs.204,581,410 and Kshs.131,413,686 respectively, resulting into an under-funding of Kshs.73,167,724 or 36% of the budget. Similarly, the Fund expended Kshs.125,505,242 against an approved budget of Kshs.204,581,410 resulting into an under-expenditure of Kshs.79,076,168 or 39% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on delivery of services to the residents of South Imenti 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, 2020. No satisfactory explanation was provided for not resolving the issues.

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 Delayed Completion of Projects

The project implementation status report provided for audit revealed that one-hundred and fifty-two (152) projects with a combined budget of Kshs.185,746,034 were planned for implementation during the year under review. However, one-hundred and forty-three (143) projects with a combined budget of Kshs.177,199,268 were still on-going while five (5) projects with an allocation of Kshs.3,898,000 had not been started as at 30 June, 2020.

Delayed completion of projects denied the residents of South Imenti Constituency the benefits that would have accrued from the projects and increases the risk of cost escalations.

2.0 Irregular Payment of Committee Expenses

Note 5 to the financial statements reflects payments of Kshs.8,635,293 for use of goods and services which includes committee expenses of Kshs.5,132,900. Section 43(11) of the National Government Constituencies Development Fund Act, 2015 requires the Constituency Committee to meet at least six (6) times in a year and not to hold more than twenty-four (24) meetings in the same financial year, including sub-committee meetings. However, a review of documents provided for audit review revealed that the National Government Constituencies Development Fund Committee was paid Kshs.2,290,630 being sitting allowances for twenty-seven (27) meetings resulting into overpayment Kshs.193,000 to the committee members.

In the circumstances, the Fund Management was in breach of the Law.

3.0 Transfer to Other Government Entities

3.1 Transfers to Secondary Schools

Note 6 to the financial statements reflects transfers of Kshs.44,116,349 to other government entities which includes Kshs.14,966,349 with respect to transfers to secondary schools. The following observations were made regarding the transfers:

3.1.1 Gankondi Secondary School

The Project for building a kitchen foundation and walls at Gankondi Secondary School for which an amount of Kshs.600,000 was disbursed, provided for co-funding of Kshs.127,000 from parents. However, the project proposal did not define the unit, part or phase of the Project that was to be financed from the counter-part funding contrary to Section 49 of the National Government Constituencies Development Fund Act, 2015 which provides that the Board may consider part funding of a project financed from sources other than the Fund so long as the other financiers or donors of that project have no objection and provided that the part funding for the project availed shall go to a defined unit or any part thereof or phase of the project in order to ensure that the particular portion defined in the allocation is completed with the funds allocated under the Act.

In the circumstances, the Fund Management was in breach of the Law.

3.1.2 Nkumari Day Secondary School

An amount of Kshs.600,000 was transferred to Nkumari Day Secondary School for building a multi-purpose hall. However, audit inspection carried out in December, 2020 revealed that the construction had stalled at the foundation level.

In the circumstances, the value for money for the amount of Kshs.600,000 disbursed in the year ended 30 June, 2020 could not be confirmed.

3.2 Transfers to Primary Schools

Note 6 to the financial statements reflects transfers of Kshs.44,116,349 to other government entities which includes Kshs.24,500,000 transferred to primary schools. The following observations were made regarding the transfers:

3.2.1 Kairaa Primary School

An amount of Kshs.1,000,000 was transferred to Kairaa Primary School for the completion of an existing classroom and construction of a new classroom. However, review of documents provided for audit, revealed that the tender for the supply of construction materials was awarded to the second highest bidder who had quoted Kshs.139,000 instead of the lowest bidder who had quoted Kshs.123,000 without justification contrary to Section 86(1) (a) of the Public Procurement and Asset Disposal Act, 2015 which requires the successful tender to be the one with lowest evaluated price. Further, the inspection and acceptance committee certificates issued in accordance with Section 48(4) of the Public Procurement and Assets Disposal Act, 2015 were not provided for audit. It was therefore, not possible to confirm that the amount of Kshs.1,000,000 paid was equivalent to the work done.

In the circumstances, value for money for the expenditure of Kshs.1,000,000 could not be confirmed. In addition, the Fund Management was in breach of the Law.

3.2.2 Kiandungu Primary School

An amount of Kshs.1,000,000 was transferred to Kiandungu Primary School for the completion of a sixty (60) bed-capacity dormitory including walling, roofing, chipboard ceiling, fixing of windows and doors, wall plastering, flooring and painting to completion. However, audit inspection in December, 2020 revealed that chipboard ceiling, painting works and electrical works costing Kshs.104,000, Kshs.26,000 and Kshs.100,000 respectively, all totalling to Kshs.230,000 had not been done though money transferred to the school had been spent.

In the circumstances, value for money for the expenditure of Kshs.230,000 could not be confirmed.

4.0 Others Grants and Other Payments

Note 7 to the financial statements reflects other grants and other payments of Kshs.67,509,618. The following observations were made regarding the expenditure:

4.1 Security Projects

4.1.1 Igoji Police Posts

The expenditure included Kshs.13,500,000 in respect to security projects of which Kshs.600,000 was disbursed for completion of a staff house and raising two courses for

the Officer Commanding Station (OCS) administration offices at Igoji Police Station. However, audit inspection in December, 2020 revealed that the staff house was not complete and the Project appeared to have stalled as no works were on going and the contractor was not on site.

In the circumstances, the value for money for the expenditure of Kshs.600,000 could not be confirmed.

4.1.2 Kinoro Police Post

The balance of Kshs.13,500,000 with respect to security projects included Kshs.1,000,000 for putting up windows, doors, plastering and flooring of a building at Kinoro Police Post. The Project started in 2014/2015 financial year and a total of Kshs.3,000,000 had been paid as at 30 June, 2020. However, audit inspection in December, 2020 revealed that the works had been done to completion but the project was not in use.

In the circumstances, the value for money for the cumulative expenditure of Kshs.3,000,000 on the Project could not be confirmed.

4.1.3 Igoji Department Offices

The expenditure of Kshs.13,500,000 with respect to security projects included Kshs.1,000,000 transferred to Igoji Department Offices for putting up tiles and electrical connection to the Offices. A review of documents provided for audit revealed that the Project had been funded for ten (10) years since financial year 2010/2011 and had been allocated a total of Kshs.42,028,045 as at 30 June, 2020. However as at the time of audit in December, 2020 the Project was still not complete. Further, no evidence was provided that the furniture for the Offices had been budgeted for which may cause further delay in the project completion and use.

In the circumstances, value for money for the cumulative expenditure of Kshs.42,028,045 on the Project could not be confirmed.

4.2 Emergency Projects - Igoji Department Offices

The other grants and other payments balance of Kshs.67,509,618 includes Kshs.8,080,000 in respect to emergency projects of which Kshs.800,000 was transferred to Igoji Department Offices for soil excavation around the offices and removal of an existing building. However, no evidence was provided for audit to justify that the expenditure was an emergency as provided under Section 8(3) of the Constituency Development Fund Act, 2015 which stipulates that 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 circumstances, the Fund Management was in breach of the Law.

4.3 Environment Projects – Un-Installed Tanks

Included in the other grants and other payments is Kshs.2,180,818 with respect to environment projects of which Kshs.300,000 was used for procurement of 6 (six) water tanks of 8,000 litres each for distribution to six (6) primary schools. However, audit inspection carried out in December, 2020 revealed that tanks costing Kshs.200,000 delivered to four (4) primary schools had not been mounted and were therefore not in use.

In the circumstances, value for money for the expenditure of Kshs.200,000 on the water tanks could not be confirmed.

4.4 Unbudgeted Expenditure

Included in the other grants and other payments is an amount of Kshs.18,103,519 with respect to bursary to tertiary institutions of which an amount of Kshs.4,260,219 was spent on procurement of textbooks distributed to various primary schools within the Constituency. However, documents provided for audit revealed that there was no budgetary allocation for the expenditure. The amount of Kshs.4,260,219 was therefore spent without any budgetary allocation contrary to Regulation 43(b) of the Public Finance Management (National Government) Regulations, 2015 which stipulates that an Accounting Officer shall ensure that public funds entrusted to their care are properly safeguarded and are applied for purposes for only which they were intended and appropriated by the National Assembly.

In the circumstances, the Fund Management was in breach of the Law

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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, 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 National Government Constituencies Development Fund - South Imenti Constituency's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern 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 Fund's 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 with limited assurance as to 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 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 as a going concern or 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 December, 2021