

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SUBA SOUTH 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 - Suba South Constituency set out on pages 12 to 56, 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 - Suba South 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Other Committee Expenses

The statement of receipts and payments reflects Kshs.6,690,057 for use of goods and services which as disclosed at Note 5 to the financial statements, included Kshs.1,660,000 incurred on other committee expenses. However, supporting documents for expenditure amounting to Kshs.441,000 relating to meetings of the bursary vetting committee and staff were not provided. In addition, Kshs.100,000 being monitoring and evaluation allowances paid for the months of April, May and June, 2019, were not adequately supported with the relevant documents including work tickets and payment vouchers.

Consequently, the accuracy and propriety of the expenditure totalling Kshs.541,000 could not be ascertained.

2. Cash and Cash Equivalents

The statement of assets and liabilities reflects a cash and cash equivalents balance of Kshs.10,348 which as disclosed in Note 10A to the financial statements, was held at a bank account operated at a local bank. The Fund committee had closed a bank account held at another local bank of which the bank statement reflected a nil balance as at 30 June, 2019 whereas the cash book reflected a balance of Kshs.9,188 as at the same date. The resultant difference of Kshs.9,188 was not explained or reconciled and the cash book balance was not disclosed in the financial statements.

In the circumstances, the accuracy and completeness of the cash and equivalents balance of Kshs.10,348 as at 30 June, 2019, could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Suba South 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 judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

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. Irregular Procurement of Drilling of Boreholes Services in Five (5) Schools

The statement of receipts and payments reflects expenditure of Kshs.70,700,000 under transfers to other government units of which an amount of Kshs.25,000,000 was transferred to five (5) schools namely; Kimange Primary School, Miriya Primary School, Kiambuya Secondary School, Msare Secondary School and Mkende Primary School for drilling of boreholes.

However, the following anomalies were noted during the audit:

- i) Advertisement for the tenders were not widely circulated as required under Section 96(2) of the Public Procurement and Asset Disposal Act, 2015.
- ii) The unsuccessful bidders were not notified as required under Section 87(3) of the Public Procurement and Asset Disposal Act, 2015.
- iii) No evidence was provided that a professional opinion on the procurement proceedings was issued as required under the provisions of Section 84(1) of the Public Procurement and Asset Disposal Act, 2015.
- iv) The Management entered into contracts with two of the bidders for the drilling of boreholes at Msare Primary School and Miriya Primary School at a cost of Kshs.4,995,000 and Kshs.4,999,800, respectively before the expiry of the

mandatory fourteen (14) days before award of tenders as required under Section 135(3) of the Public Procurement and Asset Disposal Act, 2015.

- v) Three of the boreholes were sunk on private parcels of land instead of at the beneficiary schools under unclear circumstances.
- vi) There was no evidence that the Fund had been granted approval by the Water Resources Management Authority to sink the boreholes as required under Section 36 of the Water Act, 2016.

In the circumstances, the regularity, validity and value for money of the expenditure of Kshs.25,000,000 incurred on the drilling of boreholes for the five (5) schools could not be ascertained.

2. Fencing of Ligongo Primary School

The statement of receipts and payments reflects Kshs.70,700,000 for transfers to other government units which as disclosed in Note 6 to the financial statements, includes an amount of Kshs.33,700,000 transferred to primary schools. An amount of Kshs.500,000 was spent on fencing of Ligongo Primary School compound in order to separate the primary school section from the newly registered Ligongo Secondary School. However, audit inspection on 10 February, 2020 revealed that, although the Inspection Acceptance Committee had issued a completion certificate, the gate walls were not constructed and one side of the fence was not fully completed with chain link as per the estimates and work specifications.

Consequently, the value for money on the expenditure of Kshs.500,000 incurred on the fencing project could not be ascertained.

3. Fencing of Joseph Mukiundu Primary School

The amount of Kshs.33,700,000 for transfers to primary schools included an expenditure of Kshs.400,000 incurred on fencing the compound of St. Joseph Mukiundu Primary School. However, audit inspection on 10 February, 2020 revealed that the fencing was done using local trees instead of cedar poles as indicated in the Local Purchase Order.

Consequently, the value for money on the expenditure of Kshs.400,000 incurred on the fencing project could not be ascertained.

4. Rehabilitation of Nyabomo - Misare Secondary Access Road

The statement of receipts and payments reflects expenditure of Kshs.38,752,924 under other grants and transfers which as disclosed under Note 7 to the financial statements included Kshs.6,376,924 spent on emergency projects of which Kshs.4,000,000 was incurred on rehabilitation of Nyabomo – Misare Secondary School access road. The works comprised carriageway heavy grading and gravel patching for a 4.3 Kilometer stretch. However, audit inspection on 10 February, 2020 revealed that only 300 meters of the access road from Misare Secondary School to Misare Health Centre Junction was done by the contractor, while the other four (4) kilometer - road stretch was done by the Kenya Rural Roads Authority (KERRA).

Consequently, the regularity and validity of the expenditure of Kshs.4,000,000 incurred on the road project could not be ascertained.

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 to obtain assurance about whether 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the ability of National Government Constituencies Development Fund - Suba South Constituency 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 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 noncompliance. 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 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 ability of the Fund 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 sustaining 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

12 November, 2021