

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - TONGAREN 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 - Tongaren Constituency set out on pages 13 to 41, 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 - Tongaren 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 Failure to Maintain and Update Fixed Assets Register

Annex 4 to the financial statements on summary of fixed assets register reflects a historical assets cost balance of Kshs.12,957,680 as at 30 June, 2020. However, the assets register availed for audit reflected assets with a total cost of Kshs.12,501,999 resulting into an unreconciled variance of Kshs.455,681. Further, the codes and values for some of the assets recorded in the assets register were not reflected.

In the circumstances, it was not possible to ascertain the completeness and accuracy of the summary of fixed assets register.

2.0 Misclassification of Expenditure for Purchase of School Bus

The statement of receipts and payments reflects Kshs.9,861,327 and Kshs.40,375,861 being the expenditure on use of goods and services and transfers to other government entities respectively. However, disbursements amounting to Kshs.894,729 for the purchase of a school bus for St. Juliana School was included under use of goods and services instead of transfers to other government entities.

Consequently, the accuracy of the expenditure on use of goods and services and on transfers to other government units could not be confirmed.

3.0 Cash and Cash Equivalents

The statement of assets and liabilities and Note 10A to the financial statements reflect cash and cash equivalents of Kshs.9,110,503 as at 30 June, 2020. However, the bank reconciliation statement for the month of June, 2020 reflected unrepresented cheques of Kshs.4,433,351 of which cheques worth Kshs.1,624,341 were stale as at 30 June, 2020. In addition, the bank reconciliation statement reflected a bank balance of Kshs.13,543,853 as at 30 June, 2020 which differed with the bank balance of Kshs.53,116,017 reflected in the certificate of bank balance as at the same date. The variance of Kshs.39,572,164 has not been reconciled.

In the circumstances, the accuracy of the reported cash and cash equivalents balance of Kshs.9,110,503 as 30 June, 2020 could not be confirmed.

4.0 Unsupported Project Management Committee (PMC) Bank Balances and Unutilized Funds

Note 17.4 to the financial statements and Annex 5 reflect balances amounting to Kshs.9,310,895 held in PMC bank accounts as at 30 June, 2020. However, the certificates of bank balance and bank statements of the relevant project management committee accounts were not provided for audit. Further, the comparative balance is shown as Kshs.9,310,895 instead of Kshs.40,062,947 as reflected in the audited financial statements for the year ended 30 June, 2019.

In addition, Note 17.3 to the financial statements reflects unutilized funds of Kshs.48,478,227. However, the details of the unutilized funds have not been provided under Annex 3 as required.

In the circumstances, the accuracy of the reported PMC bank balances and the unutilized funds could not be confirmed.

5.0 Progress on Follow-Up of Auditor's Recommendations

The status of the matters raised in the audit report of the prior years has not been disclosed under the progress on follow up of auditor recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

The financial reporting guidelines issued by the Board have therefore not been adhered to.

6.0 Unsupported Expenditure on Tree Planting

The statement of receipts and payments reflects other grants transfers of Kshs.44,174,450 which as reflected under Note 7 to the financial statements included expenditure of Kshs.1,994,000 on environment projects. The amount was paid to a local firm for the supply of tree seedlings. However, records of the procurement proceedings and approval for the engagement of the firm were not provided. In addition, evidence of delivery and planting of the 85,000 seedlings by the intended schools or institutions was not provided.

Consequently, the accuracy and validity of the expenditure amounting to Kshs.1,994,000 could not be confirmed.

7.0 Unsupported Covid Related Expenses

The other grants and transfers balance of Kshs.44,174,450 reflected under Note 7 to the financial statements, included expenditure of Kshs.5,577,633 on emergency projects of which Kshs.1,898,807 was incurred on purchase of materials for making masks, mask making and distribution costs. However, details of the institutions or persons contracted to make the masks, and evidence relating to the number of masks made and delivered to the Fund offices for onward distribution to the residents were not provided.

In the circumstances, the accuracy and validity of the expenditure could not be confirmed.

8.0 Unsupported expenditure on Renovations

The expenditure of Kshs.5,577,633 on emergency projects included Kshs.438,030 on renovation of the National Registration Bureau Office at Tongaren. However, payment vouchers, records of the procurement proceedings and works completion certificates were not provided. In addition, it could not be confirmed that the expenditure satisfied the definition of emergency as provided under Section 8(3) of National Government Constituencies Development Fund Act, 2015. Further, no evidence was provided that the expenditure was reported to the Board as required under Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016.

Consequently, the accuracy and validity of the expenditure 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 - Tongaren 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

Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual receipts on comparable basis of Kshs.145,303,991 and Kshs.105,936,267 respectively, resulting into an under-funding of Kshs.39,367,724 or 27% of the budget. Similarly, the Fund expended Kshs.96,825,764 against an approved budget of Kshs.145,303,991 resulting to an under-expenditure of Kshs.48,478,227 or 33% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the constituents of Tongaren.

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

ICT Hubs – Poor Internet Connectivity in the Constituency

The Fund incurred an expenditure of Kshs.5,239,395 between October, 2018 and June, 2019 for installation of five (5) ICT hubs at Tongaren CDF office, Brigadier Market, Naitiri Primary School, Ndalul Primary School and Tongaren Market. The WiFi connectivity was expected to be within a radius of 500 metres from the point of installation for all the hubs. However, an audit inspection of the hubs revealed that the WiFi signals were very weak and hence are not in effective use. Tongaren Constituency Development Fund Office and Brigadier Market that were considered to have the strongest signals could barely cover a radius of 20 metres against the expected 500 metres.

Further, in June, 2019, the Ministry of Information, Communication and Technology supplied sixty-five (65) laptops to facilitate access of the internet by the general public. However, documents to support the transaction were not provided for audit. In addition, at the time of the audit in March, 2021 - (21 months after delivery), fifty-nine (59) laptops were still lying in the Fund's Office store while six laptops were not accounted for.

It could also not be confirmed that public participation was carried out in the Constituency to determine if installation of the bandwidth (internet) was a priority to the people because majority of the residents were not aware of the existence of the free internet service.

In the circumstances, therefore, the residents of Tongaren may not have received value for the expenditure incurred on internet connectivity (ICT Hubs) in the Constituency.

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

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Fund's ability to 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 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 overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the 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 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 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

03 December, 2021

