

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KAJIADO NORTH 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 - Kajiado North Constituency set out on pages 24 to 68, which comprise the statement of assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows for the year then ended, statement of appropriation - recurrent and development combined, 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 the National Government Constituencies Development Fund - Kajiado North 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

During the year under review, the financial statements presented for audit review revealed the following inaccuracies:

- i. The statement of receipts and payments reflects transfers from the National Government Constituencies Development Fund (NGCDF) Board of Kshs.123,540,876 against summary statement of appropriation - recurrent and development combined of Kshs.135,373,556 resulting to unreconciled variance of Kshs.11,832,680.
- ii. The statement of assets and liabilities reflects a Nil balance for accounts payables against staff payables of Kshs.147,135 as disclosed in Note 17.2 to the financial statements reports staff payables of Kshs.147,135 resulting to unreconciled variance of Kshs.147,135.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

2. Unsupported Expenditure

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.2,492,127 in respect to compensation of employees against supporting schedules amounting to Kshs.2,275,463 resulting to an unreconciled variance of Kshs.183,336.

In the circumstances, the accuracy of the compensation of employees amount of Kshs.2,492,127 could not be confirmed.

3. Misstatement of Unutilized Funds

Note 17.3 to the financial statements reflects total unutilized fund balance of Kshs.11,018,383 as at 30 June, 2020. However, the amount was inconsistent with the actual budget utilization difference of Kshs.89,590,508 reflected in the summary statement of appropriation - recurrent and development combined resulting to unexplained variance of Kshs.78,572,125. This is contrary to Section 7(2) of the National Government Constituencies Development Fund Act, 2015 which states that all receipts, savings and accruals to the Fund and the balance of the Fund at the end of each financial year shall returned to the Fund.

In the circumstances, the accuracy of the unutilized funds of Kshs.11,018,383 could not be confirmed.

4. Unpresented Bursary Cheques

According to the approved project code-list provided, the Fund had budgeted to spend Kshs.27,305,008 on bursaries to Secondary and Tertiary institutions. An audit review of the bank reconciliation statements revealed that cheques totalling Kshs.23,232,485 had not been presented as at 30 June, 2020. However, the cheques had not been presented as at the time of audit, in the month of February, 2021.

In the circumstances, the validity of these payments of Kshs.23,232,485 for the year ending 30 June, 2020 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Kajiado North 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 statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.204,805,280 and Kshs.135,437,556, respectively, resulting to an under-funding of Kshs.69,367,724 or 34% of the budget. Similarly, the Fund expended Kshs.123,604,876 against an approved budget of Kshs.204,805,280 resulting in an under-expenditure of Kshs.81,200,404 or 40% of the budget.

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

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. Delay in Project Implementation

1.1 Delay in Construction of a Classroom at Oloolua Primary School

During the year under review, the Fund allocated Kshs.1,000,000 as per the 2019/2020 approved project list for the construction of one new classroom. However, an audit inspection carried out in the month of February, 2021 revealed that the project is yet to commence. Further, an analysis of the cashbook showed that Kshs.1,000,000 was transferred to the Project Management Committee account on 11 December, 2019. No sufficient reason has been given for the delay in the commencement of the project.

1.2 Delay in Construction of a Laboratory at Olekasasi Secondary School

During the year under review, the Fund allocated Kshs.3,000,000 as per the 2019/2020 approved project list for the construction of a laboratory. However, an audit inspection carried out in the month of February, 2021 revealed that the project is yet to commence. The Management of the Fund did not give sufficient reason why the project had not commenced.

In the circumstances, value for money in the implementation of the project has not been realized.

2. Lack of Public Participation

The audit review revealed that the Fund purchased two (2) parcels of land for the construction of Chiefs' camp at Kiserian and Mosoi Range at the cost of

Kshs.20,000,000 and Kshs.8,000,000, respectively. Further, the review revealed that there were no user requisitions and public participation to discuss the purchase of the land. This is contrary to Section 162(4) of the Public Procurement and Assets Disposal Act, 2015 and Section 6(1) of the Public Finance Management (National Government) Regulations, 2015.

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

3. Errors in Presentation and Disclosure of the Financial Statements

Review of the financial statements for the National Government Constituencies Development Fund - Kajiado North Constituency as presented revealed the following errors:

- i. Summary statement of appropriation for both the recurrent and development expenditures are not separately disclosed;
- ii. Tax receipts policy which is not applicable to the National Government Constituencies Development Fund has been included as part of significant accounting policies in page 39;

Consequently, the financial statements as presented do not comply with International Public Sector Accounting Standard No.1 on presentation of financial statements and the Public Sector Accounting Standards Board guidelines and format.

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, 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 to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to abolish 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 Management 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 overall 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 applicable 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

14 February, 2022