

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KURESOI SOUTH 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 - Kuresoi South Constituency set out on pages 16 to 55, which comprise the statement of assets and liabilities as at 30 June, 2020, and 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 the National Government Constituencies Development Fund - Kuresoi South 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

The statement of receipts and payments for the year ended 30 June, 2020 reflects nil balance for other receipts. However, the receipts schedules availed for audit reflects income from sale of tyres of Kshs.5,000 is not disclosed in the financial statements.

Further, the statement of receipts and payments reflects receipts of Kshs.68,000,000 while statement of appropriation - recurrent and development combined reflects receipts of Kshs.79,917,434 resulting to unreconciled nor explained variance of Kshs.11,917,434.

Consequently, the accuracy and completeness of receipts reflected in the statement of receipts and payments could not be confirmed.

2. Unreconciled Expenditure on Compensation of Employees

The statement of receipts and payments reflects compensation of employees of Kshs.3,018,232 (2019 – Kshs.2,974,994) as disclosed under Note 4 to the financial statements. However, the schedule presented for audit revealed variances in the items constituting the expenditure as shown below;

Compensation of Employees	Financial Statement (Kshs.)	Payroll (Kshs.)	Variance (Kshs.)
Basic Wages of Contractual Employees	2,808,692	2,144,703	663,989
Employer Contribution to NSSF	40,540	40,400	140
NHIF	-	72,300	72,300
Gratuity	-	664,858	664,858
Other Personnel Payments	169,000		169,000

Further, other personnel payments balance of Kshs.169,000 relate to imprest issued for operations but misclassified under compensation of employees.

Under the circumstances the accuracy and completeness of compensation of employees of Kshs.3,018,232 for the year ended 30 June, 2020 could not be confirmed.

3. Unsupported Expenditure on Use of Goods and Services

The statement of receipts and payments reflects use of goods and services of Kshs.6,179,765 (2019 - Kshs.7,589,852) as disclosed under Note 5 to the financial statements. Included in the balance is Kshs.2,003,800 for other committee expenses whose supporting schedule lacked information such as project visited, officers or members involved the rates paid, category of expenditure as either travelling, subsistence allowance, or general expenses. Monitoring and evaluation reports were also not availed for audit review.

Further, the expenditure includes Kshs.954,000 for domestic travel and subsistence. However, the supporting schedules did not detail specific officer or member and areas travelled, nature of activities undertaken and category of expenditure, the number of days and the rates paid.

In addition, the expenditure includes Kshs.550,000 for office and general supplies services. However, the supporting schedules indicated the payee to be the Fund Manager instead of detailing items or services offered in terms of date, item description, quantity, unit price and amount paid.

Under the circumstances, the accuracy and completeness of expenditure on use of goods and services of Kshs.6,179,765 for the year ended 30 June, 2020 could not be confirmed.

4. Unsupported Expenditure on Other Grants and Transfers

The statement of receipts and payments reflects other grants and transfers of Kshs.46,000,251 (2019 - Kshs.40,586,449) as disclosed under Note 7 to the financial statements. Included in the balance is bursary payments to secondary schools of Kshs.15,825,037 whose supporting schedule presented showed that one hundred and

sixty-six (166) students were issued with bursary of Kshs.1,695,750 but did not have their admission or registration numbers indicated while ten (10) students in the same schools shared registration numbers and issued with bursaries of Kshs.98,000.

Further, included in the balance is Kshs.12,475,714 for bursary - tertiary institutions whose supporting schedule presented for audit did not indicate year of study for all the students and twenty-six (26) students issued with Kshs.311,000 bursary did not have their admission or registration numbers indicated. Also, registration number 446 was shared between two (2) students each allocated Kshs.6,260.

In addition, included in the balance is Kshs.11,699,500 for emergency projects which lacked details of the nature of the projects and out of which Kshs.530,500 were transfers to institutions without being supported by payment vouchers, requisitions from the institutions indicating the purpose, acknowledgement of funds, and subsequent monitoring of the activities undertaken.

Under the circumstances, the accuracy and completeness of expenditure on other grants and transfers of Kshs.46,000,251 for the year ended 30 June, 2020 could not be confirmed

5. Inaccurate Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalent of Kshs.2,157,507 (2019 - Kshs.11,917,434) and as disclosed under Note 10A of the financial statements. However, the cashbook reflects a balance of Kshs.2,137,508 resulting to unreconciled nor explained variance of Kshs.19,999. Further, the bank reconciliation statements in support reflects unrepresented cheques amounting to Kshs.3,058,045 of which cheques totalling to Kshs.453,417 were stale and had not been written back into the cashbook. In addition, the bank reconciliation statements included payments in bank statement but not recorded in cash book of Kshs.226,598 which related to bank charges. The Management did not explain the failure to reverse the stale cheques and not recording payments in the cashbook.

Under the circumstances, the accuracy and completeness of cash and cash equivalent of Kshs.2,157,507 as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Kuresoi 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 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 final receipts budget of Kshs.149,285,158 and actual receipts on comparable basis of Kshs.79,917,434. This resulted to an under-funding of Kshs.69,367,724 or 46 % of the budget which affected the planned activities and projects, which may have impacted negatively on service delivery for the constituents of Kuresoi South Constituency.

2.0 Projects

2.1 Project Implementation Status

A review of the project implementation status report of 30 June, 2020 indicated that one hundred and sixteen (116) projects with funding allocation of Kshs.119,290,679 were at different implementation statuses as analyzed below: -

Project Status	Project Count	Amount (Kshs.)
Complete and In Use	66	53,580,679
On-Going	50	65,710,000
Total	116	119,290,679

Fifty (50) projects with funding allocation of Kshs.65,710,000 were incomplete. No satisfactory explanation was rendered for the delays in completing the projects.

Further, nine (9) projects with funding allocation of Kshs.9,300,000 were sampled for audit verification during the month of January, 2021. Below are the individual observations against the projects: -

No.	Project Beneficiary and Details	Allocation (Kshs.)	Observations
1.	Keringet Police Station - Purchase of office furniture	200,000	There was no evidence of advertisement, quotation being sent to pre-qualified suppliers, evaluation and award. It is therefore likely that contractor was single sourced.
2.	DCC residence Keringet - Completion of DCCs house	1,500,000	There was no evidence of advertisement, quotation being sent to pre-qualified suppliers, evaluation and award. It is therefore likely that contractor was single sourced. Also, certificates of completion were not provided for audit.
3.	Silibwet Chief's Office - Completion of 4 roomed chiefs office	1,000,000	The project is complete and in use but there is no evidence of official handover and no certificate of health occupation from the Ministry of Public Works.
4.	Kapsimbeiwo Chief's Office - construction of 4 roomed Chief's Office to completion	1,500,000	The project is complete but not in use and explained to be waiting for commissioning. However, there is no certificate of health occupation from the Ministry of Public Works and painting was verified to be unevenly done and was fading off. The

No.	Project Beneficiary and Details	Allocation (Kshs.)	Observations
			project is not branded to indicated NG-CDF Kuresoi South Constituency and the financial year.
5.	Tinet Kabongoi Secondary School - Construction to completion of 8 doors pit latrine for students and 2 doors pit latrine for staff	1,500,000	There was no evidence of procurement process through advertisement, quotation being sent to pre-qualified suppliers, evaluation and award. This is contrary to Section 27 of National Government Constituency Development Fund Regulations, 2016 which requires project management committee to apply Public Procurement and Assets Disposal Act, 2015 in the procurement. One side of the eight-door pit latrine was converted to a four-door bathroom which is not provided in the bills of quantities. The project is incomplete and the toilets have not been painted, the iron sheets are loose and fascia board has not been fixed and the contractor was not on site. Progressive certificates of completion were not provided for audit
6.	Tinet Mixed Secondary School - Completion of Laboratory	400,000	There was no evidence of procurement process through advertisement, quotation being sent to pre-qualified suppliers, evaluation and award. This is contrary to section 27 of National Government Constituency Development Fund Regulations, 2016 which requires project management committee to apply Public Procurement and Assets Disposal Act, 2015 in the procurement. In addition, the tiles were not evenly levelled and were detaching, a sign of poor workmanship.
7.	Keringet Boarding Primary School - construction of a new 80 bed dormitory	1,500,000	The bills of quantities provided for steel casement doors but those fitted are wooden. The ceiling is of plywood instead of the thick board as per the bills of quantities. The floor had developed cracks and the paint was peeling and fading off. Also certificates of completion were not provided for audit.
8.	Makichiet Primary School - Completion of one classroom	600,000	There was no evidence of procurement process through advertisement, quotation being sent to pre-qualified suppliers, evaluation and award. This is contrary to Section 27 of National Government Constituency Development Fund Regulations, 2016 which requires project management committee to apply Public Procurement and Assets Disposal Act, 2015 in the procurement. The metal door and window frames are not painted and general painting was not uniformly done. The bill of quantities provided for plywood

No.	Project Beneficiary and Details	Allocation (Kshs.)	Observations
			ceiling not soft board which was not held by cornice.
9.	Chemamer Secondary School - Completion of an Administration Block of 6 offices	1,100,000	There was variation to include fixing of tiles but the approval by the NG-CDF committee was not provided for audit. The allocated funds were exhausted but the project was verified to be incomplete with pending works of wall finishes and painting.
	Total	9,300,000	

Consequently, it is not possible to confirm if the constituents of Kuresoi South Constituency will realize value for money from the projects valued at Kshs.65,710,000 for the year ended 30 June, 2020.

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. Other Grants and Other Payments

The statement of receipts and payments reflects other grants and other transfers of Kshs.46,000,251 (2019 - Kshs.40,586,449) as disclosed under Note 7 to the financial statements. Included in the balance is Kshs.11,699,500 for emergency projects out of which projects totalling Kshs.2,350,000 did not meet emergency criteria set under Section 8(3) of the National Constituency Development Fund Act, 2015.

Further, included in the balance is Kshs.11,699,500 spent on emergency projects which exceeds Kshs.6,868,386 being 5% of total allocation of Kshs.137,367,724 by Kshs.4,831,114. This is contrary to National Government Constituencies Development Fund Act, 2015 Section 8(1) which states a portion of the Fund, equivalent to five per centum (hereinafter referred to as the "Emergency Reserve") shall remain unallocated and shall be available for emergencies that may occur within the Constituency.

To this extent, the Fund is in breach of the law.

2. Project Management Committee Complete Projects

Annex 5 reflects PMC bank balances as at 30 June, 2020 of Kshs.7,596,884. Included in the balance is Kshs.3,618,019 for sixty-five (65) completed projects as indicated in the project implementation status report for financial year 2019/2020. These funds have not been returned to the Constituency bank account. This is contrary to Section 12(8) of the National Government Constituencies Development Fund Act, 2015 which states that all unutilized funds of the Project Management Committee shall be returned to the constituency account.

To this extent, the Fund is in breach of the law.

Further, the PMC bank balances discloses nil strategic plan bank account balance and comparative figure of Kshs.574,380. As previously reported in 2018/2019, the withdrawal of Kshs.614,540 from the account remains unsupported and cumulative expenditure from 2015/2016 to 2017/2018 was Kshs.1,825,620. However, the strategic plan remains incomplete.

Consequently, the Fund Management is in breach of the law and the validity and value for money on the cumulative expenditure of Kshs.1,825,620 on the strategic plan could not be confirmed.

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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Overall Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Risk Management Policy

The Fund does not have a risk management policy in place contrary to the provisions of Section 165(1) of the Public Finance Management (National Governments) Regulations, 2015 which states that the Accounting Officer shall ensure that the national government entity develops (a) risk management strategies, which include fraud prevention mechanism; and (b) a system of risk management and internal control that builds robust business operations.

Consequently, it has not been possible to confirm whether the measures in place are adequate to proactively identify risks and ensure that they are appropriately mitigated before they crystalize.

2. Weaknesses in Procedure Used in Issuance of Bursaries

The statement of receipts and payments reflects other grants and other transfers of Kshs.46,000,251 (2019 - Kshs.40,586,449) as disclosed under Note 7 to the financial statements. Included in the figure is bursary payments to secondary schools of Kshs.15,825,037 and bursary to tertiary institutions of Kshs.12,475,714. However, comprehensive list of all bursary applicants and their application forms were not

provided for audit. Further, the vetting committee reports/minutes did not show the criteria used to award bursaries. In addition, the list of successful applicants in each ward was not publicized.

Under the circumstances, controls over vetting and awarding of bursaries are weak.

3. Irregular Recruitment of Staff

The statement of receipts and payments reflects compensation of employees of Kshs.3,018,232 (2019 - Kshs.2,974,994) as disclosed under Note 4 to the financial statements. During the year under review the constituency recruited two (2) staff for the positions of clerk of works and a security officer without evidence of interviews supported by scoring sheets. The staff were paid annual gross pay of Kshs.463,763.

Consequently, the controls of hiring the constituency staff are weak.

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 continue to sustain its 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 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 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 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 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

28 January, 2022