

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KAJIADO CENTRAL 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 Central Constituency set out on pages 10 to 35, 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 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 Central 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 National Government Constituencies Development Fund Act, 2015.

Basis for Opinion

1. Unaccounted for Bursaries

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.13,821,025 which includes bursaries issued during the year amounting to Kshs.2,579,800 out of which an amount of Kshs.1,239,800 was paid for students in secondary schools and an amount of Kshs.1,340,000 to tertiary institutions as disclosed in Note 7 to the financial statements. However, the Fund does not have bursary applications register showing identification details of the applicants such as names, location of domicile, schools and colleges where admitted.

In the circumstances, the validity and regularity of the bursary expenditure of Kshs.2,579,800 could not be confirmed.

2. Unsupported Sports Expenditure

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.13,821,025 as disclosed in Note 7 to the financial statements which includes sports expenditure of Kshs.2,398,500 which further includes an amount of Kshs.1,630,000 spent on sports equipment in support of various sports clubs and an amount of Kshs.768,000 for facilitation of various sporting activities in the constituency. However, records including schedules showing how the sports equipment were distributed were not provided for

audit. Further, the criteria for issuing the equipment procured was not defined and therefore it was not possible to confirm whether the equipment amounting to Kshs.1,630,000 were properly distributed.

In the circumstances, the validity of the sports expenditure of Kshs.1,630,000 could not be confirmed.

3. Inaccurate Fixed Asset Register

Annex 4 to the financial statements under summary of fixed assets register reflects assets with a historical cost balance of Kshs.17,767,174. The assets include land on which the Constituencies Development Fund Office is located. However, the land has not been valued and no value is assigned to it in the financial statements. Motor vehicle with a historical cost of Kshs.4,294,195 is also not included in Annex4 - summary of fixed asset register. Further, the asset register provided does not include land and buildings contrary to Section 149 (2)(o) of the Public Finance Management Act, 2012.

In addition, ownership documents of land, building, motor vehicle and machinery were not provided for audit.

Consequently, it was not possible to verify and confirm ownership, existence and value of the assets balance of Kshs.17,767,174.

4. Omission of bank charges in the Financial Statements

The statement of receipts and payments reflects total payments amounting to Kshs.97,705,023 which includes nil bank charges. However, an examination of the bank statements showed that the bank deducted bank charges amounting to Kshs.15,180.00 for commissions and other services rendered to Funds bank account which are not in the financial statements. As a result, the total expenditure and surplus reflected in the statement of receipts and payments are understated and overstated by an amount of Kshs.15,180.00.

In the circumstances, the accuracy and completeness of the statement of receipts and payments as prepared and presented could not be confirmed.

5. Unsupported Other Receipts

The statement of receipts and payments reflects other receipts amounting to Kshs.155,000 as disclosed in Note 3 to the financial statements. However, supporting schedules were not provided for audit.

In the circumstances, the accuracy and completeness of the other receipts amounting to Kshs.155,000 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 - Kajiado Central 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 on comparable basis totalling to Kshs.211,027,255 and Kshs.143,421,950 respectively, resulting to an underfunding amounting to Kshs.67,605,305 or 32% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.211,027,255 and Kshs.97,705,023 respectively, resulting to an underperformance amounting to Kshs.113,322,232 or 54% of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on the delivery of services to the residents of Kajiado Central Constituency.

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. Non-Adherence to Prescribed Format

The annual report and financial statements prepared and presented for audit had the following presentation and disclosure errors;

- i. The Funds' financial statements front cover page has an inscription Revised Template 30 June, 2020 which is for templates and not financial statements;
- ii. The table of contents does not include report of the independent auditors and annexes and page 21 is omitted;

- iii. The date when the financial statements were signed is not indicated in the financial statements;
- iv. Note 10A bank balances, Note 10B cash in hand and Note 13 reflects column heading of current year 2019-2020 and (30/6/2019) with a comparative of 2018-2019 and 30/6/2018) instead of 2019/2020 and comparative of 2018/2019;
- v. Significant accounting policies under section 11 on budget indicates that the budget was approved in June, 2018 instead of June 2019;
- vi. Significant accounting policies under section 3 on reporting currency indicates all values are rounded to the nearest Kenya shillings but that is not the case in Note 15.3 and 15.4 to the financial statements;
- vii. The statement of entity management responsibilities at page 9 indicates the financial year ended on 30 June, 2019 instead of June, 2020.
- viii. The progress on follow up of auditors' recommendations is not signed by the Accounting Officer.

This is contrary to the format prescribed by the Public Sector Accounting Standards Board (PSASB) in accordance with Section 194(1)(d) of the Public Finance Management Act, 2012.

Consequently, the annual report and financial statements as prepared and presented are not in the format prescribed by the Public Sector Accounting Standards Board.

2. Projects Implementation

2.1 Irregularities on Verified Projects

During the year under review, twelve (12) projects with an allocation of Kshs.14,885,378 were verified. However, the following anomalies were noted;

- i. Poor workmanship.
- ii. Some works which were factored in the bill of quantities were not done yet the funds are fully utilized.
- iii. Some projects had not been labelled.
- iv. Incomplete projects.
- v. Stalled projects.
- vi. Procurement documents including tender opening minutes, tender evaluation reports, professional opinion, notification of award letters and acceptance letters for some of the projects were not provided for review.

Failure to provide procurement documents in support of the award of the contracts for audit contravenes Section 9 (1)(e)(i) of the Public Audit Act, 2015. In the circumstances, the Fund Administrator was in breach of the law.

Further, the observations cast doubt on the project supervision undertaken and value for money utilized in the project. In addition, public funds are going to waste on stalled projects which hampers service delivery to the residents.

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 controls 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 ability of the Fund to continue to sustain services, disclosing and 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 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 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 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 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

08 February, 2022