

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KITUI EAST 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 - Kitui East Constituency set out on pages 1 to 43 which comprise the statement of assets and liabilities as at 30 June, 2020, 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 National Government Constituencies Development Fund- Kitui East 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. Presentation of the Financial Statements

Review of the financial statements for the year ended 30 June, 2020 revealed areas of non-compliance with the reporting template prescribed by the Public Sector Accounting Standards Board (PSASB) as follows:

- i) The table of contents is incomplete as it does not include indexes for reports such as; the statement of performance against Constituency's predetermined objectives, corporate social responsibility statement, and statement of entity management responsibilities. In addition, some annexures to the financial statements such as; report of progress on follow up of auditor recommendations, pending accounts payables, pending staff payables, unutilized funds, summary of fixed assets register and Project Management Committee (PMC) bank balances are excluded in the table of contents.
- ii) Inconsistencies were noted in page numbering whereby page numbers 14 to 17 have been skipped. In effect, had the correct pagination been used, financial statements would be from page 1 to 39 instead of page 1 to 43 currently shown.

In the circumstances, the financial statements as presented do not fully comply with the reporting template and the disclosures prescribed by PSASB.

2. Inaccuracies in the Financial Statements

Further review of the financial statements revealed that statement of receipts and payments and Note 4 to the financial statements reflects an expenditure of Kshs.3,486,082 in respect of compensation of employees while the supporting documents provided had a total of Kshs.3,527,082 resulting in unexplained and unreconciled variance of Kshs.41,000.

Further, the statement of receipts and payments reflects Kshs.40,000 in respect of other receipts with a nil comparative figure for the financial year 2018/2019. However, Note 3 to the financial statements reflects a comparative figure of Kshs.1,200,000 as prior year adjustments which is not shown in the statement of receipts and payments and no explanation is provided for this omission.

In addition, the statement of receipts and payments reflects Kshs.1,160,000 in respect of other payments and a nil amount under the comparative figure for 2018/2019 financial year. However, the disclosure Note 9 to the financial statements has Kshs.1,740,000 as the comparative figure and no explanation was provided for the variance.

The statement of assets and liabilities shows a fund balance brought forward of Kshs.22,876,423 while the closing balance as at 30 June, 2019 shows a balance of Kshs.22,287,643 thus giving rise to an unexplained difference of Kshs.588,780.

Further, Note 17.2 to the financial statements reflects Kshs.719,115 and Kshs.625,684 as the pending accounts payables for 2019/2020 and 2018/2019 financial years respectively. However, the supporting Annex 2 to the financial statements does not include the comparative figures.

Note 17.3 to the financial statements on unutilized funds reflects Kshs.78,893,852 and Kshs.69,878,518 for the financial years 2019/2020 and 2018/2019 respectively. However, the supporting Annex 3 to the financial statements has no comparative figures since the column is blank.

In addition, the statement of budget execution by programmes and sub-programmes shows a total final budget amount of Kshs.207,286,242 which differs from the re-computed total of Kshs.206,786,241 thus resulting in a Kshs.500,001 unexplained variance. The same variance was also noted under the utilization difference which has a total of Kshs.78,893,852 instead of the Kshs.78,393,851 confirmed on re-casting of the total utilization difference. Further, a casting error of Kshs.5,013,848 was noted under the adjustments column whereby Kshs.69,918,518 is reflected as the total instead of the Kshs.64,904,670 confirmed on re-casting of the same item.

Further, the information included the forward by the Chairman of National Government Constituencies Development Fund Committee was found be in variance with figures

reflected in the summary statement of appropriation: recurrent and development under the headings of allocation/budget, disbursement/actual and balance/utilization difference.

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

3. Understatement of the Bank Balances – Stale Cheques

The statement of assets and liabilities reflects bank balances of Kshs.7,326,129. However, a review of the bank reconciliation statement for June, 2020 revealed un-presented cheques of Kshs.2,833,413 which included stale cheques totaling Kshs.164,002. No explanation was provided as to why the stale cheques were not written back into the cash book since they are no longer valid for payment by the bank.

Consequently, the cash and cash equivalents balance of Kshs.7,326,129 may be understated by the amount of Kshs.164,002.

4. Non-preparation of Trial Balance

During the audit, the Fund Management did not provide a trial balance in support of the balances in the financial statements for audit review.

As a result, the accuracy and completeness of the financial statements for the year ended 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 - Kitui East 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 of Kshs.207,286,242 and Kshs.135,718,519 respectively resulting to an under-funding of Kshs.71,567,723 or 35% of the budget. Similarly, the Fund expended Kshs.128,392,390 against an approved budget of Kshs.207,286,242 resulting to an under-expenditure of Kshs.78,893,852 or 38% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the constituents of Kitui East 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 of Conclusion

1. Delay in Project Implementation

Review of the project implementation documents as at 30 June, 2020 revealed that Kshs.137,367,724 was allocated for implementation of eighty (80) projects out of which Kshs.121,867,724 was disbursed during the year. However, only forty-nine (49) projects worth Kshs.89,670,370 were completed and put to use. A total of fourteen (14) projects costing Kshs.12,247,354 were on-going while the remainder of seventeen (17) projects with allocation of Kshs.19,950,000 had not commenced.

Consequently, it has not been possible to confirm if and when value for money will be realized from the incomplete/ongoing and yet to start projects.

2. Unsatisfactory Implementation of Projects

A physical verification exercise of various projects being implemented by the Fund was carried out in February, 2021, which revealed anomalies in implementation of three (3) projects with a funding allocation of Kshs.10,700,000 as detailed below: -

Project Details	Cost (Kshs)	Observations
Kaliku Secondary School Acquisition of a school bus	7,200,000	<ul style="list-style-type: none"> The contract agreement for the acquisition of the bus was not provided. Quotations were only analyzed but not evaluated as per the provisions of the Public Procurement and Asset Disposal Act, 2015 and regulations of 2016. The PMC did not seek advice of the Sub-county Procurement Officer. Due diligence report was not prepared. Insurance component - The PMC awarded the insurance tender to an

Project Details	Cost (Kshs)	Observations
		<p>insurance company at Kshs.262,842, but no policy document was issued.</p> <ul style="list-style-type: none"> The bus had not been delivered to the school despite full payment having been made.
Kaliku Boys Secondary School-Purchase of land measuring 6.68 acres	2,000,000	<ul style="list-style-type: none"> Payment of Kshs.2,000,000 was made to the seller vide cheque No. 002 dated 16 June, 2020 but the latter has not signed the land transfer consent at the sub county lands board.
Mwitika Secondary School-Purchase of land measuring 2.35Ha.	1,500,000	<ul style="list-style-type: none"> PMC single sourced the land valuers and the land was valued at Kshs.1,600,000. However, no agreement was entered into between the valuer and the PMC and as such the audit could not establish how much the valuer was paid and on which considerations. Further, the ownership of the land had not been transferred to the School. It was not explained why the PMC did not seek the services of the Ministry of lands, Infrastructure, Housing and Urban development.
Total	10,700,000	

In the circumstances, it has not been possible to confirm if value for money was realized from the expenditure of Kshs.10,700,000 which was incurred on the projects.

3. Irregular Implementation of Un-Budgeted Projects

Statement of budget execution by programmes and sub programmes shows that disbursements totaling Kshs.128,392,390 were made for implementation of various projects during the year under review. However, included in the amount is Kshs.17,074,382 which was disbursed on account of twenty-nine (29) projects which were implemented without a budgetary provision which was irregular.

Consequently, the regularity and value for money of the expenditure of Kshs.17,074,382 which was incurred on the projects could not be confirmed.

4. Irregularities in Procurement of Construction Projects

As disclosed in, Vote 6 to the financial statements, the statement of receipts and payments reflects the transfers to other Government units of Kshs.55,191,871, which relates to transfers to primary and secondary schools for project implementation. However, review of documents provided in support of procurement processes revealed that the tenders for the projects were not advertised through the National Government Constituencies Development Fund website. In addition, letters of award to the winning

bidders and regrets letters to unsuccessful bidders were not sent to the bidders while the unsuccessful bidders were not informed of the reasons why they were not considered successful as required by Sections 96 (2) and 106 of the Public Procurement and Asset Disposal Act, 2015.

In view of the foregoing, it has not been possible to confirm that the procurement for construction projects was done in an open and transparent manner and in accordance with the law.

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 OVERALL GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, 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

Lack of Human Resource Policy Documents

Available information revealed that the Fund did not have in place; a Scheme of Service, Approved Staff Establishment, Training Policy, Human Resource Manual and a Code of Ethics. In addition, no training needs assessment was performed as stipulated in Section H.3 (2) Human Resource Policies and Procedures Manual for Public Service of May, 2016 which requires State Departments to prepare training projections based on Training Needs Assessment to guide the Human Resource Management Advisory Committees in nominating officers for training.

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

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 the Management is aware of intentions 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 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 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

09 February, 2022