

REPORT OF THE AUDITOR-GENERAL ON THE NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MAARA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund - Maara Constituency set out on pages 11 to 53, 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 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- Maara 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 Project Management Committee (PMC) Bank Balances

Note 6 and 7 to the financial statements reflects Kshs.39,577,027 and Kshs.30,701,500 in respect to transfer to other government entities and other grants and other transfers respectively both totaling to Kshs.70,278,527 which includes Kshs.9,707,506 reflected at Note 17.4 and Annex 5 as project Management Committee (PMC) bank balances being the unspent project funds held by various institutions. However, the respective cashbooks, bank certificates and bank reconciliation statements were not provided for audit review contrary to Sections 100 and 90(1) of the Public Finance Management (National Government) Regulations, 2015 which stipulates that accounting officers shall keep in all offices concerned with receiving cash or making payments, a cash book showing the receipts and payments and shall ensure that bank accounts' reconciliations are completed for each bank account held by that Accounting Officer, every month.

In the circumstances, the existence and accuracy of the Kshs.9,707,506 as PMC bank balances as at 30 June, 2020 could not be ascertained. In addition, the Fund management is in breach of the law.

2.0 Bursaries

Note 7 to the financial statements for the year under review reflects Kshs.30,701,500 in respect to other grants and other transfers which includes Kshs.17,133,000, Kshs.9,480,000 and Kshs.108,500 in respect of bursaries to secondary schools, tertiary institutions and special schools respectively all totaling to Kshs.26,721,500. However, only bursaries totaling Kshs.5,844,500 (22%) were acknowledged by the respective beneficiary Institutions through issuance of acknowledgement receipts while bursaries totaling Kshs.20,877,000 (78%) were not acknowledged or accounted for by the recipient institutions.

Further, included in the Kshs.26,721,500 is Kshs.6,290,000 paid to students who were joining form one. However, students admission numbers and sub-location/ ward were not indicated in the bursary disbursement schedule provided for audit review.

In the circumstances, the accuracy, validity, propriety and value for money for the Kshs.26,721,500 expenditure for the year ended 30 June, 2020 could not be confirmed.

3.0 Cash and Cash Equivalents

Note 10A to the financial statements reflects Kshs.10,271,970 in respect to cash and cash equivalents as at 30 June, 2020. However, the respective bank reconciliation statements reflects unpresented cheques totaling to Kshs.39,530,021 which further includes stale cheques totaling to Kshs.6,027,181 which had not been replaced or reversed in the cashbook as at 30 June, 2020 thereby understating the cash and cash equivalents by the same amount.

In addition, the bank reconciliation statement reflects Kshs.1,920 in respect to payments in the bank which have not been entered in the cashbook thereby overstating the cash and cash equivalents by the same amount.

In the circumstances, the validity and accuracy of the cash and cash equivalents balance of Kshs.10,271,970 as at 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 - Maara Constituency 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 statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.160,162,302 and Kshs.90,794,577 respectively resulting to an under funding of Kshs.69,367,725 or 57% of the budget.

Similarly, the actual expenditure reflects a balance of Kshs.80,522,607 against an approved budget of Kshs.160,162,302 resulting to an under-expenditure of Kshs.79,639,695 or 50% of the budget. The under funding and under performance affected the planned activities and may have impacted negatively on service delivery to the people of Maara.

2.0 Project Implementation Status

The summary statement of appropriation: development for the year ended 30 June, 2020 reflects Kshs.144,471,568 which was budgeted for implementation of projects. The project implementation status report made available for audit review shows that one hundred and forty-eight (148) projects worth Kshs.144,471,568 were budgeted to be implemented during the year under review. However, no project had been completed while sixty (60) projects worth Kshs.88,293,577 were ongoing and eighty-eight (88) projects worth Kshs.56,177,991 had not started as at 30 June, 2020. The under performance in project implementation affected the planned activities and may have impacted negatively on service delivery to the people of Maara.

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

1.0 Transfer to Other Government Entities

1.1. Fencing and Renovation of Classrooms at Nturiri Primary School

Note 6 to the financial statements reflects Kshs.39,577,027 in respect of transfer to other government entities which includes Kshs.17,477,027 in respect of transfers to primary schools which further includes Kshs.1,000,000 transferred to Nturiri Primary School. The funds were for fencing of school compound using concrete post, barbed wire and chain-link and renovations of three (3) classrooms, painting of iron sheets, plastering and fixing the floor. However, the work plan showing how the school intended to utilize the funds was not provided for audit review contrary to Section 15(4) of the National Government Constituencies Development Fund (Regulations), 2016 which stipulates that a project management committee shall prepare the requisite budgets and bills of quantities, assisted by relevant government officers and work plans showing how it intends to utilize the funds given to it for implementing the project, which shall be approved by a Constituency Committee before funds are released.

A physical verification carried out in the month of November 2020 revealed that the fence had not been completed and iron sheets were not painted. In addition, the project was not labeled contrary to Section 11 (1)(c) of the National Government Constituencies Development Fund (Regulations), 2016 which stipulates that a constituency committee shall ensure that projects are labelled in accordance with the guidelines issued by the Board.

In the circumstances, the Fund Management was in breach of the law.

1.2. Construction of an Ablution Block and a Septic Tank at Chogoria Complex Primary School

Note 6 of the financial statement reflects Kshs.39,577,027 in respect of transfer to other government entities which includes Kshs.17,477,027 in respect of transfers to primary schools which further includes Kshs.1,000,000 transferred to Chogoria Complex Primary School for the construction of an ablution block with 12 doors and a septic tank. However, work plan showing how the school intended to utilize the funds was not provided for audit review contrary to Section 15(4) of the National Government Constituencies Developments Fund (Regulations), 2016 which stipulates that a project management committee shall prepare the requisite budgets and bills of quantities, assisted by relevant government officers and work plans showing how it intends to utilize the funds given to it for implementing the project, which shall be approved by a Constituency Committee before funds are released.

Further, documents showing that the PMC opened a separate bank account for the project were not provided for audit review contrary to Section 29(3) of the National Government Constituencies Developments Fund (Regulations), 2016 which stipulates

that a constituency committee shall ensure that the project management committee opens a bank account in an approved bank for each approved project.

A physical verification carried out in the month of November, 2020 revealed that the PMC was constructing a bio-digester instead of a septic tank and a ten (10) door ablution block instead of a twelve (12) door that was approved. Evidence showing approval and justification for the change in scope of the project by the constituency committee was not provided for audit review contrary to Section 6(2) of the National Government Constituencies Development Fund Act, 2015 which stipulates that once funds are allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose during the financial year with the approval of the Board.

In the circumstances, the Fund Management was in breach of the law.

2. Emergency Construction of a Toilet at Kaganjo Primary School

Note 7 to the financial statements reflects Kshs.30,701,500 in respect of other grants and other transfers which includes Kshs.3,980,000 in respect to emergency projects which further includes Kshs.200,000 paid to Kaganjo Primary School's for the construction of toilets. However, physical verification carried out in the month of November 2020 revealed that doors to the toilets had not been fitted and the contractor was not on site while the project appears to have stalled. Further, it was observed that pupils and teachers were using the old toilets an indication that the project may not have been an emergency contrary to Section 8(3) of the National Government Constituencies Development Fund Act, 2015 which stipulates that emergency shall be construed to mean an urgent, unforeseen need for expenditure for which it is in the opinion of the committee that it cannot be delayed until the next financial year without harming the public interest of the constituents.

In the circumstances, the Fund Management was in breach of the law.

3. Fixed Assets

Annex 4 to the financial statements reflects a balance of Kshs.4,639,939 in respect to historical cost of the fixed assets as at 30 June, 2020. However, review of the fixed assets register and physical verification of the assets revealed that the assets were not tagged for ease of identification and movement contrary to Section 139 (1)(2) of the Public Finance Management (National Government) Regulations, 2015 which stipulates that the Accounting Officer of a National Government entity shall take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse by ensuring that movement and conditions of assets can be tracked by putting in place processes and procedures both electronic and manual for the effective, efficient, economical and transparent use of the government entity's asset.

In the circumstances, the security, location and condition of the fixed assets as at 30 June, 2020 could not be ascertained. In addition, the Fund Management was in breach of the law

4. Presentation of the Financial Statements

The Fund's financial statements did not include the sub-county accountant's Institute of Certified Public Accountant (ICPAK) membership number contrary to the Public Sector Accounting Standards Board (PSASB) template issued in June, 2020.

In the circumstances, the presentation of the Fund's financial statements for the year under review is not in conformity with the PSASB prescribed 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.

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, 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 sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management either intends 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 Fund's 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 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 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 with limited assurance as to 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 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 noncompliance. 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 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 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

03 February, 2022