

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MBEERE 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 - Mbeere North Constituency set out on pages 17 to 57, 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 - Mbeere 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 National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1.0 Inaccurate Adjustment on Unutilized Funds

The Summary Statement of Appropriation: Recurrent and Development combined for the year ended 30 June, 2020 reflects Kshs.102,902,140 in respect to adjustments for the year being the unutilized funds in the previous year. However, the financial statements for the year 2018/2019 reflects Kshs.90,510,692 in respect to the same item resulting to unreconciled and unexplained variance of Kshs.12,391,448.

In the circumstances, the accuracy of the Kshs.102,902,140 in respect to adjustments in the financial statements for the year under review cannot be confirmed.

2.0 Unsupported Expenditure on Other Grants and Transfers

The statement of receipts and payments for the year ended 30 June, 2020 reflects other grants and transfers of Kshs.37,497,046 as disclosed in Note 7 to the financial statements. The expenditure includes Kshs.10,736,600 in respect to bursary to secondary schools, tertiary institutions and special schools. However, only bursaries totaling to Kshs.4,523,100 (42%) were acknowledged by the respective beneficiaries through letters of acknowledgement or issue of official receipts leaving a balance of Kshs.6,213,500 (58%) unacknowledged by the respective beneficiary schools and institutions.

In the circumstance, it has not been possible to ascertain whether expenditure on other grants and transfers of Kshs.37,497,046 benefited the intended beneficiaries and are expended as appropriated during the year ended 30 June, 2020.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Mbeere 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

1.0 Budgetary Controls and Performance

The summary statement of appropriation: recurrent and development combined for the year ended 30 June, 2020 reflects an approved receipt budget of Kshs.240,269,864 and actual receipts of Kshs.164,103,140 resulting to a budget shortfall of Kshs.76,166,724 or 32% of the budget. Similarly, the statement reflects approved expenditure budget of 240,269,864 against actual payments of Kshs.158,400,066 resulting in under expenditure of Kshs.81,869,798 or 34% of the approved budget.

Based on the approved estimates, under funding and expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

2.0 Project Implementation Status (PIS)

The project implementation status report availed for audit review indicated that one hundred and forty-three (143) projects worth Kshs.206,494,099 were budgeted to be implemented. However, fifty-six (56) projects worth Kshs.52,983,028 (26%) had not started, forty-seven (47) projects worth Kshs.112,250,625 (54%) were ongoing, while forty (40) projects worth Kshs.41,260,446 (20%) were completed.

In view of the foregoing, the constituents did not get the expected services equivalent to the fifty-six (56) projects not started worth Kshs.52,983,028 and the forty-seven (47) ongoing projects worth Kshs.112,250,625 both totalling Kshs.165,233,653. This is an indication of inappropriate project implementation mechanism.

There is need therefore for the Constituency Development Fund Management to review its project planning mechanism with a view to prioritizing those projects which will be implemented during the financial year resulting to higher impact into improving service delivery to the citizens of Mbeere North Constituency.

3.0 Idle Projects - Kirie Administration Police Line and Kirie Assistant County Commissioner Office

The statement of receipts and payments for the year ended 30 June, 2020 reflects other grants and transfers of Kshs.37,497,046 as disclosed in Note 7 to the financial statements. The expenditure includes Kshs.8,300,000 in respect of security projects, which further includes Kshs.1,300,000 for construction to completion of four (4) staff houses of Kirie Administration Police (AP) Line. Expenditure on other grants and transfers also includes Kshs.8,300,000 in respect of security projects which further includes Kshs.3,000,000 in respect to construction of two-bedroom staff house to completion for Kirie Assistant County Commissioner's (ACC) Office and renovation of ACC's office.

However, physical verifications carried out in December, 2020 for the projects revealed that the projects are complete but had not been put into the intended purpose.

In the circumstances, the value for money for the expenditure of Kshs.37,497,046 on other grants and transfers for the year ended 30 June, 2020 could not be confirmed.

4.0 Presentation of the Financial Statements

The Fund's financial statements availed for audit review did not include separate summary statements of appropriation for recurrent and development as required by the Public Sector Accounting Standards Board (PSASB) template issued in June, 2020.

Further, the statement of receipts and payments, statement of cash flows and summary statement of appropriation: recurrent and development combined do not indicate "for the year ended 30 June, 2020" while the statement of assets and liabilities does not indicate "as at 30 June, 2020" as required by the Public Sector Accounting Standards Board (PSASB) template issued in June, 2020.

In the circumstances, the presentation of the financial statements is not in accordance with the PSASB prescribed format.

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 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 Unapproved Budget - Un allocated Expenditure

The Fund's summary statement of appropriation: recurrent and development combined for the year ended 30 June, 2020 reflects Kshs.191,448 in respect to 'unallocated' expenditure. However, the approved budget made available for audit review showed that the expenditure item was not approved by the Board contrary to Section 5(1) and (2) of the National Government Constituencies Development Fund, 2015 which states that each and every disbursement from the Fund shall be approved and recorded in the minutes of the Board and that all disbursements from the Fund shall be for specific projects as submitted by the constituencies in accordance with the procedures outlined in the Act.

As a result, the approved receipts budget of Kshs.240,269,864 does not balance with the approved expenditure budget of Kshs.240,078,416 contrary to Section 33(c) of the Public Finance Management (National Government) Regulations, 2015 which states that budget shall be balanced.

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

2.0 Tender for Fencing of Siakago Technical Training Institute

The statement of receipts and payments for the year ended 30 June, 2020 reflects transfer to other government entities of Kshs.105,700,000 as disclosed in Note 6 to the financial statements. The expenditure includes Kshs.18,400,000 in respect to transfer to tertiary institutions which further includes Kshs.3,400,000 in respect to fencing of Siakago Technical Training Institute with concrete poles and chain link. The works were awarded to a contractor at a contract price of Kshs.3,408,000. However, request for quotation method was used without justification contrary to the first schedule of the Public Procurement and Disposal (Amendment) Regulations, 2013 which caps the maximum amount for use of request for quotation for works for class C procurement entity to Kshs.500,000. In addition, the respondents' bids, Local Service Order (LSO) and invoices were not availed for audit review. Consequently, the competitiveness in the award of the tender and validity of payments made could not be confirmed.

Further, field verification carried out in December, 2020 revealed that even though fencing is complete, it is not serving the intended purpose as concrete poles are crumbling, an indication of poor quality materials and workmanship.

In the circumstances, the propriety and value for money on the Kshs.3,400,000 expenditure in respect to fencing of Siakago Technical Training Institute cannot 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, , 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 so as 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 sustain 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 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 the entity 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 Fund's 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 Fund's 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 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 Fund's 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 Fund's 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

10 February, 2022