

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SAKU 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 - Saku Constituency set out on pages 11 to 40, 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 - Saku 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 the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1.0 Understated Cash and Bank Balances

As disclosed under Note 10A to the financial statements, the statement of assets and liabilities as at 30 June, 2020 reflects cash and cash equivalents balance of Kshs.24,021,896. However, the bank reconciliation statement for the month of June, 2020 reflects un-presented cheques totalling to Kshs.10,522,936 out of which Kshs.8,728,936 were stale and had not been replaced or reversed in the cashbook as at 30 June, 2020 thereby understating the cash and cash equivalents balance by the same amount.

Consequently, the accuracy of cash and cash equivalents balance of Kshs.24,021,896 as at 30 June, 2020 could not be confirmed.

2.0 Unaccounted Fuel, Oil and Lubricants

As disclosed under Note 5 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.13,144,116 in respect of use of goods and services which includes Kshs.3,727,310 relating to fuel, oil and lubricants out of which an amount of Kshs.3,255,755 was paid to a supplier for the supply of fuel. However, supporting documents including fuel registers, work tickets, details orders and statements of fuel consumption were not provided for audit.

Consequently, the occurrence and, accuracy of the expenditure of Kshs.3,255,755 for the year ended 30 June, 2020 could not be ascertained.

3.0 Transfer to Primary Schools

3.1 Construction of Classroom in Karare Primary School

As disclosed under Note 6 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.32,355,995 in respect of transfer to other Government entities which includes Kshs.6,699,295 relating to transfers to primary schools, out of which Kshs.1,499,950 was paid to a contractor for the construction of a classroom to completion at Karare Primary School. However, the Project Management Committee bank statements, quotations, notification of award, local service order and the inspection and acceptance report were not provided for audit.

In addition, physical verification of the project in November, 2020 revealed that although the substructure, superstructure and roofing were complete, the floor had developed cracks which could be an indication of poor workmanship.

In the circumstances, the validity and value for money for the expenditure of Kshs.1,499,950 for the year ended 30 June, 2020 could not be ascertained.

3.2 Upgrading of Playground at Komboni Primary School

As disclosed under Note 6 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.32,355,995 in respect of transfer to other Government entities which includes Kshs.6,699,295 relating to transfers to primary schools out of which Kshs.800,000 was paid to a contractor for upgrading of a playground at Komboni Primary School. However, the project management committee bank statements, quotations, notification of award, local service order and the inspection and acceptance report were not provided for audit.

In addition, physical verification of the project carried out in November, 2020 revealed that the light grading and drainage works all costing Kshs.480,000 had not been implemented although they had been provided in the bill of quantities. This would have affected the usability of the facility especially during rainy periods.

In the circumstances, the validity and value for money for the expenditure of Kshs.800,000 for the year ended 30 June, 2020 could not be ascertained.

3.3 Transfer to Secondary Schools - Construction of an Administration Block

As disclosed under Note 6 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.32,355,995 in respect of transfer to other Government entities which includes Kshs.23,157,660 in respect of transfers to secondary schools out of which Kshs.3,498,660 related to construction of an administration block at Marsabit Boys Secondary School. However, physical verification carried out in November, 2020 revealed that one (1) steel door size 1200mm * 2400mm costing Kshs.100,000 and one (1) steel door size 900mm * 2400mm costing Kshs.25,000 all totalling Kshs.125,000 were not installed as per bill of quantities. Further, the contractor was to fix twelve (12) windows all totalling to Kshs.240,000 but only nine (9) were fixed totalling to Kshs.165,000 resulting to an overpayment of Kshs.75,000 for three (3) windows not installed. The contractor was therefore overpaid by Kshs.200,000 comprising of Kshs.125,000 for the doors and Kshs.75,000 for the windows.

In addition, the administration block had developed cracks which is an indication of poor workmanship.

Consequently, the validity and value for money for the expenditure of Kshs.200,000 for the year ended 30 June, 2020 could not be ascertained.

4.0 Unaccounted Bursaries – Secondary Schools and Tertiary Institutions

As disclosed under Note 7 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.49,553,520 in respect of other grants and other payments which includes Kshs.15,675,300 and Kshs.17,248,400 relating to bursary disbursements to secondary schools and tertiary institutions respectively all totalling Kshs.32,923,700. However, supporting documents including the selection criteria, bursary selection committee minutes and acknowledgement from the beneficiary institutions were not provided for audit. It was therefore not possible to confirm the total applicants (longlist), successful applicants (shortlist), selection criteria and the objectivity, equity and fairness of the vetting process.

In the circumstances, it has not been possible to ascertain whether the bursaries totalling to Kshs.32,923,700 benefited the intended beneficiaries and whether they were 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 - Saku 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 for the year ended 30 June, 2020 reflects an approved final receipts budget and actual on comparable basis of Kshs.192,308,556 and Kshs.122,940,831 respectively resulting to a shortfall of Kshs.69,367,726 or 36% of the budget.

Further, the statement reflects a final expenditure budget and actual on comparable basis of Kshs.192,308,556 and Kshs.98,918,936 respectively resulting to an under expenditure of Kshs.93,389,620 or 49% of the budget.

The underfunding may be an indication that some of the programmes and activities that had been planned were not implemented and hence denial of equivalent services to the residents of Saku 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

1.0 Unsupported Committee Allowances

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects Kshs.13,144,116 in respect of use of goods and services which includes Kshs.433,800 and Kshs.6,913,000 in respect of other committee expenses and committee allowances respectively all totalling to Kshs.7,346,800 and which relates to Constituency Development Fund Committee (CDFC) activities. However, programs of activities and dates, projects visited, mode of transport and back to office reports were not provided for audit.

In the circumstances, the validity and value for money for the expenditures of Kshs.7,346,800 for the year ended 30 June, 2020 could not be confirmed.

2.0 Construction of Classroom at Dokatu Primary School

As disclosed under Note 6 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.32,355,995 in respect of transfer to other Government entities which includes Kshs.6,699,295 relating to transfer to primary schools out of which an amount of Kshs.1,599,860 was paid to a contractor for construction of one classroom at Dokatu Primary School. However, the project management committee bank statements, quotations, notification of award, Local Service Order (LSO) and the inspection and acceptance report were not provided for audit contrary to Section 15(1) of the National Government Constituency Fund Regulations, 2016 which stipulates that project management committee should implement projects in consultation with the relevant departments of government, maintain proper records of all minutes, accounting documents and other records in relation to projects being implemented, account for funds, undertake project closure, labelling and handover upon completion.

Physical verification of the project carried out in November, 2020 revealed that the floor had developed cracks even before being put in use which is an indication of poor workmanship.

In the circumstances, the validity and value for money for the expenditure of Kshs.1,599,860 for the year ended 30 June, 2020 could not be ascertained.

3.0 Routine Maintenance - Vehicles and Other Transport Equipment

As disclosed under Note 5 of the financial statements, the statement of receipts and payments reflects Kshs.13,144,116 in respect of use of goods and services which includes Kshs.1,219,261 related to routine maintenance - vehicles and other transport

equipment out of which Kshs.1,100,825 was paid to a supplier for repairs of motor vehicles. However, the Fund procured the services directly from the supplier without justification contrary to Section 103(2) (a) to (e) of the Public Procurement and Asset Disposal Act, 2015 which stipulates the conditions of when direct procurement may be used. Further, the pre-mechanical and post mechanical inspection reports were not provided for audit contrary to Section 48(3)(b) of the Public Procurement and Asset Disposal Act, 2015 which states that the Inspection and Acceptance Committee shall immediately after delivery of goods, works and services inspect and review the same in order to ensure compliance with the terms and specifications of the contract.

In the circumstances, the validity and value for money for the expenditure of Kshs.1,100,825 for the year ended 30 June, 2020 could not be ascertained.

4.0 Emergency Projects

As disclosed under Note 7 to the financial statements, the statement of receipts and payments reflects Kshs.49,553,520 in respect of other grants and other payments which includes Kshs.1,849,940 in respect of emergency and which was paid to a firm for the supply of lockers, chairs and uniforms to Moi Girls High School and ACK St. Peters Mixed Secondary School. However, the application for emergency funding and report on the urgent unforeseen situation were not provided for audit. Therefore, it is not possible to ascertain whether the expenditures were of emergency nature as stipulated in Section 8(3) of the National Government Constituencies Development Fund Act, 2015.

In the circumstances, it is not possible to ascertain whether the expenditure of Kshs.1,849,940 was a proper charge to public funds and whether it had equivalent value for money during the year ended 30 June, 2020.

5.0 Project Implementation Status

Review of the project implementation status report as at 30 June, 2020 revealed that out of seventy-one (71) projects worth Kshs.128,001,481 budgeted to be undertaken during the year under review out of which twenty-eight (28) projects worth Kshs.45,620,431 had not started.

In view of the foregoing, the constituents did not get the expected services equivalent to the twenty-eight (28) projects not started amounting to Kshs.45,620,431 for the year ended 30 June, 2020. This is an indication of inefficient project implementation, monitoring and evaluation mechanisms.

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 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.

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 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 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 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 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 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 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 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 of 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 of matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

04 February, 2022