

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SOY 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 - Soy Constituency set out on pages 28 to 72, 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 - Soy 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Unsupported Bank Balances – Project Management Committees

Note 17.4 to the financial statements reflects project management committee bank account balances of Kshs.31,902,500 held in two hundred and sixteen (216) bank accounts in various commercial banks as at 30 June, 2020. However, the cashbooks, bank reconciliation statements and certificates of bank balances were not provided for audit review.

Consequently, the accuracy and completeness and existence of project management committee bank balance amounting to Kshs.31,902,500 as at 30 June, 2020 could not be confirmed.

2.0 Unsupported Expenditure Disbursed to Project Management Committees

The statement of receipts and payments for the year ended 30 June, 2020 reflects transfers to other government units balance of Kshs.84,591,494 as disclosed in Note 6 to the financial statements. The balance relates to funds disbursed to various Project Management Committees of various institutions. However, acknowledgement letters from institutions that received the funds were not provided for audit verification.

In the circumstances, it is not possible to confirm whether the expenditure of Kshs.84,591,494 was received and utilized for the budgeted projects in the year under review.

3.0 Understated Cash and Cash Equivalents-Stale Cheques

The statement of assets and liabilities reflects bank balance of Kshs.1,584,501 as at 30 June, 2020 as disclosed in Note 10A to the financial statements. Review of bank reconciliation statement for June, 2020 revealed unrepresented cheques amounting to Kshs.1,546,480 which further included stale cheques totaling Kshs.482,500 which had not been reversed or replaced.

Consequently, accuracy of the cash and cash equivalent balance 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- Soy 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 Control and Performance

The summary statement of appropriation: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.199,777,592 and Kshs.130,409,868 respectively resulting to an under-funding of Kshs.69,367,724 or 35% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.199,777,592 and Kshs.128,825,367 respectively resulting to an under expenditure of Kshs.70,952,225 or 36% of the 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

The project status report for the year ended 30 June, 2020 availed for audit review indicates that the Fund had an approved budget of Kshs.164,071,863 to finance one hundred and twelve (112) projects out of which Kshs.105,464,860 was disbursed to sixty six (66) projects which had total budget of Kshs.120,121,863. However, forty six (46) projects with total budget of Kshs.43,950,000 were not funded during the year ended 30 June, 2020.

Further, during the year under review, nineteen (19) projects with a budget of Kshs.21,630,000 and fund disbursement of Kshs.21,630,000 were verified in April, 2021. Sixteen (16) projects with disbursements of Kshs.18,080,000 were complete, two (2) projects with disbursements of Kshs.2,650,000 were ongoing and one (1) project with disbursement Kshs.900,000 had not started

Delay in fund disbursement, and implementation of approved projects denies residents of Soy Constituency benefits accruing from the approved projects.

3.0 Purchase of Land

As reported in the previous year, an amount of Kshs.1,000,000 was disbursed to Tegeiyat Gaa Primary School for purchase of 2 acres of school land. However, procurement records such as opening, evaluation and award minutes, and search results from the Ministry of Lands, valuation report, ownership document such as title or lease and school's registration certificate from the Ministry of Education were not provided for audit review.

Further, an amount of Kshs.1,000,000 was disbursed to Kapchan Primary School on 16 March, 2017 vide PV No. 291277 and cheque No. 5012 for purchase of 2 acres of land. However, information available showed that Kapchan Primary School paid an additional Kshs.100,000 in respect of survey, rates and administration fees contrary to the provisions of the sale agreement which stipulated that the vendor shall pay outstanding land rates, rents and/or any other liabilities relating to the land.

Under the circumstances, value for money on the additional costs incurred could not be confirmed.

4.0 Unresolved Prior Year Matters

There were issues raised in the audit report for 2018/2019 financial year of which no report or recommendations from the Fund Management was submitted for audit verification and clearance. Further, the issues remain unresolved contrary to Section 149(2)(I) of the Public Finance Management Act, 2012 which require Accounting Officers designated for national government entities to try to resolve any issues resulting from an audit that remain outstanding.

Consequently, the Management is in breach of the law.

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, 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 Lack of Updated Database for Schools and Tertiary Institutions

The statement of receipts and payments for the year ended 30 June, 2020 reflects other grants and transfers balance of Kshs.35,434,860 which includes a balance of Kshs.29,484,860 as bursary to secondary schools and tertiary institutions as disclosed in Note 7 to the financial statements. However, the Fund does not maintain an updated database of secondary schools, colleges and universities as registered by the Ministry of Education to ascertain whether the students who applied for the and received bursary are undertaking their studies in registered institutions.

Further, the Ward Education Fund Appraisal Committees did not establish from the learning institutions if the bursary applicants had received funding from other sources.

Consequently, the propriety of bursary payments figure of Kshs.29,484,860 for the year ended 30 June, 2020 could not be confirmed.

2.0 Non-Justification of Expenditure on Emergency Projects

The statement of receipts and payments for the year ended 30 June, 2020 reflects other grants and other payments balance of Kshs.35,434,860 as disclosed in Note 7 to the financial statements. During the year, emergency payments totaling Kshs.1,800,000 were made to five (5) projects which include a security project, secondary and primary schools.

However, evidence to show that the nature of payments met the emergency criteria in accordance with Section 8(3) of the National Government Constituencies Development Fund Act, 2015, was not provided for audit review.

Further, there was no evidence to show that the constituency committee reported to the Board within thirty days of occurrence of emergency in respect to utilization of Kshs.1,800,000 contrary to Section 20(2) of National Government Constituencies Development Fund Regulations, 2016 which states that utilization of the emergency reserve shall be reported to the Board within thirty days of the occurrence of the emergency, in the format prescribed by the Board.

Consequently, the Fund Management is in breach of the law.

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, 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 National Government Constituencies Development Fund - Soy Constituency's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the National Government 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 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 National Government Constituencies Development Fund - Soy Constituency 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 National Government Constituencies Development Fund - Soy Constituency 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 going concern 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 National Government Constituencies Development Fund - Soy Constituency's ability to continue as a going concern or 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 National Government Constituencies Development Fund - Soy Constituency to cease to continue as a going concern or 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 National Government Constituencies Development Fund - Soy Constituency 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