

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - TIGANIA 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 - Tigania East Constituency set out on pages 11 to 38, which comprise the statement of financial 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 - Tigania 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.

Basis for Qualified Opinion

1.0 Presentation of the Financial Statements

The Fund's financial statements for the year ended 30 June, 2020 submitted for audit review contains the following anomalies;

- i. The Fund financial statements for the year ended 30 June, 2020 did not include a separate summary statement of appropriations - recurrent and a summary statement of appropriation - development contrary to the Public Sector Accounting Standards Board (PSASB) template issued in June, 2020.
- ii. Notes 6 and 7 to the financial statements reflects Kshs.53,542,027 and Kshs.42,394,525 in respect of transfer to other government entities and other grants and other payments respectively, which includes sub-components each with a reference, "see attached list". However, the referred lists are not attached to the financial statements.

In the circumstances, the Fund's financial statements are not presented in accordance with the stipulated PSASB prescribed format.

2.0 Accuracy of the Financial Statements

2.1 Misstated Project Management Committee Comparative Account Balances

Note 17.4 to the financial statements reflects Kshs.2,757,146 in respect of prior year Project Management Committee (PMC) account balances. However, the 2018/2019 financial statement reflects a total of Kshs.3,006,595 for the balances resulting in unexplained and unreconciled variance of Kshs.249,449.

In the circumstances, the accuracy of the Kshs.2,757,146 in respect of comparative balances reflected in the financial statement could not be confirmed.

2.2 Variance between Financial Statement Balance and Supporting Schedule

Note 5 to the financial statements reflects Kshs.7,701,500 in respect of committee expenses under use of goods and services. However, the respective supporting schedules reflects Kshs.7,710,000 in respect of the expenses resulting in unexplained and unreconciled variance of Kshs.8,500.

In the circumstances, the accuracy of the Kshs.7,701,500 in respect of committee expenses 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.21,020,588 in respect of bank accounts (cash book bank balance). Review of the bank reconciliation statement for account balances as at 30 June, 2020 revealed unrepresented cheques totalling Kshs.29,239,397 which included stale cheques amounting to Kshs.13,154. The stale cheques had not been reversed in the cash book.

Further, the bank reconciliation statement reflects receipts in cash book not yet recorded in bank statement of Kshs.16,000 relating to a cheque number 6979 dated 6 December, 2019. However, the cheque was stale as at 30 June, 2020, therefore, overstated the cash and cash equivalents balance by the same amount.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.21,020,588 as at 30 June, 2020 could not be confirmed.

4.0 Transfers to Secondary Schools

Note 6 to the financial statements reflect Kshs.53,542,027 in respect of transfers to other government entities. The amount includes Kshs.24,877,027 transferred to secondary schools which further includes Kshs.1,350,000 and Kshs.500,000 disbursed to Thubuku and Ametho secondary schools respectively.

The Funds were disbursed to the respective Project Management Committees of Thubuku and Ametho on 5 December, 2019 vide cheques number 7938 and 7934 for construction of two (2) ablution blocks and completion of a laboratory building respectively. However, as at the time of the audit in December, 2020, which was approximately twelve (12) months after the funds were disbursed, the projects had not been implemented.

Further, the PMC bank statement balance for Thubuku secondary school as at 28 November, 2020 was Kshs.696,359. However, no evidence was provided for audit review on how the difference of Kshs.653,641 was utilized.

5.0 Incomplete Project

Note 7 to the financial statements reflects Kshs.42,394,525 in respect of other grants and other payments which includes Kshs.10,600,000 in respect of security projects. The project payments includes Kshs.850,000 disbursed to the Project Management Committee for construction to completion of Gatithine Assistant Chief's office on 5 December, 2019. A review of expenditure documents revealed that Kshs.451,682 had been spent while the balance of Kshs.398,318 was still in the PMC bank account as at November, 2020. However, the Kshs.451,682 expenditure was not supported by certificates of works.

Further, other supporting documents including Bill of Quantities and contract agreement were not availed for audit review. In addition, audit verification at the project site in December, 2020, revealed that the contractor was not on site and the project appeared abandoned.

In the circumstances, the validity and value for money for the Kshs.850,000 expenditure for the year under review could not be confirmed.

6.0 Unsupported Disbursements Bursary

Note 7 to the financial statements reflects Kshs.42,394,525 in respect of other grants and other payments which includes Kshs.13,469,000 in respect of bursaries to tertiary institutions. However, only Kshs.5,196,000 or 39% was acknowledged as having been received by the respective institutions while the balance amounting of Kshs.8,273,000 or 61% was not supported by list of beneficiaries and the respective acknowledgement from the institutions.

Similarly, of the acknowledged amount of Kshs.13,469,000, a list of beneficiaries for Kshs.1,321,000 was not availed for audit review.

Consequently, it was not ascertained whether the bursaries benefitted the intended learners and whether the amount was expended as appropriated during the year under review.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Tigania East 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 summary statement of appropriation – recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.205,589,026 and Kshs.129,721,302 respectively resulting to shortfall of Kshs.75,867,724 or 37% of the approved budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totaling to Kshs.205,589,026 and Kshs.108,700,714 respectively, resulting in underperformance amounting to Kshs.96,888,312 or 47% of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the residents of Tigania East Constituency.

2.0 Unutilized Project Management Committee (PMC) Funds

Note 7 to the financial statements reflects Kshs.42,394,525 in respect of other grants and other payments which includes Kshs.10,600,000 for security projects. The amount further includes Kshs.1,500,000 and Kshs.1,000,000 disbursed to project management committees of Lucielubai and Mwokaila Administration Police (AP) lines respectively.

The Funds were disbursed to the respective PMCs in December, 2019 vide cheques No.7962 and 7961 respectively. However, the amount was still in the PMC accounts in December, 2020 which was twelve (12) months after the funds were released. The Management attributed non-utilization to land disputes affecting project sites. However, no evidence was availed for audit review in support of the said land dispute.

In the circumstances, the value for money for the Kshs.2,500,000 in the year under review could not be confirmed.

3.0 Project Implementation Status (PIS)

The project implementation status report as at 30 June, 2020 provided for audit review indicated that one hundred (100) projects with an allocation of Kshs.119,106,389 were budgeted to be implemented during the year under review. However, twenty (20) projects with a total allocation of Kshs.11,615,000 were completed, twenty-five (25) projects allocated Kshs.47,829,708 were ongoing while fifty-five (55) projects with a budget allocation of Kshs.59,661,681 had not been started as summarized below;

| Projects | Amount Allocated (Kshs.) | Amount Disbursed (Kshs.) | No. of Projects | Status |
|-------------------|---------------------------------|---------------------------------|------------------------|---------------|
| Environment | 1,300,000 | 1,300,000 | 13 | Completed |
| Primary Schools | 6,065,000 | 6,065,000 | 6 | |
| Security | 2,250,000 | 2,250,000 | 3 | |
| Environment | 1,000,000 | 1,000,000 | 10 | |
| NG CDF - Toilet | 1,000,000 | 1,000,000 | 1 | |
| Sub-total | 11,615,000 | 11,615,000 | 20 | |
| Primary Schools | 2,400,000 | 2,400,000 | 2 | Ongoing |
| Secondary Schools | 3,400,000 | 3,400,000 | 5 | |
| Environment | 1,747,354 | 1,747,354 | 15 | |
| Sports | 2,747,354 | 2,747,354 | 1 | |
| Bursary-Secondary | 17,535,000 | 17,535,000 | 1 | |
| -Tertiary | 20,000,000 | 20,000,000 | 1 | |
| Sub-total | 47,829,708 | 47,829,708 | 25 | |
| Primary Schools | 30,561,681 | 0 | 33 | Not started |
| Secondary schools | 26,600,000 | 0 | 19 | |
| Security | 2,500,000 | 0 | 3 | |
| Sub-total | 59,661,681 | 0 | 55 | |
| Total | 119,106,389 | 59,444,708 | 100 | |

Consequently, Tigania East constituents did not get expected services from the allocation of Kshs.47,829,708 for the on-ongoing projects and the Kshs.59,661,681 for projects that had not started all totalling to Kshs.107,491,389.

Further, out of the Kshs.188,347,196 development budget that was earmarked for project implementation, only Kshs.97,309,052 comprising Kshs.53,542,027, Kshs.42,394,525, Kshs.372,500 and Kshs.1,000,000 in respect of transfers to other government entities, other grants and other payments, acquisition of assets and, other payments respectively was released by the Board while the remaining funds amounting to Kshs.91,038,144 was not released, and which may have affected implementation of budgeted projects during the year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the 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 Other Grants and Other Payments

1.1 Unjustified Use of Emergency Reserve

Note 7 to the financial statements reflects Kshs.42,394,525 in respect of other grants and other payments which includes Kshs.10,550,000 relating to emergency projects. The payments include Kshs.4,499,619 to a firm for road improvement works including heavy bush clearing, ditch water draining, concrete works, provision of gravel, spread water and compacting along Kioro-Irindiro-Ngutu road.

However, the amount was charged to emergency reserves without justification contrary to Section 8(3) of the National Government Constituencies Development Fund Act, 2015 which states 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 Management is in breach of the Law.

1.2 Completed Project Not in Use

Note 7 to the financial statements reflects Kshs.10,600,000 in respect of security projects. The amount includes Kshs.1,000,000, Kshs.1,500,000 and Kshs.750,000 disbursed to project management committees of Rwongo Rwa Buri, Ntamichiu and Ngongoaka sub-locations respectively all totaling to Kshs.3,250,000 for construction of assistant chief’s offices in each of the three sub-locations. However, an audit verification of the projects carried out in December, 2020 revealed that the projects, though completed, were yet to be put to use and there was no indication on when the same will be put to use.

In the circumstances, the value for money for the Kshs.3,250,000 expenditure on construction of the offices during the year could not be confirmed.

2.0 Unauthorized reallocation of Funds

Note 6 to the financial statements on transfers to other government entities reflects Kshs.28,665,000 in respect of transfers to primary schools. The amount includes Kshs.1,500,000 and Kshs.300,000 disbursed to Kalantina primary school for completion of an administration block and a classroom respectively both totalling to Kshs.1,800,000.

Physical verification of the projects in December, 2020 revealed that the entire amount of Kshs.1,800,000 was spent to complete the administration block. However, no approval was availed for audit review for reallocation of the Kshs.300,000 meant for the classroom contrary to Section 6 (2) of the National Government Constituencies Development Fund Act, 2015 which provided 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 is in breach of the Law.

3.0 Summary of Fixed Assets

3.1 Unserviceable Transport Equipment

As reported in the previous year, Annex 4 to the financial statements reflects Kshs.18,640,491 in respect to historical costs of fixed assets as at 30 June, 2020 which includes Kshs.10,450,000 in respect of transport equipment. However, included in the amount are grounded and unserviceable motor vehicle registration GK A633R Toyota Hilux D4D and a motorcycle registration No. GK 206N Suzuki Dual Sport with historical costs of Kshs.3,264,012 and Kshs.459,128 respectively. No explanation was given as to why the assets had not been earmarked for disposal contrary to Section 163(1) of the Public Procurement and Assets Disposal act, 2015 which state that an accounting officer shall establish a disposal committee as and when prescribed for the purpose of disposal of unserviceable, obsolete, obsolescent, or surplus stores, equipment or assets.

In the circumstances, the Fund Management is in breach of the Law.

3.2 Unserviceable Furniture and Fittings

As reported in the previous year, Annex 4 to the financial statements reflects Kshs.18,640,491 as historical cost of fixed assets as at 30 June, 2020. Included in the cost was Kshs.277,800 in respect of thirteen (13) items classified as not serviceable as shown in the table below;

| | Type of Asset | Asset Serial Number | Acquisition Date | Cost (Kshs) |
|----|------------------------------|---------------------|------------------|----------------|
| 1 | Executive High Leather Chair | CDF/055/1EL/1 | 01 August, 2007 | 39,500 |
| 2 | Executive High Fabric Chair | CDF/055/1EL/1 - 2 | 01 August, 2007 | 21,000 |
| 3 | Rb Conference Desks | CDF/055/2RBD/1 - 2 | 01 August, 2007 | |
| 4 | Executive Desks | CDF/055/2ED/1 | 01 August, 2007 | 13,700 |
| 5 | Compact Desk Single P | CDF/055/CDS/1 | 01 August, 2007 | 12,500 |
| 6 | Conference Chairs | CDF/055/1CC/1-8 | 01 August, 2007 | 23,200 |
| 7 | Visitors Chairs | CDF/055/1VC/1-6 | 01 August,2007 | 27,600 |
| 8 | Secretarial Chair | CDF/055/1SC/1 | 01 August, 2007 | 5,200 |
| 9 | Executive Visitor Chair | CDF/055/1SC/1 - 2 | 01 August, 2007 | 9,600 |
| 10 | Water Pump | CDF/055/5CO/1 | 10 July, 2006 | 28,500 |
| 11 | Computer | CDF/055/6COM/1 | 31 May, 2008 | 52,000 |
| 12 | Printer 4 In One | CDF/055/7PR/1 | 31 May, 2008 | 40,000 |
| 13 | Modem | CDF/055/11MOD/1 | | 5,000 |
| | TOTAL | | | 277,800 |

However, no explanation was given as to why the items have not been earmarked for disposal contrary to section 163(1) of the Public Procurement and Asset Disposal Act, 2015.

3.3 Failure to Tag Assets

As reported in the previous year, Annex 4 to the financial statements reflects Kshs.18,640,491 in respect of historical costs of fixed assets as at 30 June, 2020. The assets include office equipment, furniture and fittings valued at Kshs.1,541,000, ICT

equipment, software and other ICT Assets valued at Kshs.499,491 and other machinery and equipment valued at Kshs.150,000 all totalling to Kshs.2,190,491. However, the assets were not coded or tagged for ease of identification and tracking contrary to Regulation 139(1) of the Public Finance Management (National Government) Regulations, 2015 which states that an Accounting Officer of a national government entity shall take full responsibility and ensure that proper control systems exists for assets and that preventive mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse and movement and conditions of assets can be tracked.

In the circumstances, the Fund management was in breach of the law and the safeguards assets valued at Kshs.2,190,491 as at 30 June, 2020 assets could not 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 SYSTEMS AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the procedures performed, except for the matters described in the Qualified Opinion section of my report, I confirm that, nothing else 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 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 overall 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 terminate 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 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 review 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 review 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 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 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 Fund'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 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

04 February, 2022