

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - TURKANA CENTRAL CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund - Turkana Central Constituency set out on pages 13 to 43, which comprise of the statement of assets and liabilities as at 30 June, 2021, and statement of receipts and payments, statement of cash flows and summary statement of appropriation 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 Constituencies Development Fund - Turkana Central Constituency as at 30 June, 2021, 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 with the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Understatement of the Cash and Cash Equivalents Balance

The statement of assets and liabilities reflects bank balances of Kshs.2,616,090 held at a commercial bank as disclosed in Note 10A to the financial statements. Review of the bank reconciliation statement for the month of June, 2021 revealed unrepresented cheques amounting to Kshs.36,904,957 out of which cheques amounting to Kshs.6,616,272 had become stale and had not been reversed in the cashbook. This means that the cash book was understated by the amount of Kshs.6,616,272.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.2,616,090 could not be confirmed.

2. Unconfirmed Project Management Committee Bank Balances

Note 17.4 to the financial statements reflects Project Management Committee (PMC) bank balances amounting to Kshs.984,620 held in five (5) project management committee bank accounts as disclosed in Annex 5 to the financial statements. However, cash books, bank reconciliation statements, certificates of bank balance and bank statements for the five (5) bank accounts were not provided for audit review. Further, during the year, development funds amounting to Kshs.84,023,408 were disbursed for sixty- three (63) projects an indication of non-disclosure of at least fifty-eight (58) project management bank balances as at 30 June, 2021.

In the circumstances, the existence, accuracy and completeness of the Project Management Committee bank balances of Kshs.984,620 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 - Turkana Central 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

Budget and Budgetary Control

The summary statement of appropriation reflects final receipts budget of Kshs.195,639,099 against actual receipts of Kshs.154,267,724 resulting in under funding of Kshs.41,371,375 or about 21% of the budget. Similarly, the Fund spent Kshs.158,834,130 against an approved budget of Kshs.195,639,099 resulting in under expenditure of Kshs.36,804,969 or 19 % of the budget.

In the circumstances, the underfunding and under expenditure affected the Funds planned activities and may have impacted negatively on service delivery to the public

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. Unsupported Transfers to Other Government Entities

The statement of receipts and payments reflects transfer to other government entities amount of Kshs.70,193,618 as disclosed in Note 6 to the financial statements. The amount of Kshs.70,193,618 was transferred to a total of fifty-two (52) primary and secondary schools for construction of classrooms. However, the approved work and procurement plans were not provided for audit. This is contrary to Regulation 25(1) of the National Government Constituencies Development Fund Regulations, 2016 which states that the officer of the Board seconded to the Constituency shall prepare a detailed budget, procurement plan and work plan for the year, for the National Government Constituencies Development Fund Committee Office, and shall, within the first quarter of a new financial year, present them to the Committee for approval.

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

2. Unsupported Bursary to Secondary Schools and Tertiary Institutions

The statement of receipts and payments and Note 7 to the financial statements reflects other grants and transfers amount of Kshs.58,471,765 which includes bursaries to secondary schools' and tertiary Institutions of Kshs.20,329,600 and Kshs.17,052,015 respectively.

However, evidence to confirm that vetting, identification and categorising of needy students was done by the bursary subcommittees was not provided. This is contrary to CDF Board circular reference No. VOL1/111 dated 13 September, 2010. In addition,

evidence of acknowledgement of receipts and letters from the various institutions that received funds to support the bursary payments were not provided for audit review.

In the circumstances, Management was in breach of the regulations.

3. Environment Projects

The statement of receipts and payments reflects other grants and other payments balance of Kshs.58,471,765 which includes environment projects expenditure totalling Kshs.2,688,500, as disclosed in Note 7 to the financial statements. The amount of Kshs.2,688,500 was paid to two suppliers for supply and delivery of seedlings for planting in various public schools. However, contracts between the Management and the suppliers were not provided for audit. Further, no evidence that the seedlings were delivered and taken on charge by the respective benefiting schools was provided for audit review.

In the circumstances, value for money on the expenditure of Kshs.2,688,500 on environment projects could not be confirmed.

4. Unsupported Security Projects

The statement of receipts and payments reflects other grants and other payments amount of Kshs.58,471,765 which as disclosed in Note 7 to the financial statements includes transfers to security projects amounting to Kshs.9,630,000. However, procurement records such as procurement plans, tender opening, evaluation and award minutes were not provided for audit review. This is contrary to Section 78(1)(10) of the Public Procurement and Asset Disposal Act, 2015 which requires tender opening committee to open and prepare tender opening minutes and Section 80(4) of the Act which requires evaluation committee to evaluate and prepare evaluation reports. Further, expenditure returns and reports in support of the expenditures were not provided contrary to Regulation 25 of National Government Constituencies Development Fund Regulations, 2016.

In the circumstances, Management was in breach of the law and the value for money on the expenditure of Kshs.9,630,000 on security projects could not be confirmed.

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.

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 overall 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

The 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 controls 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 controls, risk management and overall 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.

The 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 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 overall 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 controls in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 controls 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 controls 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 Fund 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 Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls 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

22 September, 2022