

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - TURKANA NORTH CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2022

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## 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 the 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 National Government Constituencies Development Fund - Turkana North Constituency set out on page 1 to 46, which comprise of the statement of assets and liabilities as at 30 June, 2022, and the 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 National Government Constituencies Development Fund - Turkana North Constituency as at 30 June, 2022, 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. Inaccuracies in the Financial Statements**

Review of the financial statements revealed the following inaccuracies:

- i. Budget execution by sectors and projects reflects final budget amount of Kshs.225,585,762. However, the correct arithmetic total is Kshs.228,925,402 resulting to an unreconciled variance of Kshs.3,339,640;
- ii. Annex 3 on Unutilized funds reflects amount due to other grants and transfer's comparative of Kshs.26,108,344. However, the correct arithmetic amount is Kshs.23,606,370 resulting to an unreconciled variance of Kshs.2,501,974.

In the circumstances, the accuracy and completeness of the statement of budget execution by sectors and projects and the disclosure on unutilized funds could not be confirmed.

### **2. Unsupported Bank Balance**

The statement of assets and liabilities reflects bank balance of Kshs.10,809,337 as disclosed in Note 10A to the financial statements. The bank reconciliation statement for the month of June, 2022 reflects unpresented cheques amounting to Kshs.30,050,015 out of which cheques totaling Kshs.5,836,330 are stale and have not been reversed in the cash book or replaced. Further, payments in bank statement not recorded in cash book of Kshs.36,128 relate to bank charges which were not expensed in the statement of receipts and payments.

In the circumstances, the accuracy and completeness of the bank balance of Kshs.10,809,337 could not be confirmed.

### **3. Unsupported Project Management Committee Bank Balances**

Annex 5 reflects Project Management Committee (PMC) bank balance of Kshs.5,361,188 in respect to sixty-nine (69) bank accounts. However, cash books, bank reconciliation statements, certificates of bank balance and bank statements for the sixty-nine (69) bank accounts were not provided for audit.

In circumstances, the existence, accuracy, and completeness of the Project Management Committee bank balance of Kshs.5,361,188 could not be confirmed.

#### **4. Unsupported Prior Year Adjustment**

The statement of assets and liabilities reflects a prior year adjustment of Kshs.6,829,784 as disclosed in Note 14 to the financial statements. However, supporting documents for the prior year adjustment of Kshs.6,829,784 were not provided for audit.

In the circumstances, the accuracy and completeness of the prior year adjustment of Kshs.6,829,784 could not be confirmed.

#### **5. Lack of Ownership Documents on Fixed Assets**

Annex 4 on summary of fixed assets register reflects historical cost of Kshs.32,848,680 comprising of land with a nil value, building and structures of Kshs.13,400,000, transport equipment of Kshs.18,407,180, office equipment, furniture and fitting of Kshs.736,500 and ICT equipment, software and other ICT assets of Kshs.305,000. However, the size and value of the land on which Constituency office is built has not been determined and included in the financial statements. Further, land ownership documents in form of land title deed was not provided for audit.

In the circumstances, the accuracy and completeness of fixed assets valued at Kshs.32,848,680 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 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. Budgetary Control and Performance**

The summary statement of appropriation reflects final receipts budget and actual on a comparable basis of Kshs.228,923,403 and Kshs.216,834,524 respectively, resulting to an under-funding of Kshs.12,088,879 or 5% of the budget. Similarly, the Fund spent

Kshs.206,027,186 against an approved budget of Kshs.228,925,402 resulting to an underperformance of Kshs.22,898,216 or 10% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

## **2. Project Implementation Status**

The project implementation status report provided indicated that funds amounting to Kshs.137,088,879 were disbursed to fifty (50) projects and programs. Forty-two (42) projects with a total disbursement of Kshs.110,027,609 were complete, seven (7) projects with a disbursement of Kshs.25,811,270 were ongoing while one (1) project with a disbursement of Kshs.2,550,000 had not started.

In the circumstances, the public has not benefited from the disbursement of Kshs.28,361,270 in respect to eight (8) incomplete projects.

## **3. Project Verification**

Ten (10) projects with a total disbursement of Kshs.39,500,000 were inspected in the month of March, 2023. However, the projects were; incomplete, had poor workmanship and omission of works and have not been put to intended use.

In the circumstances, value for money may not be obtained from this expenditure and the public has not benefited from the projects

## **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. Late Disbursements of Funds from the Board**

The statement of receipts and payments reflects transfers from the Fund Board of Kshs.170,088,879. However, the amount includes Kshs.33,000,000 or 19% of total receipts for the year budgeted for in 2020/2021 financial year. Further, the Board had not disbursed 2020/2021 arrears of Kshs.12,088,879 contrary to Section 16(a) of the National Government Constituencies Development Fund Act, 2015 which states that the functions of the Board shall be to ensure timely and efficient disbursement of funds to every constituency. Further Section 39(2) of the National Government Constituencies Development Fund Act, 2015 states that the disbursement of funds to the Constituency

Fund account shall be effected at the beginning of the first quarter of each financial year with an initial amount equivalent to twenty-five per centum of the allocation for the constituency and thereafter the constituency fund account shall be replenished in three equal installments at the beginning of the second, third and fourth quarters of the financial year.

Delay in fund disbursements results in delayed implementation of projects and programmes which denies the public the services and benefits accruing from completed projects.

## **2. Unsupported Committee Expenses**

The statement of receipts and payments reflects use of goods and services amount of Kshs.11,476,654 as disclosed in Note 5 to the financial statements. This amount includes committee expenses of Kshs.3,195,000 and other committee expenses of Kshs.1,064,450. However, committee expenses include committee allowance payments of Kshs.597,000 that were not supported by minutes contrary to Regulation 104 of the Public Finance Management (National Government) Regulations, 2015 which requires that all receipts and payment vouchers of public monies shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by appropriate authority and documentation.

In the circumstances, Management was in breach of the law and exposed the Fund to risk of irregular payments.

## **3. Unacknowledged Bursary**

The statement of receipts and payments reflects other grants and transfers amount of Kshs.65,295,061 as disclosed in Note 7 to the financial statements. This amount includes bursaries to secondary schools of Kshs.25,138,000 and tertiary institutions of Kshs.24,545,000 all totaling Kshs.49,683,000. However, bursary disbursements amounting to Kshs.48,746,000 were not supported by acknowledgement letters and receipts from respective institutions contrary to Regulation 104 of the Public Finance Management (National Government) Regulations, 2015 which requires that all receipts and payment vouchers of public monies shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by appropriate authority and documentation

In the circumstances, there was no assurance that the bursary disbursements benefitted the intended students.

**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 controls, 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**

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 controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue 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 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 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 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 the 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 controls.
- 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 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**

**18 July, 2023**