

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LAISAMIS CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Laisamis Constituency set out on pages 7 to 47, which comprise the statement of assets and liabilities as at 30 June, 2019, 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 National Government Constituencies Development Fund - Laisamis Constituency as at 30 June, 2019, 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 Presentation of the Financial Statements

The Fund financial statements for the year ending 30 June, 2019 revealed the following inconsistencies:

1.1 Inconsistence of the Chairman's Report and the Financial Statements

The chairman's report at page 4 of the financial statements reflects Kshs.54,000,000 as the money received by the Fund from the NG-CDF Board. However, the statement of receipts and payments reflects Kshs.108,784,483 as receipts from the Board during the year under review resulting to unexplained and unreconciled variance of Kshs.54,784,483.

Consequent, the accuracy of the chairman's report and the financial statements of the entity for the year ended 30 June, 2019 could not be ascertained.

1.2 Incomplete Report on Follow up of Auditor's Recommendations

Pages 42 to 47 of the financial statements reflects a progress on follow up of Auditor General recommendations. However, the Management comments, focal point person to resolve the issue, status of the issues and time frame when the issues are expected to be resolved are not reflected in the progress report.

Consequently, the status of the issues raised in 2017/2018 financial year could not be confirmed as at 30 June, 2019.

1.3 Failure to Indicate the Period end of the Financial Statement

The statement of assets and liabilities does not indicate the financial year is “as at 30 June, 2019”.

Consequently, the period to which the financial statements relate could not be confirmed as at 30 June, 2019 contrary to the Public Sector Accounting Standard Board (PSASB) reporting template.

1.4 Missing Information in the Financial Statements

Note 6 and 7 to the financial statements refers to ‘attached list’ which are however not attached to the financial statements.

In the circumstance, the information contain in the notes are misleading to the users of financial statements.

2.0 Inaccuracies of the Financial Statements

2.1 Unsupported Prior Year Adjustments

As reported in the previous financial year, the statement of assets and liabilities and the statement of cash flows for the year under review both reflects a comparative 2017/2018 prior year adjustment balance of Kshs.36,561, which does not have respective supporting documentary evidence. This is contrary to Paragraph 47 of International Public Sector Accounting Standards No. 3.

In the circumstances, the regularity and accuracy of the Kshs.36,561 comparative adjustments reflected in the financial statements as at 30 June, 2019 could not be ascertained.

2.2 Unreconciled Cash and Cash Equivalents

The statement of assets and liabilities for the year under review reflects Kshs.13,002,573 in respect to cash and cash equivalents. However, the bank reconciliation statement for the month of June, 2019 reflects Kshs.36,450 in respect to payments in bank statement not recorded in cash book resulting to over statement of cash book balance by the same amount.

In the circumstance, the accuracy of cash and cash equivalents balance of Kshs.13,002,573 as at 30 June, 2019 could not be confirmed.

2.3 Unsupported Committee Expenses

Note 5 to the financial statements reflects Kshs.8,430,972 in respect to use of goods and services which includes Kshs.6,185,893 in respect to committee expenses which further includes Kshs.780,000 spent on monitoring and evaluation. However, supporting

documents including the monitoring and evaluation reports, motor vehicle work-tickets, projects visited, and back to office report were not provided for audit review.

In the circumstance, the propriety and value for money for the Kshs.780,000 expenditure for the year ended 30 June, 2019 could not be confirmed.

2.4 PMC Bank Accounts Listing Without Balances

Annex 5 to the financial statements reflects PMC bank balances as at 30 June, 2019 which includes a list of the twenty-two (22) PMCs bank name and account numbers. However, the list did not include the respective bank balances as at 30 June, 2019. Further, certificate of bank balance, cash books and bank reconciliation statements were not provided for audit review.

In the circumstances, it was not possible to ascertain the existence and accuracy of the PMC bank balances as at 30 June, 2019.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Laisamis 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. Budget Control and Performance

The Fund's summary statement of appropriation - recurrent and development combined for the year ended 30 June, 2019 reflects an approved receipt budget of Kshs.197,483,414 while the actual receipts were Kshs.142,442,538 resulting to budget shortfall of Kshs.55,040,876 or 29% of the budget.

Similarly, the summary statement of appropriation - recurrent and development combined reflected approved budgeted expenditure of Kshs.197,483,414 and actual payments of Kshs.129,439,965 resulting in under expenditure of Kshs.68,043,449 or 34% of the budget.

Further, the Fund did not prepare separate statements of appropriation for development and recurrent contrary to the Public Sector Accounting Standard Board (PSASB) template issued in June, 2019 and Section 81(2) of the Public Finance Management Act, 2012.

In addition, the Fund's summary statement of appropriation - recurrent and development combined reflects an adjustment of Kshs.88,442,538 representing unutilized funds in the previous financial year. However, the audited financial statement for 2017/2018 reflects unutilized funds of Kshs.88,405,977 resulting to unexplained variance of Kshs.36,561.

2. Project Implementation Status

Note 6 and 7 to the financial statements reflects Kshs.71,959,416 and Kshs.46,628,321 in respect to transfers to other Government units and other grants and other payments respectively both totaling Kshs.118,587,737 which was transferred to various institutions to implement projects during the year ended 30 June, 2019. However, review of the project implementation status report as at 30 June, 2019 revealed that out of the one hundred and eleven (111) projects worth Kshs.169,460,809 budgeted to be undertaken during the year, eighty-seven (87) projects worth Kshs.118,587,737 were completed, no projects were on going while twenty-four (24) projects worth Kshs.50,873,072 were not implemented.

In the circumstances, the residents of Laisamis Constituency did not get the planned services equivalent to Kshs.50,873,072 being the budgeted projects that were not implemented during the year under review.

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. Unsatisfactorily Implemented Projects

1.1 Water Piping at Logologo Primary School

Note 6 to the financial statements reflects Kshs.71,959,416 in respect to transfer to other government entities which includes Kshs.49,459,816 in respect to transfer to primary schools which further includes Kshs.1,199,916 spent on water piping at Logologo Primary School. However, inspection and acceptance committee minutes and certificate of completion were not provided for audit review.

In the circumstance, the propriety and value for money for the Kshs.1,199,916 expenditure for the year ended 30 June, 2019 could not be confirmed.

1.2 Construction of Classroom and Supply of Metal Frame Desks at Kargi Primary School

Note 6 to the financial statements reflects Kshs.71,959,416 in respect to transfer to other government entities which includes Kshs.49,459,816 in respect to transfer to primary schools which further includes Kshs.1,400,000 spent on construction of a classroom and

supply of twenty (20) desks at Kargi Primary School. However, physical verification done in December, 2019 revealed that the floors had major cracks which is indicative of poor workmanship. In addition, the supporting documents for Kshs.30,000 paid to a contractor as provisional sum for supervision works were not availed for audit review.

In the circumstance, the propriety and value for money for the Kshs.1,400,000 expenditure for the year ended 30 June, 2019 could not be confirmed.

1.3 Construction of a Dormitory at Kulal Girls Secondary School

Note 6 of the notes to the financial statements reflects Kshs.71,959,416 in respect to transfer to other government entities which includes Kshs.22,499,600 in respect to transfer to secondary schools which further includes Kshs.6,400,000 spent on construction of phase I and II of a dormitory at Kulal Girls Secondary School. However, review of the records provided for audit in December, 2019 revealed that the contractor was paid Kshs.1,683,210 to undertake various works during the year under review but the same remained unimplemented as at the end of the financial year as follows;

No.	Works	Amount (Kshs.)
1	Pelmet Box	15,300
2	Curtain Tracks	1,224,000
3	Paving Slabs around Building	134,000
4	Electrical Works (all not done)	309,910
	Total	1,683,210

In the circumstance, the propriety and value for money for the Kshs.1,683,210 expenditure for the year ended 30 June, 2019 could not be confirmed.

1.4 Unverified Procurement Procedures for Security Projects

Note 7 to the financial statements reflects Kshs.46,628,321 spent on other grants and other payments which includes Kshs.4,940,000 on security projects. However, Mt Kulal Administration Police (AP) line bank statements were not made available for audit review. In addition, bank statements and project files for Mt Kulal AP line, Kargi AP line and Korr Chiefs Office which would have contained quotations, tenders, evaluation committee minutes and inspection and acceptance committee minutes, interim and final completion certificate from the Department of Public Works were not provided for audit review.

Consequently, the propriety and value for money of the Kshs.4,940,000 expenditure for the year ended 30 June, 2019 could not be confirmed.

2.0 Excess Staff Levels

Note 4 to the financial statements for the year under review reflects Kshs.2,421,256 in respect to compensation of employees. However, review of the records including payrolls and personal files revealed that the Fund had a total of nine (9) employees contrary to National Government Constituencies Development Fund Board circular reference VOL 1.1 /166 which states that the committee may employ staff, not exceeding five (5) in number and such staff shall have knowledge in construction, basic accounting, information and communication Technology.

Further, review of the personal files, revealed that the Fund maintained incomplete files, since the engagement contracts, interview minutes, certified copies of educational certificates and copy of identification cards were not included in the personal files.

In the circumstances, the Fund is in breach of the law.

3.0 Emergency Projects

Note 7 to the financial statements reflects Kshs.46,628,321 in respect to other grants and other payments which includes Kshs.8,330,000 in respect to emergency projects. However, no evidence of an urgent and unforeseen situation was provided for audit review to warrant the expenditure to be classified as emergency projects, contrary to Section 8(3) of the National Government Constituencies Development Fund Act, 2015.

In addition, the report on utilization of emergency reserve to the Board as required by Section 20 (2) of the National Government Constituencies Development Fund Act, 2015, was not provided for audit review.

In the circumstances, the Fund is in breach of the law.

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 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 standard requires 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 Fund's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the 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 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 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 offering 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 offering services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

01 October, 2021