

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - AINABKOI CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020

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## REPORT ON THE FINANCIAL STATEMENTS

### Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Ainabkoi Constituency set out on pages 13 to 44, which comprise of the statement of assets and liabilities as at 30 June, 2020, statement of receipts and payments, statement of cash flows and the 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly the financial position of the National Government Constituencies Development Fund - Ainabkoi Constituency as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and do not comply with the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

### Basis for Adverse Opinion

#### 1. Inaccuracies in Comparative Balances

Review of the financial statements revealed variances in the comparative balances between the 2019/2020 financial statements and balance reflected in the audited 2018/2019 financial statements as tabulated below:

| Item                      | Comparative Balance in 2019/2020 Financial Statements (Kshs) | Audited 2018/2019 Financial Statements Balance (Kshs) | Variance (Kshs) |
|---------------------------|--|---|-----------------|
| Use of Goods and Services | 7,787,842  | 7,917,640   | 129,798         |
| Other Payments            | 7,845,603  | 7,715,805   | 129,798         |

| <b>Item</b>   | <b>Comparative Balance in 2019/2020 Financial Statements (Kshs)</b> | <b>Audited 2018/2019 Financial Statements Balance (Kshs)</b> | <b>Variance (Kshs)</b> |
|---|---|--|------------------------|
| Prior Year Adjustments  | 468,465   | 0  | 468,465                |
| Use of Goods and Services - Statement of Cash Flow                | 7,787,842   | 7,917,640  | 129,798                |
| Other Grants and Transfers- Statement of Cash flow                | 47,650,335  | 47,181,869   | 468,466                |
| Other Payments - Statement of Cash flow                           | 7,845,603   | 7,715,805  | 129,798                |
| Utilities, Supplies and Services                                  | 3,697,842   | 1,954,162  | 1,743,680              |
| Fuel, Oil and Lubricants  | 0   | 472,990  | 472,990                |
| Office and General Supplies and Services                          | 0   | 1,400,488  | 1,400,488              |
| Bursary-Secondary Schools   | 20,451,880  | 19,386,379   | 1,065,501              |
| Bursary - Tertiary Institutions                                   | 13,145,080  | 14,382,006   | 1,236,926              |
| Strategic Plan  | 3,410,491   | 3,280,690  | 129,801                |
| Unutilized Fund - Compensation of Employees                       | 0   | 1,419,435  | 1,419,435              |
| Unutilized Fund - use of Goods and Services                       | 0   | 2,907,695  | 2,907,695              |
| Unutilized Fund - Amounts due to Other Government Entities        | 0   | 46,390,006   | 46,390,006             |
| Unutilized fund - Amounts due to Other Grants and Other Transfers | 0   | 17,150,241   | 17,150,241             |

The variances were not reconciled.

Under the circumstances, the accuracy, completeness and validity of the financial statements for the year ended 30 June, 2020 could not be confirmed.

## **2. Variances Between Balances in the Financial Statements and Supporting Schedules**

Balances in the financial statements were at variance with schedules' balances provided as shown below:

| <b>Item Description</b>                                      | <b>Financial Statements Balance (Kshs)</b> | <b>Schedule Balance (Kshs)</b> | <b>Variance (Kshs)</b> |
|--|--|--------------------------------|------------------------|
| Communication, Supplies and Services                         | 41,600                                     | 90,879                         | 49,279                 |
| Domestic Travel and Subsistence                              | 173,880                                    | 74,600                         | 99,280                 |
| Office and General Supplies and Services                     | 587,280                                    | 328,570                        | 258,710                |
| Routine Maintenance - Vehicles and Other Transport Equipment | 293,223                                    | 309,523                        | 16,300                 |
| Bank Charges   | 25,500                                     | 0                              | 25,500                 |
| Committee Expenses   | 6,317,000                                  | 6,163,000                      | 154,000                |
| Utilities, Supplies and Services                             | 36,500                                     | 30,000                         | 6,500                  |

| <b>Item Description</b>                                     | <b>Financial Statements Balance (Kshs)</b> | <b>Schedule Balance (Kshs)</b> | <b>Variance (Kshs)</b> |
|---|--|--------------------------------|------------------------|
| Printing, Advertising and Information Supplies and Services | -  | 6,000                          | 6,000                  |
| Other Operating Expenses                                    | 25,500                                     | 27,100                         | 1,600                  |
| Bursary for Secondary Schools                               | 15,339,712                                 | 15,411,322                     | 71,610                 |
| Bursary for Tertiary Institutions                           | 695,000                                    | 9,737,831                      | 9,042,831              |
| Emergency Projects  | 7,750,000                                  | 7,450,000                      | 300,000                |
| Acquisition of Assets                                       | 191,500                                    | 182,000                        | 9,500                  |
| <b>Total</b>  |  |                                | <b>10,041,110</b>      |

The variances totalling to Kshs.10,041,110 were not reconciled.

Consequently, the accuracy, completeness and validity of the financial statements for the year ended 30 June, 2020 could not be confirmed.

### **3. Unsupported Committee Allowances**

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services totalling to Kshs.8,619,831. The balance includes committee expenses amount of Kshs.6,317,000. However, Management did not provide documentary evidence showing that the Secretary in consultation with the Officer of the Board seconded to the Constituency prepared and tabled before the Constituency Committee a schedule of meetings which were to be held during the year. Further, no evidence was provided showing copies of the Committee minutes were submitted to the Board within thirty (30) days after the confirmation and execution of the minutes and attendance register and notices for the committee meetings.

Under the circumstances, the accuracy, completeness and validity of the committee expenses amount of Kshs.6,317,000 for the year ended 30 June, 2020 could not be confirmed.

### **4. Transfers to Other Government Units**

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other Government Units totalling to Kshs.71,226,697. However, actual expenditure returns and acknowledgement letters from institutions that received the funds were not provided. Further, the following observations were made:

#### **4.1 Unsupported Transfer to Primary Schools**

The balance includes, under transfers to primary schools, an amount of Kshs.2,400,000 transferred to Lamaon Primary School for purchase of land whose agreement and title deed were not provided and an amount of Kshs.1,000,000 disbursed to Ndanai Primary School whose project bank statement was not provided.

#### **4.2 Unsupported Transfer to Kenya Medical Training College**

The balance also includes an amount of Kshs.13,949,079 disbursed to the Kenya Medical Training College - Ainabkoi for the construction of ultra-modern tuition block. However,

as previously reported, Management did not provide title deed for the land, a signed Memorandum of Understanding with the Kenya Medical Training College specifying the obligations and responsibilities of each party including how the college would be run, contract agreement, advertisement, tender evaluation report, project expenditure returns, project submission forms, project description forms and reports indicating how funds were utilized and details of work plan and procurement plan for the project to be implemented and the timelines showing when the college shall be ready.

The Project had stalled and the contractor was not on site.

Under the circumstances, the accuracy, completeness and validity of transfers to other Government Units totalling to Kshs.71,226,697 reflected in the statement of receipts and payments for the year ended 30 June, 2020 could not be confirmed.

## **5. Inaccuracies in the Bank Balance**

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities reflects bank balance totalling to Kshs.28,884,802. However, Management reported a nil balance under one commercial bank account whereas its certificate of bank balance reflected an amount of Kshs.1,725,502 as at 30 June, 2020. Further, bank reconciliation statement, cash book and bank statement for the month of June, 2020 were not provided.

In addition, Management did not explain the continued operation of the commercial bank account contrary to the National Treasury directive to close it.

Consequently, the accuracy, completeness and validity of the bank balance totalling to Kshs.28,884,802 reflected in the statement of assets and liabilities as at 30 June, 2020 could not be confirmed.

## **6. Unsupported Committee Bank Balances**

Note 17.4 and Annex 5 to the financial statements reflect Project Management Committee bank balances totalling to Kshs.32,360,830 as at 30 June, 2020 held on seventy-six (76) bank accounts. However, Management did not provide supporting cashbooks, bank statements and certificates of bank balances. Further, schedules provided reflected balances totalling to Kshs.30,579,051 resulting to an unreconciled variance amounting to Kshs.1,781,779.

Consequently, the accuracy, completeness and validity of the Project Management Committee bank balances totalling to Kshs.32,360,830 as at 30 June, 2020 could not be confirmed.

## **7. Unsupported Summary of Fixed Assets Register**

Annex 4 to the financial statements reflects total assets totalling to Kshs.13,841,098. However, the supporting fixed assets register was not provided.

Consequently, the accuracy, completeness and validity of the total assets totalling to Kshs.13,841,098 as at 30 June, 2020 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 - Ainabkoi 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 adverse 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 - recurrent and development combined reflects final receipts budget and actual on comparable basis totalling to Kshs.202,310,073 and Kshs.136,604,999 respectively, resulting to an under-funding amounting to Kshs.65,705,074 or 32% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.202,310,073 and Kshs.107,720,197 respectively, resulting to an under expenditure amounting to Kshs.94,589,878 or 47% of the budget.

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

#### **2. Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

## **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. Irregular Management of Staff Contracts**

Review of staff records showed that staff contracts expired and were renewed yet staff had not been paid their service gratuity as per NGCDF BOARD/CIRCULARS/VOL I.I/166 dated 24 June, 2013. Further, Management did not provide evidence showing that

employees proceeded and were paid leave allowances. This is contrary to the requirement that employees proceed to and be paid annual leave allowance. Consequently, the Management is in breach of the Board circular.

## **2. Irregular Issue of Bursaries**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers totalling to Kshs.26,193,864, which includes bursary to secondary schools amount of Kshs.15,339,712 and bursary to tertiary institutions amount of Kshs.695,000. However, no evidence was provided to show that the Bursary Subcommittee was inclusive of area Education Officer or a representative from Ministry of Education as directed by the Board.

Under the circumstances, the Management is in breach of the Board directive.

## **3. Delay in Project Implementation**

Review of the Project Implementation Status Report indicated that twenty-nine (29) projects were ongoing/incomplete, three (3) projects had not started or still at procurement stage and seventeen (17) projects were complete relating to 2018/2019 financial year. The Project Implementation Status Report for 2019/2020 indicated that thirty-one (31) projects were ongoing, twenty-five (25) were complete whereas fifteen (15) projects were either not yet started or at procurement stage.

Further, Management transferred a total of Kshs.4,650,000 to primary schools for projects and funded emergency projects costing Kshs.1,950,000. The projects had received funds but projects had not commenced as at the time of audit in the month of March, 2021. Management attributed this to the high turnover of Fund Account Managers.

Under the circumstances, I am unable to confirm whether the public will receive benefits from the incomplete projects.

## **4. Unsatisfactory Projects Implementation**

Management incurred an expenditure totalling to Kshs.358,718 for renovation of the Fund Office. However, physical verification of the Office revealed that the roof was leaking as the ceiling board had signs of water leakage and in one of the offices paint was already peeling off.

Further, thirteen (13) projects with total disbursements amounting to Kshs.14,550,000 were physically verified on 17 and 18 March, 2021 and several unsatisfactory observations made on seven (7) projects as shown in **Appendix I**.

Under the circumstances, I am unable to confirm whether the public will receive benefits from the unsatisfactory completed projects.

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, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance 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**

#### **High Personnel Turnover**

During the year under review, the Fund had three (3) Fund Account Managers. Based on this high rate of turnover, the objectives and goals of the Fund may not be implemented accordingly due lack of institutional memory and smooth running of Fund affairs.

In the circumstances, I am unable to confirm existence of effective internal controls that would reduce staff turnover.

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**

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 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.

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 financial reporting process, reviewing the effectiveness of how the Fund 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 control 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 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 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 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**

**09 November, 2021**

## Appendix I: Unsatisfactory Project Implementation

| S/No.        | Project Name                       | Project Activity   | Disbursed Amount (Kshs.) | Implementation Status | Verification Results   |
|--------------|------------------------------------|--|--------------------------|-----------------------|--|
| 1            | Munyaka Primary School             | Construction of six (6) door toilets                     | 150,000                  | Ongoing               | <ul style="list-style-type: none"> <li>- Appeared to have stalled.</li> <li>- Contractor used gauge 30 iron sheet instead of gauge 28 as per bill of quantities.</li> <li>- Contractor used building blocks for walling instead of natural stone.</li> </ul> |
| 2            | Eldoret Border Farm Primary School | Renovation of twenty-four (24) door latrine i.e. roofing | 250,000                  | Complete              | Complete and in use but branding not yet done.   |
| 3            | Koibarak Primary School            | Construction of two (2) classrooms to completion         | 1,300,000                | Complete              | Constructed and already in use but pillars and verandah had not been constructed and branding was not done.  |
| 4            | Illula Secondary School            | Environment project for planting of trees                | 100,000                  | Ongoing               | Trees had not been planted.  |
| 5            | Naiberi Secondary School           | Environment project for planting of trees                | 100,000                  | Ongoing               | Trees had not been planted.  |
| 6            | Koilel Primary School              | Emergency project construction of 6 door toilets         | 350,000                  | Complete              | Complete but branding was not done.  |
| 7            | Cheptigit Secondary School         | Completion of 3 modern toilets                           | 500,000                  | Complete              | Poor workmanship noted as a door had already broken down and drainage had clogged on the urinal pit hence water had flooded the floors.  |
| <b>Total</b> |                                    |  | <b>2,750,000</b>         |                       |  |



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**