

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

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Ainamoi Constituency set out on pages 7 to 41, 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 effects 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 - Ainamoi 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

### Basis for Qualified Opinion

#### 1. Misstatements in the Financial Statements

The following balances reflected in the statements of receipts and payments differed with the balances reflected in the supporting schedules as detailed below:

Item	Financial Statements (Kshs.)	Supporting Schedules (Kshs.)	Variance (Kshs.)
Other Grants and Payments:			
Sports Projects	1,967,980	599,640	1,368,340
Emergency Projects	6,773,790	6,015,750	758,040
Use of Goods and Services	7,640,785	11,455,625	3,814,840

The variances were not reconciled or explained.

Consequently, the accuracy of the financial statements could not be confirmed.

#### 2. Unsupported Expenditure on Other Grants and Transfers

The statement of receipts and payments reflects a balance of Kshs.35,832,914 for other grants and transfers which as disclosed in Note 7 to the financial statements, includes

Kshs.16,214,500 and Kshs.3,829,144 being bursaries to secondary schools and tertiary institutions respectively, both totalling to Kshs.20,043,644. However, the minutes of the Bursary Subcommittee of the Fund indicating the criteria for identifying and awarding the beneficiaries were not provided for audit. It could therefore, not be confirmed that the Committee was constituted as provided under Constituency Development Fund Board Circular/Vol.1/111 dated 13 September, 2010. The Circular also provides that the committee should vet, identify and categorise needy students using established criteria; verify and ensure all bursary cheques are dispatched to schools/colleges. Evidence that the committee executed its responsibilities as required, was not provided.

In the circumstances, the accuracy and propriety of the bursary payments amounting to Kshs.20,043,644 could not be confirmed.

### **3. Prior Year Adjustments**

The statement of assets and liabilities reflects prior year adjustments of Kshs.160,000 relating to refund of overpaid amounts as disclosed under Note 14 to the financial statements. However, Paragraph 47(a) of IPSAS 3 - Accounting Policies, Changes in Accounting Estimates and Errors provides that an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for prior period presented in which the error occurred.

### **3. Unreconciled Variance on Unutilized Funds**

The summary statement of appropriation - recurrent and development combined reflects a budget underutilization of Kshs.67,814,958. However, Note 15.3 to the financial statements and Annex 3 reflect unutilized funds balance of Kshs.67,974,958 resulting into an unreconciled variance of Kshs.160,000.

### **4. Misstated Under collection of Receipts**

The summary statement of appropriation - recurrent and development combined reflects a final receipts budget and actual receipts on comparable basis of Kshs.173,387,081 and Kshs.118,186,205 resulting into receipts under-collection of Kshs.55,200,876. However, the under collection is erroneously shown as Kshs.55,040,875. The variance of Kshs.160,001 has not been explained or reconciled.

### **5. Unsupported and Irregular Expenditure on Emergency Projects**

The statement of receipts and payments reflects other grants and transfers balance of Kshs.35,832,914 which includes expenditure of Kshs.6,773,790 on emergency projects as disclosed at Note 7 to the financial statements. However, expenditure returns for payments amounting to Kshs.4,133,250 were not provided for audit. Further, audit inspection of the projects revealed the following anomalies:

<b>Beneficiary</b>	<b>Amount (Kshs.)</b>	<b>Audit Anomalies</b>
Torit Primary School	485,750	The Constituency Development Fund Committee (CDFC) minutes were not

<b>Beneficiary</b>	<b>Amount (Kshs.)</b>	<b>Audit Anomalies</b>
		specific about disbursement of funds to school.
Kapsoit Secondary School	750,000	The project was not approved by the Board.
Kenegut Chief Office	500,000	The CDFC resolution to disburse the funds was not available. The Project was not approved by the Board.
Construction of Gate & Sentry at Kericho Police Station	299,500	Managing of public during demonstrations is not emergency as implied in the payment.
Completion of AP single line at Kericho	498,000	The PMC did not make the expenditure returns to the CDFC.
Ainamoi ACC	600,000	CDFC resolution to disburse the funds was not provided.
Kericho Police Station	1,000,000	The funds had not been utilized by March, 2020 (9 months later) and payment voucher was not supported by CDFC resolutions to disburse the funds.
<b>Total</b>	<b>4,133,250</b>	

In addition, the Completion of Residential Houses at Kericho AP Line and Construction of Gate and Sentry at Kericho Police Station projects at a cost of Kshs.498,000 and Kshs.299,500 respectively, were implemented by the Constituency Development Fund Committee and not Project Management Committees as required under Section 36 of National Government Constituencies Development Fund Act, 2015.

Also, the report to the Board on the utilization of the emergency reserve as required under Regulation 20 of the National Government Constituencies Development Fund Regulations, 2016 was not provided.

In the circumstances, the accuracy and propriety of the expenditure on emergency projects could not be confirmed.

## **6. Unsupported Fuel Expenses**

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.7,640,785 which includes routine maintenance - motor vehicles balance of Kshs.755,416 as disclosed under Note 4 to the financial statements. However, supporting documents for expenditure amounting to Kshs.570,000 incurred on fuel, oil and lubricants were not provided.

Consequently, the accuracy and propriety of Kshs.570,000 incurred on fuel 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 - Ainamoi 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**

### **Budgetary Control and Performance**

The summary statement of appropriation - recurrent and development combined reflects a final receipts budget and actual receipts on comparable basis of Kshs.173,387,081 and Kshs.118,186,205 respectively, resulting into an under-funding of Kshs.55,200,876 or 32% of the budget. Similarly, the Fund's expenditure amounted to Kshs.105,412,123 against an approved budget of Kshs.173,227,081 resulting to an under-expenditure of Kshs.67,814,958 or 39% of the budget.

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

## **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, I confirm that, nothing 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**

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 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, 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 ability of the Fund to continue as a going concern disclosing, as applicable, matters related to sustainability of services and using the going concern 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 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 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

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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 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 policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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 as a going concern or 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**

**11 November, 2021**