

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Aldai Constituency set out on pages 23 to 62, 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, except for the effects of the matter 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 Government Constituencies Development Fund - Aldai 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 comply with the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Lack of Trial Balance

The Management did not provide a trial balance for the financial statements balances for the year ended 30 June, 2020.

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

2. Inaccuracies in Summary Statement of Appropriation

The summary statement of appropriation - recurrent and development combined and the statement of receipts and payments revealed variances as detailed below;

Components	Statement of Receipts and Payments (Kshs.)	Summary statement of Appropriation (Kshs.)	Variance (Kshs.)
Transfers from NG-CDF	129,040,876	131,208,140	2,167,264
Other Grants and Transfers	17,969,449	17,889,449	80,000
Compensation of Employees	1,792,442	1,779,802	12,640
Use of Goods and Services	6,053,364	5,753,251	300,113
Acquisition of Assets	7,019,257	7,412,009	392,752

The variances were not reconciled.

In the circumstances, the accuracy, completeness and validity of the summary statement of appropriation - recurrent and development combined balances for the year ended 30 June, 2020 could not be confirmed.

3. Inaccuracies in Bank Balances

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities reflects bank balances totalling to Kshs.13,595,690. The bank reconciliation statement as at 30 June, 2020 disclosed unpresented cheques totalling to Kshs.8,039,620. However, the cheques had not been reversed in the cash book or replaced.

Consequently, the accuracy, validity and completeness of the bank balances totalling to Kshs.13,595,690 reflected in the statement of assets and liabilities as at 30 June, 2020 could not be confirmed.

4. Unsupported Committee Bank Balances

Annex 5 of the financial statements reflects Project Management Committee bank balances totalling to Kshs.10,997,458 as at 30 June, 2020. However, cash books, bank balance confirmation certificates and bank statements for fifty (59) bank accounts were not provided.

Consequently, the accuracy, validity, and completeness of the Committee bank balances totalling to Kshs.10,997,458 as at 30 June, 2020 could not be ascertained.

5. Unsupported Fuel, Oil and Lubricants

As disclosed in Note 5 of the financial statements, the statement of receipts and payments reflects use of goods and services expenses totalling to Kshs.6,053,364. The balance includes fuel, oil and lubricants amounting to Kshs.300,000. However, the fuel register was not updated and reconciliation of fuel records of both the petrol station and the Fund was not undertaken.

Consequently, the accuracy, completeness and validity of fuel, oil and lubricants amounting to Kshs.300,000 for the year ended 30 June, 2020 could not be confirmed.

6. Inaccuracies in Acquisition of Assets

As disclosed in Note 8 to the financial statements, the statement of receipts and payments reflects acquisition of assets totalling to Kshs.7,019,257. The balance includes comprehensive insurance premium amount of Kshs.378,240 and Kshs.14,512 in respect of Government registered new motor vehicle (GK B952V) and motorcycle (GK B032X) respectively, all totalling to Kshs. 392,752. The insurance premium should have been treated as an expense and the logbooks were not provided. This is contrary to section 4 of CAP 405 which prohibits Government motor vehicles to be insured against third party risks.

Consequently, the accuracy, completeness and validity of acquisition of assets totalling to Kshs.7,019,257 reflected in the statement of receipts and payments for the year ended 30 June, 2020 could not be confirmed.

7. Unsupported Transfers to Other Government Units

The statement of receipts and payments reflects transfers to other Government Units amount of Kshs.84,798,938 relating to funds disbursed to various Project Management Committees. However, expenditure returns and acknowledgement letters from institutions that received the funds were not provided.

In the circumstances, the accuracy, completeness and validity of expenditure totalling to Kshs.84,798,938, reflected in the statement of receipts and payments ended for the year ended 30 June, 2020 could not be confirmed.

8. Lack of Land Ownership

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other Government Units totalling to Kshs.84,798,938. The balance includes disbursements to Kibora Primary School amounting to Kshs.600,000, Mukang Primary School amounting to Kshs.800,000, Kapsamut Primary School amounting to Kshs.500,000 all totalling to Kshs.1,900,000 for purchase of various parcels of land. However, procurement records such as opening minutes, evaluation, award, official title deeds were not provided.

Under the circumstances, the accuracy, completeness and validity of parcels of land purchased at a cost of Kshs.1,900,000 for the year ended 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 - Aldai 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 - recurrent and development combined reflects final receipts budget and actual on comparable basis totalling to Kshs.200,575,863 and Kshs.131,208,140 respectively, resulting to an underfunding amounting to Kshs.69,388,723 or 35% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.200,575,863 and Kshs.117,633,449 respectively, resulting to an under expenditure amounting to Kshs. 82,963,414 or 41% 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 and Planning Circular reference No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

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. Delay in Project Implementation

Review of the Project Implementation Status Report as at 30 June, 2020 indicated that a total of ninety (90) projects were funded at an estimated cost of Kshs.122,404,628. Fifty-three (53) projects with an estimated value of Kshs.40,035,587 were completed, twenty-three (23) projects with estimated cost of Kshs.70,467,092 were ongoing while fourteen (14) projects with an estimated cost of Ksh11,901,949 were not started.

In the year under review, a total of twenty-six (26) projects with disbursements totalling to Kshs.45,298,938 were physically verified out of which seventeen (17) projects with a disbursement totalling to Kshs.23,164,405 were complete and in use, while nine (9) projects with disbursements totalling to Kshs.22,134,533 had not been completed.

In the circumstances, I am unable to confirm whether the public obtained value for money for the expenditure on the delayed projects during the year ended 30 June, 2020.

2. Irregular Staff Recruitment

The Management recruited a clerk of works in the year under review. However, it was established that the staff employed did not meet the minimum requirements as per the advertisement such as; two (2) years' progressive work experience, certificate of good conduct and a valid motorcycle rider license.

Further, review of a sample of one month's payment schedule provided in support of basic wages of temporary employees revealed that basic pay to employees was not compliant to the provisions of the NGCDF Board Circular on payments to temporary employees.

Consequently, the Management is in breach of the NGCDF Board circular.

3. Irregular Funding of Security Projects

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and other payments totalling to Kshs.17,969,449. The balance includes security projects amounting to Kshs.1,500,000. Examination of the expenditure records revealed that an amount of Kshs.500,000 was approved for completion of Chief's Office. However, physical inspection done on 11 February, 2021 revealed that the funds were utilized on construction of administration block at Kaptumo Police Post without evidence of approval of reallocation of funds from the NGCDF Board.

Consequently, the validity of the security projects expenditure totalling to Kshs.500,000 for the year ended 30 June, 2020 could not be confirmed.

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 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

21 December, 2021