

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – ALEGO USONGA 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 - Alego Usonga Constituency set out on pages 6 to 33, which comprise the statement of financial assets and liabilities as at 30 June, 2019 and the statement of receipts and payments, statement of cash flows and 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 - Alego Usonga 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

1.1 The Variances in Comparative Figures

The financial statements submitted for audit at annexure 3 reflects unutilised funds balance of Kshs.55,550,039.90 while the audited financial statements for 2017/2018 reflected a balance of Kshs.47,297,804 resulting to a variance of Kshs.8,252,236 which has not been explained or reconciled. In addition, the financial statements do not have a note to the financial statements in support of the unutilised funds as required by the reporting format prescribed by the Public Sector Accounting Standards Board (PSASB).

Further, the summary of fixed assets register at annexure 4 reflects a comparative figure of Kshs.44,678,288 while the audited financial statements for 2017/2018 reflects a balance of Kshs.44,253,903 resulting to unexplained variance of Kshs.424,385.

1.2 Unsupported Prior Year Adjustments

The statement of financial assets and liabilities reflects prior year adjustment balance of Kshs.4,694,606 indicated in supporting Note 14 to be in respect of bank account

balance of Kshs.3,059,506 and imprest balance of Kshs.1,635,100. However, the Fund did not disclose the details of the nature of the adjustment contrary to Section 99(3) of the Public Finance Management (National Government) Regulations 2015 which stipulate that every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

Consequently, the accuracy of the financial statements for the year ended 30 June, 2019 could not be confirmed.

2. PMC Bank Account Balances

The financial statements submitted for audit erroneously reflects PMC bank account balances as annexure 4 instead of annexure 5. In addition, the financial statements reflect PMC bank account balances of Kshs.1,807,124 as at 30 June, 2019. However, this balance includes five (5) schools with balances totalling Kshs.1,220,163 that were not supported by the bank certificates. In addition, the balance excludes twelve (12) schools with bank balances totalling Kshs.2,239,901 as per the bank certificates availed. This is contrary to Section 100 of the Public Finance Management (National Government) Regulations, 2015.

Consequently, the accuracy of the PMC bank accounts balance of Kshs.1,807,124 as at 30 June, 2019 could not be confirmed.

3. Unsupported Employer Contribution to NSSF

The financial statements reflect compensation of employees of figure of Kshs.3,366,316 which includes, an amount of Kshs.134,020 reported as employer contribution to NSSF as disclosed under Note 4. However, the amount was not supported by any documentation contrary to Section 100 of the Public Finance Management (National Government) Regulations, 2015.

Consequently, the accuracy of employer contribution to NSSF of Kshs.134,020 for the year ended 30 June, 2019 could not be confirmed.

4. Payment for Non-Disclosed Pending Bills

The statement of receipts and payments reflect other grants and payments figure of Kshs.43,838,029 which includes security balance of Kshs.8,036,436 as disclosed under Note 7 to the financial statements. However, the ledgers provided could only support an amount of Kshs.700,000 leaving a balance of Kshs.7,336,436 which was said to relate to pending bills relating to 2017/2018 and 2016/2017 but payments made during year under review. However, the audited financial statements for the year ended 30 June, 2018 did not disclose any pending bills.

Further, the use of goods and services figure of Kshs.9,113,880 includes other operating expenses of Kshs.1,218,053 as disclosed in Note 5 to the financial statements. The operating expenses figure of Kshs.1,218,053 includes Kshs.474,332 paid towards repair of GKA647T carried out in the financial year 2016/2017 but payment made during 2018/2019 financial year. However, the amounts paid were not

among the pending bills and also inspection report to confirm repairs was not availed and the vehicle was still grounded. This is contrary to Section 100 of the Public Finance Management (National Government) Regulations, 2015.

Consequently, the propriety and accuracy of expenditure on security and operating expenses totalling Kshs.7,810,768 for the year ended 30 June, 2019 could not be confirmed.

5. Payment for Goods and Services Not Supplied

Included in the financial statements under Note 6 is transfer to other government entities of Kshs.40,239,503 which includes transfer to secondary schools of Kshs.25,631,591 and which in turn include Kshs.998,439 paid to an Eldoret based supplier contracted to carry out water reticulations, mechanical and gassing works at Karapul Secondary School. However, audit verification carried out in June, 2020 revealed that the contractor had not supplied items worth Kshs.249,200 as below:

Particulars	Quantity Contracted	Unit	Unit Price (Kshs.)	Contracted Value (Kshs.)	Actual Quantity Supplied	Value of Supplied (Kshs.)	Value of Not Supplied (Kshs.)
15mm diamemeter GI pipe	20	NO	2,500	50,000	5	12,500	37,500
20mm diammeter GI pipe	80	NO	2,800	224,000	10	28,000	196,000
Industrial gas cylinder 13kg	2	No	15,700	31,400	1	15700	15,700
Total				305,400		56,200	249,200

No reason was provided for payment for goods not supplied contrary to Section 48(4a) of Public Procurement and assets Disposal Act, 2015.

Consequently, the Management breached the law and propriety of the expenditure of Kshs.249,200 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Alego Usonga 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

Report of the Auditor-General on National Government Constituencies Development Fund – Alego Usonga Constituency for the year ended 30 June, 2019

Budget Performance

The Fund's approved budget for the year 2018/2019 amounted to Kshs.163,019,742 comprising of 2018/2019 allocation of Kshs.99,205,687 and balance brought forward from 2017/2018 of Kshs.53,978,867. During the period, the Fund incurred an expenditure of Kshs.99,205,687 representing 61% of the approved budget resulting in under-absorption of Kshs.63,814,055 or approximately 39% of the approved budget.

Failure to utilize all funds as budgeted/disbursed is an indication that programs and activities were not implemented as planned hence not achieving the intended objective of improving delivery of goods and services to the residents of Alego Usonga Constituency.

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. Un-surrendered Imprest

The statement of financial assets and liabilities reflects outstanding Imprest balance of Kshs.1,635,100 as at 30 June, 2019 as disclosed in Note 11 to the financial statements. The imprests were owed by four former employees and which relates to 2017/2018 and earlier years yet no action has been taken to clear or recover the same. In addition, no imprest warrants were issued to support the said imprests as required by Section 92(2) and 92(5) of the Public Finance Management (National Government) Regulations, 2015.

Consequently, the Management is in breach of the law.

2. Failure to Comply to Procurement Rules and Regulations

The financial statements under Note 7 is other grants and other payments of Kshs.43,838,029 which includes security expenditure of Kshs.8,036,436 out of which Kshs.4,000,000 was paid to an Investment firm for the construction of both Nyadorera police post administration block (Kshs.2,500,000) and Ting Wang'i police post administration block (Kshs.1,500,000) under restricted tendering method. However, no justification was provided for using restricted tendering method as required by Section 102 of the Public Procurement and Assets Disposal Act, 2015. Further, the

works were done during 2017/2018 while the payments were made in the year under review although the payee was not among the pending bills of 2017/2018.

Consequently, the Management breached the law.

3. Irregularities in Bursary Disbursements

The other grants and other payments figure of Kshs.43,838,029 for the year ended 30 June, 2019 includes bursary to secondary schools' figure of Kshs.19,084,472, bursary to tertiary institutions of Kshs.9,811,121 and bursary to special schools of Kshs.1,206,000 all totalling Kshs.30,101,593 as disclosed in Note 7 to the financial statements. The bursary figure of Kshs.30,101,593 include an amount of Kshs.1,023,000 disbursed to various institutions for which acknowledgement letters and receipts were not availed for audit review.

Further, the bursary to tertiary institutions figure of Kshs.9,811,121 includes Kshs.1,600,000 paid to a Driving School through cheque number 5960 on 19 March, 2019 for training of boda boda drivers. However, there was no evidence on how the need for training was assessed and how the trainees were identified from the community. In addition, the criteria used to come up with the successful list of beneficiaries, vetting committee minutes and the relevant application forms were not availed for audit verification contrary to section 48 of The National Government Constituencies Development Fund Act, 2015.

Consequently, the Management breached the law.

4. Project Verification

During the audit, four projects were verified in June, 2020 and below are the audit findings.

	Project Name	Amount (Kshs.)	Audit Findings
1.	Nyadorera Police Base - Completion of Administration Block	2,500,000	<ul style="list-style-type: none"> • The project was done as per the specifications and was already in use by the police officers. • The police officers raised complain over invasion of birds in the ceiling board hence making the office inhabitable. • They also raised concern over the Ecosan type of cell toilets constructed which cannot be put in use as they have not fixed disposal containers, However, the BQs did not

	Project Name	Amount (Kshs.)	Audit Findings
			provide for construction of cell toilets.
2.	Ting'i Wang'i Police Post- Completion of Administration Block	1,500,000	<ul style="list-style-type: none"> The project was done as per the specifications and was already in use. The block was not branded.
3.	Aseri Primary School- Construction of 2No.6doors pit latrines	700,000	<ul style="list-style-type: none"> The project complete and in use.
4.	Ndiwo Primary School- Renovation of administration block	1,100,000	<ul style="list-style-type: none"> The renovation of the administration block was complete and in use.

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.

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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Fund's 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 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 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

28 December, 2021