

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Samburu North Constituency set out on pages 8 to 36, 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 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 National Government Constituencies Development Fund - Samburu North 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 do not comply with the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Presentation of Financial Statements

The Statement of Management Responsibilities on page 7 is not signed and the date the financial statements were approved and signed by the Accounting Officer is not indicated. Further, the name of the Fund Manager and the ICPAK membership number of the Sub-County Accountant are not shown.

In addition, the progress on follow up of auditor's recommendations has not been provided as required.

Consequently, the financial reporting guidelines issued by the Public Sector Accounting Standards Board in accordance with Section 194(1)(d) of the Public Finance Management Act, 2012 have not been adhered to.

2. Inaccuracies in the Financial Statements

The following variances and inconsistencies were noted in the balances reflected in the financial statements and those reflected in the ledger, supporting schedule and prior year audited balances as shown in the table below:

Item	Statement / Note	Balance as Per the Financial Statements / Note (Kshs.)	Balance as Per the Ledger / Supporting Schedule or Audited prior year Balances (Kshs.)	Variance (Kshs.)
Office and general supplies and services	Note 5	-	1,737,500	(1,737,500)
Fuel, oil and lubricants	Note 5	1,737,500	2,991,728	(1,254,228)
Purchase of buildings	Note 8	6,000,000	-	6,000,000
Construction of buildings	Note 8 and Summary of Fixed Assets Register	-	6,000,000	(6,000,000)
Office equipment, furniture and fittings	Summary of Fixed Assets Register	6,500,000	344,500	6,155,500
ICT equipment	Summary of Fixed Assets Register	344,500	-	344,500
Transport equipment	Summary of Fixed Assets Register	-	6,500,000	(6,500,000)
Bank balance brought forward	Note 13	2,737,879	34,953,723	(32,215,844)
Comparative balance for unutilized funds	Note 15.3	-	46,351,033	(46,351,033)
Use of goods and services	Note 5	7,371,263	9,108,763	(1,737,500)

The variances were not explained or reconciled.

In the circumstances, the accuracy of the financial statements could not be confirmed.

3. Unsupported Balances

3.1. Bank Balances

The statement of assets and liabilities and Note 10A to the financial statements reflect a bank balance of Kshs.2,737,880. However, the certificate of bank balance was not provided. Further, the June, 2019 bank reconciliation statement reflected payments of Kshs.45,674,869 in the cashbook but not in the bank statement out of which cheques totaling to Kshs.61,408 were stale and had not been written back into the cash book. Further, the statement reflected payments of Kshs.697,954 in the bank statement but not recorded in cashbook for which no explanations were provided for not updating the cash book.

Consequently, the accuracy and existence of the reported bank balance of Kshs.2,737,880 as at 30 June, 2019 could not be confirmed.

3.2. Summary of Fixed Asset Register

The summary of fixed assets register provided under Annex 4 to the financial statements reflects a historical assets cost balance of Kshs.6,844,500. However, the assets register indicating the asset description, serial numbers, location and the condition of the assets maintained as required under Regulations 139(1) and 143 of the Public Finance Management (National Government) Regulations, 2015 was not provided.

Consequently, the accuracy of the summary of fixed assets register and the effectiveness of the internal controls over the Fund's assets could not be confirmed.

3.3. Project Management Committees (PMCs) Bank Accounts Balances

Note 5.4 and Annex 5 to the financial statements reflect nil PMC bank account balances. However, bank balance confirmations, bank statements and cash books in support of the nil balance were not provided for audit.

Consequently, the accuracy and the completeness of the reported nil bank account balance held by PMCs could not be confirmed.

4. Unsupported Payments

4.1. Compensation of Employees

The statement of receipts and payments reflects compensation of employees cost of Kshs.4,031,000 which as disclosed under Note 4 to the financial statements related to basic wages of contractual employees. However, monthly employee schedules and payroll showing gross salaries, deductions and net pays were not provided for audit.

Consequently, the accuracy and validity of compensation of employees cost of Kshs.4,031,000 for the year ended 30 June 2019, could not be confirmed.

4.2. Bursary Payments

The statement of receipts and payments reflects other grants and transfers of Kshs.40,950,000 which as disclosed under Note 7 to the financial statements, included Kshs.9,089,000 and Kshs.18,066,000 being bursaries to secondary schools and tertiary institutions respectively, both totaling to Kshs.27,155,000. However, the vetting reports of the bursary committee in accordance with Regulation 21(3) of the National Government Constituencies Development Fund Regulations, 2016 and registration numbers as well as the schools or institutions of the beneficiary students were not provided.

Consequently, the accuracy and validity of bursaries amounting to Kshs.27,155,000 could not be confirmed.

4.3. Other Payments

The statement of receipts and payments reflects other payments of Kshs.42,623,767 which have not been specified under Note 9 to the financial statements as required. In addition, approved budget, procurement plan and work plans for payments amounting to Kshs.33,260,146 were not provided contrary to Regulation 25(2) of the National Government Constituencies Development Fund Regulations, 2016 which requires the Constituency Committee to only incur expenditure on the basis of approved work plan, procurement plan and budget.

Consequently, the accuracy and validity of the other payments of Kshs. 42,623,767 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 - Samburu North 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

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.155,373,909 and Kshs.114,420,186 respectively, resulting into an under-funding of Kshs.40,953,723 or 26% of the budget.

The underfunding affected the planned activities and projects which may have impacted negatively on service delivery to the constituents of Samburu North.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that, public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Project Status Report not Provided

The Fund had planned to implement seventy-seven (77) projects with a budgetary allocation of Kshs.76,567,421 in the financial year 2018/2019. However, the projects implementation status report as at 30 June, 2019, was not made available for audit.

Consequently, the status of the Projects could not be confirmed. It could also not be confirmed that the Fund Management complied with Regulation 8(2)(h) of the National Government Constituencies Development Fund Regulations, 2016 which requires the Chairperson of the Constituency Committee to co-ordinate the compilation of the project status reports every six (6) months.

2. Unsatisfactory Implementation of Projects

Audit inspection of sixteen (16) projects with a funding allocation of Kshs.12,100,000 during the month of February 2020 revealed anomalies as shown in **Appendix I**.

In the circumstances, the propriety of the expenditure could not be confirmed. It could also not be confirmed if and when the constituents of Samburu North would realize value for money from the 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, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and 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 going concern basis of accounting unless the Management is aware of intention to either 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 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 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

31 December, 2021

Appendix I – Unsatisfactory Implementation of Projects

Project Beneficiary & Details	Disbursed Funding (Kshs.)	Observation
St. Peter & Paul Baawa Boys- Construction of Laboratory	1,000,000	Beneficiary is a private school and laboratory construction was yet to start.
Baragoi Mixed secondary school- Construction of a Kitchen to Completion	500,000	Construction had not started.
Baawa Mixed Day secondary school - Construction of two (2) Classrooms to Completion	1,800,000	Classes completed but not in use. Classrooms had also not been labeled.
Morijo Mixed Day Secondary School - Construction of one (1) Classroom to Completion	600,000	Funds were diverted to fencing without the approval of the NGCDF Board.
Mixed Day secondary school- Construction of Girls' Dormitory to Completion	500,000	Funds were diverted to fencing without the approval of the NGCDF Board.
Opiroi Mixed Day Secondary School - Construction of two (2) Class rooms to Completion	1,800,000	<ul style="list-style-type: none"> • Only one (1) classroom had been started but had stalled. • The contractor was not on site.
Boys High School- Purchase of 100 desks at a cost of Kshs.5,000 each	500,000	<ul style="list-style-type: none"> • 60 desks had been delivered but not labeled; • Delivery of 40 desks valued at Kshs 200,000 was outstanding.
Baawa Primary- Purchase of 80 desks at a cost of Kshs. 5000 each.	400,000	Funding for desks diverted to Baawa Secondary School without the approval of the NGCDF Board.
Marti Primary School - Purchase of 80 desks at a cost of Kshs. 5,000 each.	400,000	Funding diverted to the construction of boys' pit latrine without the approval of the NGCDF Board
Morjo Primary School - Construction of Administration Block to Completion	700,000	Funds diverted to the construction of classroom without the approval of the NGCDF Board.
Ngilai Primary School-Construction of a Kitchen Store	500,000	Store built to lintel level but had stalled.
Lesirikan primary school - Construction of one (1) Classroom to Completion	600,000	Construction of classroom was yet to start.

Project Beneficiary & Details	Disbursed Funding (Kshs.)	Observation
Lesirikan primary school- Renovation of Teachers' Houses, plastering, flooring, painting, roofing and fixing of doors	500,000	Roofing was not done as per the bill of quantities and the project was unlabeled
Nombori primary school -Construction of one (1) Classroom to Completion	700,000	The Project had stalled.
Opiroi primary school- Painting of Eight (8) Classrooms at a cost of Kshs. 125,000 each	1,000,000	Painting had not commenced.
Tangar Primary School -Construction of two (2) Teachers Houses to Completion	600,000	Funding was diverted to construction of classrooms without the approval of the NGCDF Board.
Total	12,100,000	