

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SIGOWET/SOIN 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 - Sigowet/Soin Constituency set out on pages 6 to 43, 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, 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 - Sigowet/Soin 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

### **Basis for Qualified Opinion**

#### **1. Unsupported Bursary Payments**

The statement of receipts and payments reflects other grants and transfers figure of Kshs.43,942,777 and which includes bursary - secondary of Kshs.15,150,825, bursary-tertiary of Kshs.10,721,696 and bursary special schools of Kshs.700,000 all totalling Kshs.26,572,521 as disclosed in Note 7 to the financial statements. However, the disbursements were not supported by the minutes of the constituency bursary sub-committee authorizing the payments by the Fund. In addition, the criteria of identifying the beneficiaries and awarding the bursaries were not made available for audit purposes contrary to the provisions of CDF Board Circulars/Vol.1/111 dated 10 September, 2010 which requires each constituency fund to establish a sub-committee of the Constituency Development Fund Committee to manage the bursary scheme including two co-opted members one who must be area Education Officer or an officer seconded from the Ministry.

In the circumstance, the Management breached the law.

#### **2. Irregular Payment of Salaries**

The statement of receipts and payments reflects compensation to employees' figure of Kshs.1,941,666 which in turn includes payments totalling Kshs.972,066 paid to three officers in respect of salaries and gratuity although there were no letters of appointment for the three as detailed below:

| Name                     | Position         | Date Employed                   | Annual Salary (Kshs) | Gratuity (Kshs) |
|--------------------------|------------------|---------------------------------|----------------------|-----------------|
| Richard Kipng'eno Birgen | Security Officer | Contract expired on 15-Oct-2017 | 134,760              | 100,774         |
| Faith Chepkemoi          | Office assistant | No appointment letter/Contract  | 156,720              | 121,197         |
| Solomon Mursi            | Driver           | No appointment letter/Contract  | 253,236              | 205,377         |
| <b>Sub-Total</b>         |                  |                                 | <b>544,716</b>       | <b>427,348</b>  |
| <b>Total</b>             |                  |                                 |                      | <b>972,064</b>  |

In the circumstance, the accuracy and propriety of the expenditure of Kshs.1,941,666 on compensation to employees for the year ended 30 June, 2019 could not be confirmed.

### 3. Unconfirmed Cash and Cash Equivalents

The statement of assets and liabilities reflects a cash and cash equivalents balance of Kshs.9,838,545 as at 30 June, 2019 in respect of cash held in a Cooperative Bank of Kenya account, Kericho Branch as disclosed in Note 10A to the financial statements. However, audit procedures performed on the bank reconciliation statement for the month of June, 2019 showed unrepresented cheques amounting to Kshs.2,502,897 out of which cheques amounting to Kshs.667,891 relating to the period 30 June, 2019 had not been presented as at 31 December, 2019 and were therefore stale but had not been reversed in the cash book as at the time of audit in April, 2020 and no reason was provided.

In addition, Note 10A to the financial statements indicate the cash as being held in a Kenya Commercial Bank, Kericho Branch, account No.1146215614 while the cash book, bank statement and certificate of bank balance indicate Cooperative Bank of Kenya, Kericho Branch account No.01141529703100.

In the circumstances the accuracy and completeness of the cash and cash equivalents balance of Kshs.9,838,545 as at 30 June, 2019 could not be confirmed.

### 4. Presentation and Inaccuracies in Financial Statements

The financial statements submitted for audit had supporting Notes 4, 5 and 6 not corresponding to those indicated in the statement of receipts and payments as below:

| Item                                | Note Number in Receipts and Payments | Supporting Note Number |
|-------------------------------------|--------------------------------------|------------------------|
| Transfers to Other Government Units | 4                                    | 6                      |
| Other Grants and Transfers          | 5                                    | 7                      |
| Acquisition of Assets               | 6                                    | 8                      |

In addition, the numbering of pages was not consistent in that after page No.18, the page numbering starts again from page No.14.

Further, Annexure 5 to the financial statements in support of PMC bank account balances indicate balances as at 30 June, 2018 instead of 30 June, 2019 and did not disclose the bank account numbers in respect of the following PMC programmes:

| <b>PMC Name</b>                         | <b>Balance as at 30 June, 2019<br/>(Kshs)</b> |
|---|---|
| Cheptuiyet Day Secondary School         | 4,600,000                                     |
| St. Thomas Mindililwet Secondary School | 2,500,000                                     |
| Kapasenwo Primary School                | 150,000                                       |
| Kapsorok Day Secondary School           | 1,000   |

Consequently, the accuracy of the financial statements for the year ended 30 June, 2019 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 - Sigowet/Soin 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.

## **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. Construction of Lecture Hall- Kenya Medical Training College (KMTTC)- Sigowet**

Included in the transfer to other government entities figure of Kshs.47,289,000 is a transfer of Kshs.2,100,000 to tertiary institutions which was transferred to Kenya Medical Training College (KMTTC) - Sigowet vide payment voucher number 665 of

06 August, 2018. In support of the payment were minutes and approval from the Board. The amount was to be used for completion of two lecture halls i.e roofing-Kshs.900,000, piping-Kshs.500,000 and erection of two gates and land scaping for Kshs.700,000.

Although as at the time of audit the lecture halls were complete, no completion certificate and handing over notes were provided for audit review. Further, the floor appeared to have been poorly done with visible cracks all over. In addition, the tender and evaluation committee minutes were not provided for audit review. There was also no handing over reports and the project was also not labelled to indicate that it was funded by NGCDF-Sigowet/Soin contrary to Regulation 15 of the National Government Constituencies Development Fund Regulations, 2016.

Consequently, the Management breached the law and the propriety of Kshs.2,100,000 incurred on the project for the year ended 30 June, 2019 could not be confirmed.

## **2. Purchase of Bus - Kaitui Secondary School**

The transfers to other government units figure of Kshs.47,289,000 include transfers to secondary schools amount of Kshs.30,309,000 as disclosed in Note 6 to the financial statements and which in turn include a transfer of Kshs.7,109,000 to Kaitui Secondary school for the purchase of a 52 seater school bus. The amount was transferred vide payment voucher number 678 of 12 November, 2018. Although the bus was supplied, the management did not provide for audit the ownership document (logbook), the specifications of the bus that was to be purchased including type, model and engine capacity. In addition, the notification of award letter and acceptance letter were not made available for audit review. Also, the inspection and acceptance committee minutes were not available for audit review.

In the circumstance, the propriety of the of the expenditure of Kshs.7,109,000 on purchase of school bus for the year ended 30 June, 2019 could not be ascertained.

## **3. Construction of Laboratory at St. Thomas Mindililwet Secondary School**

The transfer to other government unities figure of Kshs.47,289,000 includes transfers to secondary schools amount of Kshs.30,309,000 which in turn includes a transfer of Kshs.2,500,000 to St. Thomas Mindililwet Secondary School for the completion of laboratory painting and plumbing works for Kshs.500,000 and construction of multipurpose hall to lintel level for Kshs.2,000,000. As at the time of the audit inspection, a total of Kshs.1,000,000 had been transferred to the project (construction of laboratory) as per the project implementation status report prepared by the constituency committee office. However, the laboratory has taken four (4) years to complete since the project has not received adequate funding from the constituency committee which is contrary to Regulations 11 of the National Government Constituencies Development Fund Regulations, 2016 which requires the Constituency Committee to ensure that all projects receive adequate funding and are completed within three years.

In addition, the management did not provide project returns contrary to Regulation 15 of the National Government Constituencies Development Fund Regulations, 2016.

Consequently, the Management breached the law.

#### 4. Construction of Laboratory at Ng'eny Koiborot Secondary School

The transfer to other government units figure of Kshs.47,289,000 includes transfers to secondary schools' amount of Kshs.30,309,000 as disclosed in Note 6 to the financial statements and which in turn includes a transfer of Kshs.2,500,000 to Ng'eny Koiborot secondary school for the equipping of a borehole, purchase and installation of solar water pump and pipe laying for Kshs.2,000,000 and completion of laboratory plastering, painting for Kshs.500,000. The amount of Kshs.2,500,000 was transferred to the school vide payment voucher number 949 of 10 April, 2019.

As at the time of audit inspection, funding for the completion of the school laboratory stood at Kshs.1,100,000. However, the project was still incomplete and there were no returns filed at the constituency office. The laboratory has taken five (5) years and was still incomplete due to inadequate funding from the constituency committee which is contrary to Regulation 11 of the National Government Constituencies Development Fund Regulations, 2016.

Consequently, Management breached the law.

#### 5. Project Returns for Transfers to Secondary Schools

The statement of receipts and payments show transfer to other government units figure of Kshs.47,289,000 which include transfers to secondary schools amount of Kshs.30,309,000 out of which funds totalling Kshs.8,800,000 were transferred to three secondary schools for various projects but were not properly implemented as detailed below:

| No | Name of Project                   | Project Details   | Amount (Kshs) | Remarks  |
|----|-----------------------------------|---|---------------|--|
| 1. | Cheptiyet Day Secondary School    | Purchase of 1.2acre land, two classrooms and two- four door toilet for boys and girls | 4,600,000     | - No returns and land ownership documents<br>- Signboard provided for Kshs.25,000 not erected.   |
| 2. | St. Thomas Mindiliwet Sec. School | Laboratory painting and Multi-purpose hall to lintel                                  | 2,500,000     | - No returns<br>- Project not complete   |
| 3. | Iraa Girls High School            | Construction of dormitory   | 1,700,000     | - No evidence of supervision by state department of Public Works<br>- Project reached lintel but no returns including Project Management Committee minutes |

| No           | Name of Project | Project Details | Amount (Kshs)    | Remarks |
|--------------|-----------------|-----------------|------------------|---------|
| <b>Total</b> |                 |                 | <b>8,800,000</b> |         |

Consequently, the propriety of Kshs.8,800,000 disbursed to the projects during the year ended 30 June 2019 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 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 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 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 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 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 Fund's 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 the Fund's 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 Fund's 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**