

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SOY 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-Soy Constituency set out on pages 17 to 60, 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 the National Government Constituencies Development Fund-Soy 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

#### 1.0 Unavailable Bank Reconciliation Statements and Cashbooks

Note 15.4 to the financial statements reflects project management committee bank accounts balances of Kshs.10,791,603 held in one hundred and ninety-six (196) bank accounts in various commercial banks as at 30 June, 2019. However, Management did not provide bank reconciliation statements and cashbooks for audit.

Consequently, the accuracy, completeness and existence of the project management committee account balance of Kshs.10,791,603 as at 30 June, 2019 could not be confirmed.

#### 2.0 Unexplained Adjustments

The summary statement of appropriation: recurrent and development combined for the year ended 30 June, 2019 reflects an adjustment figure of Kshs.56,854,543 relating to transfers from CDF board whose supporting documents were not provided for audit review.

Consequently, the accuracy and completeness of the adjustment figure of Kshs.56,854,543 for the year ended 30 June, 2019 could not be confirmed.

#### 3.0 Unsupported Bursaries Disbursement

The statement of receipts and payments reflect other grants and transfers balance of Kshs.44,817,513 as disclosed in Note 7 to the financial statements which includes total

bursaries amount of Kshs.26,184,000 comprising of disbursements of Kshs.11,054,000 to secondary schools and Kshs.15,130,000 to tertiary institutions. However, the minutes of the bursary sub-committee indicating how the beneficiaries were identified were not provided for audit.

Consequently, validity and completeness of the bursaries disbursements of Kshs.26,184,000 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 - Soy 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**

#### **1.0 Budgetary Control and Performance**

The summary statement of appropriation- recurrent and development reflects final receipts budget and actual on comparable basis of Kshs.165,907,419 and Kshs.110,866,543 respectively resulting to an under-funding of Kshs.55,040,876 or 33% of the budget. Similarly, the Fund spent Kshs.103,497,551 against an approved budget of Kshs.165,907,419 resulting to an under-expenditure of Kshs.62,409,868 or 38% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Soy Constituency.

#### **2.0 Incomplete Projects**

During the audit, twenty-nine (29) projects with total disbursements amounting to Kshs.44,000,000 were physically verified during the month of January, 2020. A number of projects were noted to be incomplete despite disbursements of funds to the Project Management Committees.

The people of Soy Constituency may have not benefited from the incomplete projects. Therefore, there is need for the Management to fast track the implementation process to ensure that projects are completed as scheduled for efficiency and effective service delivery to the residents of Soy 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 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**

### **1.0 Purchase of Land**

As previously reported, an amount of Kshs.1,000,000 was disbursed to Tegeiyat Gaa Primary School for purchase of 2 acres of school land. However, procurement records such as opening, evaluation and award minutes, and search results from lands office, valuation report and document of ownership such as title/lease were not provided for audit.

Further, an amount of Kshs.1,000,000 was disbursed to Kapchan Primary School on 16 March, 2017 vide PV No.291277 and cheque No.5012 for purchase of 2 acres of land. Although ownership documents were provided for audit, information available reflects that Kapchan Primary School paid an additional Kshs.100,000 in respect of survey, rates and administration fees contrary to the provisions of the sale agreement which stipulated that the vendor shall pay outstanding land rates, rents and/or any other liabilities relating to the land.

Under the circumstances, value for money on the additional costs incurred could not be confirmed.

### **2.0 Construction of two (2) Classrooms at Kapsabul Primary School**

Included in the transfers to other government units balance of Kshs.44,792,416 as reflected in the statement of receipts and payments for the year ended 30 June, 2019 and as disclosed in Note 6 to the financial statement is Kshs.1,000,000 paid to Kapsabul Primary School for the construction of two (2) classrooms through cheque No.6744. Physical verification of the project on 30 January, 2020 revealed that, interior cabling, electrical wiring were not done and the plastering works were poorly done and hence affecting the painting works. It was also noted that the fascial board on the backside was not done while the front side was not painted and the building had not been labelled.

Further, the verandah and external wall finishing was paid with funds from the school's board and not from the funds allocated.

Consequently, the value for money on the expenditure of Kshs.1,000,000 on construction of two (2) classrooms 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**

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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 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 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 Management 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 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 Fund's 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**

**20 December, 2021**