

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - TURKANA EAST 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 - Turkana East Constituency set out on pages 16 to 45, 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 - Turkana East 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. Inaccuracies in Summary Statement of Appropriation

The summary statement of appropriation - recurrent and development combined reflects under original budget column, payments totalling to Kshs.137,367,724. However, a recast of the payments resulted in a total of Kshs.137,867,720 resulting to an unreconciled and unexplained variance amounting to Kshs.499,996.

Similarly, the statement reflects final budget column, payments totalling to Kshs.195,932,960 while a recast of the same resulted in a total of Kshs.195,886,961 resulting to an unexplained and unreconciled variance amounting to Kshs.45,999.

Further, the statement reflects budget utilization difference totalling to Kshs.71,913,454 whereas the budget execution by programmes and sub-programmes reflects an amount of Kshs.71,867,454 on comparable basis, resulting to an unexplained and unreconciled variance amounting to Kshs.46,000.

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

2. Inaccuracies in Comparative Balances

The statement of receipts and payments and disclosure Note 17.3 to the financial statements reflect comparative balances, which differ, with the closing balances in the audited financial statements for 2018/2019 as detailed below;

	Opening Balance as per 2019/2020 Financial Statements (Kshs)	Closing Balance as per 2018/2019 Audited Financial Statements (Kshs)	Variance (Kshs)
Statement of Receipt and Payments			
Other Payments	3,165,088	3,165,988	900
Note 17.3, Unutilized Fund			
Compensation of Employees	0	817,912	817,912
Use of Goods and Services	0	867,415	867,415
Amounts Due to Other Government Entities	0	33,481,694	33,481,694
Amounts Due to Other Grants and Other Transfers	0	17,931,108	17,931,108
Acquisition of Assets	0	440,000	440,000
Others	0	4,951,106	4,951,106
Total			58,490,135

The variances amounting to Kshs.58,490,135 were not reconciled.

Consequently, the accuracy, completeness and validity of the above comparative balances for the year ended 30 June, 2020 could not be confirmed.

3. Unsupported Use of Goods and Services

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services totalling to Kshs.7,609,565. The balance includes nil balance for printing, advertising and information supplies and services. However, review of records revealed printing, advertising and information supplies and services payments totalling to Kshs.326,640, resulting to an unreconciled and unexplained variance amounting to Kshs.326,640.

Further, the balance includes other Committee expenses amount of Kshs.2,600,000, that was not supported by an approved work plan, budget, procurement plan, motor vehicle work ticket and a monitoring and evaluation report.

Consequently, the accuracy, completeness and validity of use of goods and services balance totalling to Kshs.7,609,565 for the year ended 30 June, 2020 could not be confirmed.

4. Unsupported Bursaries

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers amount of Kshs.54,276,101. The balance includes bursary to secondary schools amount of Kshs.25,931,672 and bursary to tertiary institutions amount of Kshs.20,896,081 all totalling to Kshs.46,827,753. However, the Management did not provide; evidence in form of official receipts from respective institutions acknowledging receipt of the funds and evidence that vetting, identification and categorizing of needy students was done by the Bursary Sub-committee that included area Education Officer or his representative and formal criteria used in identifying, vetting, awarding of the bursaries.

Consequently, the accuracy, completeness and validity of other grants and transfers amount of Kshs.54,276,101 reflected in the statement of receipts and payments for the year ended 30 June, 2020 could not be confirmed.

5. Unsupported Committee Account Balances

Note 17.4 and as disclosed in Annex 5 to the financial statements reflects Project Management Committee bank balances amounting to Kshs.8,564,905 as at 30 June, 2020 in respect to fourteen (14) bank accounts at a commercial bank. However, cashbooks and bank reconciliation statements for the bank accounts were not provided.

Consequently, the accuracy, validity, and completeness of the Project Management Committee bank balances amount of Kshs.8,564,905 as at 30 June, 2020 could not be confirmed.

6. Inaccuracy in Unutilized Fund

As previously reported, Note 17.3 to the financial statements reflects Unutilized Fund balance totalling to Kshs.72,632,911 which is at variance with Annex 3 - Unutilized Fund totalling to Kshs.71,913,454 resulting in an unexplained and unreconciled variance totalling to Kshs.719,457.

Consequently, the accuracy, completeness and validity of the Unutilized Fund balance totalling to Kshs.72,632,911 as at 30 June, 2020 could not be confirmed.

7. Unsupported Projects

7.1. Lomelo Primary School

The Management disbursed an amount of Kshs.8,000,000 to Lomelo Primary School for construction of perimeter masonry wall around eighteen (18) acres with a gate. However, tender documents such as tender advertisement, tender opening, evaluation and award committee minutes, project file, expenditure returns, project bank statement, inspection reports, CDFC monitoring and evaluation report, valid National Construction Authority Certificate, certified drawings and design were not provided.

In addition, the contract agreement with the Contractor showed contract sum of Kshs.7,600,000. No documentary evidence and explanation has been provided to show how the excess disbursement totalling to Kshs.400,000 was authorized and utilized.

7.2. Katilia Girls Secondary Schools

The Management disbursed an amount of Kshs.18,000,000 to Katilia Girls Secondary Schools for fencing, construction of pit latrines, showers, construction of classrooms, construction of a dormitory, drilling of water borehole and equipping with submersible water pump, steel water, solar panels and water tank. However, tender documents such as tender advertisement, tender opening, evaluation and award committee minutes, project file, expenditure returns, project bank statement, inspection reports, monitoring and evaluation report, certified drawings and design were not provided.

Physical verification of the project, established that the bore-hole was drilled but not working, the submersible pump, the solar panels and the water tank were not installed.

7.3. Security and Emergency Projects

The Management disbursed an amount of Kshs.4,500,000 towards construction of bathrooms and fencing at Kamuge RDU Camp and completion of water installation works at Lomomung GSU Camp. However, procurement records such as tender opening, evaluation and award minutes, expenditure returns, and reports were not provided.

Consequently, the accuracy, completeness and validity of the above expenditure on projects totalling to Kshs.30,500,000 as at 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 - Turkana East 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.195,932,960 and Kshs.126,565,236 respectively, resulting to an underfunding amounting to Kshs.69,367,724 or 35% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.195,932,960 and Kshs.124,019,506 respectively, resulting to an under expenditure amounting to Kshs.71,913,455 or 37% 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. Non-compliance with the Public Sector Accounting Standards Board Requirements

The statement of management responsibilities, statement of receipts and payments, the statement of assets and liabilities and the statement of cash flows did not include the sub-county accountant Institute of Certified Public Accountants of Kenya (ICPAK) registration number. This is contrary to 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.

In the circumstances, the presentation of the financial statements for the year under review is not in accordance with the prescribed PSASB format.

2. Delay in Project Implementation

The Project Implementation Status Report indicated that the Fund had an approved budget totalling to Kshs.125,004,630 to finance thirty-two (32) projects. Three (3) projects with a budget total of Kshs.11,747,354 were completed, five (5) projects with a budget total of Kshs.62,557,276 were on going and twenty four (24) projects with a budget total of Kshs.60,700,000 were not started during the year ended 30 June, 2020.

Further, nine (9) projects were physically verified in the month of February, 2021, out of which eight (8) projects with an allocation total of Kshs.52,837,234 were completed and were in use while one (1) project amounting to Kshs.10,000,000 was still ongoing.

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

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

22 December, 2021