

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - TURKANA 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 - Turkana North Constituency set out on pages 7 to 37, 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 - Turkana North Constituency as at 30 June, 2019, and of its financial performance and its cash flows for the year 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. Inaccuracy of Cash and Cash Equivalents

The statement of assets and liabilities reflects a cash and cash equivalents balance of Kshs.9,228,077 as at 30 June, 2019. However, the bank reconciliation statement for the month of June, 2019 reflected payments in the cashbook not in the bank statement amounting to Kshs.2,115,554 out of which cheques amounting to Kshs.330,853 were stale as at 30 June, 2019. Further, the bank reconciliation statement reflected payments in the bank statement not yet recorded in the cash book amounting to Kshs.7,436 in respect of bank charges. No satisfactory explanation was provided for the failure to update the cashbook accordingly.

Consequently, the accuracy of the cash and cash equivalents balance of Kshs.9,228,077 as at 30 June, 2019, could not be confirmed.

2. Unsupported and Undisclosed Project Management Committees (PMC) Bank Balances

Annex 5 to the financial statements reflects PMC bank balances amounting to Kshs.1,651,790 held in eighteen (18) PMC bank accounts as at 30 June, 2019. However, the cashbooks, bank reconciliation statements, bank balance confirmation certificates as at 30 June, 2019 and bank statements for the bank accounts were not provided for audit. Further, the reported PMC bank balances of Kshs.1,651,790 excluded bank balances held by fifteen (15) PMCs that received a total of Kshs.29,864,772 during the financial year 2018/2019.

Consequently, the accuracy, existence and completeness of the reported bank balance of Kshs.1,651,790 held by the PMCs as at 30 June, 2019 could not be confirmed.

3. Inaccuracies and Inconsistencies in the Financial statements

3.1 Unsupported Adjustments in the Summary Statement of Appropriation

The summary statement of appropriation-recurrent and development combined reflects budget adjustments of Kshs.63,891,995 comprising previous year's budget received in the current year and the cash balance brought forward. However, cash and bank balances as at 30 June, 2018 amounted to Kshs.10,499,711 while budgeted funds for the 2017/2018 financial year received during the year under review amounted to Kshs.54,784,483 all totaling to Kshs.65,284,194. The resulting difference of Kshs.1,392,199 has not been explained or reconciled.

3.2 Variances between Comparatives Balances and Audited Balances

Some of the comparative balances reflected in the financial statements differed from those reflected in the audited financial statements for the year ended 30 June, 2018 as detailed below:

Item	Financial Statements / Note	Balance in 2018/2019 Financial Statements (Kshs.)	Balance in 2017/2018 Financial Statements (Kshs.)	Variance (Kshs.)
Outstanding Imprests	Note 11	-	3,150,764	(3,150,764)
Unutilized Funds	Note 15.3- Utilized Funds (See Annex 3)- Page 27	2,999,226	65,284,195	62,284,969
Use of Goods and Services	Annex 3- Unutilized Funds-Page 31	1,364,134	1,823,836	459,702

The variances have not been explained or reconciled.

3.3 Variances Between Reported Balances and Supporting Schedules Balances

The balances reflected in the financial statements differed with those reflected in the supporting schedules provided as indicated below:

No.	Item	Financial Statements Balance (Kshs.)	Supporting Schedule Balance (Kshs.)	Difference (Kshs.)
1	Compensation of Employees	3,770,206	3,992,588	(222,382)
2	Committee Expenses	1,711,000	1,883,590	(172,590)
3	Other Committee Expenses	313,388	406,938	(93,550)
4	Communication, Supplies and Services	100,500	93,000	7,500
5	Domestic Travel and Subsistence	950,460	926,760	23,700
6	Training Expenses	965,062	997,742	(32,680)
7	Hospitality Supplies and Services	204,300	197,900	6,400
8	Fuel, Oil and Lubricants	538,335	656,835	(118,500)
9	Office and General Supplies and Services	638,315	491,200	147,115
10	Routine Maintenance - Vehicles and Other Transport equipment	383,700	382,700	1,000
11	Routine Maintenance - Other Assets	804,390	933,640	(129,250)
12	Bank Charges	227,500	234,936	(7,436)
13	Purchase of Office Furniture and General Equipment	0	106,950	(106,950)
14	Bursary - Secondary schools	10,348,000	8,773,500	1,574,500
15	Bursary - Tertiary Institutions	13,691,500	15,069,000	(1,377,500)
16	Sports Projects	2,412,700	2,378,200	34,500
17	Emergency Projects	6,934,418	6,465,032	469,386

3.4 Casting Errors on Financial Statements

The financial statements had arithmetic errors as indicated below:

Item	Statement /Note	Balance in Financial Statements (Kshs.)	Recomputed Balance (Kshs.)	Variance (Kshs.)
Net Financial Position	Statement of Assets and Liabilities	9,228,077	9,229,076	(999)
Use of Goods and Services	Note 5	11,753,911	11,757,911	(4,000)
Others (specify)	Annex 3 - Unutilized funds(sub-total) -Page 32	0	9,644,828	(9,644,828)
Annex 3-Unutilized Funds	Grand total - page 32	2,999,226	64,824,493	(61,825,267)
Summary statement of Appropriation	Total receipts	174,507,352	172,932,871	1,574,481

3.5 Prior Year Adjustment

The statement of assets and liabilities reflects a prior year adjustment amount of Kshs.1,098,851 relating to reversals of cheques as disclosed at Note 14 to the financial statements. However, Paragraph 1.5 of International Public Sector Accounting Standard - Financial Reporting under the Cash Basis of Accounting requires that errors relating to prior periods shall be reported by adjusting the cash at the beginning of the period and comparative information to be restated accordingly. The disclosure requirements with regard to correction of errors have also not been met.

3.6 Presentation of the Financial Statements

The Forward by the Fund Committee Chairman and Section 4(a) of the Significant Accounting Policies indicate that the report and financial statements relate to the financial year 2017/2018 instead of 2018/2019.

Further, the annexes for the summary of fixed assets register and project management committees bank balances are both shown as annex 4 instead of having distinct numbers.

In view of the foregoing matters, the accuracy of the financial statements could not be confirmed. The financial reporting guidelines issued by the Public Sector Accounting Standards Board have also not been met.

4. Use of Goods and Services

4.1 Unsupported Committee Expenses

The statement of receipts and payments reflects an amount of Kshs.11,753,911 with respect to use of goods services which as disclosed at Note 5 to the financial statements, includes committee expenses amounting to Kshs.1,711,000. However, the supporting

schedule provided for audit reflected committee expenses balance of Kshs.1,883,590 resulting into unexplained and unreconciled variance of Kshs.172,490. Further, the committee expenses amount of Kshs.1,883,590 incurred on project monitoring and evaluation was not supported by committee reports indicating the members present, the dates the evaluations were undertaken and the findings of the evaluation committee.

Consequently, the accuracy and propriety of committee expenses of Kshs.1,711,000 could not be confirmed.

4.2 Unsupported and Misclassification of Strategic Plan Expenses

The balance of Kshs.11,753,911 for use of goods and services includes Kshs.4,000,000 relating to the strategic plan. However, as at the time of audit in March, 2020, no evidence of the work done was provided for audit although the contractor had been paid in full on 16 October, 2018. Further, the contract agreement together with the tender documents including the acceptance letter, signed professional opinion and notifications to unsuccessful tenderers were not provided for audit. The following anomalies were also noted:

- i. No evidence of the appointment of the tender opening and evaluation committees as required by Sections 78(1) and 46 of the Public Procurement and Asset Disposal Act, 2015 was provided.
- ii. The identification numbers and the bid prices were not indicated in the tender opening minutes and register as required under Section 78(5)(6) of the Public Procurement and Asset Disposal Act, 2015.
- iii. The tender documents and advertisement specified that all bidders should provide evidence of having carried out strategic planning services for the last three (3) years. However, the Consulting Company awarded the tender did not provide any evidence of having undertaken similar services.
- iv. In addition, the payment of Kshs.4,000,000 for the strategic plan was classified under use of goods and services instead of other payments as provided for in the financial reporting guidelines issued by the Public Sector Accounting Standards Board.

Consequently, the accuracy and propriety of the expenditure of Kshs.4,000,000 on the strategic plan could not be confirmed.

5. Unsupported Bursary Payments

The statement of receipts and payments reflects other grants and transfers of Kshs.33,626,567 which as disclosed at Note 7 to the financial statements, includes Kshs.10,348,000 and Kshs.13,691,500 being bursaries to secondary schools and tertiary institutions, respectively. However, no evidence was provided for audit that vetting, identification and categorizing of needy students was done by the Bursary Subcommittee and that the Subcommittee was constituted as required by the Board Circular Reference No. VOL1/111 of 13 September, 2010. Further, receipts and acknowledgement letters from the various institutions that received the funds to support the bursary payments were not provided for audit.

Consequently, the accuracy and propriety of bursary payments of Kshs.24,039,500 could not be confirmed.

6. Incomplete Summary of Fixed Asset Register

Annex 4 to the financial statements on summary of fixed assets register reflects a historical assets cost balance of Kshs.18,754,680 as at 30 June, 2019. However, the summary excludes office equipment, furniture and fittings acquired in the financial year 2018/2019 at a cost of Kshs.106,950.

Consequently, the accuracy and completeness of the summary of fixed assets register 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 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.174,507,352 and Kshs.108,784,483 respectively resulting to an under-funding of Kshs.65,722,869 or 38% of the budget. Similarly, the Fund expended Kshs.111,153,968 against an approved budget of Kshs.172,932,870 resulting to an under-expenditure of Kshs.61,778,902 or 36% of the budget.

The under collection and under expenditure indicates that some planned programs or activities were not implemented thus not achieving the intended objective of improving service delivery to the people of Turkana North Constituency.

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 the 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. Incomplete Projects and Delayed Disbursement of Funds

The Projects Implementation Status Report as at 30 June, 2019 indicated that twenty-seven (27) projects with a combined budget of Kshs.54,980,818 were not funded. Further, two (2) projects with a combined budget of Kshs.5,439,949 were incomplete.

In addition, out of the budgeted funds of Kshs.109,040,876 for the financial year 2018/2019, the Fund received only Kshs.54,000,000 or approximately 50% resulting into underfunding of Kshs.55,040,876 or 50%. The underfunding is contrary to Section 16(a) of the National Government Constituencies Development Fund Act, 2015 which stipulates that the functions of the Board shall be to ensure timely and efficient disbursement of funds to every constituency. Sections 39(2) and 40 of the Act further provide for timely disbursement of funds and funding of projects.

The delayed disbursement of funds by the Board resulted in delay in implementation of approved projects or programs and therefore denied the residents of Turkana North Constituency the services and benefits that would have accrued from the completed projects.

2. Audit Inspection of Projects

The project for the construction of Turkana North Technical Training Institute that commenced in the prior year at a contract sum Kshs.10,000,000 had been completed. However, the tender documents such as copy of the advertisement, tender opening and tender evaluation committees' minutes, contract agreement, bills of quantities, expenditure returns and the report of the inspection and acceptance committee were not provided for audit and the project had not been put into use.

In addition, all projects inspected were not labeled as required by Regulation 15(1)(f) of the National Government Constituencies Development Fund Regulations, 2016 which provides that a Project Management Committee shall undertake project closure, labelling and handover upon completion.

In the circumstances, value for money from the projects could not be confirmed.

3. Transfers to Other Government Units

3.1 Unconfirmed Desks Procured for Secondary and Primary Schools

The statement of receipts and payments reflects transfers of Kshs.62,003,285 to other government entities comprising of transfers to primary schools of Kshs.36,526,258 and transfers to secondary schools of Kshs.25,477,027 as disclosed at Note 6 to the financial statements. The transfers included disbursements of Kshs.49,635,647 to sixteen (16) PMCs of secondary and primary schools for construction of twenty-six (26) classrooms, two (2) dining halls, two (2) kitchens, two (2) dormitories, six-hundred and twenty (620) desks, ten (10) pit latrines and piping of water. However, expenditure returns for the disbursements and project reports were not provided for audit. Further, no evidence was provided that the six-hundred and twenty 620 desks supplied were taken on charge as provided under Section 162(1) of Public Procurement and Assets Disposal Act, 2015 which requires an accounting officer of a procuring entity to ensure that all inventory, stores and assets purchased are received, but shall not be used until taken on charge and as a basis for ensuring that all procured items are properly accounted for and put in proper use as intended by the procuring entity.

Consequently, the propriety of the disbursements amounting to Kshs.49,635,647 could not be confirmed.

3.2 Incomplete Project at Kaaleng Girls Secondary School

The transfers to secondary schools balance of Kshs.25,477,027 disclosed in Note 6 to the financial statements, includes an amount of Kshs.5,200,000 disbursed to Kaaleng Girls Secondary School comprising of Kshs.3,200,000 for construction of a dining hall/kitchen, Kshs.1,000,000 for construction of four (4) pit latrines and Kshs.1,000,000 for water piping. However, the contract agreement dated 18 May, 2019 did not have a clause indicating the expected project start and completion dates contrary to Section 129 (2)(b) of the Public Procurement and Asset Disposal Act, 2015, which provides that the contract, which shall be in writing, shall set out the maximum amount of time that can be paid for under the contract.

Further, according to the procurement records provided for audit, the tender for the construction works was advertised on notice boards during the month of April, 2019, tender opening done on 25 April, 2019 and tender evaluation conducted on 26 April, 2019 by ten (10) members. However, the tender evaluation reports and minutes were signed by only three (3) members contrary to section 80(7) of The Public Procurement and Assets Disposal Act, 2015, which provides that evaluation reports shall be signed by each member of evaluation committee.

In addition, tender documents including tender opening register, signed tender opening minutes, appointment letters of the evaluation committee members and payment certificates for the works done were not provided for audit.

Also, audit inspection of the Project in March, 2020, revealed that although major works including construction of the dining hall, kitchen, and the 2 (two) door pit latrines had been done, piping of water had not been done and the contractor was not on site. In the circumstances, value for money of the expenditure Kshs.5,200,000 incurred on the project could not be confirmed.

4. Emergency Projects Payments

The statement of receipts and payments and Note 7 to the financial statements reflect other grants and transfers of Kshs.33,626,567 which includes emergency projects payments of Kshs.6,934,418. However, no evidence was provided that the Constituency Committee reported to the Board within thirty (30) days of occurrence of the emergency as required under Regulation 20(2) of National Government Constituencies Development Fund Regulations, 2016 which provides that the utilization of the emergency reserve shall be reported to the Board within thirty (30) days of the occurrence of the emergency.

Consequently, the Management was in breach of the Law.

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 the 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 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, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the National Government Constituencies Development Fund - Turkana North Constituency's

ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern 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 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 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 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 going concern 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 as a going concern or 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 as a going concern or 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

19 November, 2021