

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – TURKANA WEST CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Turkana West Constituency set out on pages 6 to 36, which comprise of the statement of assets and liabilities as at 30 June, 2019, 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 the National Government Constituencies Development Fund - Turkana West Constituency as at 30 June, 2019, 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 do not comply with the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

### **Basis for Adverse Opinion**

#### **1.0 Inaccuracies in the Financial Statements**

##### **1.1. Statement of Receipts and Payments**

The statement of receipts and payments reflects total payments balance of Kshs.107,014,968 whereas the casted balance totals to Kshs.107,389,968 resulting to an unreconciled variance amounting to Kshs.375,000. Further, Note 4 to the financial statements reflects compensation of employees totalling to Kshs.1,886,048 whereas the casted total is Kshs.2,011,187 resulting to an unreconciled variance amounting to Kshs.125,139. In addition, the statement reflects surplus balance totalling to Kshs.1,823,515 whereas the recomputed amount totals to Kshs.1,769,515 resulting to an unreconciled variance of Kshs.54,000.

##### **1.2. Statement of Cash Flows**

The statement of cash flows reflects other grants and transfers totalling to Kshs.67,759,537 whereas the statement of receipts and payment reflects a balance of Kshs.68,134,537 resulting to an unreconciled variance of Kshs.375,000. The statement

also reflects other receipts amounting to Kshs.54,000 which is not reflected in the statement of receipts and payments.

### **1.3. Statement of Assets and Liabilities**

As disclosed in Note 10A of the financial statements, the statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.2,634,062 which includes stale cheques totalling to Kshs.482,000 as at 30 June, 2019. However the cheques were not reversed in the cash book. Further, the statement reflects total financial assets balance of Kshs.2,634,062 and nil liabilities. However, the statement reflects net liabilities at the bottom instead of net financial position balance of Kshs.2,634,062.

### **1.4. Budget Execution by Programmes and Sub-programmes**

The budget execution by programmes and sub-programmes has a casting error on secondary and tertiary school final budget of Kshs.1,378,952 and Kshs.1,000,000.

### **1.5. Summary of Fixed Assets Register**

Annex 4, on page 31 the summary of fixed assets register reflects a balance totalling to Kshs.10,590,973 whereas casted balance is Kshs.9725674 resulting to an unreconciled variance of Kshs.865,299.

In the circumstances, the accuracy, completeness, and validity of the financial statements for the year ended 30 June, 2019 could not be confirmed.

## **2. Unsupported Committees Bank Balances**

Annex 4 reflected on page 32 of the financial statements reflects Project Management Committee accounts bank balance amounting to Kshs.20,294,974. However, Management did not provide supporting bank reconciliation statements and bank statements.

Consequently, accuracy, validity and existence of the Project Management Committee bank balance of Kshs.20,294,974 as at 30 June, 2019 could not be confirmed.

## **3. Unsupported Transfers to Other Government Units**

As detailed In Note 6 of the financial statements, the statement of receipts and payments reflects transfer to other Government Units amounting to Kshs.29,348,276. The balance includes a balance totalling to Kshs.7,000,000, under transfer to secondary schools, disbursement to Lopiding Girls Secondary School for procurement of fifty-two (52) seater bus. The contract for supply of the bus was awarded to a firm at a selling price of Kshs.6,612,000 being the lowest evaluated bidder. By the time of audit on 17 March, 2020, payments totalling to Kshs.6,270,000. However, the Management did not provide log book, mechanical inspection certificate and during physical verification, the presented bus was written Mogila Girls Secondary School.

Under the circumstance, the accuracy, completeness and validity of transfer to Lopiding Girls Secondary School totalling to Kshs.7,000,000 for the year ended 30 June, 2019 could not be confirmed.

#### **4. Unsupported Bursaries**

As detailed In Note 7 of the financial statements, the statement of receipts and payments reflects other grants and other payments totalling to Kshs.68,134,537. The balance includes a bursary amount of Kshs.39,300,700. However, the Management did not provide supporting documents for the criteria of identifying the beneficiaries and there was no proof that the students were from the constituency.

Under the circumstances, the accuracy, completeness and validity of the bursary amounting to Kshs.39,300,700 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 the National Government Constituencies Development Fund – Turkana West 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**

##### **1. Budgetary Control and Performance**

The summary statement of appropriation: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.164,689,905 and Kshs.109,649,029 respectively, resulting to an under-funding of Kshs.55,040,876 or 33% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.164,635,905 and Kshs.107,014,968 respectively, resulting to an under expenditure of Kshs.57,620,937 or 35% 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's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

## 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 annual report revealed errors in the table of contents, forward by the chairman NGCDF committee indicates that amounts totalling to Kshs.54,000,000 was received in the year instead of Kshs.108,784,483, significant accounting policies header refers to Gilgil Constituency, statement of entity management responsibilities cites a nonexistent Public Finance Management Act ,2013. This is contrary to Public Sector Accounting Standard Board (PSASB) reporting template issued in June, 2019.

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

#### **2. Project Implementation Status**

The Management had budgeted to spend a total of Kshs.97,677,671 towards implementation of twenty-eight (28) projects during the year 2018/2019. Five (5) projects budgeted for an amount of Kshs.33,630,671 were completed, four (4) projects with a total budget of Kshs.16,400,000 were on-going and projects with a funding total of Kshs.47,647,000 were not started.

In the circumstances, I am unable to confirm whether the public obtained value for money for the ongoing and projects not started.

#### **3. Delay in Information Communication Technology (ICT) HUB Sites**

As disclosed in Note 9 to the financial statements, the statement of receipts and payments reflects other payments amount of Kshs.1,169,256. This expenditure relates to development of four (4) ICT sites in the Constituency at a contract price of

Kshs.4,677,027.20. However, review of records revealed the following unsatisfactory matters:

- i) At the time of audit only one site had been equipped and the contract agreement did not have the time frames for implementation making it difficult to determine the project completion period.
- ii) Further, there was no evidence to show that Telkom Kenya submitted to the Ministry of Information, Communications and Technology and the National Government Constituencies Development Fund Committee a performance security from a reputable bank or insurance company in Kenya in the amount of the total tender price awarded as specified in Part 7 of Constituency innovation hubs contract agreement dated 5 November, 2018 between the Fund and the Ministry of Information, Communications and Technology through Telkom Kenya.

In the circumstances, the public failed to receive the benefits accruing from the Funding.

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**

**01 October, 2021**