

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LAISAMIS 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 - Laisamis Constituency set out on pages 24 to 54, which comprise the statement of assets and liabilities as at 30 June, 2020, 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 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 the National Government Constituencies Development Fund - Laisamis Constituency as at 30 June, 2020, 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. Accuracy of the Financial Statements - Unutilized Balance

The summary statement of appropriation - recurrent and development combined reflects an amount of Kshs.67,843,449 in respect of adjustments which relates to unutilized funds for the year 2018/2019. However, a similar statement for the year 2018/2019 reflects an amount of Kshs.68,043,449 in respect of budget utilization difference which relates to unutilized funds for the same year resulting to unexplained variance amounting to Kshs.200,000.

In addition, Note 17.3 to the financial statements reflects a balance of Kshs.69,367,724 in respect of unutilized funds. However, a review of documents provided for audit reflects an amount of Kshs.78,590,572 in respect of the same item resulting to unexplained variance amounting to Kshs.9,222,848.

In the circumstances, the accuracy of the balance of Kshs.67,843,449 and Kshs.69,367,724 in respect of adjustments and unutilized funds respectively could not be confirmed.

2. Transfer to Other Government Entities

2.1 Unimplemented but Paid for Works

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.66,228,386 in respect of transfer to other government entities which includes a balance of Kshs.39,978,386 in respect of transfers to primary schools. Included in the expenditure is a balance Kshs.6,528,386 transferred to Arapal Primary School for construction of a dining hall and a kitchen. However, physical verification carried out in December, 2020 reflects works worth Kshs.751,400 was paid for but not implemented.

In the circumstances, the validity and value for money for the expenditure totalling to Kshs.751,400 expenditures could not be confirmed.

2.2 Unsupported Payments on Construction of Concrete Tank and Gutters

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.66,228,386 in respect of Transfer to Other Government Entities which includes a balance of Kshs.39,978,386 in respect of Transfer to Primary Schools. Included in the expenditure is an amount of Kshs.1,000,000 spent on construction of a concrete tank at Gatab Primary School. However, the Bank Statements and Inspection and Acceptance Committee minutes were not provided for audit. Further, review of documents including payment vouchers reflects that a total of Kshs.49,988 was paid to a contractor as management fee. However, no supporting documents including invoices or fee notes were provided for audit.

In addition, review of the records provided for audit and physical verification carried out in December, 2020 revealed that the contractor was paid an amount of Kshs.175,000 as a provisional sum for gutters but the same remained unimplemented as at the end of the financial year.

In the circumstances, value for money for the expenditure amounting to Kshs.1,000,000 could not be confirmed.

3. Other Grants and Other Payments

3.1 Unconfirmed Bursaries to Secondary Schools and Tertiary Institutions

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.40,847,984 in respect of Other Grants and Other Payments which include a balance of Kshs.12,525,000 and Kshs.10,295,000 all totalling to Kshs.22,820,000 in respect of bursary transfer to secondary schools and tertiary institutions respectively. However, no acknowledgments from the beneficiary institutions were provided for verification. It was therefore not possible to ascertain whether the Kshs.22,820,000 bursaries were utilized for the intended purpose.

3.2 Payment for Works not Done - Construction of a Perimeter Fence

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.40,847,984 in respect of Other Grants and Other Payments which includes a balance of Kshs.8,500,000 in respect of security projects which further includes a balance of Kshs.1,700,000 transferred to Arapal AP post for construction of a perimeter fence. However, included in the amount of Kshs.8,500,000 is an expenditure of Kshs.1,596,000 paid to a contractor for various works including installation of 6 strands galvanized barbed wire, mortised mass concrete between the posts and one coat red-oxide primer and two finishing coats of approved high gross quality paint. However, only 4 strands of galvanized barbed wire were installed while mortised mass concrete between the posts, coat of red-oxide primer and two finishing coats of approved high gloss quality paint was paid for but not done.

3.3 Payment for Works not Done - Construction of a Perimeter Fence

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.40,847,984 in respect of Other Grants and Other Payments which includes a balance of Kshs.8,500,000 in respect of security projects. Included in the expenditure is an amount of Kshs.1,500,000 transferred to Korr AP post for construction of a perimeter fence. However, comparison of the Bill of Quantities to the Actual Work done revealed that only 400 meters out of 1,000 meters as specified in the Bills of Quantity was constructed resulting to 600 meters worth Kshs.840,000 (at Kshs.1,400 per meter) paid for but not constructed.

3.4 Payment for Works not Done - Construction of Perimeter Fence

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects expenditure of Kshs.40,847,984 in respect of Other Grants and Other Payments which includes a balance of Kshs.8,500,000 in respect of security projects. Included is an amount of Kshs.1,500,000 transfer to Kargi AP post for construction of a perimeter fence. However, comparison of the Bill of Quantities with the actual work done reflects that only 800 meters out of 1,000 meters as specified in the Bills of Quantity was done resulting to 200 meters worth Kshs.249,600 (at Kshs.1,248 per meter) paid but not done.

Further, the contractor was paid for works including mortised mass concrete between the posts, one coat of red-oxide primer and two finishing coats of approved high gross quality paint all totalling to Kshs.1,248,000. However, physical verification carried out in December reflects that the same had not been done.

3.5 Emergency Projects

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.40,847,984 in respect of Other Grants and Other Payments which includes expenditure amounting to Kshs.6,500,000 in respect of emergency projects. Included is an amount of Kshs.380,000 transferred to Deputy County Commissioner (DCC) Loiyangalani for purchase of seven (7) tyres for a water boozer.

However, no evidence was provided for audit to confirm whether the project was an emergency in accordance with Section 8(3) of the National Government Constituencies Development Fund Act, 2015.

In the circumstances, value for money for Other Grants and Other Payments amounting to Kshs.40,847,984 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 - Laisamis 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

Budgetary Control and Performance

The Fund's summary statement of appropriation - recurrent and development combined reflects an approved receipt budget and actual comparable basis of Kshs.205,211,173 and Kshs.135,843,449, respectively resulting to an underfunding of Kshs.69,367,724 or 34% of the budget. Similarly, the Fund expended Kshs.126,620,600 against an approved budget of Kshs.205,211,173 resulting to an under expenditure of Kshs.78,590,573 or 38% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

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-Adherence to the Prescribed Format

The Fund's financial statements for the year under review were not prepared in accordance with the Public Sector Accounting Standard Board (PSASB) issued in June, 2020 or International Public Sector Accounting Standards (IPSAS) 1 as follows:-

- i. The statement of receipts and payments, statement of cash flows and summary statement of appropriation - recurrent and development combined does not indicate that they are "for the year ended 30 June, 2020" while the statement of assets and liabilities does not indicate the financial year is "as at 30 June, 2020,"
- ii. The Fund's financial statements contain balances that are in decimals contrary to the best accounting practice which requires balances in the financial statements to be round off to the nearest shilling,
- iii. The Fund's financial statements for the year under review does not contain separate summary statements of appropriation for recurrent and development contrary to the requirement of the Public Sector Accounting Standards reporting template issued by the Board in June, 2020.

Consequently, the financial statements for the year under review are not prepared in accordance with the PSASB and IPSAS prescribed formats.

2. Over Expenditure

The Fund's summary statement of appropriation - recurrent and development combined reflects an approved receipt budget and actual comparable basis of Kshs.205,211,173 and Kshs.126,620,60, respectively. Included is an over expenditure amounting to Kshs.2,325,000. There was no evidence that the Kshs.2,325,000 over expenditure was approved by the board.

Consequently, the Fund contradicted Section 6(2) of the National Government Constituencies Development Fund Act, 2015.

3. Unimplemented Projects

As disclosed in Note 6 and 7 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.66,228,386 and Kshs.40,847,984 in respect of Transfers to Other Government Units and Other Grants and Other Payments respectively both totalling Kshs.107,076,370 which was transferred to various institutions to implement projects during the year ended 30 June, 2020. However, review of the project implementation status report as at 30 June, 2020 reflects that out of the ninety-one (91) projects worth Kshs.187,096,959 sixty-five (65) projects worth Kshs.108,398,386 were completed, four (4) projects worth Kshs.11,955,011 were ongoing while twenty-two (22) projects worth Kshs.66,743,562 were not implemented.

In the circumstances, the residents of Laisamis Constituency did not get the planned services equivalent to Kshs.11,955,011 in respect of ongoing projects and Kshs.66,743,562 being the budgeted projects that were not implemented during the year under review all totalling to Kshs.78,698,573.

4. Non-Provision of Procurement Documents

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.66,228,386 in respect of Transfer to Other Government Entities which includes a balance of Kshs.39,978,386 in respect of Transfer to Primary Schools. Included in the balance is Kshs.7,200,000 transferred to six primary schools (Urweino, Larachi, Dhakane, Losikiriach, Jija and Dadaab Ti Malab) at Kshs.1,200,000 each for construction of a classroom in each school. However, Inspection and Acceptance Committee minutes were not provided for audit contrary to Section 17(3)(b) of the Public Procurement and Asset Disposal (Amendments) Regulations, 2013.

In the circumstances, value for money for the expenditure amounting to Kshs.7,200,000 could not be confirmed. In addition, the Fund is in breach of the Law.

5. Unconfirmed Compensation of Employees

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.2,607,428 in respect of compensation of employees. However, review of the records including payrolls and personal files reflects that the Fund had a total of ten (10) employees contrary to National Government Constituencies Development Fund Board circular reference number CDF BOARD/CIRCULARS/VOL1.1/166 dated 24 June, 2013 which states that the committee may employ staff, not exceeding five (5) in number and such staff shall have knowledge in Construction, Basic Accounting, Information and Communication Technology. Further review of the personal files reflects that the engagement contracts, interview minutes, certified copies of educational certificates and copy of identification cards of the said employees were not included in the personal files.

Further, records provided for audit reflects that the Fund paid an amount of Kshs.240,000 and Kshs.616,608 both totaling to Kshs.856,608 in respect of salaries for two security officers and two drivers. However, the Fund's office is located at deputy commissioner's premises which is guarded by administration police. Further, the Fund has only one motor vehicle and therefore not clear why three (3) drivers are employed. Therefore, the expenditure incurred on the security officers and two extra drivers was unnecessary.

In the circumstances, the validity and value for money for the expenditure amounting to Kshs.856,608 could not be confirmed. In addition, the Fund is in breach of the Law.

6. Transfer to Primary Schools

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.66,228,386 in respect of transfer to other government entities which includes a balance of Kshs.39,978,386 in respect of transfer to various primary schools meant for implementing various projects. Review of the procurement documents

for the said projects reflects that the works carried out by the PMCs were above Kshs.500,000. However, the Fund used request for quotation procurement method to procure works contrary to the first schedule – Threshold Matrix for class C procuring entities of the Public Procurement and Asset Disposal (Amendment) Regulations, 2013.

In the circumstance, the Fund contravened Threshold Matrix for class C procuring entities of the Public Procurement and Asset Disposal (Amendment) Regulations, 2013.

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 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 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 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 abolish 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 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 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 offering 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 offering services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate 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

08 February, 2022