

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – RARIEDA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund-Rarieda Constituency Fund set out on Pages 22 to 58, which comprise the statement of assets and liabilities as at 30 June, 2020, the statement receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts 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 matter 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-Rarieda 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 do not comply with the Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Adverse Opinion

1. Inaccuracies of the Financial Statements

1.1 Stale Cheques - Cash and Cash Equivalents

As disclosed in Note 10 to the financial statements, the statement of assets and liabilities reflects a bank balance of Kshs.82,459. However, the bank reconciliation statement reflects unrepresented cheques totalling to Kshs.2,419,943. Included in the unrepresented cheques are stale cheques amounting to Kshs.132,619 which dated as far as March, 2019 and which had not been reversed in the cashbook. Further the unrepresented cheque amount of Kshs.2,419,943 includes unsupported retention fee and payment to Cooperative Bank manager amounting to Kshs.354,255 and Kshs.207,000, respectively.

1.2 Unsupported Cash Withdrawals

As disclosed in Note 10 to the financial statements, the statement of assets and liabilities reflects bank balance of Kshs.82,459. Review of the bank statements for Cooperative Bank account indicates cash withdrawals amounting to Kshs.23,016,423 made from the

account during the year. However, the expenditure related to cash payments not supported as required by Section 71 of the Public Finance Management Act, 2012 , the nature of transactions were not confirmed.

1.3 Unsupported PMC Account Balance

Annex 5 to the financial statements reflects project management committee (PMC) bank balances of Kshs.4,209,227. However, the PMC bank balances were not supported with certificates of bank balance.

In the circumstances, the validity, completeness and accuracy of financial statements could not be confirmed.

2. Unsupported Expenditures and Receipts

The financial statements submitted has unsupported expenditure and receipts on various components as detailed below: -

- i. The summary statement of appropriation - recurrent and development combined reflects a final budget balance of Kshs.196,288,035 with unsupported adjustment amounting to Kshs.58,920,261. Further, the accuracy of the total actual receipts and budget utilization reflects an amount of Kshs.112,220,261 and Kshs.84,067,775 instead of Kshs.111,740,876 and Kshs.84,547,160, respectively thus unreconciled difference amounting to Kshs.479,385 .
- ii. As disclosed under Note 1 to financial statements, the statement of receipts and payments reflects an amount of Kshs.111,740,876 in respect of transfers from the Board. However, receipts amounting to Kshs.64,000,000 were neither supported with approved code list of projects nor Funds committee resolution minutes. It was therefore not possible to confirm approved projects for implementation during the year under review.
- iii. As disclosed under Note 4 to the financial statements, the statement of receipts and payment reflects an amount of Kshs.2,380,953 in respect of compensation of employees. A review of the payroll submitted for audit showed payments amounting to Kshs.2,270,080 resulting to unreconciled difference of Kshs.110,873.
- iv. The statement of receipts and payment reflects an amount of Kshs.11,693,412 in respect of use of goods and services and as disclosed in Note 5 to the financial statements. However, payment details supporting the expenditure amounting to Kshs.4,889,325 such as delivery notes, invoices and counter receipts vouchers were not availed for audit.
- v. The statement of receipts and payment reflects an amount of Kshs.11,693,412 in respect of use of goods and services and as disclosed in Note 5 to the financial statements which includes an expenditure of Kshs.6,164,000 on committee expenses. The following anomalies were noted:

- a. Schedules in support of the payment vouchers were signed without indicating when the meetings were held. Further, some schedules were not supported with committee minutes.
 - b. The dates on the CDF committee meetings minutes did not match with those of the payment schedules.
- vi. The statement of receipts and payment reflects an amount of Kshs.11,693,412 in respect of use of goods and services and as disclosed in Note 5 to the financial statements which includes an amount of Kshs.1,000,000 on development of strategic plan. However, the payment voucher presented was not supported. The expenditure was also wrongly classified as use of goods under utilities and services instead of other payments under Note 9.
- vii. The statement of receipts and payments reflects transfers to other government units amounting to Kshs.56,541,477 which includes transfers to tertiary institutions amounting to Kshs.35,525,127. The schedules in support of the financial statements indicated that an amount of Kshs.6,000,000 was paid in favor to Kenya Medical Training College – Rarieda campus. However, payment voucher and other supporting documents were not availed for verification.
- viii. The statement of receipts and payments reflect transfers to other government units of Kshs.56,541,477 and as disclosed in Note 6. However, transfers totaling to Kshs.10,567,773 were not supported with project expenditure returns.
- ix. The statement of receipts and payment reflects an amount of Kshs.41,206,359 in respect to other grants and transfers and as disclosed in Note 7 to the financial statements. However, payment vouchers amounting to Kshs.7,820,060 in respect of security, sports project and emergency were not made available for audit.

In the circumstance, the accuracy, validity and completeness of the financial statements could not be confirmed.

3. Irregular Expenditure on Bursary Funds

The statement of receipts and payments reflects transfers to other government units amounting to of Kshs.41,206,359 which includes an amount of Kshs.27,955,959, Kshs.5,003,340 and Kshs.427,000 in respect of bursary for secondary, tertiary and special schools respectively. However, the following anomalies were noted:

- i. Minutes of how needy students were identified and acknowledgement letters from respective schools were not availed for audit.
- ii. A sample of 36 schools picked to confirm whether the cheques were cleared from the bank statements revealed that the cheques in question were not drawn in favor of the schools indicated on the bursary schedule, instead the cheques totaling to Kshs.5,860,322 were drawn in favor of other payees in different values or denominations.

- iii. Bursary payment schedule amounting to Kshs.5,000,000 was raised however the cheque drawn for the expenditures amounted to Kshs.5,860,322 resulting to unexplained overpayment amounting to Kshs.860,322.

In the circumstances, the validity, regularity and accuracy of the expenditure on transfers to other government units amounting to of Kshs.41,206,359 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-Rarieda Constituency 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 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 of the current year. 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 final receipts budget and actual on comparable basis of Kshs.196,288,035 and Kshs.111,740,876 respectively resulting to an under-funding of Kshs.84,547,160 or 43% of the budget. Similarly, the Fund expended Kshs.112,137,801 against an approved budget of Kshs. 196,288,036 resulting to an under-expenditure of Kshs.84,150,234 or 43% 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 Compliance with 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. Failure to Remit Statutory Deductions

The statement of assets and liabilities reflects bank balance of Kshs.82,459 and as disclosed in Note 10 to the financial statements. However, the bank reconciliation statement reflects unrepresented cheques totaling to Kshs.2,419,943 which includes an

amount of Kshs.501,687 being statutory deductions which the management failed to remit. The management was therefore in breach of the Law.

2. Noncompliance with the Prescribed Format

The financial statements reflects the following noncompliance issues with the Public Sector Accounting Standard Board (PSAB):-

- i. The table of contents on page 1 did not indicate the reference page numbers in the financial statements.
- ii. Report of the Independent Auditors in the table of contents indicates NG-CDF Gilgil Constituency instead of NG-CDF Rarieda Constituency.

Consequently, the presentation and disclosure of the financial statements does not comply with the prescribed PSASB reporting format .

4. Unimplemented and Unsupported Projects

The statement of receipts and payment reflects an amount of Kshs.56,541,477 in respect of transfers to other government units and as disclosed in Note 6 to the financial statements. Included is an amount of Kshs.11,650,000, Kshs.9,366,350, and Kshs.35,525,127 to Primary, Secondary and Tertiary Institutions respectively.

However, the following anomalies were observed: -

- i. The Fund received an amount of Kshs.41,740,876 for implementation of projects in primary, secondary and environment approved for 2018/2019 but were not funded during that period. However, the schedule on projects implemented revealed that projects in respect of Primary, Secondary, Security and Environment totalling to Kshs.9,930,818 were not implemented.
- ii. A review of the financial records reflects that the Fund received an amount of Kshs.111,740,876 out of which a balance of Kshs.64,000,000 relates to the year 2019-2020. However, projects for Primary and Secondary schools approved for the year have not been implemented.
- iii. The statement of receipts and payment reflects an amount of Kshs.56,541,477 in respect of transfers to other government entities which includes a balance of Kshs.35,525,127 to tertiary institution. Included is an amount of Kshs.25,525,126 being transfers to Kenya Medical Training Institute – Rarieda Campus for the construction of administration and 4 twin storey hostels. However, the following anomalies were noted: -

Administration Block

- a. The construction of the administration block was awarded to a local contractor at a contract sum of Kshs.7,678,5334. However, the contract agreement, bills of quantities and project management committee bank statement were not availed for audit.

- b. The financial records availed for audit indicates that a total of Kshs.7,626,905 was paid, however, no practical completion certificate was availed for audit.
- c. Physical verifications in March, 2021 indicated that window pane were not installed, no painting of the walls, no ceiling boards, no fitting of partitioning doors and general poor workmanship of the floors was sub-standard.

Four (4) Twin Storey Hostels

- ii. The construction of the administration block was awarded to a local contractor at a contract sum of Kshs.66,033,291. However, the contract agreement, bills of quantities and Project Management Committee bank statement were not availed for audit.
- iii. The financial records indicated that a total of Kshs.15,402,776 was paid during the year under review. However, the Management did not provide interim payment certificate (IPC) number 1 and 3 thus the total expenditure of the said project could not be confirmed. Physical verifications in March, 2021 indicated that the columns and walls of the hostels had huge cracks all over which is evidence of poor workmanship posing threat on the future stability of the building. Ablution block was also poorly done without partitioning doors. The floor, painting works were partly done, and the contractor was not on site.
- iv. The statement of receipts and payment reflects an amount of Kshs.56,541,477 in respect of transfers to other government entities which includes transfers amounting to Kshs.35,525,127 to tertiary institutions. Included is an amount of Kshs.10,000,000 transfer to Kisumu National Polytechnic School of Agriculture – Rarieda Campus for the Construction of four (4) lecture rooms and construction of administration block amounting to Kshs.5,000,000 and Kshs.5,000,000, respectively. However, procurement documents including tender opening minutes, tender evaluation and contract agreement were not availed for audit.
- v. The statement of receipts and payment reflects an amount of Kshs.56,541,477 in respect of transfers to other government entities which includes transfers amounting to Kshs.35,525,127 to tertiary institutions. Includes is an amount of Kshs.2,000,000 transferred to Jaramogi Oginga Odinga University of Science and Technology Agok campus for fencing of 20 acres University land. However, procurement documents including tender opening minutes, tender evaluation and contract agreement were not availed for audit. Physical verification of the project revealed that only two strands of galvanized barbed wire were used contrary to the six strands contained in the bill of quantities.
- vi. The statement of receipts and payment reflects an amount of Kshs.41,206,359 in respect of other grants and transfers and as disclosed in Note 7 to the financial statements which includes an amount of Kshs.2,107,060 on security. Included is an amount of Kshs.1,600,000 for the construction of Rarieda Sub County Commander offices. However, procurement records including contract agreement, structural plan or map, monitoring and evaluation minutes for this project to show

the progress at each certified stage and minutes of Project Management Committee were not availed for audit.

In the circumstances, value for money and validity of expenditure amounting to Kshs.56,541,477 in respect of transfers to other government units could not be confirmed.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

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 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 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 Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Fund's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

11 February, 2022