

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SAMBURU NORTH 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 Samburu North Constituency set out on pages 24 to 59, which comprise the statement of assets and liabilities as at 30 June, 2020, statement of receipts and payments, statement of cash flows and the summary statement of appropriation: recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the 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 National Government Constituencies Development Fund - Samburu North 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 National Government Constituencies Development Fund Act, 2015 and Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Presentation of the Financial Statements

The annual report and the financial statements had the forward by the Chairman on page 8 which is not signed or dated. Further, the Statement of performance against constituency's predetermined objectives on page 9 does not show targets against achievement during the year under review. The statement under education program indicates schedules are attached while none is attached.

In addition, the statement of management responsibilities on page 22 reflects the word entity instead of Samburu North Constituency Development Fund. The National Sub County Accountant, ICPAK member number is missing on pages 23,24,25,26 and 28. Further, the budget execution by programmes and sub programmes heading on page 30 is missing.

The financial statements page numbering moves from page 28 to 33 then reverts to page 30 disrupting the sequence. In addition, Annex 3 – unutilized funds on Pages 50 does not reflect the prior year comparative balances. It was also noted that no provision has been made for the report of the Auditor General in the financial statements.

Consequently, the annual report and the financial statements for the year ended 30 June, 2020 as prepared and presented are not in the format prescribed by the Public Sector Accounting Standard Board (PSASB).

2. Accuracy of the Financial Statements

The financial statements show Note 17.1 to the financial statements on pending accounts payable which reflects a nil balance while annex 1 to the financial statements reflects Kshs.22,468 resulting to a variance of Kshs.22,468 that has not been explained or reconciled.

Further, Annex 3 to the financial statements on the unutilized fund reflects a grand total of Kshs.79,711,320 which differs with the re-casted balance of Kshs.80,360,870 resulting to a variance of Kshs.649,550 that has not been explained or reconciled.

In addition, the summary statement of appropriation: recurrent and development combined reflects total receipts budget utilization difference of Kshs.79,711,320 which differs with the re-casted balance of Kshs.78,105,603 resulting to a variance of Kshs.1,605,717 that has not been explained or reconciled.

Consequently, the accuracy and completeness of the financial statements could not be confirmed.

3. Variance between the Financial Statements and Supporting Schedules

The annual report and financial statements reflect balances of Kshs.14,262,843 that are at variance with supporting schedules amount of Kshs.8,392,000 resulting to a difference of Kshs.5,870,843, as detailed below, that has not been reconciled or explained.

| Particulars | Note | Financial Statements Amount (Kshs) | Supporting Schedules Amount (Kshs) | Difference (Kshs) |
|---------------------------|------|------------------------------------|------------------------------------|-------------------|
| Bursary Tertiary | 7 | 832,100 | 90,000 | 742,100 |
| Bursary Secondary Schools | 7 | 13,430,743 | 8,302,000 | 5,128,743 |
| Total | | 14,262,843 | 8,392,000 | 5,870,843 |

Consequently, the accuracy and completeness of the amount of Kshs.14,262,843 shown in the financial statements for the year ended 30 June, 2020 could not be confirmed.

4. Compensation of Employees – Variance between the Financial Statements and Payroll Schedules

The statement of receipts and payments reflects compensation of employees cost of Kshs.3,215,297;(2019-Kshs.4,031,000). However, the expenditure is at variance with gross payroll amount of Kshs.3,422,200 resulting to a difference of Kshs.206,903 which has not been reconciled or explained.

Consequently, the accuracy and completeness of compensation of employees expenditure of Kshs.3,215,297 for the year ended 30 June, 2020 could not be confirmed.

5. Unsupported Use of Goods and Services Expenditure

The statement of receipts and payments reflects an amount of use of goods and services of Kshs.7,140,626;(2019 –Kshs.7,371,263) . However, training, committee and other committee expenses amounting to Kshs.3,578,700 were not supported by way of programme activities, names of payees, rates of payment and meeting or training dates.

Consequently, the validity and completeness of use of goods and services amount of Kshs.3,578,700 for the year ended 30 June, 2020 could not be confirmed.

6. Misclassified Expenditure

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.7,140,626 for the year ended 30 June, 2020 out of which an amount of Kshs.1,273,300 incurred on other operating expenses was not classified in accordance with the budget classification codes and chart of accounts issued by National Treasury. The misclassified expenditure is as detailed below:

| Particulars | Amount (Kshs) | Correct Account to be Charged |
|-----------------------------|----------------------|--------------------------------------|
| Other Operating Expenditure | 31,200 | Hospitality |
| Other Operating Expenditure | 24,800 | Hospitality |
| Other Operating Expenditure | 33,800 | Committee Allowances |
| Other Operating Expenditure | 850,000 | Other Payments |
| Other Operating Expenditure | 18,500 | Fuel, Oil and Lubricants |
| Other Operating Expenditure | 175,000 | Committee Expenses |
| Other Operating Expenditure | 140,000 | Office General Supplies |
| Total | 1,273,300 | |

Consequently, the accuracy and completeness of other operating expenditure amount of Kshs.1,273,300 for the year ended 30 June, 2020 could not be confirmed.

7. Unsupported Bursaries

As disclosed under Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers amount of Kshs.30,374,197; (2019 – Kshs.40,950,000) and Included in this amount are bursary payments amounting to Kshs.5,377,320 which were irregularly incurred on meetings’ facilitations and have not been supported by way of minutes of meetings or lists of participants. This is contrary to

section 21(3) of the National Government Constituencies Development Fund Regulations, 2015 that require all persons receiving support to be vetted.

Further, bursary payments of Kshs.3,468,000 were made in respect of one thousand and fifteen students whose school admission numbers were not indicated thus casting doubt on the authenticity of the list of beneficiaries.

Consequently, the accuracy and validity of other grants and transfers of Kshs.30,374,197 for the year ended 30 June, 2020 could not be confirmed.

8. Unsupported Emergency Payments

The statement of receipts and payments for the year ended 30 June, 2020 reflects an amount of other grants and transfers of Kshs.30,374,197; (2019 – Kshs.40,950,000). This amount includes emergency payments of Kshs.9,928,500 which in turn includes Kshs.7,075,000 incurred on provision of relief foods which have not been supported by way of supplier invoices, delivery notes or distribution lists to beneficiaries.

The emergency payments also include transfers of Kshs.2,853,500 to the Ministry of Interior and National Coordination in respect of Covid-19 emergency response expenditure. However, it has not been supported by way of Authority to Incur Expenditure (AIE), or expenditure returns from the Ministry.

Consequently, the accuracy, completeness, and propriety of emergency payments of Kshs.9,928,500 for the year ended 30 June, 2020 could not be ascertained.

9. Overpayment of Acquisition of Assets

The statement of receipts and payments for the year ended 30 June, 2020 reflects an amount of acquisition of assets of Kshs.2,184,163;(2019 -Kshs.6,000,000) in respect of the Fund's office block. Available records indicate that cumulative payments of Kshs.14,177,794 as at 30 June, 2020 had been paid in relation to the project, in excess of the contract sum of Kshs.13,437,760 resulting to an overpayment of Kshs.740,034. The Fund Management did not however provide any justification or approval for the overpaid amount. Further, although the building is still ongoing, the Management did not provide the approved building plans, contract documents, progress certificates or project implementation report.

Consequently, the accuracy, completeness, and valuation of the acquisition of assets balance of Kshs.2,184,163 as at 30 June, 2020 could not be confirmed.

10. Bank Balance

The statement of assets and liabilities as at 30 June, 2020 reflects a bank balance of Kshs.4,343,596; (2019 - Kshs.2,737,879). The bank reconciliation statement as at 30 June, 2020 for this bank account reflects payments in cash book not in bank statement for un-presented cheques amounting to Kshs.2,693,619. However, the amount includes stale cheques totaling to Kshs.743,873 which had not been reversed in the cash book as

at 30 June, 2020. Further, it was also noted that the bank reconciliation statement reflects receipts in cash book not recorded in bank statement amounting to Kshs.658,000 and Management did not provide reasons for delay in banking the receipts.

In addition, the bank reconciliation statement reflects payments in bank statement not recorded in cash book amounting to Kshs.74,689 relating to bank charges. This amount had not been recorded in the cash book.

Consequently, the accuracy and fair statement of the reported bank balances of Kshs.4,343,596 as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Samburu 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 qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.146,105,603 and Kshs.68,000,000 respectively resulting to an under-funding of Kshs.78,105,603 or 53% of the budget. Similarly, the Fund expended Kshs.66,394,283 against an approved budget of Kshs.146,105,603 resulting to an under-expenditure of Kshs.79,711,320 or 54% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the constituents of Samburu North Constituency.

2. Project Implementation Status

2.1 Project Status

Review of the Fund's project implementation status report as at 30 June, 2020 indicated that one hundred and forty (140) projects with a funding allocation totaling to Kshs.175,888,107 were at different implementation stages as detailed out below: -

| Project Status | Projects Count | Allocated Amount (Kshs) |
|--|-----------------------|--------------------------------|
| Complete and in use | 48 | 36,278,241 |
| Ongoing | 30 | 64,969,305 |
| Projects not started due to non-release of funds | 62 | 74,640,561 |
| Total | 140 | 175,888,107 |

Thirty (30) projects or 21% with funding allocation of Kshs.64,969,305 and sixty two projects or 45% with a budget allocation of Kshs.74,640,561 were incomplete due to the slow tendering processes and delays in receipt of funds from the Board.

Consequently, it has not been possible to confirm if and when value for money will be realized from the incomplete projects representing 66% of all the planned projects.

2.2 Projects Verification – Unsatisfactory Implementation

During the audit, fifteen (15) projects with a funding allocation of Kshs.10,270,000 were sampled for verification during the month of February, 2021. However, twelve (12) projects were not satisfactorily implemented as shown in **Appendix I**.

Consequently, the Fund may have failed to obtain value for money spent on the projects valued at Kshs.10,770,000 for the year ended 30 June, 2020. Hence there is need for proper implementation and follow up mechanism to ensure that planned projects are fully implemented for better delivery of goods and service to the citizens of Samburu North Constituency.

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, I confirm that, nothing 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

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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, 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

Non - Maintenance of a Fixed Asset Register

Annex 4 summary of fixed assets to the financial statements discloses a historical balance of Kshs.21,028,663. However, the Fund Management did not provide a fixed assets register indicating the asset description, serial numbers, location and the current condition. This is contrary to Section 139(1)(b) of the Public Finance Management (National Government) Regulations, 2015 that requires an Accounting Officer to ensure that proper control systems exist for assets and that their movement and conditions be tracked.

Consequently, the effectiveness of internal controls over the Fund assets could not be confirmed.

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 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 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

09 February, 2022

Appendix 1

| No. | Name of Project | Details of the Project | Amount of Allocation as per Approved Code list (Kshs) | Amount transferred as at 30.06.2020 (Kshs) | Comments/Finding |
|-----|-------------------------------|--|---|--|--|
| 1. | Suyian Primary School | Construction of 2 teachers houses to completion | 1,000,000 | 1,000,000 | Stalled project. Four course walling done but contractor was not on site. |
| 2. | Suyian Primary School | Classroom Completion (Painting, flooring, fixing of steel doors and windows) | 200,000 | 200,000 | Not branded and completion date is indicated as 2018/2019. |
| 3. | Lchakwai Primary School | Classroom completion (painting, flooring, fixing steel doors and windows) | 400,000 | 600,000 | Project complete. Fully funded in 2018-19. However, additional 200,000 incurred on project. |
| 4. | Morijo Primary School | Construction of 3 classrooms to completion | 3,300,000 | 2,600,000 | Project completed and commissioned in 2018/19. |
| 5. | Ngilai Primary School | Dining hall completion (roofing, flooring, plastering. fixing doors and windows capacity of 30 people) | 900,000 | 900,000 | Project incomplete since (flooring, plastering) not done and contractor not on site. |
| 6. | Morijo Mixed Day Sec School | Classroom completion i.e painting, flooring, fixing steel doors and windows | 300,000 | 300,000 | Project completed and in use. However project was funded/branded by the Ministry of Education. |
| 7. | Morijo Mixed Day Sec School | Construction of 1 classroom to completion | 1,100,000 | 1,100,000 | Project completed and in use but not branded. |
| 8. | Opiroi Mixed Day Sec School | Acquisition of 30 lockers and chairs @ Ksh.7000 | 210,000 | 210,000 | Lockers and Chairs delivered but not in use since the school is not registered by ministry and not in operational. |
| 9. | Barsaloi mixed day sec school | Administration completion i.e. plastering, painting and flooring capacity of 20 teachers | 360,000 | 360,000 | Project is completed, in use but not branded. |

| No. | Name of Project | Details of the Project | Amount of Allocation as per Approved Code list (Kshs) | Amount transferred as at 30.06.2020 (Kshs) | Comments/Finding |
|------------|----------------------------------|--|--|---|--|
| 10. | Nalingangor Mixed Day Sec School | Classroom completion i.e. painting, flooring, fixing steel doors and windows. | 200,000 | 200,000 | Project is complete, in use but branded 2018/2019. |
| 11. | Lesirikan Assistant Chief Office | Construction of 2 rooms office to completion | 1,000,000 | 1,000,000 | Project is complete, not in use and not branded. |
| 12. | Samburu North NG CDF office | Completion of NG CDF office, roofing, doors, windows painting and fixing of tiles(Kshs.1,300,000) Wiring and installation of assorted items to the NG CDF office | 1,800,000 | 1,800,000 | Project incomplete since works on windows, painting, fixing of tiles and wiring have not been done and the contractor was not on site. |
| | | Totals | 10,770,000 | 10,270,000 | |