

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – CHEPALUNGU 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 (NGCDF) – Chepalungu Constituency set out on pages 16 to 42, 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.

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 - Chepalungu 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 National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1.0 Inaccuracies in the Financial Statements

The financial statements as prepared and presented for audit had the following errors which remains uncorrected;

- i. Disclosed under Note 6 is a figure on transfer to other Government units of Kshs.11,500,000. However, re-computation reflects Kshs.13,500,000 resulting to unreconciled variance of Kshs.2,000,000.
- ii. The summary statement of appropriation reflects actual receipts on a comparable basis of Kshs.84,334,841. This figure differs with Kshs.68,000,000 reflected in the statement of receipts and payments resulting to unreconciled variance of Kshs.16,334,841.
- iii. Disclosed under Note 6 is a figure on transfers to primary schools of Kshs.5,510,000. However, the schedule provided reflects Kshs.3,510,000 resulting to unreconciled variance of Kshs.2,000,000.

In the circumstance, the accuracy and completeness of the above balances included in these financial statements as prepared and presented for the year ended 30 June, 2020 could not be confirmed.

2.0 Unsupported Utilities, Supplies and Services

The statement of receipts and payments for the year ended 30 June, 2020 reflects use of goods and services of Kshs.7,875,280, as detailed in Note 5 to the financial statements. Included in the use of goods and service is an amount of Kshs.2,578,280 in respect of

utilities, supplies and services. However, the expenditure was not supported by payment vouchers and verifiable documentation.

In the circumstance, the accuracy and regularity of utilities, supplies and services expenditure of Kshs.2,578,280 for the year ended 30 June, 2020 could not be confirmed.

3.0 Unreconciled Bank Balance

The statement of assets and liabilities as at 30 June, 2020 report a bank balance of Kshs.2,339,480. However, bank reconciliation statement reflects payments in cash book not in bank of Kshs.5,305,275 which included Kshs.2,607,848 stale cheques which had not been reversed in the cash book as at 30 June, 2020.

In addition, the bank reconciliation reflects payments in bank not in cashbook of Kshs.74,373 in respect of bank charges which are not part of the reconciling items. The Management did not explain why the stale cheques had not been reversed and bank charges had not been captured in the cashbook and expensed.

Consequently, the accuracy and completeness of the bank balance of Kshs.2,339,480 as at 30 June, 2020 could not be confirmed.

4.0 Other Grants and Other Payments

As disclosed in Note 7 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects other grants and other payments amounting to Kshs.59,883,193. However, the following unsatisfactory matters were noted;

4.1 Unsupported Sports Expenditure

Included in the other grants and other payments is an amount of Kshs.2,000,000 in respect of sports uniforms and equipment. However, requisition forms from the teams, delivery and issue notes (S11&S13) indicating the quantities received and issued were not provided for audit.

4.2 Unsupported Expenditure on Security

Similarly, the other grants and other payments includes an amount of Kshs.2,000,000 in respect of security expenditure for five (5) administration police camps. However, physical verification carried out on 22 January, 2021 revealed that the projects were completed during the year 2017/2018 and no completion certificates were issued.

4.3 Unsupported Emergency Projects

Further, the other grants and other payments includes an amount of Kshs.8,257,536 in respect of emergency projects. However, evaluation of the projects revealed that the threshold of emergency had not been met as reflected in Section 8(3) of the National Government Constituencies Development Fund Act, 2015 which states that emergency shall be construed to mean an urgent, unforeseen need for expenditure for which it is in the opinion of the committee that it cannot be delayed until the next financial year without harming the public interest of the constituents. The projects were observed to have been implemented without the input of the emergency committee and were not supported by verifiable documentation to confirm how the contractors were competitively sourced.

In the circumstance, the accuracy and validity of other grants and transfers amounting to Kshs.59,883,193 for the year ended 30 June, 2020 could not be confirmed.

5.0 Compensation of Employees in Relation to Staff Establishment

As disclosed in Note 4 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects compensation of employees of Kshs.2,736,888. The wages decreased to Kshs.2,667,024 from Kshs.3,151,494 in 2018/2019 representing a decrease of Kshs.484,470 or 15%. Analysis of payroll reflects an increase from twelve (12) to eighteen (18) employees. However, the decrease in basic wages could not be explained as the staff numbers had increased. In addition, staff personal files verified did not have application letters, appointment letters or contract agreement and it was not clear how the staff were identified, recruited and placed.

In the circumstance, the accuracy, validity of compensation of employees of Kshs.2,667,024 for the year ended 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 - Chepalungu 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

1.0 Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual receipts on comparable basis of Kshs.153,702,565 and Kshs.84,334,841 respectively resulting to an under-funding of Kshs.69,367,724 or 54% of the budget. The underfunding affected the planned activities and projects which may have impacted negatively on service delivery for the residents of Chepalungu Constituency. Further, of the receipts amount realized of Kshs.84,334,841, only Kshs.81,995,361 was absorbed resulting to an under absorption of Kshs.2,3339,480 or 2.8% of the receipts.

Due to underfunding by the board of Kshs.71,707,205 or 53.3 % of the budget, Chepalungu NG-CDF was not able to implement projects worth Kshs.71,707,205. Delayed implementation of projects denies the residents of the Chepalungu Constituency the intended benefits. No satisfactory explanations have been rendered contrary to the values and principles of public service as provided for under Article 232 (1-c) of the Constitution.

2.0 Projects Verification

A review of the Project Implementation Status (PIS) revealed that one-hundred and twenty-five (125) projects were funded during the year ended 30 June, 2020. Physical verification of twenty-one (21) sampled projects with a total value of Kshs.11,200,000 was carried out in March, 2021 and it was observed that most projects were not completed, commissioned and handed over to the users yet the contractor had moved out of site. Further, no verifiable documentation to confirm that the projects committee was involved in monitoring progress and implementation of the projects. It was also observed that most projects were not labeled but were already in use. There was evidence of poor workmanship since cracks had started developing on the new projects. Other projects were abandoned siting delayed funding.

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

1.0 Errors in Annual Reports and Financial Statements

The annual report and financial statements prepared and presented for audit had the following presentation and disclosure errors;

- i. The forward by Chairman NGCDF Committee table on page 5 does not have the reporting currency of Kshs reflected. The reporting currency is also not reflected on analysis of pending accounts payable, analysis of pending staff payables and PMC account balances.
- ii. The page numbering does not match as reflected in the table of contents as there is inconsistency and repetition from page 18 to page 42.
- iii. Page 18 is blank.
- iv. The statement of receipts and payments and cash flows has no year ended 30 June, 2020 reflected.
- v. The statement of assets and liabilities has no year as at 30 June, 2020 reflected.
- vi. Prior year adjustments Note 14 on page 29 reflects current year as 2018/2019 instead of 2019/2020.
- vii. Progress on follow up of Auditors recommendations indicates that the issues were resolved before they were discussed in Parliament.

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

2.0 Project Management Committee (PMC) Accounts

Annex 5 reflects PMC bank account balances of Kshs.3,585,000 as at 30 June, 2020. However, bank statements and certificates in respect of seventeen (17) accounts were not provided for audit verification. In addition, the funds were not returned to the constituency fund account. This is contrary to Section 12 (8) of the National Government Constituencies Development Fund Act, 2015 which states that all unutilized funds of the project management committee shall be returned to the constituency account.

To that extend, the Management of the Fund is in breach of the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

Lack of a Risk Management Policy

During the year under review, the Fund did not have a risk management policy in place and therefore had no approved processes and guidelines on how to mitigate operational, legal and financial risks. In the circumstance, the Fund is not in compliance with the circular that requires that all public institutions develop an Institutional Risk Management Policy Framework (IRMPF).

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 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 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 going concern basis of accounting unless the Management is aware of the intentions to liquidate the Fund or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how the Fund monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that

might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

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

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

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



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

04 February, 2022