

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - EMGWEN 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 Constituency Development Fund - Emgwen Constituency set out on pages 18 to 59, 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 - Emgwen 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 the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Use of Goods and Services

1.1 Unsupported and Overstated Training Expenses

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.16,638,078 as disclosed in Note 5 to the financial statements which includes training expenses amounting to Kshs.2,872,600 which further includes an expenditure of Kshs.414,800. However, minutes of meetings, payment vouchers and other supporting documents were not provided for review. Further, an examination of the ledger for training and the payment vouchers supporting the training expenses showed that payment vouchers totalling to Kshs.2,203,800 did not relate to training expenses hence the training expenses may have been overstated.

Consequently, the accuracy and completeness of the training expenses amounting to Kshs.2,872,600 could not be confirmed.

1.2 Unsupported Communication, Supplies and Services Expenditure

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.16,638,078 as disclosed in Note 5 to the financial statements which includes communication, supplies and services amounting to Kshs.303,881 which further includes an expenditure of Kshs.123,881. However, minutes of meetings, payment vouchers and other supporting documents were not provided for audit.

Consequently, the accuracy and completeness of the communication, supplies & services expenditure of Kshs.303,881 could not be confirmed.

1.3 Irregular Committee Allowances

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.16,638,078 as disclosed in Note 5 to the financial statements which includes committee allowances amounting to Kshs.3,864,000 which further includes an expenditure of Kshs.474,000 for which minutes of meetings, payment vouchers and other supporting documents for authorization were not provided for review.

Further, as per the minutes of meetings for the financial year ending 30 June, 2020 there were 33 CDF Committee meetings for which allowances were paid which exceeded the allowed 24 number of meetings as per the CDF Act, 2015.

Consequently, the accuracy, completeness and regularity of the committee allowances expenditure of Kshs.3,864,000 could not be confirmed.

2. Inaccurate Cash and Cash Equivalents

The statement of assets and liabilities reflects bank balances of Kshs.9,597,390 as disclosed in Note 10A to the financial statements which includes un-presented cheques amounting to Kshs.7,758,593 out of which cheques worth Kshs.449,600 were more than the six (6) months stipulated period and hence stale. Some of these cheques date as far back as March, 2019, more than a year since date of issue. Failure to reverse the stale cheques and receive the amount in the cash book results in understatement of the available liquidity consequently affecting the funding of programs.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.9,597,390 could not be confirmed.

3. Unsupported Project Management Committee Bank Balances

Note 17.4 to the financial statements under other important disclosures reflects Project Management Committee Bank Balances of Kshs.25,759,009 in respect of unutilized disbursements to various Project Management Committees. However, cash books and bank reconciliation statements were not provided for review. Consequently, the accuracy, validity and existence of the Project Management Committee bank balances of Kshs.25,759,009 could not be confirmed.

4. Unsupported Transfers to Tertiary institutions

The statement of receipts and payments reflects transfers to tertiary institutions amounting to Kshs.3,000,000 disbursed to Emgwen Technical Training Institute for various projects as disclosed in Note 6 to the financial statements. However, expenditure returns and acknowledgment letters were not provided for audit.

In the circumstances, the accuracy, completeness and regularity of the transfers to tertiary institutions of Kshs.3,000,000 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 – Emgwen 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 summary statement of appropriation-recurrent and development combined reflects final receipts budget and actual on comparable basis totalling to Kshs.201,435,824 and Kshs.135,957,149 respectively, resulting to an underfunding amounting to Kshs.65,478,675 or 32% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.201,435,824 and Kshs.126,359,760 respectively, resulting to an underperformance amounting to Kshs.75,076,064 or 37% of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on the delivery of services to the residents of Emgwen 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, 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 with Prescribed Format

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

- i) The table of contents require reorganization to capture annexures which should also form part of the table of contents as they form part of the report.
- ii) The financial statements are not signed at a particular date.
- iii) The statement of assets and liabilities and statement of cash flows are not signed by the Fund Account Manager.
- iv) The progress on follow up of auditors' recommendations is not signed by the Accounting Officer.
- v) Note 17.3 to the financial statements under other important disclosures reflects unutilized fund figure of Kshs.75,076,064. However, a casting error of Kshs.484,966 was noted resulting to correct unutilized fund figure of Kshs.74,591,098.

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. Projects

2.1 Unimplemented Projects

During the financial year under review, National Government Constituencies Development Fund - Emgwen Constituency had an approved budget of Kshs.126,400,000 to be spent on ninety-seven (97) projects excluding emergency, environment, strategic and sports projects. Forty-nine (49) projects with a total budget of Kshs.60,900,000 were not funded during the year. Review of the projects implementation status report showed that 24 projects had been completed and put into use and the rest were all ongoing at different stages of completion with works going on or awaiting further funding from the Board.

2.2 Incomplete Projects

During the year under review, twenty-three projects with total disbursements of Kshs.30,000,000 were sampled for verification. Nine projects with a total disbursement amounting to Kshs.12,000,000 were found to be complete and in use while nine projects with a total disbursement amounting to Kshs.10,000,000 were partially completed. Physical verification showed that 15 projects were incomplete at various stages and most of them lacked CDF label for the project and title deeds were not provided for audit.

With incomplete projects, there is a possibility of losing public funds and the value for money amounting to Kshs.30,000,000 disbursed to the various projects could not be confirmed.

Further, failure to fund or complete the projects as budgeted may lead to delay on their implementation or completion and may deny the citizens of Emgwen Constituency the intended benefits from the projects.

3. Irregular Cash withdrawals

A review of the Bank Account showed cash withdrawals totalling to Kshs.16,152,200 made during the year by the Fund management. Management explained that the payments were made to CDFC members for meetings held, although the members' allowances should be paid directly into the individual officers' bank accounts. This is contrary to the National Treasury Circular No. 18/2009 of 29 September, 2009 which encouraged adoption of electronic payment method in place of cheque system (cash payments) for payment for goods and services to suppliers and staff.

As a result, the Management is in breach of the National Treasury circular.

4. Irregular Purchase of Land

As disclosed under Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other Government units amounting to Kshs.69,500,000 which includes transfers to primary schools expenditure of Kshs.42,000,000 .Included in the transfers to primary schools expenditure is an amount of Kshs.11,000,000 disbursed to various schools for purchase of various parcels of land, out of which land worth Kshs.7,000,000 lacked procurement records such as opening minutes, evaluation, award and official title deeds which were not provided for verification.

In the circumstances, the ownership and legality of the land purchased at a cost of Kshs.7,000,000 could not be confirmed.

5. Unaccounted for Bursary to Tertiary Institutions

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.38,552,152 as disclosed in Note 7 to the Financial Statements out of which bursary disbursements of Kshs.15,182,222 were disbursed to tertiary institutions. However, the subcommittee minutes showing the criteria used to identify the beneficiaries and the list of the beneficiaries were not provided for audit. In addition, there was no report confirming that the Constituency Development Fund Committee ratified the list of beneficiaries forwarded by the bursary committee as required by Constituencies Development Fund circular reference number Vol. 1/111 dated 13 September, 2010. Further, the list of bursary sub-committee members including two co-opted members', one whom should be the area education officer seconded from the Ministry, was not provided for review.

In the circumstances, the regularity of the bursary disbursements to tertiary institutions amounting to Kshs.15,182,222 could not be confirmed. The Management was 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 matters 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 overall governance were not effective.

Basis for Conclusion

1. Weaknesses in Internal Controls in Processing of Payments

The statement of receipts and payments reflects total payments amounting to Kshs.126,359,760 for the year ending 30 June, 2020. An examination of underlying records in support of the expenditure reflected the following;

- i. Most of the payment vouchers did not indicate cheque numbers, cash book voucher numbers and dates thereby making it hard to trace the payments in the cash book and bank statements.
- ii. Payment vouchers and attached supporting documents were not stamped with dated paid stamps thereby posing a risk of recycling of payment vouchers.
- iii. There was no indication that internal audit was carried out even on a sample basis given that there was no mark and signature thereof in all the payment vouchers.

In the circumstances, the National Government Constituencies Development Fund - Emgwen Constituency risks incurring expenditure for purposes that were not intended due to weak internal control processes. The Fund also risks losing funds through recycling of previously paid vouchers and making unsupported payments. In addition, the financial statements may not fairly present the financial performance of the NG-CDF due to weak internal control system.

2. Lack of Fixed Assets Register

Annex 4 to the financial statements reflects total assets worth Kshs.7,880,153. However, the fixed assets register was not provided for audit to confirm the nature, number, physical location and fair value of the assets.

Consequently, the accuracy and completeness of the assets totalling to Kshs.7,880,153 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 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 Funds 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 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 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

07 February, 2022