

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - GALOLE 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 - Galole Constituency set out on pages 12 to 43, which comprise the statement of financial 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 Constituency Development Fund-Galole 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.

Basis for Qualified Opinion

1.0 Unsupported Expenditure on Use of Goods and Services

During the year under review, the fund spent Kshs.13,858,597 on use of goods and services, out of which Kshs.6,509,300 was spent on committee allowance while conducting monitoring and evaluation of projects implemented through NGCDF within Galole Constituency and also sitting allowances for Constituency Development Fund Committee. An amount of Kshs.2,450,000 was also spent on domestic travel and training expenses. However, audit examination of payment vouchers and other supporting documents revealed that expenditure totalling Kshs.5,474,300 had the following anomalies;

- i. Lists of the projects visited and reports on monitoring and evaluation of the projects visited were not used to support the expenditure and was not availed for audit review.
- ii. The mode of transport used by the committee during the monitoring and evaluation was not indicated and there were no work ticket/bus tickets used to support the expenditure.
- iii. The payment schedule for the expenditures did not specify the period when the monitoring and evaluation exercise was conducted. Further, the schedule

supporting the payments were not signed by the members receiving the allowances.

- iv. An amount of Kshs.510,000 paid as sitting allowances to Constituency Development Fund Committee was not supported with minutes , invitation letters and attendance register for the meetings.
- v. Domestic travel and training payments totalling Kshs.2,450,000 were not supported with the relevant documents such as work ticket/ bus ticket, invitation letter to attend training and training program.

In the circumstances, the validity of expenditure of Kshs.5,474,300 on use of goods and services could not be confirmed.

2.0 Unsupported Other Grants and Transfers

As disclosed under Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers balance of Kshs.62,965,812. The following observations were made: -

2.1 Unsupported Expenditure on Sports Items

During the year under review, the Fund utilized Kshs.2,550,000 on supply and delivery of sports items within the constituency. However, audit examination of payment vouchers and procurement files revealed that the expenditures were not supported with relevant documentations such as NG-CDFC minutes authorizing payments, professional opinion from Sub County Head of Procurement on award of contract, tender opening minutes, receipts and counter receipts vouchers and delivery notes.

In the circumstances, validity of the expenditure of Kshs.2,550,000 on sports projects could not be confirmed

2.2 Irregular Expenditure on Emergency Projects

The other grants and transfer balance include an amount of Kshs.12,016,131 incurred on implementation of emergency projects during the year under review. However, audit review of the expenditure revealed that the payments were not supported with relevant documents to justify that project implemented were emergency cases within the constituency. The NG-CDF could therefore be funding projects from the emergency fund which do not meet the criteria in Section 8 of the National Government Constituencies Development Fund Act, 2015.

Further, an amount of Kshs.1,928,000 was paid for supply and delivery of food items, sanitizers and hand wash tanks to flood victims and school children. However, the expenditures were not supported with waybills or distribution schedules in various delivery centers and the survey report on the number of people affected. The date and specific venue where the items were distributed was also not indicated.

In the circumstances, validity of the expenditure of Kshs.12,016,131 on emergency projects could not be confirmed.

2.3 Unaccounted Bursary Funds

Included in Other Grants and Transfers payments is Kshs.45,899,681 incurred on bursaries to various secondary schools and tertiary institutions for the benefit of needy students within the constituency. However, examination of payment vouchers and other supporting documents revealed that Kshs.11,133,000 disbursed to various institutions were not acknowledged through official receipts or acknowledgement letters by the beneficiary institutions.

In addition, the Fund did not maintain a register to record the cheques issued for payment of bursaries.

Under the circumstances, the accuracy, completeness and validity of the other grants and transfers balance of Kshs.62,965,812 reflected in the statement of receipts and payments for the year ended 30 June, 2020 could not be ascertained.

3.0 Acquisition of Assets

As disclosed under Note 8 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.3,244,231. Included in this amount is Kshs.3,239,223 paid to a contractor for the construction of NG-CDF Offices at Galole Sub County. However, the payment was not supported by a completion certificate and an inspection and acceptance report. In addition, physical verification carried out on 3 March, 2021 revealed that although the building had been done up to the roofing stage, other works including flooring, plastering, fixing of doors and windows had not been done and the project had been abandoned with no ongoing construction activities.

In the circumstances, the validity of expenditure of Kshs.3,239,223 on construction of building could not be confirmed.

4.0 Unsupported Expenditure on Primary Schools Projects

Transfer to Other Government Units figure of Kshs.48,331,623 reflected under Note 6 to the financial statements includes an amount of Kshs.32,290,000 transferred to Project Management Committees (PMCs) that were implementing projects in various primary schools within the constituency. However, examination of payment vouchers totalling to Kshs.16,920,000 together with the respective project files revealed that the payments were not supported with project files containing tender documents such as advertisements of the projects, tender opening minutes, evaluation and awarding minutes, contract agreements, inspection and acceptance reports, site meeting minutes, certificate of practical completion, bills of quantities, evaluation minutes, professional opinion by the head of procurement and company profiles of the winning and losing bidders.

Further, the Project Management Committees (PMCs) bought a 46 seater school bus for Daku Secondary School at a cost of Kshs.6,637,000, However, the payment was not supported by a contract agreement, a local purchase order, a delivery note, project management committee bank statements and a pre - delivery inspection report for the bus from the ministry of Transport Infrastructure & Urban Development, Public Works and Shipping & Maritime Affairs.

In circumstances, the propriety of the expenditure on Transfer to Other Government Units of Kshs.13,557,000 as at 30 June, 2019 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 Constituency Development Fund - Galole 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. I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

Budget Performance and Projects Implementation Management

During the year under review, the Fund spent Kshs.131,126,733 out of the actual receipt of Kshs.182,927,190 which comprised unspent fund balance of Kshs.45,549,465 for financial year 2018/2019 and receipts from NGCDF Board of Kshs.137,372,724 for the year under audit resulting in unutilized total balance of Kshs.51,800,457 as at 30 June, 2020.

Further, the Fund Committee had allocated a total of Kshs.107,606,261 for 63 projects, out of which 20 projects were completed, 17 projects were still ongoing at the end of the financial year 2019/20, and 27 projects were not implemented.

Failure to complete the projects within the stipulated period may have denied the constituents the much-desired services.

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 matter 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

Non-Compliance with Budget Preparation Procedures

Audit review of the Fund Budget preparation documents such as Code List and the Authority to Incur Expenditure (AIE) files revealed that open forum public meetings were not conducted prior to submission of budget proposals to National Government Constituency Development Fund Board (NGCDFB) for approval. Budget proposals was not supported with public participation meetings minutes on deliberations concerning development matters for each ward. Further, there was no program of events and a list of priority projects as evidence of public participation in public forums from each ward availed for audit review Contrary to the requirements of Section 27(1) of the National Government Constituency Development Fund Act, 2015.

Consequently, the budget preparation may have not gone through the relevant stages of the budget.

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

03 February, 2022