

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Garsen Constituency set out on pages 21 to 58, 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 - Garsen 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.

### **Basis for Qualified Opinion**

#### **1.0 Use of Goods and Services**

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services balance of Kshs.11,870,379. The following observations were made: -

#### **1.1 Unsupported Committee Expenses**

During the year under review, the Fund spent Kshs.6,923,131 on committee allowances for conducting monitoring and evaluation of the Fund's projects within the Constituency. However, examination of payment records and other supporting documents provided revealed expenditure totalling Kshs.3,650,000 was not supported with work tickets of the vehicles used for the exercises, payment schedules and the lists of the projects visited.

#### **1.2 Unsupported Training Expenses**

Included in the use of good and services amount of Kshs.11,870,379 is an expenditure on training amounting to Kshs.2,100,000. However, examination of payment records and other supporting documents revealed that all the payments were not supported with

invitation letters, request and approvals for the training expenditure, imprest warrants, transport documents and certificates of participation/attendance.

In the circumstances, the accuracy, completeness and validity of the goods and services balance of Kshs.11,870,379 reflected in the statement of receipts and payments for the year ended 30 June, 2020 could not be ascertained.

## **2.0 Accuracy of the Financial Statements**

The statement of assets and liabilities shows a comparative balance for the financial year 2018/2019 of nil for outstanding imprests. However, the audited financial statements for the year ended 30 June, 2019 reflect a balance of Kshs.2,323,131 under the same item. Further, the total financial assets balance of Kshs.29,988,748, for the year, has been understated by a similar amount. This omission has not been explained by the Fund Management.

In addition, the summary statement of appropriation - recurrent and development combined shows an actual receipts amount of Kshs.170,079,603 for the year ended 30 June, 2020. This amount includes an amount of Kshs.2,323,131 which relates to outstanding imprests which were reported in the previous year's financial statements. The re-computed amount of actual receipts is Kshs.167,756,472 which is made up of Kshs.137,767,724 being transfers from the NGCDF Board and Kshs.29,988,748 being the previous year's audited cash and cash equivalents balance. The Fund Management has not explained the reason for including the outstanding imprests amount in the computation of actual receipts for the year.

In the circumstances, the accuracy of the financial statements 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 - Garsen 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 Budget Performance and Control

The summary statement of appropriation - recurrent and development combined shows that the Fund has total budgeted expenditure of Kshs.170,079,603 against an actual expenditure of Kshs.118,473,884 which results in an under expenditure of Kshs.51,605,719 or 30% of the budgeted.

The under expenditure by the Fund implies that some planned projects or activities were not undertaken during the year under review which may have impacted negatively on service delivery to the constituents of Garsen Constituency.

### 2.0 Projects Implementation Management

Review of the project implementation status of the Fund revealed that the Fund spent a total of Kshs.50,549,615 against the budget figure of Kshs.85,106,388 allocated for project implementation of sixty-five (65) projects during the year as detailed below: -

Project Category	Budget (Kshs.)	No of Projects	Actual Expenditure (Kshs.)	Difference Between Budget and Actual (Kshs.)	No of Projects Completed	No of Projects not Implemented
Primary Schools	44,500,000	42	29,260,000	15,240,000	31	11
Secondary Schools	29,700,000	16	11,300,000	18,400,000	11	5
Environment	2,700,000	3	2,100,000	600,000	3	0
Security	8,206,388	4	7,889,615	316,773	4	0
<b>Total</b>	<b>85,106,388</b>	<b>65</b>	<b>50,549,615</b>	<b>34,556,773</b>	<b>49</b>	<b>16</b>

From the foregoing, the Fund was able to complete forty-nine (49) projects and was unable to implement sixteen (16) projects. This may be attributed to the failure by the NGCDF Board to release the amount of Kshs.34,556,773 which had been budgeted for the completion of the projects.

Further, the failure to implement or delay in completion of the planned projects or activities within the stipulated period denied the constituents of Garsen Constituency the 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 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 Transfers to Other Government Entities**

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other government entities amount of Kshs.40,560,000. The following observations were made:

#### **1.1 Unsupported Expenditure on Transfers to Primary Schools**

Included in the figure for transfers to other government entities is an amount of Kshs.29,760,000 transferred to Project Management Committees (PMCs) for implementation of projects for various primary schools within the constituency. However, examination of payment vouchers and other supporting documents provided revealed that an expenditure totaling to Kshs.10,200,000 had not been properly supported with signed inspection and acceptance committee reports as required by Section 48(3) and (4) of the Public Procurement and Asset Disposal Act, 2015. Further, the approved project work plans and project handing and taking over reports from the project management committees for this procurements were not provided.

In addition, a physical verification of the projects carried on 26 February, 2021, revealed that two (2) projects worth Kshs.5,000,000 were not labeled as required by Section 11(1) (cc) of the National Constituencies Development Fund Regulations, 2016.

It was therefore difficult to ascertain whether the projects were implemented by Fund.

#### **1.2 Unsupported Expenditure on Transfers to Secondary Schools**

Included in the figure for transfers to other government entities is an amount of Kshs.10,800,000 transferred to Project Management Committees (PMCs) for implementation of projects for various secondary schools within the constituency. Examination of payment records and other supporting documents revealed that project files for two projects totalling Kshs.4,800,000 had no tender documents including minutes of the evaluation committee and tender evaluation report, notification letter to unsuccessful bidders, letter of acceptance by the winning bidder, and professional opinion from the head of supplies chain management.

Consequently, the propriety of the expenditure of Kshs.10,800,000 on transfers to secondary schools as at 30 June, 2020 could not be ascertained.

### **2.0 Other Grants and Transfers**

As disclosed under Note 7 to the financial statement, the statement of receipts and payments shows other grants and transfers amount of Kshs.49,885,003. However, audit review of the expenditure revealed the following observations:

## **2.1 Unsupported Bursary Disbursements**

Included in the amount for other grants and transfers of Kshs.49,885,003 is bursary disbursements totalling to Kshs.26,991,870. The Fund spent Kshs.15,000,000 for secondary schools, Kshs.9,158,870 for tertiary institutions, and Kshs.2,833,000 to support education for the needy students through social security program. However, examination of payment vouchers and other supporting documents revealed that payments totalling Kshs.14,137,270 paid to various tertiary institutions, secondary schools and bursary issued through social security programs were not acknowledged through official receipts or acknowledgement letters by the beneficiary institutions.

In the circumstances, it was not possible to ascertain whether the amount of Kshs.14,137,270 paid out to the various institutions or programs as bursaries was indeed received and utilized for the intended purpose.

## **2.2 Incomplete Environment Project**

Further, included in the environment projects amount of Kshs.2,100,000 is amount of Kshs.1,500,000 which the Fund spent on the construction of a sanitation block at Garsani Secondary School. Examination of the expenditure revealed that full payment was made to the contractor. However, a physical verification carried on 25 February, 2021 established that the project was not completed, since three doors for the toilets and two doors for the washrooms were not fitted, yet the contractor had been paid in full.

In the circumstance, the probity of expenditure amounting to Kshs.1,500,000 on under environment projects could not be confirmed.

## **3.0 Purchase of Motor Vehicle – Non-Availability of Procurement and Ownership Records**

As disclosed in Note 8 to the financial statement, the statement of receipt and payments reflects an amount of Kshs.9,900,000 on purchase of motor vehicle. However, important procurement and ownership records in support of the expenditure, including the letter of notification of award, letter of acceptance of award, letter to unsuccessful bidders, contract agreement, tender evaluation report, copy of tender advertisement, tender opening minutes, professional opinion, logbook of the vehicle and the Fund's Committee minutes approving the payment, were not provided for the audit.

Consequently, the authenticity of the expenditure of Kshs.9,900,000 on purchase of motor vehicle as at 30 June, 2020 could not be ascertained.

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 else 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 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 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 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 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**

**02 February, 2022**