

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – ISIOLO 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 – Isiolo North Constituency set out on pages 13 to 47, 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 statements 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 2010 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 effects of the matter 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 - Isiolo 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1.0 Cash and Cash Equivalents**

The statement of assets and liabilities reflects Kshs.2,881,416 in respect to cash and cash equivalents balance as at 30 June, 2020 held in one bank account. However, the respective bank reconciliation statement provided reflects unrepresented cheques totaling to Kshs.15,162,309 which includes nine (9) stale cheques totaling to Kshs.663,225 and which had not been replaced or reversed in the cash book as at 31 October, 2020. This therefore shows that the cash and cash equivalents balance is understated by a similar amount.

Further, the bank reconciliation statement reflects Kshs.16,720 in respect to payments in the bank statements not recorded in the cashbook and therefore overstating the cash and cash equivalents by the same amount.

In view of the above, the validity and accuracy of the cash and cash equivalents balance of Kshs.2,881,416 as at 30 June, 2020 could not be ascertained.

## **2.0 Use of Goods and Services - Unsupported Expenditure**

### **2.1 Other Committee Expenses**

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects Kshs.9,311,696 in respect to use of goods and services which includes Kshs.4,374,348 in respect to other committee expenses. This amount further includes Kshs.990,000 in respect to allowances paid to two of the Fund's officers.

However, respective supporting documents including programmes of activities, minutes of meeting held, projects visited, mode of transport and back to office reports were not provided for audit review contrary to Section 104(1) of Public Finance Management (National Government) Regulations, 2015 which states that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

In the circumstances, the propriety, accuracy and value for money for the Kshs.990,000 expenditures for the year ended 30 June, 2020 cannot be ascertained.

### **2.2 Fuel, Oil and Lubricants**

Further, Note 5 to the financial statements reflects Kshs.9,311,696 in respect to use of goods and services for the year ended 30 June, 2020 which includes Kshs.310,968 incurred on fuel, oil and lubricants.

However, supporting documents including the fuel register, detail orders, delivery notes, invoices and vehicle work tickets were not provided for review.

In the circumstances, the propriety and value for money for the Kshs.310,968 expenditure for the year ended 30 June, 2020 could not be ascertained.

## **3.0 Other Grants and Other Payments**

### **3.1 Unaccounted for Bursaries**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects Kshs.43,988,386 in respect to other grants and other payments which includes Kshs.18,883,502 and Kshs.13,853,300 in respect to bursaries disbursed to secondary schools and tertiary institutions respectively both totaling to Kshs.32,736,802 during the year ended 30 June, 2020.

However, out of the Kshs.32,736,802 bursaries disbursed during the year, only Kshs.3,988,000 (12%) were acknowledged by the beneficiary schools and institutions leaving a balance of Kshs.28,748,802 (88%) unacknowledged.

In the circumstances, it has not been possible to ascertain whether the bursaries totaling to Kshs.28,748,802 benefited the intended beneficiaries and whether it was expended as appropriated during the year ended 30 June, 2020.

### **3.2 Unsupported Sports Equipment Expenditure**

Included in the other grants and transfers amount of Kshs.43,988,386 is an expenditure of Kshs.1,500,000 incurred on purchase of sports equipment namely branded t/shirts, foot balls and shoes. However, the respective supporting documents including signed distribution schedules were not availed for audit review contrary to Section 104(1) of the Public Finance Management (National Government) Regulations, 2015 which states that all receipts and payment vouchers of public monies shall be properly supported by prenumbered receipts and payment vouchers and shall be supported by the appropriate authority and documentation.

In the circumstances, the propriety of the Kshs.1,500,000 expenditure for the year ended 30 June, 2020 could not be confirmed.

### **4.0 Unsupported Project Management Committee (PMC) Bank Balance**

Note 17.4 to the financial statements reflects Kshs.10,149,374 in respect to PMC bank account balances as at 30 June, 2020. However, included in this balance is a Kshs.279,487 balance in one bank account and whose certificate of bank balance was not provided for audit review.

In the circumstances, the accuracy of the Kshs.10,149,374 in respect to the PMC bank account balances as at 30 June, 2020 could not be ascertained.

### **5.0 Presentation of the Financial Statements**

During the audit of the financial statements, it was noted that the Fund's financial statements' forward by the chairman NG- CDF committee at page 4 to the financial statements indicates "Financial Statements for the 2019/2" instead of 2019/2020 which is the year under review.

Note 10A and 10B to the financial statements in respect to bank accounts and cash in hand respectively indicates 30/6/2019 and 30/6/2018 below the columns of year under review and previous year respectively. However, the relevance of 30/6/2019 and 30/6/2018 in the financial statements is not clear.

In addition, the progress on follow up of auditor recommendations included in the financial statements is not signed by the accounting officer contrary to Public Sector Accounting Standard Board (PSASB) template issued in June, 2020 which requires the same to be signed by the accounting officer.

Further, Note 5 to the financial statements reflects Kshs.310,968.20 in respect to fuel, oil & lubricants which have not been rounded off to the nearest shillings contrary to significant accounting policy No.3 and the best accounting practice.

In view of above, the Fund's financial statements for the year ended 30 June, 2020 are not prepared in accordance with International Public Sector Accounting Standard (IPSAS) and the PSASB prescribed format.

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

#### **1.0 Budgetary Control and Performance**

The summary statement of appropriation: recurrent and development reflects final receipts budget and actual on comparable basis of Kshs.199,034,556 and Kshs.129,666,831 respectively resulting to an under-funding of Kshs.69,367,725 or 35% of the budget. Similarly, the Fund expended Kshs.126,785,416 against an approved budget of Kshs.199,034,556 resulting to an under-expenditure of Kshs.72,249,140 or 36% of the budget.

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

Further, Note 10A to the financial statements for the year under review shows an amount of Kshs.2,881,416 as a bank balance which represents unutilized funds. Although these funds were disbursed by the Board during the year under review, the Fund had not spent the same as at 30 June, 2020. These funds could have been disbursed to priority projects that would have improved delivery of goods and services to the residents of Isiolo North Constituency.

#### **2.0 Project Implementation Status**

Review of the project implementation status report compiled by the Fund revealed that out of fifty-nine (59) projects budgeted for during the financial year under review at a cost of Kshs.186,118,841, twenty-nine (29) projects had been completed at a cost of Kshs.60,247,551. Out of the remaining projects, ten (10) projects expected to cost

Kshs.83,173,209 were on going while twenty (20) projects with a cost budget of Kshs.42,698,081 had not been started as at 30 June, 2020.

Consequently, due to delay in project implementation, the residents of Isiolo North Constituency may not have received the benefits derived from implementation of the planned projects

## 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 Lack of Professional Opinion on Security Projects**

Note 7 to the financial statements reflects Kshs.43,988,386 in respect to other grants and other payments for the year ended 30 June, 2020 which includes Kshs.4,000,000 in respect to security incurred on construction of administrative offices for a Chief and Assistant County Commissioner at Merti Sub County. However, a signed professional opinion was not provided contrary to Section 84(1) of the Public Procurement and Assets Disposal Act, 2015 which states that the head of a procurement function of a procuring entity shall alongside the report of the evaluation committee as secretariat comment, review the tender evaluation report and provide a signed professional opinion to the accounting officer on the procurement or assets Disposal proceedings.

In the circumstances, the Fund is in breach of the law.

#### **2.0 Untagged Fixed Assets**

As previously reported, annex 4 to the financial statements reflects Kshs.9,612,000 in respect to fixed assets as at 30 June, 2020 which includes transport equipment, other equipment, furniture and fittings, ICT equipment, software and other ICT assets and other machinery and equipment's valued Kshs.7,799,500, Kshs.1,562,500, Kshs.51,000 and Kshs.199,000 respectively all totaling to Kshs.9,612,000. However, included in the Kshs.9,612,000 are assets valued at Kshs.1,812,500 which were not tagged for ease of tracking and identification contrary to Section 139(1)(b) of the Public Finance Management (National Government) Regulations, 2015 which states that an accounting officer of a national government entity shall take full responsibility

and ensure that proper control systems exist for assets and that movement and conditions of assets can be tracked.

In the circumstances, 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 matters described in the Basis for Qualified Opinion section 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**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit so as 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 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'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**

**02 February, 2022**