

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KAPENGURIA 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 - Kapenguria Constituency set out on pages 29 to 66, 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 - Kapenguria Constituency as at 30 June, 2020 and 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.

### Basis for Qualified Opinion

#### 1.0 Use of Goods and Services

##### 1.1 Training Expenses

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services payments of Kshs.7,761,863 which includes training expenses of Kshs.1,142,000 relating to training of National Government Constituencies Development Fund Committee Members. However, supporting documents such as the invitation to trainings, training needs assessment, venue of the meetings and training attendance registers were not provided for audit verifications.

Under the circumstances, the accuracy and completeness of Kshs.1,142,000 incurred under training could not be confirmed.

##### 1.2 Unsupported Other Committee Expenses

Note 5 to the financial statements also reflects other committee expenses of Kshs.1,456,000 relating to allowances to committee members. However, there was no documentary evidence to confirm that the secretary in consultation with the officer of the board seconded to the constituency actually prepared and tabled before a constituency

committee a schedule of meetings which were to be held during the year and whether or not copies of the minutes held were submitted to the National Government Constituencies Development Fund Board within thirty days after the confirmation and execution of the minutes in the manner prescribed by the Board.

Further, invitation letters to attend meetings, attendance register and minutes for all the committee meetings in the financial year under review were not provided for audit verification. It was therefore not possible to determine how many meetings were held during the year and how many members attended the same.

Consequently, the accuracy and completeness of the committee expenses of Kshs.1,456,000 could not be confirmed.

### **1.3 Unsupported Purchase of Land**

Included in the transfers to other government entities figure of Kshs.73,450,000 reflected in the statement of receipts and payments and Note 6 to the financial statements is an expenditure of Kshs.2,200,000 incurred on purchase of land for the Kakpaw Primary School and Kapchila Secondary School.

However, the land title deeds, valuation report from a registered land valuer and official search from Ministry of Lands were not provided for audit verification.

Under the circumstances, the accuracy and propriety of the Kshs.2,200,000 incurred on purchase of land could not be confirmed.

### **2.0 Unsupported Project Management Committee (PMC) Bank Balances**

Annex 4 of the financial statements reflect nil Project Management Committee (PMC) bank balances as at 30 June, 2020, yet Kshs.86,142,540 was disbursed to projects. However, it was not possible to confirm whether or not the opening Project Management Committee (PMC) bank balances of Kshs.14,744,538 was utilized during the year as certificate of bank balances, bank statement and bank reconciliation statement to support the balances were not provided for audit verification.

Further, available information indicates that project funded for Kshs.65,4332,975 were still ongoing but was not disclosed in the financial statements.

Under the circumstances, the existence, accuracy and completeness of the Nil bank balance on Project Management Committee account 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 - Kapenguria 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 Control and Performance**

During the year under review, the National Government Constituencies Development Fund - Kapenguria Constituency had an approved budget Kshs.148,106,728 against actual expenditure of Kshs.110,235,456 or approximately 74% of the budget resulting to under expenditure of Kshs.37,871,272 or 26% of the budget.

Non-utilization of all the funds budgeted for is an indication that services and approved projects/programmes were not delivered and therefore the budget did not meet the intended objectives of improving the service delivery to the residents of Kapenguria Constituency.

### **2.0 Projects Implementation Status Report**

A review of the project implementation status report for the National Government Constituencies Development Fund - Kapenguria Constituency revealed that Kshs.78,125,757 was budgeted towards implementation of eighty (80) projects during the financial year 2019/2020 out of which Kshs.12,692,782 was disbursed to three (3) projects which are now complete. Further, Kshs.65,432,975 was disbursed to seventy-six (76) projects which were still ongoing at various levels of completion of between 60% and 95%.

Delay in implementation and completion of planned projects is an indication that the residents of Kapenguria Constituency may not have realized the benefits accruing from the planned programs and activities for the year ended 30 June, 2020.

## **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. Presentation and Accuracy of Financial Statements**

A review of the financial statements provided for audit review revealed the following:

- i) The statement of cash flow reflects positive payments for operating activities and acquisition of assets instead of negative figures.
- ii) Significant accounting policies number 3 states that the financial statements are prepared in Kenya shillings and all values are rounded to the nearest Kenya shilling. However, the figures in the budget execution by programmes and sub programmes and Note 1 to the financial to the statements have not been rounded to the nearest Kenya shilling.

Under the circumstances, the financial statements are not accurately presented in accordance with International Public Sector Accounting Standards.

### **2. Purchase of School Buses**

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other government units of Kshs.73,450,000 which includes transfers to secondary schools of Kshs.41,500,000. Included in the transfers is Kshs.21,000,000 incurred on the purchases of three (3) school buses for Chekomos, Turkwel Gorge and Prawa Secondary Schools. However, inspection and acceptance report and logbook to confirm ownership of the school bus buses were not provided for audit verification.

Consequently, the propriety of the Kshs.21,000,000 spent on purchase of the school buses could not be confirmed.

### **3. Irregular Procurement of Environment Projects**

Included in the transfers to other grants and transfers figure of Kshs.24,173,934 reflected in the statement of receipts and payments and Note 7 to the financial the statements is environment projects expenditure of Kshs.2,747,186 incurred on the construction of twenty (20) check dams and two (2) gabions. However, procurement records such as tender advertisement, tender opening minutes, appointment letters for tender evaluation and award committee, tender evaluation minutes, letter of offer, letter of acceptance, inspection and acceptance report were not provided for audit review.

Therefore, the regularity and propriety of the environment projects of Kshs.2,747,186 could not be confirmed.

### **4. Irregular Disbursements of Bursaries**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers of Kshs.24,173,934 out of which Kshs.11,481,393 relates to disbursements of bursaries to secondary schools and tertiary institutions. However, there was no evidence to show that the bursary sub-committee formed included two co-opted members one who must be education officer or an officer seconded from

Ministry of Education and the established criteria of identifying the beneficiaries was not documented and provided for audit verification. Further, the minutes of the bursary committee meetings were not provided for audit verification.

Under the circumstances, the propriety of the bursary expenditure of Kshs.11,481,393 could not be confirmed.

## 5. Irregular Implementation of Emergency Projects

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers figure of Kshs.24,173,934 which includes emergency projects costing Kshs.7,198,000 implemented during the year.

However, there is no evidence that utilization of the emergency reserve was reported to the NGCDF Board within thirty days as per Regulation 20(2) of the National Government Constituency Development Fund Regulations, 2016. Further, no documentary evidence was provided to confirm that the expenditure was emergency in nature.

Consequently, the Management was in breach of the law

## 6. Project Verification

During the year under review six (6) projects were verified, and the audit revealed that four (4) projects remained incomplete as detailed below:

	Payee	Activity	Amount (Kshs.)	Finding	% Completion
1	Kapsurum Primary School	Construction of 2 Classrooms	800,000	Construction of two classrooms, classes even though painting and labelling has not been done.	95%
2	Kola Primary School	Completion of 3 Classrooms	550,000	Works ongoing.	70%
3	Murkwijit Mixed Secondary School	Building of 2 Classrooms	800,000	Complete and in use, electricity yet to be installed	98%
4	Kitalakapel Technical Training institute	Fencing of 5-acre TTI compound using chain link and steel poles	2,532,975	Project was ongoing	80%
	<b>Total</b>		<b>4,682,975</b>		

Consequently, it was not possible to confirm whether value for money will be realized on the projects valued at Kshs.4,682,975

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 SYSTEMS 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 overall governance were not effective.

### **Basis for Conclusion**

#### **Risk Management Policy**

During the year ended 30 June, 2020, the Management of Fund did not have in place a risk management policy, risk management strategies and a system of risk management to enable them develop appropriate risk strategies in order to improve on effective and efficient management of public resources. Consequently, the Management is not likely to respond appropriately to emerging risks that may result in loss of funds.

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 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 terminate 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 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 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**