

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KEIYO NORTH 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 - Keiyo North Constituency set out on pages 14 to 51, which comprise the statement of receipts and payments, statement of assets and liabilities, statement of cash flows, summary statement of appropriation: recurrent and development combined 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 - Keiyo 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 the Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

### **Basis for Qualified Opinion**

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

As disclosed in Note 10A to the financial statements, the Statement of Assets and Liabilities reflects a Cash and Cash Equivalents balance of Kshs.22,168,183 as at 30 June, 2020. However, the bank reconciliation statement for June, 2020 indicated an amount of Kshs.10,592,924 being unrepresented cheques whose supporting documents were not provided.

Consequently, the accuracy and completeness of the bank balance of Kshs.22,168,183 as at 30 June, 2020 could not be confirmed.

#### **2.0 Bursary Disbursements to Tertiary Institutions**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects a balance of Kshs.45,022,950 in respect to Other Grants and Transfers. Included in this figure are bursary disbursements totalling Kshs.18,475,000. An audit review revealed that disbursements amounting to Kshs.6,590,000 could not be matched to the intended beneficiaries.

In the circumstances, accuracy and completeness of other grants and transfers of Kshs.45,022,950 for the year ended 30 June, 2020 could not be confirmed.

### **3.0 Project Management Committee Account Balances**

Disclosed under Note 17.4 to the financial statements is a figure of Kshs.13,331,687 in respect to Project Management Committee account balances as at 30 June, 2020. However, relevant cash books, bank confirmation certificates and bank reconciliation statements relating to the said accounts were not provided for audit review. Further, balances of 83 accounts totalling to Kshs.23,932,067 were not included in the figure of Kshs.13,331,687. No information was provided detailing how the funds were utilized during the year and subsequent closure of the accounts.

In the absence of these records, the validity, accuracy, and completeness of Project Management Committee account balance of Kshs.13,331,877 as at 30 June, 2020 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 – Keiyo 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 Matters**

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

The summary statement of Appropriation: Recurrent and Development Combined reflects final receipts budget and actual on comparable basis of Kshs.216,254,282 and Kshs.146,386,558 respectively resulting to an under-funding of Kshs.69,867,725 or 32% of the budget. Further, the statement indicates the Fund utilized Kshs.124,470,923 against the disbursements of Kshs.146,386,558 resulting to underutilization of Kshs.21,915,635 or 15%. The Project expenditure was limited to the amount realised.

In the circumstances, the budget under funding and expenditure underutilization affected the planned activities and may have impacted negatively on service delivery to the public.

## **2.0 Projects**

### **2.1 Project Implementation Status**

A review of the project implementation status as at 30 June, 2020 indicated that a total of one hundred and thirteen (113) projects were funded at an estimated cost of Kshs.118,944,027. The NGCDF transferred Kshs.71,270,338 to various PMCs for implementation of development projects. Thirty-two (32) project with an estimated value of Kshs.24,139,256 were completed and in use, twenty-four (24) projects with estimated cost of Kshs.23,781,825 were yet to start, twenty-two (22), projects with an estimated cost of Kshs.23,349,257 were on going.

Consequently, failure to complete the funded projects is an indication that programs or activities were not implemented negatively affecting the people of Keiyo North 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 matter(s) 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 Transfer to Other Government Entities**

##### **1.1 Non-Labeling of CDF Projects**

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other government units amounting to Kshs.59,038,513 as at 30 June, 2020. However, audit verifications revealed three (3) projects implemented during the year but were not labeled as having been funded by the NG-CDF, contrary to Section 11 of the National Government Constituency Development Fund Regulations, 2016 which require Management to ensure that projects are labelled in accordance with the guidelines issued by the Board.

Consequently, it was not possible to independently confirm that the projects were funded by the Keiyo North Constituency.

The Management is in breach of the law.

##### **1.2 Unsupported Expenditure**

As disclosed in Note 6 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects transfers to other government units of Kshs.59,038,513 relating to funds disbursed to various Project Management

Committees. However, actual expenditure returns and acknowledgement letters from institutions that received the funds were not provided. This is contrary to Section 15(1)(d) of the National Constituency Development Fund Regulations, 2016 which states that the Project Management Committees shall prepare returns and file them with a Constituency Committee.

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

## **2.0 Unresolved Prior Year Audit Matters**

Annexed to the financial statements submitted for audit, is the progress on follow up of auditor recommendations on matters raised in the audit report for 2018/2019. The issues raised remain unresolved contrary to Section 68(2)(l) of the Public Finance Management Act, 2012 which require accounting officers to take appropriate measures to resolve any issues arising from audit which may remain outstanding.

The Management is therefore 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 matter(s) 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**

#### **1.0 Internal Control Weaknesses in Human Resource Records**

Disclosed under Note 4 to the financial statements is compensation of employees balance of Kshs.3,194,714. A review of the personal files revealed that one employee was appointed in August, 2019 for three-year renewable contract. However, advertisement of the said vacancy was not presented for audit review.

Further examination revealed that, documents in staff files were not foliod or referenced.

It was therefore not possible to ascertain whether the recruitment process followed due diligence and the weaknesses of filling of documents in Human Resource section needs to be addressed.

## **2.0 Failure to Maintain Stores Records for Projects**

As disclosed in Note 6 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects transfers to Other Government Entities of Kshs.59,038,513. Project verifications noted that 19 PMCs projects with a total disbursement of Kshs.13,699,000 were not maintaining store records showing materials received in store, usage and balances. As a result, it was not possible to confirm whether all the materials purchased were utilized for the intended purpose.

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 continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless Management is aware of the intention to terminate the Fund or 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 financial reporting process, reviewing the effectiveness of how the Management 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 overall 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 overall 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**

**08 February, 2022**