

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Lari Constituency set out on pages 19 to 47, which comprise of the statement of financial assets as at 30 June, 2020 statement of receipts and payments, statement of cash flows and the 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the National Government Constituencies Development Fund – Lari 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 do not comply with the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Errors in Presentation and Inaccuracy of the Financial Statements

The financial statements presented for audit review reflected the following anomalies:

- i. Note 3 to the financial statements on other receipts does not reflect the total receipts for the year.
- ii. The 2019/2020 financial statements comparative balances were at variance with the notes to the financial statements as follows:

| Item | Note | Financial Statements Balance (Kshs.) | Amount in Note to Financial Statements (Kshs.) | Variance (Kshs.) |
|----------------------------|------|--------------------------------------|--|------------------|
| Transfers from CDF Board | 1 | 108,784,483 | 43,405 | 108,741,078 |
| Use of Goods and Services | 5 | 12,091,724 | 12,614,576 | (522,852) |
| Other Grants and Transfers | 7 | 52,172,141 | 47,020,118 | 5,152,023 |
| Acquisition of Assets | 8 | 0 | 135,000 | (135,000) |

| Item | Note | Financial Statements Balance (Kshs.) | Amount in Note to Financial Statements (Kshs.) | Variance (Kshs.) |
|----------|------|--------------------------------------|--|------------------|
| Gratuity | 12B | 0 | 550,566 | (550,566) |

- iii. The statement of receipts and payments for the year ended 30 June, 2020 reflects transfers from CDF Board of Kshs.123,070,876 and compensation of employees of Kshs.2,022,308 while the respective Notes 1 and Note 4 reflect Kshs.123,040,876 and nil respectively resulting to unreconciled and unexplained variances of Kshs.30,000 and Kshs.2,022,308 respectively.
- iv. The statement of receipts and payments for the year ended 30 June, 2020 reflects transfers from CDF Board of Kshs.123,070,876 and use of goods and services expenditure of Kshs.6,303,296 while the statement of cashflows reflects transfers from CDF Board of Kshs.123,040,876 and use of goods and services of Kshs.6,273,296 both resulting to a variance of Kshs.30,000.
- v. The statement of financial assets reflects cash and cash equivalents balance of Kshs.10,839,664 that varies with the cash and equivalent at the end of the year balance reflected in statement of cash flow of Kshs.9,804,327 resulting in unreconciled variance of Kshs.1,035,347.
- vi. The statement of financial assets reflects nil prior year adjustment balance while corresponding Note 14 to the financial statements reflects a prior year adjustment balance of Kshs.5,693,128.

In the circumstances, the accuracy of the financial statements for the year ended 30 June, 2020 could not be confirmed.

2. Use of Goods and Services

2.1. Unsupported Training Expenses

Disclosed in Note 5 to the financial statements under use of goods and services is an expenditure of Kshs.1,878,000 in respect to training expenses. However, the expenditure was not supported with the relevant authorization or approval, details of payees, participant's invitation letters, signed attendance lists, evidence of travel and invoices from venue where the training took place.

In the absence of sufficient and relevant evidence, the occurrence and validity of the expenditure totalling Kshs.1,878,000 could not be confirmed.

2.2. Unsupported Committee Allowances

Disclosed in Note 5 to the financial statements under use of goods and services is an expenditure of Kshs.1,128,000 spent on committee allowances during the year under review. The expenditure includes an amount of Kshs.100,000 paid to an adhoc committee consisting of the Lari - NG-CDFC Chairman, the Fund Accounts Manager and other members constituted to deliberate on complaints and outstanding issues on gratuity and salary arrears owed to CDF staff. The payments were however not

supported with information on dates of the meeting, the signed attendance list, approval letters and alleged complaints to warrant the establishment of a committee.

In the absence of sufficient and relevant evidence, the occurrence and accuracy of the expenditure totalling Kshs.100,000 could not be confirmed.

2.3. Unsupported Transfers to Other Entities

The statement of receipts and payments reflects transfers to other government units and other grants and transfers expenditure of Kshs.53,296,000 and Kshs.57,368,072 respectively. However, nineteen (19) projects costing Kshs.51,700,000 had no project files containing key procurement documents such as advertisement, tender opening minutes, evaluation and awarding minutes, engineer's estimates, contract agreement, inspection and acceptance reports and payment vouchers. As a result, expenditure totalling Kshs.51,700,000 listed below was not supported:

| | Project Name | Amount Disbursed (Kshs.) |
|----|--------------------------------|---------------------------------|
| 1 | Magina Primary School | 2,900,000 |
| 2 | Kago primary School | 5,700,000 |
| 3 | Githogoiyo Primary School | 2,900,000 |
| 4 | Kamburu Primary School | 2,600,000 |
| 5 | Kibagare Primary School | 2,400,000 |
| 6 | Kirenga Primary School | 2,800,000 |
| 7 | karugo Primary School | 3,000,000 |
| 8 | Kinale Primary School | 2,300,000 |
| 9 | Kibathithi Primary School | 2,500,000 |
| 10 | Kamae Primary School | 3,000,000 |
| 11 | Mbauni Primary School | 2,800,000 |
| 12 | Gathema Secondary School | 4,800,000 |
| 13 | Kariguini Secondary School | 4,500,000 |
| 14 | Kirenga Girls Secondary School | 1,000,000 |
| 15 | Nyamweru Secondary School | 1,000,000 |
| 16 | Magina Chief's Camp | 2,000,000 |
| 17 | Matimbei Chief's Camp | 1,500,000 |
| 18 | Githogoiyo Chief's Camp | 2,000,000 |
| 19 | Lari/Kirenga Chief's Camp | 2,000,000 |
| | Total | 51,700,000 |

In the absence of sufficient and relevant evidence, the occurrence and accuracy of the expenditure totalling Kshs.51,700,00 could not be confirmed.

3. Inaccuracies in Cash and Cash Equivalents

3.1. Stale Cheques

As disclosed under Note 10A to the financial statements, the statement of financial position reflects a cash and cash equivalents balance of Kshs.10,839,674. A review of the bank account reconciliation statement for the month of June, 2020 revealed that included as part of reconciling items in the bank reconciliation statement were

unpresented cheques amounting to Kshs.491,085 which were stale and had not been reversed in the cash book.

No reason was given for failure to reverse the stale cheques or reconcile and clear the long outstanding items. As a result, the accuracy and completeness of bank balances of Kshs.10,839,674 as at 30 June, 2020 could not be confirmed.

3.2. Unsupported Cash Withdrawals

A review of the bank statements and records of payments revealed that cash withdrawals totalling Kshs.4,107,700 were made during the year under review out of which Kshs.2,076,000 was withdrawn and spent on 30 June, 2020. No reason was provided for the payment for goods and services in cash. In addition, included in the cash payments of 30 June, 2020 is a payment of Kshs.394,000 reported to have been incurred on a bursary meeting paid through voucher number 95 but was also not supported with attendance list of participants and details of the venue of the meeting.

Further, three suppliers were paid cash totalling to Kshs.424,700. The payments were made vide payment vouchers numbers 072-Kshs.100,000, 073-Kshs.224,000 and 101-Kshs.100,000 which were not supported with procurement records, including tender notices or request for quotation, tender opening, evaluation minutes and award letters. It was therefore not clear how the suppliers were identified and awarded to supply goods to the Fund.

In view of the missing information, the occurrence and completeness of the cash withdrawals totalling Kshs.2,076,000 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 - Lari 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 adverse 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

Prior Year Unresolved Issues

In the report of the previous year, several issues were raised under Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, although the Management has indicated that all the issues have been resolved, the matters remained unresolved as the National Assembly has yet to deliberate on the audit report for 2018/2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Advance Opinion and the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, based on the audit procedures performed, I confirm that, public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Poor Workmanship on Primary Schools Classrooms Projects

Disclosed in Note 6 to the financial statements under transfers to other government entities is an expenditure of Kshs.41,996,000 in respect to transfers to primary schools. Included in the expenditure are payments totalling Kshs.11,500,000 which comprise of Kshs.2,900,000, Kshs.3,000,000 and Kshs.2,900,000 disbursed to Magina, Kago, Kamae and Karatina Primary Schools respectively for construction of classrooms. However, physical inspection carried out revealed visible cracks in the floor and uneven finishing, an indication of poor workmanship.

As a result, the value for money of the expenditure of Kshs.11,500,000 incurred during the year ended 30 June, 2020 could not be confirmed.

2. Unsupported Bursary Payments - Secondary Schools

Disclosed in Note 7 to the financial statements under other grants and transfers are bursary payments to secondary schools of Kshs.18,140,877. Included in the expenditure is bursary totalling Kshs.640,000 to various beneficiaries, which was not supported with bursary applications and evidence indicating that a bursary sub-committee carried out vetting of the applicants as required for the administration of bursary scheme. Management has not provided explanation for the the anomaly.

In the circumstances, the propriety of the bursary funds totalling Kshs.640,000 could not be confirmed.

2.1. Unsupported Sports Expenditure

Included in the other grants and other transfers of Kshs.57,368,072 as disclosed in Note 7 to the financial statements is an amount of Kshs.2,747,354 in respect of sports during the financial year under review and whose procurement documents were not presented for audit verification.

In the absence of relevant records, the validity and value for money of the sum of Kshs.2,747,354 spent on the sports equipment could not be confirmed.

2.2. Unsupported Expenditure on Security Projects

Included under other grants and other payments as disclosed in Note 7 of the financial statements is expenditure totalling Kshs.20,898,600 in respect of security projects, out

of which an amount of Kshs.1,898,600 was paid to a contractor for the construction of Kirenga Chiefs' Office block. Procurement records examined revealed that although the tender documents required the bidders to attach valid registration from National Construction Authority (NCA), it was not attached. Further, the letter of offer, contract acceptance letter, and engineer's estimates were not provided for audit review.

Consequently, the regularity of expenditure of Kshs.1,898,600 during the year under review could not be confirmed.

2.3. Unsupported Expenditure Emergency Projects

Included also under Note 7 to the financial statements under other grants and other payments, is expenditure of Kshs.7,198,241 in respect of emergency projects. The expenditure was incurred on construction of eleven (11) toilets in the Constituency during the year under review. Records examined revealed that the NG-CDF Lari Constituency floated quotations to suppliers to supply building materials and delivery of these materials to various building sites for the emergency projects. However, project specifications including engineer's estimates, bills of quantities and labour cost were not provided for audit review.

Consequently, the occurrence and value for money on the emergency expenditure of Kshs.7,198,241 during the year ended 30 June, 2020 could not be confirmed.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that internal controls, governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires 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 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 Fund 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 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 ability of the Fund 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 sustaining 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

15 February, 2022