

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LOIMA 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 - Loima Constituency set out on pages 16 to 38, 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 - Loima 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 Presentation, Accuracy and Completeness of Financial Statements

An audit review of other information and the financial statements for the year ended 30 June, 2020 revealed the following anomalies:

- i. The statement of assets and liabilities reflect prior year adjustment balance of Kshs.133,891 referenced to Note 14 to the financial statements. However, Note 14 does not explain the nature of the prior year adjustment.
- ii. Note 17.3 to the financial statements reflects Kshs.63,938,416 in respect to comparative unutilized fund balance which is at variance with the comparative balance of Kshs.51,582,187 reflected at Annex 3. Further, Annex 3 to the financial statements does not disclose specific projects that were yet to receive funding by the Board and bank balances in the constituency accounts.
- iii. Page 5 to the financial statements, on forward by the Chairman National Government Constituencies Development Fund Committee, reflects Kshs.124,540,724 in respect to funds spent during the year ended 30 June, 2020 However, this balance differs with the Kshs.124,316,883 total payments reflected in the statement of receipts and payments. The resulting variance of Kshs.223,841 has not been reconciled.

- iv. Annex 4 to the financial statements reflect summary of fixed asset register with historical cost brought forward from 2019/18 instead of brought forward from 2018/2019.
- v. The financial statements are not fully signed as they were signed by the Fund Account Manager only.

Consequently, the financial statements do not comply with the requirements of the IPSAS (Cash Basis) and Public Sector Accounting Standards Board reporting template.

2.0 Transfers to other Government Units

The statement of receipts and payments reflects Kshs.53,832,398 in respect to transfers to other Government units which varies with the balance of Kshs.52,932,398 reflected in the supporting schedules provided for audit review resulting to unexplained/unreconciled variance of Kshs.900,000.

Consequently, the accuracy and completeness of the transfers to other government units balance of Kshs.53,832,398 for the year ended 30 June, 2020 could not be confirmed.

3.0 Bank Balances

The statement of assets and liabilities reflects Kshs.3,934,614 in respect to bank balance. However, a review of the respective bank reconciliation statement for June, 2020 indicated unrepresented cheques amounting to Kshs.7,864,493 out of which cheques amounting to Kshs.185,880 had become stale but had not been reversed in the cash book.

Consequently, the accuracy and completeness of the Kshs.3,934,614 bank balance as at 30 June, 2020 could not be confirmed.

4.0 Project Management Committee Account Balances

Note 17.4 to the financial statements reflects Kshs.2,005,692 in respect to project management committee account balances as at 30 June, 2020. However, the balances were not supported with cashbooks, certificate of bank balances and bank reconciliation statements.

In the circumstances, the accuracy and completeness of the project management committee account balances of Kshs.2,005,692 as at 30 June, 2020 could not be confirmed.

5.0 Summary of Fixed Asset Register

Annex 4 to the financial statements reflects Kshs.20,678,000 in respect to historical cost of summary of fixed assets register which is at variance with the fixed asset register balance of Kshs.5,678,000 resulting to unexplained/unreconciled variance of Kshs.15,000,000. Further, although NG-CDF Loima Constituency owns an office block, the land and the building were not included in the asset register.

Consequently, the accuracy and completeness of the fixed asset balance of Kshs.20,678,000 as at 30 June, 2020 could not be confirmed.

6.0 Committee Allowance

Note 5 to the financial statements reflects Kshs.9,142,261 in respect to use of goods and services which includes Kshs.3,174,730 in respect to committee allowance. However, the committee allowance balance was not supported with minutes of the meetings, notices of the committee meetings and approval of schedule of meetings.

Consequently, the validity and propriety of the Kshs.3,174,730 balance in respect to committee allowance for the year ended 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 - Loima 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

Budgetary Control and Performance

The summary statement of appropriation reflects final receipts budget and actual on comparable basis of Kshs.201,306,140 and Kshs.128,239,646 respectively resulting to an under-funding of Kshs.73,066,494 or 36% of the budget. Similarly, the Fund expended Kshs.124,305,033 against an approved budget of Kshs.201,306,140 resulting to an under-expenditure of Kshs.77,001,108 or 38% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Loima 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 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 Unsupported Expenditure

The statement of receipts and payments reflects Kshs.53,832,398 in respect to transfers to other government units which relates to funds disbursed to various Project Management Committees. However, actual expenditure returns and acknowledgement letters from institutions that received the funds were not provided for audit verification. 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, it was not possible to confirm whether the funds totalling Kshs.53,832,398 were received and utilized for the intended purpose.

2.0 Bursary Disbursements

As disclosed in Note 7 financial statements, the statement of receipts and payments reflects Kshs.56,081,049 in respect to other grants and transfers which include Kshs.16,314,000 in respect to bursary disbursement to secondary schools and Kshs.17,148,249 in respect to tertiary institutions. However, the minutes of the bursary sub-committee indicating how the beneficiaries were identified and also showing that two members of whom one should be area education officer or officer seconded from the Ministry of Education were co-opted as required by the CDF Board circular Ref. CDF Board circulars/VOL 1/111 dated 13 September, 2010 were not provided for audit review. In addition, there was no documentary evidence provided for audit review to confirm acknowledgement of receipt of funds by the various schools.

Consequently, the Management is in breach of the law and the propriety of the bursary disbursement of Kshs.33,462,249 to secondary schools and tertiary institutions for the year ended 30 June, 2020 could not be confirmed.

3.0 Purchase of 51-Seater School Bus for Napeililim Secondary School

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects Kshs.53,832,398 in respect to transfers to other government units which include transfers to secondary schools of Kshs.22,694,165 out of which Kshs.7,200,000 was incurred to purchase of a 51-seater school bus for Napeililim Secondary School. However, the payment was not supported with procurement documents such as contract negotiation, professional opinion, contract agreement and mechanical inspection report.

Further, it was observed that the Kshs.7,200,000 was transferred to Napeililim Project Management Committee for purchase of the bus whereas the cost of the bus was estimated at Kshs.6,800,000. The Management did not explained how the balance of Kshs.400,000 was accounted for.

In the circumstances, it was not possible to confirm if the procurement of the school bus complied with provisions of Public Procurement and Asset Disposal Act, 2015.

4.0 Projects

4.1 Project Status Report

The project status report provided for audit review, indicated that Loima Constituency had budgeted to spend Kshs.136,575,626 to implement seventy-six (76) projects during the year ended 30 June, 2020. A summary of the project implementation status is provided below:

Implementation Status	No. of Projects	Allocated Amount (Kshs.)	Disbursed Amount (Kshs.)
Complete	40	63,783,198	63,683,198
Ongoing	3	8,600,000	4,950,000
Not started	33	64,192,428	Nil
Total	76	136,575,626	68,633,198

The delay in implementation and completion of planned projects resulted from late disbursement of funds by the NGCDF Board.

Consequently, the residents of Loima Constituency failed to receive the benefits accruing from planned programs and activities for the year ended 30 June, 2020.

4.2 Project Verification Report

During the year under review, nine (9) projects implemented at a budgeted cost of Kshs.27,000,000 out of which Kshs.22,600,000 had been disbursed were physically verified and audit observations are summarized at **Appendix I**.

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, 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

Lack of Risk Management Policy

As previously reported, as at 30 June, 2020, the National Government Constituency Development Fund - Loima Constituency Management had not put 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 effectiveness and efficient management of public resources. Without a well-established risk

management policy, the operations of the entity may be adversely affected in case a disaster strikes.

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 overall 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 the 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 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 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

08 February, 2022

Appendix I – Summary of Audit Observation

No.	Project Name	Project Activity	Allocation (Kshs.)	Disbursed Amount (Kshs.)	Remarks
1.	Nakumane Primary School	Construction of two classrooms	3,000,000	3,000,000	- One door broken - Painted - Labelled - Classes complete and in use
2.	Tiya Primary School	Construction of two classrooms	700,000	700,000	-Two classrooms complete and in use
3.	Turkwel Boys High School	Construction of dining hall	2,200,000	2,100,000	-Dining hall complete and in use - One of the doors is broken - Pavement done - Painted and labelling done.
4.	Loima Girls Secondary School	Construction of dormitory	2,100,000	700,000	- Branding not done - One of the windows broken - Electrical works not complete. - The dormitory is in use.
5.	Lolupe Primary School	Construction of 2 Classrooms (Kshs.2,600,000) and Equipping with 50 pupils double desks (Kshs.400,000)	3,000,000	3,000,000	- Two classrooms complete and in use - Branding done - 50 Desks delivered.
6.	Lorugum Primary School	Construction of dormitory (Girls Dormitory)	3,000,000	3,000,000	- Dormitory is in use however, one window is broken and electrical works are not complete.
7.	Lorugum Primary School	Construction of dormitory (Boys Dormitory)	3,000,000	3,000,000	- Dormitory is in use however, one window is broken and electrical works are not complete.
8.	Loima Boys Secondary School	Construction of dormitory	5,000,000	2,100,000	Dormitory not complete -Plastering not done inside -Floor not done

No.	Project Name	Project Activity	Allocation (Kshs.)	Disbursed Amount (Kshs.)	Remarks
					-Roofing complete -Timber used for roofing not treated -Doors and windows not fixed -Partitioning of the dormitory done -The dormitory is not in use
9.	Namoruputh Police Station	Construction of 4 NPH Houses with pit latrines and bathrooms	5,000,000	5,000,000	Police units are complete - Labelled - Painted both inside and outside - Floor done - Roofing done
	Total		27,000,000	22,600,000	