

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MOYALE 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 the National Government Constituencies Development Fund - Moyale Constituency set out on pages 24 to 53, 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- Moyale 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 National Government Constituencies Development Fund Act, 2015.

### **Basis for Qualified Opinion**

#### **1.0 Accuracy of the Financial Statements**

##### **1.1 Understated Cash and Cash Equivalents Balance - Stale Cheques**

The statement of financial position as at 30 June, 2020 reflects cash and cash equivalent balance of Kshs.2,764,444 as disclosed in Note 10A to the financial statements.

The supporting bank reconciliation statement reflects unrepresented cheques totaling to Kshs.6,615,546 which further includes stale cheques totaling to Kshs.91,341 and which had not been replaced or reversed in the cash book as at 30 June, 2020 thereby understating the cash and cash equivalents balance of Kshs.2,764,444 by the same amount.

Consequently, the validity and accuracy of the cash and cash equivalents balance of Kshs.2,764,444 as at 30 June, 2020 could not be ascertained.

## 1.2 Unsupported Prior Year Adjustment

The statement of receipts and payments and statement of assets and liabilities for the year under review reflects Kshs.637,202 in respect to prior year adjustments comparative balances which is said to be stale cheques reversed in the cash book. However, as reported in the previous year, the particulars of the reversed cheques were not provided for audit review. In addition, note 14 to the financial statements reflects Kshs.18,700,730 on the same item resulting to unexplained variance of Kshs.18,063,528.

In the circumstances, the accuracy and validity of the prior year adjustments comparative balance of Kshs. 637,202 in the financial statements for the year ended 30 June, 2020 could not be confirmed.

## 1.3 Unexplained Variance in Unutilized Fund Balance

The summary statement of appropriation: recurrent and development combined reflects Kshs.74,241,606 in respect to adjustments which relates to unutilized funds for the year 2018/2019. However, a similar statement for the year 2018/2019 reflects Kshs.73,104,403 in respect to budget utilization difference which relates to unutilized funds for the same year resulting to unexplained variance of Kshs.1,137,203.

Further, Note 17.3 to the financial statement reflects Kshs.2,764,444 and Kshs.8,700,730 in respect to unutilized funds for the year under review and the comparative 2018/2019 balances respectively. However, a review of documents availed for audit review revealed that the said balances relates to a cash and cash equivalents as at 30 June, 2020 and 30 June, 2019 respectively and not unutilized funds.

In the circumstances, the accuracy of the Kshs.74,241,606 in respect to adjustments in the summary statement of appropriation for the year under review could not be confirmed.

## 1.4 Project Management Committee (PMC)-Bank Balances

Annex 5 to the financial statement reflects Kshs.4,201,960 in respect to PMC bank balances as at 30 June, 2020. However, a re-cast of the balances gave Kshs.4,203,472 resulting to unexplained variance of Kshs.1,512. Further, the annex reflects a comparative balance of Kshs.677,461 whereas the 2018/2019 financial statement reflect Kshs.503,918 resulting to unexplained variance of Kshs.173,543. In addition, there are variances between PMC balances reflected in the financial statement and subsequent cash books as shown below;

PMC's Name	Amount in the cash book (Kshs.)	Amount in the financial statements (Kshs.)	Variance (Kshs.)
Moyale Prison	340,000	0.00	340,000
Ramole Primary School	945,685	949,685	4,000
Yaballo Primary School	197	0.00	197

In the circumstances, the accuracy of the PMC bank balances of Kshs.4,201,960 as at 30 June, 2020 could not be confirmed.

## **1.5 Acquisition of assets Balance**

The statement of receipts and payments reflect a nil balance in respect of acquisition of assets as disclosed in Note 8 to the financial statements. However, annexure 4 to the financial statements reflects Kshs.1,318,900 in respect of additional assets acquired during the year under review resulting to unexplained variance of the same amount.

In the circumstance, the accuracy of the balance on acquisition of assets could not be confirmed.

## **2.0 Unsupported Expenditure on Security**

The statement of receipts and payments for the year ended 30 June, 2020 reflects other grants and transfers of Kshs.53,341,316 as disclosed in Note 7 to the financial statements. The balance includes Kshs.7,787,500 in respect of security which further include Kshs.900,000 and Kshs.840,000 transferred to Manyatta Chief's camp and Moyale prison respectively. However, supporting documents including project files, procurement documents and expenditure returns were not provided for audit review.

Consequently, the accountability and value for money for the Kshs.1,740,000 expenditure for the year ended 30 June, 2020 could not be confirmed.

## **4.0 Presentation of the Financial Statements**

A review of the financial statements for the year under review revealed that a Note on progress on follow up of auditor recommendations indicates that all the issues raised by the Auditor-General in the previous years are resolved. However, no evidence has been provided for verification to show how the 2018/2019 issues were resolved.

Further, statement of receipts and payments, statement of cash flows and the summary statement of appropriation: recurrent and development combined do not indicate that the statements are "for the year ended 30 June, 2020" while the statement of assets and liabilities, does not indicate that it is "as at 30 June, 2020" as required by Public Sector Accounting Standards Board (PSASB).

In addition, the Fund did not prepare a separate summary statements of appropriation for development and recurrent contrary to the Section 81(2) of Public Finance Management Act, 2012 which states that the accounting officer shall include in the financial statement-appropriation accounts, showing the services for which, the appropriated money was spent, the actual amount spent on each service and the status of each vote compared with the appropriation for the vote.

Consequently, the financial statements submitted for audit do not comply with the Public Sector Accounting Standards Board reporting template for June, 2020.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Moyale Constituency 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 combined reflects final receipts budget and actual on comparable basis of Kshs.211,609,330 and Kshs.141,991,606 respectively resulting to an under-funding of Kshs.69,617,724 or 33% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.211,609,330 and Kshs.139,227,162 respectively resulting to an under expenditure of Kshs.72,382,168 or 34% of the budget The Project expenditure was limited to the amount realized.

Based on the approved estimates, under funding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

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

Notes 6, 7 and 9 to the financial statements reflect Kshs.69,616,627, Kshs.53,341,316 and Kshs.2,937,354 in respect to transfers to other government entities, other grants and other payments respectively all totaling to Kshs.125,895,297 which was transferred to various institutions to implement projects during the year ended 30 June, 2020. However, review of the project implementation status report as at 30 June, 2020 revealed that out of the fifty-one (51) projects worth Kshs.129,933,754 budgeted to be undertaken during the year under review, twenty-two (22) projects worth Kshs. 24,626,627 were completed, twenty-eight (28) projects worth Kshs. 101,057,127 were ongoing while and one (1) project worth Kshs. 4,250,000 had not started.

In the circumstances, the residents of Moyale Constituency did not therefore get the planned services equivalent to Kshs.101,057,127 in respect to ongoing projects and Kshs.4,250,000 being the budgeted projects that were not implemented during the year under review all totaling to Kshs.105,307,127. Therefore, there is need for the Moyale Constituency management to review its project planning mechanism with a view to prioritizing on projects which will be implemented during the financial year resulting to higher impact into improving service delivery to the citizen of Moyale 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 Tender for Construction of Administration Block to Completion -Township Mixed Day Secondary School**

The statement of receipts and payments for the year ended 30 June, 2020 reflects transfers to other government units of Kshs.69,616,627 as disclosed in Note 6 to the financial statements. The balance includes Kshs.15,224,127 in respect to transfers to secondary schools which further includes Kshs.2,000,000 transferred to Township Mixed Day Secondary School for construction of an administration block to completion. A tender advertisement for the said construction was made on 11 July, 2019 and three bids were received. However, the advertised tender lacked specific requirements as to the procedures and criteria to be used to evaluate and compare the tenders contrary to Section 60(1) of the Public Procurement and Assets Disposal, Act 2015, which states that an accounting officer of a procuring entity shall prepare specific requirements relating to the goods, works or services being procured that are clear, that give a correct and complete description of what is to be procured and that allow for fair and open competition among those who may wish to participate in the procurement proceedings.

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

### **2.0 Tender for Supply of Sports Kits**

Note 7 to the financial statements reflects Kshs.53,341,316 in respect to other grants and other payments which includes Kshs.2,180,818 in respect to sports which was paid to a contractor for the supply of sports kits. However, quotation forms did not indicate the date and place where the same will be submitted contrary to Section 106(c) of the Public Procurement and Asset Disposal Act, 2015 which states that quotations should give an explanation of where and when they shall be submitted.

Further, the Local Purchase Order did not indicate the specifications of the sports kit in terms of texture, colour and the logo contrary to Section 60(1) of Public procurement and Asset Disposal Act, 2015 which states that an accounting officer of a procuring entity shall prepare specific requirements relating to the goods, works or services being procured that are clear, that give a correct and complete description of what is to be procured and that allow for fair and open competition among those who may wish to participate in the procurement proceedings.

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 procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

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 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 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 scepticism 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 going concern 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 offering 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 offering services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate 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**

**11 February, 2022**