

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – OLJOROOROK 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 - Oljoroorok Constituency set out on pages 15 to 46 which comprise the statement of assets and liabilities as at 30 June, 2020, and 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, except for the effects 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 - Oljoroorok 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. Inaccuracies in Financial Statements

Review of financial statements for the year ended 30 June, 2020 presented for audit revealed the following inaccuracies.

- (i) The statement of receipts and payments reflects receipts of Kshs.157,040,875 in respect of transfers from National Government Constituency Development Fund Board whereas summary statement of appropriation: recurrent and development combined reflects actual amount of Kshs.186,141,354 resulting to unreconciled variance of Kshs.29,100,479.
- (ii) The comparative balance under note 7 on Bursary to tertiary institutions is reflected as Kshs.6,362,000 instead of the audited amount of Kshs.6,702,000 resulting to a variance of Kshs.340,000. Further, total casted amount under Note 7 is indicated as Kshs.59,151,216 while the recasted figure is Kshs.58,811,216 resulting to a variance of Kshs.340,000.

- (iii) Annex 3 on unutilized funds reflects total outstanding balance for 2019/2020 of Kshs.72,730,038 whereas the re-casted figures amount to Kshs.72,635,644 resulting to a variance of Kshs.94,394,
- (iv) Note 17.4 on Project Management Committee bank accounts reflect a balance of Kshs.20,536,910 while Annex 20 on the same reflects Kshs.25,614,450 resulting to a variance of Kshs.5,077,540

Consequently, the accuracy and completeness of the above balances included in the financial statements for the year ended 30 June, 2020 could not be ascertained.

2. Unsupported Bursaries – Secondary Schools and 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 an amount of Kshs.62,361,954 in respect of grants and other payments out of which Kshs.1,442,735 and Kshs.5,768,500 relates to bursary to secondary schools and tertiary institutions respectively. Audit review of the bursary schedules provided for audit, indicated that six (6) students from secondary schools and one student from a tertiary institution were issued with bursary amounting to Kshs.154,570 and kshs.10,000 which were not supported by student's admission number.

Further, an amount of Kshs.5,317,500 was paid to a private driving school to train seven hundred and seventeen (717) students. However, schedules provided to support the expenditure did not indicate student's national identification number nor were copies of their identification cards provided to confirm whether they had attained at least eighteen (18) years of age required to qualify for the training. In addition, there was no evidence provided to confirm that the students attended the driving training lessons.

In the circumstance, the validity of bursary amounting to Kshs.5,768,500 for the year ended 30 June, 2020 could not be confirmed.

3. Unsupported Rural Electrification project

As disclosed under Note 7 to the financial statements, the statement of receipts and payments reflects payments on other grants and other payments of Kshs.62,361,954 out of which an amount of Kshs.26,863,222 relates to Rural Electrification Authority (REA) being payment for electrification of various areas within the constituency. However, the payments have not been supported by returns from REA which include survey reports, design, project progress reports, transformers installed and commissioning reports to support number of households that benefitted from the project and the total coverage.

Under the circumstances, the validity of the reported payments of Kshs.26,863,222 to Rural Electrification Authority (REA) 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 – Oljoroorok 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: recurrent and development combined reflects final receipts budget and actual receipts on comparable basis of Kshs.221,508,978 and Kshs.186,217,254 respectively resulting to an under-funding of Kshs.35,291,724 or 16% of the budget.

Further, out of the receipts amount of Kshs.186,217,254 only Kshs.148,778,980 was absorbed resulting to an under absorption of Kshs.37,438,274 or 20% of the receipts.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the constituents.

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 Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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. Errors in Presentation of the Financial Statements

The financial statements for the year ended 30 June, 2020 as presented contain the following errors:

- (i) The statement of constituency management responsibilities at page 13 refers to “entity” instead of NGCDF- Oljoroorok Constituency.
- (ii) The statement of cashflow reflects acquisition of assets under Note 9 while it is under Note 8 in the explanatory notes.

Consequently, the financial statements do not comply with financial reporting framework requirement and guidelines issued by the Public Sector Accounting Standard Board.

2. Irregular Committee Allowances

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services of Kshs.8,221,551 which includes Kshs.3,198,600 incurred on committee allowances. Records presented for audit indicated that the District Accountant and Fund Accounts Manager were paid allowances totaling to Kshs.414,800. The Management has not explained how the ex officio members were paid allowances contrary to Section 43 of the National Government Constituencies Development Fund Act, 2015.

Consequently, it has not been possible to confirm the regularity and validity of Kshs.414,800 incurred on committee expenses for the year ended 30 June, 2020.

3. Emergency Projects

As disclosed in note 7 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects other grants and other payments of Kshs.62,361,954. This amount includes Kshs.1,931,000 incurred on emergency projects. It was observed that the funds were used in construction of toilets, purchase of lockers, electrification, and construction of classroom in various schools. However, no evidence was provided to prove that they were of emergency in nature and could not be delayed until the following financial year. This is in contravention of Section 8 (3) of the National Government Constituencies Development Fund Act, 2015 which recognizes emergency to mean an urgent, unforeseen need for expenditure for which it is in the opinion of the committee that it cannot be delayed until the next financial year without harming the public interest of the constituents.

4. Non-Closure of Project Management Committee (PMC) Bank Accounts

Annex 5 to the financial statements for the year ended 30 June, 2020 reflects project bank balances totaling Kshs.25,614,450.10 for seventy-three (73) project management committee bank accounts. However, forty-eight (48) projects had their status indicated as completed and in use, yet the related Project Management Committee bank accounts had a total balance of Kshs.1,146,350 as at 30 June, 2020 and the accounts were active contrary to Section 12(8) of the National Government Constituencies Development Fund Act, 2015 which requires all unutilized funds of the Project Management Committee to be returned to the constituency account.

1.0 Unsupported Social Security Expenditure

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects payments on other grants and other payments of Kshs.62,456,398 which includes payments of Kshs.12,000,000 to National Health Insurance Fund in respect of medical insurance cover for the needy. However, the payments have not been supported by way of a policy document for identifying the needy beneficiaries, minutes of the Constituency Social Security Programme, Ad hoc committee and memorandum of understanding between NGCDF-Oljoroorok and NHIF contrary to circular from the NG CDF Board dated 18/6/20 Ref.No: NG-CDFB/CEO/BOARDCIRCULARS VOL II (022) on the financing and implementation of the social security projects.

2.0 Projects Implementation Status- Delayed Projects

Review of the Project Implementation Status report as of 30 June, 2020 indicated that thirty-two (32) projects amounting to Kshs.124,004,628 were funded out of which thirty-one (31) projects worth Kshs.122,504,628 or 99% were incomplete.

Further, a physical verification of sampled projects conducted in the month of February, 2021 revealed that fourteen (14) projects amounting to Kshs.54,710,599.60 were either abandoned or lacked necessary documentation relating to their implementation.

No satisfactory explanations have been provided for the noted deficiencies in projects implementation and hence raising doubts on the adequacy and level of monitoring and supervision by the relevant committees.

Consequently, the Fund may have failed to obtain value for money spent on the projects valued at Kshs.122,504,628 for the year ended 30 June, 2020 to the constituents.

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

Basis for Conclusion

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.

In preparing the financial statements, Management is responsible for assessing the Fund's ability 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 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 money is applied in an effective manner.

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 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 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 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 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

07 February, 2022