

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SIGOR 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 - Sigor Constituency set out on pages 16 to 57, 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 - Sigor 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 Inaccuracies in the Financial Statements

1.1 Unsupported Prior Year Adjustment

The statement of assets and liabilities reflects prior year adjustment figure of Kshs.458,848 which increased opening bank balances of Kshs.123,040,876 to Kshs.123,499,724 as disclosed in Note 14 to the financial statements. However, the opening bank balance is Kshs.12,604,625. Further, justification for adjustment has not been provided for audit review.

Consequently, accuracy of prior year adjustment of Kshs.458,848 could not be confirmed.

1.2 Inaccurate Comparative Balances

Comparative figures reflected in statements of receipts and payments, statement of assets and liabilities and statement of cash flow are not in agreement with the correct arithmetic amounts as summarized below:

Item	Financial Statements	Reported amount (Kshs)	Correct Arithmetic Amount (Kshs.)	Variance (Kshs.)
Total payments	Receipts and payments	100,433,463	96,509,295	3,924,168
Net financial position	Assets and liabilities	12,604,625	13,454,914	(850,289)
Total operating payments	Cash flow	96,509,295	92,585,127	3,924,168

Consequently, the accuracy of respective comparative figures could not be confirmed.

1.3 Inaccurate Cash and Cash Equivalents

The statement of assets and liabilities and as disclosed in Note 10A to the financial statements reflects bank balance of Kshs.5,718,983 as at 30 June, 2020. Bank reconciliation statement reflects unpresented cheques amounting to Kshs.6,229,153, which includes cheques amounting to Kshs.684,415 which had become stale as at 30 June, 2020. At the time of audit in March, 2021, there was no evidence of reversal and replacement of the stale cheques.

Further, the bank reconciliation statement reflects bank charges of Kshs.660 while bank statement for the year ended 30 June, 2020 revealed total bank charges incurred during the year amounted to Kshs.102,470. These bank charges were not recorded in the cash book and charged in the statement of receipts and payments.

Consequently, the accuracy of the bank balance of Kshs.5,718,983 could not be confirmed.

1.4 Unsupported Bank Balances

Annex 5 to the financial statements reflects Project Management Committee (PMC) bank balances amounting to Kshs.782,367 as at 30 June, 2020 held in eleven (11) bank accounts. However, cash books, bank reconciliation statements, certificates of bank balance and bank statements for the eleven (11) bank accounts were not provided for audit review. Further, during the year, a total of Kshs.61,611,262 was disbursed to seventy-nine (79) projects an indication of non-disclosure of some PMCs' bank balances as at 30 June, 2020.

Consequently, the accuracy, completeness and existence of the Project Management Committee bank balances amounting to Kshs.782,367 could not be confirmed.

1.5 Inconsistent Fixed Assets Balances

Annex 4 to the financial statements - summary of fixed assets register reflects total assets amounting to Kshs.37,597,570 as at 30 June, 2020. However, the amounts in summary of fixed assets register are not in agreement with corresponding figures in the assets register resulting to unexplained or unreconciled variance of Kshs.30,968,535 as summarized below;

Asset	Cost as per Fixed Assets Register (Kshs)	Cost as per Summary of Fixed Assets Register (Kshs)	Variance (Kshs)
Buildings and Structure	37,000,000	22,098,570	14,901,430
Transport Equipment	14,747,606	10,330,000	4,417,606
office Equipment, Furniture and Fittings	462,500	2,510,000	(2,047,500)
ICT Equipment, Software and Other ICT Assets	115,999	878,000	(762,001)
Other Machinery and Equipment	16,240,000	1,781,000	14,459,000

Consequently, the accuracy and completeness of total fixed assets figure of Kshs.37,597,570 could not be confirmed.

2.0 Unsupported Expenditure

The statement of receipts and payments and as disclosed in Note 6 reflects transfers to other government units amounting to Kshs.61,611,262. This amount comprises of transfers to primary and secondary schools amounting to Kshs.28,124,512 and Kshs.33,486,750, respectively. However, approved work plans, procurement plans, expenditure returns and Project Management Committees (PMCs) reports were not provided. Further, actual expenditure returns and acknowledgement letters from institutions that received the funds were not provided for audit verification.

Consequently, the accuracy and completeness of the expenditure amounting to Kshs.61,611,261 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 - Sigor 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 statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.205,013,224 and Kshs.130,465,316 respectively resulting to an under-funding of Kshs.74,547,908 or 36% of the budget. Similarly, the Fund expended Kshs.130,465,316 against an approved budget of Kshs.205,013,224 resulting to an under-expenditure of Kshs.74,547,908 or 36% of the budget.

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

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 Irregular Construction of Constituency Development Fund (CDF) Office

As reported in the previous year, a contract was awarded to a construction firm in the 2015/2016 financial year at a contract sum of Kshs.13,710,381 for construction of a CDF office at Sigor. Available information indicates that the contractor was paid a total of Kshs.12,332,012 or about 90% of the contract sum as at 30 June, 2019. Later, the contractor vacated site without completing the work. Subsequently, the fund Management opted for direct procurement of materials and labour totalling Kshs.11,066,635 to bring total cost of the project to Kshs.23,398,647 as at 30 June, 2019. During the year ended 30 June, 2020, no additional payments were made towards the project.

A physical verification of the project confirmed that the project is complete and in use. However, the following anomalies were noted;

- i. The procurement records such as tender advertisement, opening minutes, evaluation, award of tender minutes and contract document were not provided for audit review.
- ii. The payment vouchers were also not supported by minutes of site meeting and interim certificates. It was further noted that the contractor abandoned the project after payment of 90% of the contract sum.
- iii. The Management did not explain why the contractor was paid without certificates of completion and evidence of work done.
- iv. Further, the Management did not provide evidence that the direct procurement of labour and materials was done competitively as per the provisions of Public Procurement and Asset Disposal Act, 2015.

Consequently, the Management was in breach of the law.

2.0 Irregular Payment of Bursary

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects other grants and transfers amounting to Kshs.45,643,406 which includes bursary to secondary schools and tertiary institutions amounting to Kshs.11,942,400 and Kshs.2,229,000, respectively. However, the following anomalies were noted;

- i. There was no evidence to show that vetting, identification and categorizing of needy students was done by the bursary subcommittee that should include area education officer or a representative from the Ministry of Education contrary to CDF Board circular reference VOL1/111 dated 13 September, 2010 which requires formation of a subcommittee of Constituency Development Fund to manage the bursary scheme, which subcommittee should include two co-opted members one who must be an education officer or an officer seconded from Ministry of Education.
- ii. Evidence of acknowledgement in form of receipts and acknowledgement letters from the various institutions that received funds to support the bursary payments were not provided for audit review.
- iii. The Fund does not maintain a current/updated database of secondary schools, colleges and universities as registered by the Ministry of Education to ascertain whether the students who applied for the and received bursary are undertaking their studies in institutions registered.
- iv. Further, it was observed that the Ward Education Fund Appraisal committees did not establish from the learning institutions if the bursary applicants had received funding from other sources.

Consequently, the Management was in breach of the law.

3.0 Irregular Payment of Emergency Projects

As disclosed in Note 7 to the financial statements, the statement of receipts and payments and reflects other grants and other payments amounting to Kshs.45,643,406 which includes emergency projects payments of Kshs.7,250,000. During the year under review, emergency payments of Kshs.7,250,000 was made to eighteen (18) projects which included security projects, secondary and primary schools.

However, no evidence was provided to show that the payments met the emergency criteria in accordance with Section 8(3) of the National Government Constituencies Development Fund Act, 2015 which states that, emergency shall be construed 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.

Further, there was no evidence to confirm that the Constituency Committee reported to the Board within thirty days of occurrence of emergency contrary to Regulation 20(2) of National Government Constituencies Development Fund Regulations, 2016 which states that utilization of the emergency reserve shall be reported to the Board within thirty days of the occurrence of the emergency, in the format prescribed by the Board.

Consequently, the Management was in breach of the law.

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, 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 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 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 National Government Constituencies Development Fund Sigor Constituency 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

15 February, 2022