

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – SOTIK 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 – Sotik Constituency set out on pages 10 to 51, which comprise the statement of assets and liabilities as at 30 June, 2020 and the statement of receipts and payments, statement of cashflows 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 National Government Constituencies Development Fund – Sotik 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 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Errors in the Annual Reports and Financial Statements

The financial statements for the year ended 30 June, 2020 submitted for audit review had the following presentation anomalies:

- i. The table of contents page under bullet vi, refers to Gilgil Constituency instead of Sotik Constituency.
- ii. The approval dates of the financial statements on pages 8, 10,11,12 and 15, have not been indicated.
- iii. Page number 47 is omitted in the financial statements.

Consequently, the financial statements for the year ended 30 June, 2020 do not conform to the presentation format prescribed by the Public Sector Accounting Standard Board (PSASB) in accordance with Section 194(1) (d) of the Public Finance Management Act, 2012 which states that PSASB shall prescribe the formats for financial statements and reporting by all state organs and public entities.

2. Inaccuracies in the Financial Statements

The financial statements for the period ended 30 June, 2020 submitted for audit review had the following inaccuracies: -

- i. Note 17.4 erroneously reflects the balance brought forward for the financial year 2018/2019 as zero instead of Kshs.20,845,056.
- ii. The statement of receipts and payments reflects Kshs.256,286 in respect of acquisition of assets. However, the supporting schedule provided for audit review reflects Kshs.503,700, resulting in unexplained variance of Kshs.247,414.
- iii. The statement of receipts and payments reflects other grants and transfers of amounting to Kshs.13,614,717, which include Kshs.4,013,850 in respect of emergency expenditure. However, the emergency expenditure erroneously includes Kshs.400,000 which according to the approved code list, relates to transfers to primary schools for renovation of two classrooms.

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.

3. Use of Goods and Services

The statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.7,372,780 in respect of use of goods and services as detailed under Note 5 to the financial statements. Review of the expenditure for the category revealed the following;

3.1 Accuracy of Committee Allowances

Included in the use of goods and services is Kshs.5,065,660 expenditure on committee allowance. The expenditure was incurred towards payment of allowances for Constituency Development Fund (CDF) committee meetings, monitoring and evaluation, public participation, and bursary vetting exercises. However, a schedule supporting the balance adds to Kshs.4,952,060, leading to a variance of Kshs.113,600 which was not explained or reconciled. Further, the schedule does not indicate the specific date that the respective activities took place. In addition, committee sitting allowances amounting to Kshs.590,000 were paid to 6 (six) non-committee members.

Consequently, the accuracy and validity of the expenditure of Kshs.5,065,660 on committee allowance for the year ended 30 June, 2020 could not be confirmed.

3.2 Domestic Travel and Subsistence

Expenditure on use of goods and services includes Kshs.591,400 in respect of domestic travel and accommodation. However, the supporting schedule reflects Kshs.567,600, resulting in unexplained variance of Kshs.23,800. Further, the schedule does not disclose the specific activity for which the allowances were paid.

Consequently, the accuracy and occurrence of the expenditure of Kshs.591,400 on domestic travel and accommodation for the year ended 30 June, 2020 could not be confirmed.

3.3 Office and General Supplies and Services

The use of goods and services expenditure also includes Kshs.289,436 in respect of office and general supplies and services. However, the supporting schedule reflects Kshs.776,262, resulting in unexplained variance of Kshs.484,826. Further, the schedule does not disclose the specific activities for which the allowances were paid.

Consequently, the accuracy and occurrence of the expenditure of Kshs.289,436 on office and general supplies and services for the year ended 30 June, 2020 could not be confirmed.

4. Cash and Cash Equivalents

The statement of assets and liabilities as at 30 June, 2020 reflects bank balance of Kshs.71,057,306. However, the bank reconciliation statement as at that date reflects payments in the cashbook not in bank statements of Kshs.36,257,292 which include stale cheques amounting to Kshs.52,174. No reason was provided for failure to reverse the cheques in the cashbook.

Consequently, the accuracy and completeness of the bank balance of Kshs.71,057,306 as at 30 June, 2020 could not be confirmed.

5. Prior Year Adjustment

The statement of assets and liabilities as at 30 June, 2020 reflects prior year adjustments of Kshs.71,663 as detailed under Note 14 to the financial statements. The amount relates to a payment made in the previous year and reversed in the current year. However, the adjustment should have been reflected in the comparative year column instead of current year column in accordance with paragraph 41 of International Public Sector Accounting Standard (IPSAS) 3 which states that a prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period specific effects or the cumulative effect of the error.

Consequently, the prior year adjustments of Kshs.71,663 as at 30 June, 2020 is not fairly stated.

6. Inaccurate Project Management Committee Bank Balances

Note 17.4 to the financial statements on other important disclosures to the financial statements reflects Project Management Committee (PMC) bank statement balances of Kshs.44,584,385 as at 30 June, 2020 in respect of balances held in 38 school bank accounts. However, verification of the bank statements reflected Kshs.2,219,873, leading to variance of Kshs.42,364,512 which has not been reconciled or explained. Further, PMC bank account balances held in 28 schools amounting to Kshs.1,693,071 as at 30 June, 2020 were not disclosed in the financial statements.

Consequently, the accuracy and completeness of the PMC bank balances of Kshs.44,584,385 as at 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 – Sotik 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 communicate in my report.

Other Matter

Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined for the year ended 30 June, 2020 shows that the National Government Constituencies Development Fund – Sotik Constituency had a total receipts budget of Kshs.222,433,933 against actual receipts of Kshs.145,066,209 or 65% of the expected amount. Similarly, the statement reflects a total expenditure budget of Kshs.222,433,933 against actual expenditure of Kshs.74,080,566 or 33% budget absorption. The Management explained that the low absorption was due to delay in funding by the NG-CDF Board. The budget underutilization implies that the constituents did not receive the envisaged services as provided for under Article 232 (1, c) of the Constitution which requires responsive, prompt, effective, impartial and equitable provision of services from the Public Service.

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 Unauthorized Reallocation of Funds

The statement of receipts and payments reflects transfer to other government entities amounting to Kshs.44,210,000 as detailed under Note 6 to the financial statements. Included in the amount is Kshs.13,100,000 in respect of transfers to secondary schools for various projects. Out of the amount, Kshs.3,600,000 was remitted to five schools for construction of dining halls and toilets. However, the schools changed the activities as shown below:

	Secondary Projects	Approved Activity	Date	Cheque No.	Amount (Kshs.)	Audit Findings
1.	Kipngosos Secondary School	Construction of Dining Hall	04/06/2020	13968	800,000	Classroom constructed and 30 Lockers and Chairs purchased.

	Secondary Projects	Approved Activity	Date	Cheque No.	Amount (Kshs.)	Audit Findings
2.	Kapsosurwo Secondary School	Construction of Dining Hall	04/06/2020	13969	800,000	Classroom constructed and 30 Lockers and Chairs purchased.
3.	Kipsigei Secondary School	Construction of Dining Hall	04/06/2020	13971	800,000	Classroom constructed and 30 Lockers and Chairs purchased.
4.	Chepkosiom Secondary School	Construction of Dining Hall	04/06/2020	13974	800,000	Classroom constructed and 30 Lockers and Chairs purchased.
5.	Kapkelei Secondary School	Construction of Toilets	10/01/2019	13828	400,000	Funds channeled to construction of Dining Hall.
	Total				3,600,000	

The Management of National Government Constituencies Development Fund – Sotik Constituency did not provide a letter approving reallocation of funds in accordance with Section 6 (2) of the National Government Constituencies Development Fund Act, 2015 which states that once funds are allocated for a particular project, they shall remain allocated for that project and may only be reallocated for any other purpose during the financial year with the approval of the Board.

Consequently, the Management of the Constituency Fund is in breach of the law.

2.0 Projects

2.1 Project Implementation Status

The project implementation status report provided by the Management indicated that a total of Kshs.123,077,130 was allocated to 153 projects during the financial year ended 30 June, 2020. The report indicated implementation status in summary was as follows:

Status	Number of Projects	Allocation (Kshs.)
Completed Projects	24	62,673,354
Ongoing Projects	96	42,135,041
Not Started	33	18,268,735
Total	153	123,077,130

From the above analysis, and Management explanations, the 33 projects which had not started awaiting funds from the National Government Constituency Development Fund Board.

Consequently, the delay in implementation of projects may impact negatively on delivery of goods and services to the residents of Sotik Constituency.

2.2 Project Verification

2.2.1 Construction Work in Schools

Six (6) projects with a total allocation of Kshs.3,050,000 were sampled and visited for audit verification in the month of February, 2021 where the following observations were made regarding status of the specific projects: -

No.	Secondary Projects	Activity	Date	PV No.	Cheque No.	Amount (Kshs.)	Findings
1	Sosur Secondary School	Construction of laboratory	04/06/2020	157	13981	1,500,000	Project was incomplete. Plastering, Flooring, windowpanes and painting not done. Contractor was not on site.
2	Tuiyotich Primary School	Construction of classroom	13/8/2015		9218	600,000	Classroom was in use, but the floor, veranda and walls were not plastered; door and windows were not fitted.
3	Ndanai Boys High School	Construction of toilets	04/06/2020	142	13965	400,000	Project incomplete. The construction was at the slab level. The contractor was not on site.
4	Chesilyot Assistant Chief	Construction of 2 toilets	6/4/2020	139	200,000	200,000	The project is complete but not in use. The office where the toilets were constructed appeared abandoned.
5	Chilgotwet Primary School	Construction of 2 toilets	31/1/2020	70	13877	250,000	The Project was incomplete. External brick walls are loose and may collapse.
6	Tuiyotich Primary	Murraming of classrooms	31/1/2020	72	13879	100,000	Project has not been undertaken in 2019-2020
		Total				3,050,000	

The anomalies in workmanship and project implementation are an indication that Management had not conducted adequate supervision of the projects. Consequently, I am unable to confirm whether the residents of Sotik Constituency will realize value from the funds spent on the projects.

2.2.2 ICT Project

The statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.6,924,027 in respect of other payments as detailed at Note 9 to the financial statements. Out of the amount, Kshs.4,677,027 was paid to an ICT service provider in full for the supply, installation, testing and commissioning of the internet in four wards namely, Kipsonoi, Ndanai, Kapletundo and Chemagel, with an objective of providing internet services to the local community. However, audit verification done in February, 2021 revealed anomalies as detailed below:

S/No.	Ward	Location	Observation
1	Chemagel	Sotik Community Library	Installation was done in the ICT lab but the network was accessible within 20m radius and not 800m radius as provided in the contract agreement. 15 laptops which were part of the contract, were not in the library.
2	Kapletundo	Kapletundo D.Os Office	Installation was done but no internet. Officer in charge confirmed he had not received the 15 laptops.
S/No	Ward	Location	Observation
3	Ndanai	Ndanai Primary School	Installation was done but the internet was accessible within a radius of 10m and not the intended 800m provided in the contract agreement. 8 laptops were in the store and 7 were being used by the teachers.
4	Kipsonoi	Kamureito High School	Installation was done but no internet. Officer in charge confirmed he had not received the 15 laptops.

No evidence was provided to show what the Management of the Constituency Fund was doing to address the shortcomings of the Project.

The anomalies are an indication that Management had not conducted adequate supervision of the project. Consequently, I am unable to confirm whether the residents of Sotik Constituency will realize value from the funds spent on the Project.

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, 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

During the year under review, National Government Constituencies Development Fund - Sotik Constituency did not have a risk management policy that guides the assessment and evaluation of risk and development of strategies to mitigate them. This is contrary to clause Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015 which require the Accounting Officer to ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism; and a system of risk management and internal control that builds

robust business operations. Consequently, the service delivery may be adversely affected by avoidable risks.

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.

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 manner.

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 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 sustainability of services 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

03 February, 2022