

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – TURBO CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund – Turbo Constituency set out on pages 14 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 – Turbo 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 and Accuracy of Financial Statements

A review of the financial statements for the year ended 30 June, 2020 provided for audit revealed the following inaccuracies:

- i) The statement of receipts and payments reflects transfers from CDF Board-AIE's received of Kshs.123,640,876 which is at variance with Kshs.135,728,874 reflected in the summary statement of appropriation: Recurrent and development combined resulting to a variance of Kshs.12,087,998.
- ii) The statement of receipts and payments reflect acquisition of assets figure of Kshs.3,764,831 while the summary statement of appropriation: Recurrent and development combined reflects a figure of Kshs.4,364,831 resulting to unexplained variance of Kshs.600,000.
- iii) The statement of receipts and payments reflects a surplus for the year ended 30 June, 2020 of Kshs.6,786,874 which vary with the re-computed surplus figure of Kshs.7,386,874 resulting to a variance of Kshs.600,000 which has not been explained.

- iv) The statement of cash flow reflects adjustments figure of Kshs.600,000 which is not supported.
- v) The budget execution by programme and sub-programmes reflects total committee allowances and other committee expenses of Kshs.4,262,500 which vary with the total of Kshs.5,021,500 reflected in Note 5 to the financial statements resulting to a variance of Kshs.759,000.
- vi) The figures in the PMC account balances reflected in Note 17.4 to the financial statements have not been rounded off to the nearest Kenya shilling as stated in policy 3 of the significant accounting policies which indicates that the financial statements are prepared in Kenya shillings and all values are rounded to the nearest Kenya shillings.

Under the circumstances, the financial statements are not accurately presented in accordance with International Public Sector Accounting Standards and the Financial reporting template.

2.0 Un accounted Use of Goods and Services

The statement of receipts and payments for the year ended 30 June, 2020 reflects Kshs.11,774,923 in respect of use of goods and services as disclosed in Note 5 to the financial statements. However, documents in support of the expenditure including payment vouchers, utility bills, lease agreement for rented offices, invitation letters, training needs assessment attendance registers for training expenses, fuel register, detail orders, supplier statements and motor vehicle work tickets were not provided for audit.

Under the circumstances, the validity and accuracy of the expenditure of Kshs.11,774,923 for the year ended 30 June, 2020 could not be confirmed.

3.0 Unaccounted expenditure on Sports

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.49,277,400 in respect of other grants and other payments out of which Kshs.2,661,750 relates to sports out of which an expenditure of Kshs.1,591,750 was incurred on the purchase of trophies, sports uniforms, balls and goal post nets. However, the payment vouchers and procurement records such as list of prequalified suppliers, inspection and acceptance committee and distribution list of items were not provided for audit.

Under the circumstances, the validity and occurrence of the expenditure Kshs.2,661,750 in respect of sports for the year ended 30 June, 2020 could not be confirmed.

4.0 Understated Cash and Cash Equivalents

The statement of financial assets as at 30 June, 2020 reflects cash and cash equivalent figure of Kshs.18,874,872. However, the bank reconciliation statement for the month of June, 2020 reflected unrepresented cheques amounting to Kshs.16,555,004.10 out of which cheques totaling Kshs.759,957 were stale and had not been reversed in the cash book and hence understating the cash and cash equivalents by same extent

Under the circumstances, the accuracy, and completeness of the cash and cash equivalent figure of Kshs.18,874,872 as at 30 June, 2020 could not be confirmed.

5.0 Project Management Committee Bank Balances

Note 17.4 and Annex 5 of the financial statements reflect Project Management Committee (PMC) bank balances totaling to Kshs.557,179 as at 30 June, 2020. However, cash books, closing bank balance certificates, bank statements and bank reconciliation statements for the various PMC accounts were not provided for audit.

Consequently, the existence, accuracy, and completeness of the Project Management Committee bank balances as at 30 June, 2020 could not be confirmed.

6.0 Summary of Fixed Assets Register

Annex 4 to the financial statements reflects total assets figure Kshs.6,303,374. However, the figure does not include the additions during the year of Kshs.3,764,831 reflected in Note 8 to the financial statements. Further, the assets register was not provided for audit.

Under the circumstances, the accuracy, nature, physical location and fair value and completeness of the summary of fixed assets register figure of Kshs.6,303,374 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 National Government Constituencies Development Fund – Turbo 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

1.0 Budgetary Control and Performance

The summary statement of appropriation- recurrent and development combined for the year ended 30 June, 2020 reflects an approved final receipts budget and actual on comparable basis of Kshs.204,496,597 and 135,728,874 respectively resulting to a shortfall of Kshs.68,767,723 or 34% of the budget.

Similarly, the statement reflects an approved final expenditure budget and actual on comparable basis of Kshs.204,496,597 and Kshs.116,854,002 respectively resulting to an overall under expenditure of Kshs.87,642,595 or 43% of the approved budget.

The underfunding may be an indication that some programs and activities that had been planned were not implemented and hence denied the constituents of Turbo the would be benefits.

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 Non-maintenance of Separate Projects Bank accounts

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflect transfers to other Government entities figure of Kshs.49,440,000 out which Kshs.35,640,000 was in respect of transfers to secondary schools. However, the fund was paid to the schools' bank accounts instead of specific project accounts managed by the project management committee as provided under regulation 29 (3) of the National Government Constituencies Development Fund Regulations 2016 which provides that a Constituency Committee shall ensure that the project management committee opens a bank account in an approved bank for each approved project.

Further, an expenditure of Kshs.4,000,000 was incurred on the construction of classrooms projects but expenditure returns and reports detailing particulars of project management committees (PMCs), project proposals, procurement records were not provided for audit.

Under the circumstances, the validity, accuracy and value for money of the transfers to primary schools figure of Kshs.35,640,000 for the year ended 30 June, 2020 could not be confirmed.

2.0 Other Grants and Transfers

2.1 Unsupported Bursaries

Note 7 to the financial statements reflects bursary-secondary figures of Kshs.5,760,000 and bursary-tertiary figure of Kshs.36,186,900 all totaling to Kshs.41,946,900. However, the criteria for vetting the beneficiaries was not availed for audit verification and minutes of the bursary subcommittee were not availed for audit verification. Further, the list of the bursary committee members was not availed and the list of bursary beneficiaries and acknowledgement letters/ receipts from the secondary schools and tertiary institutions were not availed for audit review. Under the circumstances, the validity, accuracy and propriety of the bursary figure of Kshs.41,946,900 for the year ended 30 June, 2020 could not be confirmed.

2.2 Emergency Project

Note 7 to the financial statements reflects emergency projects expenditure of Kshs.2,268,750. However, no documentary evidence was provided to confirm that the utilization of emergency fund was reported to the National Government Constituencies Development Fund Board within thirty days of the occurrence of the emergency as stipulated

in regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016 . Further, no documentary evidence such as public health letters and other relevant ministry correspondences were provided to confirm that the expenditure was of emergency in nature.

Under the circumstance, the validity of Kshs.2,268,750 in respect of emergency for the year ended 30 June, 2020 could not be confirmed.

3.0 Acquisition of Assets

3.1 Delay in Construction of Construction of Constituency Office

Note 8 to the financial statements reflects construction of buildings expenditure of Kshs.3,764,831 for the construction of the constituency office. Available information indicate that a contractor was awarded the tender for the construction of the office at a contract price of Kshs.13,445,946 out of which Kshs.7,624,711 has been paid for certificate numbers 1, 2 and 3. However, documents relating to procurement and project monitoring such as advertisement, tender opening minutes, tender register, technical and financial evaluation report, letter of award and regret to winning and unsuccessful tenderer(s) respectively, letter of offer and acceptance, contract agreement, site meeting minutes, project drawings and joint measurement were not availed for audit verification. Further, the contract was signed on the 19 January, 2019 for a period of 14 weeks. As at the time of Audit in February, 2021 the project was still not complete.

Under the circumstances, the validity, accuracy and value for money for construction of building expenditures of Kshs.3,764,831 for the year ended 30 June, 2020 could not be confirmed.

4.0 Project Implementation Status

A review of the project implementation status report for the National Government Constituencies Development Fund – Turbo Constituency revealed that Kshs.120,154,229 was budgeted towards implementation of one hundred and twenty-eight (128). However, none of the projects received the funding despite the fact that National Government Constituencies Development Fund – Turbo Constituency received Kshs.123,640,876 from the board. Most of the projects funded were for the financial year 2018/2019 and earlier years.

Further, During the year under review, nineteen (19) projects with total disbursements of Kshs.16,500,000 were funded out of which three (3) projects with a disbursement of Kshs.3,500,000 were partially complete.

Failure to fund the projects casts doubt on their implementation and may deny the people of Turbo Constituency the benefits of the projects. In addition, the value for money of the delayed projects may not be realized.

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 SYSTEMS AND GOVERNANCE

Conclusion

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

Risk Management Policy

The management of National Government Constituencies Development Fund – Turbo Constituency have not developed 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 effective and efficient management of public resources. Consequently, the Management is not likely to respond appropriately to emerging risks that may result in loss of funds.

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 governance.

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 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 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

11 February, 2022