

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Turkana Central Constituency set out on pages 18 to 46, 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 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the National Government Constituencies Development Fund - Turkana Central 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 and does not comply with the National Government Constituencies Development Fund Act, 2015.

Basis for Adverse Opinion

1.0 Use of Goods and Services

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services balance of Kshs.23,451,067. However, the following observation were made:-

1.1 Committee Allowances and Other Expenses

Included in use of goods and services balance is an amount of Kshs.12,596,832 and Kshs.7,020,500 being Committee allowances and other expenses respectively. The allowances were however not supported.

1.2 Routine Maintenance of Vehicles

Similarly, included in use of goods balance is an amount of Kshs.1,021,455 relating to routine maintenance of vehicles and other transport equipment. However, the expenses were also not supported.

In the circumstances, the validity and completeness of the use of goods and services balances of Kshs.23,451,067 as at 30 June, 2020 could not be confirmed.

2.0 Transfers to Other Government Entities

2.1 Unsupported Payments - Procurement of Works

As disclosed in Note 6 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects transfers to other Government units balance of Kshs.53,420,000 which includes transfers to primary schools of Kshs.35,800,000. Out of this balance, an amount of Kshs.23,460,000 was paid to various contractors. However, the payments were not supported.

2.2 Unsupported Payments - Drilling of Borehole at Loturerei Secondary School

Similarly, the balance of transfers to other Government units includes transfers to secondary schools of Kshs.17,620,000. Out of this balance an amount of Kshs.2,480,000 was disbursed to Loturerei Secondary School for drilling of a 130M deep borehole and installation of hand pump. The contract was awarded at a contract sum of Kshs.2,509,080. However, the payment was not supported.

2.3 Design, Preparation of Bills of Quantities and Documentation for Projects

Included in the transfers to other government entities is transfers to secondary schools balance of Kshs.35,800,000. Included in this balance is an amount of Kshs.900,000 being payments towards design, preparation of bills of quantities and documentation for fund projects to the County Architect. The payments were however made to the architect in person and not the County Works Officer Appropriation in Aid account. In the circumstances, accuracy and validity of transfers to other government units balance of Kshs.53,420,000 as at 30 June, 2020 could not be ascertained.

3.0 Variances in the Financial Statements

A review of the financial statements revealed variances between the financial statements balance and supporting schedules. The details are provided below;

Component	Financial Statement Figures (Kshs.)	Supporting Schedules Figures (Kshs.)	Variances (Kshs.)
Domestic Travel and Subsistence	1,767,000	1,780,000	13,000
Other Committee Expenses	7,020,500	6,418,270	602,230
Committee Allowances	12,596,832	11,365,730	1,231,102
Transfers to Primary Schools	35,800,000	34,300,000	1,500,000
Transfers to Secondary Schools	17,620,000	15,420,000	2,200,000

Consequently, the accuracy and completeness of the financial statements balances as at 30 June, 2020 could not be confirmed.

4.0 Transfers from CDF Board

The statement of receipts and payments for the year ended 30 June, 2020 reflects transfers from CDF Board balance of Kshs.141,040,876. Review of records in support of the receipts revealed that an amount of Kshs.18,000,000 was received on 15 July, 2020 which was after the end of the financial year.

Consequently, the accuracy and completeness of the transfers from the CDF Board balance of Kshs.141,040,876 as at 30 June, 2020 could not be confirmed.

5.0 Bank Balances

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities as at 30 June, 2020 reflects bank balance of Kshs.7,182,496. However, the bank reconciliation statements for the month of June, 2020 reflects unrepresented cheques of Kshs.11,460,208 which include stale cheques of Kshs.684,307 which were not reversed in the cashbook. Further, no documentary evidence was provided to show when the unrepresented cheques were cleared.

In addition, the bank reconciliation statement reflects payments in the bank statement not in the cash book amounting to Kshs.482,172. A review of the reconciliation statement revealed that these were bank charges. No reason has been provided for failure to record them in the cash book.

Consequently, the accuracy and completeness of the bank balance figure of Kshs.7,182,496 as at 30 June, 2020 could not be confirmed.

6.0 Project Management Committees Accounts

Annex 5 to the financial statements reflects PMC bank balances of Kshs.12,480 as at 30 June, 2020 in relation to five (5) project management committees accounts. A review of provided records revealed that the constituency funded thirty-one (31) project management committees with Kshs.41,070,000. However, all the project bank account balances have not been disclosed in the financial statements. Further, cashbooks, bank statements and certificates of bank balance for the accounts were not provided.

Consequently, the accuracy and completeness of the PMC bank balances of Kshs.12,480 as at 30 June, 2020 could not be confirmed.

7.0 Summary of Fixed Assets Register

Annex 4 to the financial statements reflects total assets worth Kshs.22,000,000. However, the fixed assets register was not provided.

Consequently, the accuracy, completeness and existence of the assets balance of Kshs.22,000,000 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 - Turkana Central 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 adverse 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.197,410,278 and Kshs.141,671,863 respectively resulting to an under-funding of Kshs.55,738,416 or 28.2% of the budget. The Project expenditure was limited to the amount realized.

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

2.0 Project Verification Report

The project implementation status report indicated eighty (80) projects at a cost of Kshs.123,059,484. However, eighteen (18) projects with total disbursements amounting to Kshs.33,800,000 were physically verified. Out of the 18 projects visited, seven (7) were not labeled. One School bus for Kerio Secondary School worth Kshs.7,000,000 had not been delivered and motor bikes worth Kshs.500,000 were also not delivered.

In the circumstances, the Public did not realize value for money equivalent to Kshs.7,500,000. (Value of the Buss and Motor Bikes).

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of

my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Presentation and Disclosures of Financial Statements

An audit review of the financial statements for the year ended 30 June, 2020 and other information which should accompany them as prescribed by the Public Sector Accounting Standards Board revealed the following anomalies:

- i. Cover page indicates Revised Template 30 June, 2020 which is not relevant.
- ii. The forward by the Chairman NGCDF committee is a replication of the previous year's (2017-2018) forward and thus does not reflect the true view of the current year's status.
- iii. The statement of entity management responsibilities, statement of receipts and payments, statement of assets and liabilities and statement of cash flow do not include the ICPAK number of the Sub County Accountant.
- iv. The statement of assets and liabilities is for the year ended 30, June, 2020 instead of as at 30 June, 2020.
- v. Pages 1-17, 18-26,27-30 and 31.9-46 contains reports, financial statements, significant accounting policies and notes to the financial statements respectively whereas the header on all pages indicates reports and financial statements. The header therefore does not reflect the correct position of the relevant sections of the reports, financial statements, significant accounting policies and notes to the financial statements.
- vi. Note XXIII on Transfers from other Government entities does not contain totals.
- vii. The status of the issues on progress and follow up of auditor recommendations is indicated as resolved yet the report has not been tabled at the National Assembly and recommendations implemented.
- viii. Note 4 to the financial statements disclose basic wages of temporary employees of Kshs.4,014,536. However, pension and other social security contributions (gratuity) and employer contributions of compulsory National Social Security such as NSSF has not been disclosed.
- ix. Annex 4 – Summary of fixed asset register reflect total assets of Kshs.22,000,000 as at 30 June, 2020 which excludes additions of Kshs.2,000,000 during the year.
- x. The bank charges of Kshs.482,172 have not been reflected in the statement of receipts and payments as expenses.

- xi. The statement of receipts and payments reflected total bursaries of Kshs.24,734,047 whereas the supporting schedules has a balance of Kshs.24,492,050 resulting in unexplained variance of Kshs.241,997.

Consequently, the financial statements do not comply with the requirements of the IPSAS Cash and Public Sector Accounting Standards Board templates.

2.0 Other Grants and Transfers

2.1 Unsupported Bursaries to Secondary Schools and Tertiary Institutions

The statement of receipts and payments for the year ended 30 June, 2020 reflects other grants and transfers balance of Kshs.51,603,764 which includes bursary disbursement to secondary schools and tertiary institutions of Kshs.21,743,750 and Kshs.2,990,297 respectively. However, no records were provided to confirm compliance with the CDF Board circular Ref. CDF Board circulars/VOL 1/111 dated 13 September, 2010 provided.

Consequently, the Management is in breach of the law and the validity of the bursary disbursements to secondary schools and tertiary institutions amounting to Kshs.24,734,047 for the year ended 30 June, 2020 could not be confirmed.

2.2 Irregular Procurement of Services - Security Projects

Included in security projects balance of Kshs.6,740,000 under other grants and other transfers is Kshs.3,007,700 relating to construction of Ekitoeangikiliok chief's office as disclosed under Note 7 to the financial statements. However, review of the tender documents revealed that the contractor was not registered with National Construction Authority (NCA) and did not have a valid tax compliance certificate and hence did not qualify for evaluation and subsequent award of the contract.

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

2.3 Irregular Procurement of Services - Sports Activities

Included in other grants and other transfers balance is an amount of Kshs.3,924,900 in relation to sports activities. Out of this balance, an amount of Kshs.2,144,900 was paid to a firm for the supply of sports uniforms and balls. However, a review of procurement documents revealed that the supplier did not satisfy the mandatory evaluation criteria. In addition, no evidence was provided to ascertain the sports teams supplied with the kits. Further, it was also noted that out of the total expenditure of Kshs.3,924,900 on sports activities, an amount of Kshs.1,780,000 was not supported.

Consequently, the award of the tender at a contract sum of Kshs.2,144,900 was irregular and the validity of the expenditure of Kshs.1,780,000 on sports activities could not be confirmed.

2.4 Unsupported Environment Projects

Included in other grants and other transfers balance is an amount of Kshs.4,054,317 in relation to environmental projects. Out of this balance, an amount of Kshs.1,450,000 was paid for supply of 6,500 seedlings and two pieces of 10,000 litres water tanks. However, a review of the tender documents revealed that the supplier did not meet the mandatory evaluation criteria. In addition, the payment was not supported.

Further, it was also noted that out of the total expenditure of Kshs.4,054,317 on environment activities, an amount of Kshs.2,604,317 was not supported.

Consequently, the award of the tender for supply of seedlings and water tanks was irregular and the validity of the expenditure of Kshs.2,604,317 could not be confirmed.

2.5 Unsupported Cultural Projects

Included in other grants and other transfers balance is an amount of Kshs.500,000 in relation to cultural projects. However, no documentation regarding the payment including payment vouchers was provided.

Therefore, the validity of expenditure of Kshs.500,000 on cultural projects could not be confirmed.

2.6 Irregular Expenditure - Emergency Projects

included in the grants and other transfer balance are disbursements to emergency projects amounting to Kshs.11,650,500. A review of financial records revealed that the amount of Kshs.11,650,500 was spent against an approved budget/allocation of Kshs.7,198,241 resulting into an unauthorized/unapproved expenditure of Kshs.4,452,259. In addition, a review of the emergency payments revealed that the Fund Management funded projects which were outside their mandate. Further, the expenditure could not be classified under emergency as stipulated under Section 8(3) of the National Government Constituencies Development Fund Act, 2015.

Therefore, the validity of expenditure of Kshs.11,650,500 on emergency projects could not be confirmed.

2.7 Procurement of Food Supplies

included in the other grants and transfer balance is an amount of Kshs.4,498,000 paid for supply and delivery of foodstuffs.

However, the expenditure was not supported. Further, the food distribution list to show how residents affected by drought were issued with food supplies was not provided.

Consequently, the validity of the expenditure of Kshs.4,498,000 on supply of food stuff could not be confirmed.

3.0 Acquisition of Assets

3.1 Irregular Procurement - Renovation of NG CDF Office

As disclosed in Note 8 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2020 reflects acquisition of assets balance of Kshs.2,000,000. Out of this balance, an amount of Kshs.1,167,030 was incurred on renovations of the CDF Office. However, the contract for renovation of office was awarded to a firm that did not provide evidence of being registered with National Construction Authority, a valid compliance certificate from KRA and a performance bond. Further, the Management did not provide the procurement documents.

In the circumstances, the award of the tender was irregular.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm 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 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 (Accrual Basis) and the National Government Constituencies Development Fund Act, 2015 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 ability of the Fund to continue to sustain its services, disclosing, as applicable, matters related to using the going concern 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 way.

Those charged with governance are responsible for overseeing the 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 noncompliance. 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 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

11 February, 2022