

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - TURKANA SOUTH 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 - Turkana South Constituency set out on pages 13 to 42, which comprise the statement of receipts and payments, statement of assets and liabilities as at 30 June, 2020, statement of cash flows and 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 - Turkana South 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

1.0 Presentation, Accuracy and Completeness of the Financial Statements

A review of the financial statements revealed the following;

- (i) The statement of Entity Management Responsibilities does not show the financial year to which it relates.
- (ii) Progress on follow up of Auditor's recommendations contain numerous spelling errors.
- (iii) The financial statements have figures not rounded off to the nearest shilling as stated under significant accounting policy No.3.
- (iv) The statements of entity management, receipts and payments, assets and liabilities, cash flow and the summary statement of appropriation - recurrent and development combined bear the signature of the Sub-County Accountant but the ICPA(K) member number has been omitted.

- (v) Note 17.3 to the financial statements reflects unutilized fund balance of Kshs.70,085,907 whose details have not been disclosed. Further, Annex 3 reflects unutilized funds budgeted under compensation of employees and use of goods of Kshs.1,490,746 and Kshs.2,100,065 respectively while the corresponding figures shown in the summary statement of appropriation - recurrent and development combined reflects Kshs.1,569,013 and Kshs.2,021,798 respectively leading to a similar variance of Kshs.78,267 for each item.
- (vi) The statement of receipts and payments reflects nil acquisition of assets while Note 8 to the financial statements shows Kshs.963,707 which relates to repairs and renovations of the CDF offices in Lokichar.
- (vii) The summary statement of appropriation - recurrent and development combined reflects actual transfers from the Board of Kshs.109,582,509 which differs from Kshs.73,953,707 shown in the statement of receipts and payments. The difference of Kshs.35,628,802 has neither been explained nor reconciled.
- (viii) The financial statements reflect figures that differ from supporting schedules as detailed below;

Component	Financial Statements 2019/2020 Kshs.	Schedule Totals Kshs.	Difference Kshs.
Compensation of employees	3,257,891	4,087,875	(829,984)
Bursary - Secondary	12,300,000	11,800,000	500,000
Bursary - Tertiary	17,500,000	17,000,000	500,000
Bursary - Special schools	-	1,000,000	(1,000,000)
Acquisition of assets (Note 8)	963,707	-	963,707
Other payments	4,677,028	-	4,677,028
ICT Equipment (Fixed Asset Register)	1,874,800	848,500	1,026,300

- (ix) Financial statements reflects opening balances that differ from the corresponding figures reflected in the prior year financial statements as detailed below;

Component	Financial Statements 2019/2020 (Kshs.)	Financial Statements 2018/2019 (Kshs.)	Difference (Kshs.)
Cash and cash equivalents	35,618,802	35,618,398	404
Basic salaries	2,939,051	2,448,011	491,040
Gratuity	-	491,040	(491,040)
Transfers to primary schools	23,965,200	16,465,200	7,500,000

Transfers to secondary schools	17,885,200	25,385,200	(7,500,000)
Unutilized Funds			
Use of goods	-	769,676	(769,676)
Amounts due to other government entities	-	3,271,200	(3,271,200)
Amounts due to other grants and other transfers	-	51,000,000	(51,000,000)
PMC account balances	6,163,593	12,144,293	(5,980,701)

Further, Annex 5 – PMC Account balances reflect balances which differ from those reflected in the prior year financial statements as detailed below;

PMC	Bank	Account Number	Balance as per Annex 5 (2019/2020) Financial Statements (Kshs.)	Balance as at 2018/19 Financial Statements (Kshs.)	Differences (Kshs.)
Lokichar girls primary school	KCB	1169349242	565	Not Indicated	565
Kotoro primary school	KCB	1181617944	254	Not Indicated	254
Loyapat primary school	KCB	1171780524	2,060	Not Indicated	2,060
Agape Kainuk primary school	KCB	1257847597	2,978,975	2,979,975	(1,000)
Napusimoru primary school	KCB	1134356056	1,695	Not Indicated	1,695
Narengemunyen primary school	KCB	1167794214	390	Not Indicated	390

Consequently, the accuracy and completeness of the financial statements submitted for the year ended 30 June, 2020 could not be confirmed.

2.0 Bursaries to Secondary Schools and Tertiary Institutions

The statement of receipts and payments reflects other grants and transfers amount of Kshs.38,721,207 which includes bursaries to secondary schools balance of Kshs.12,300,000 and tertiary institutions balance of Kshs.17,500,000 totalling to Kshs.29,800,000 as disclosed in Note 7 to the financial statements. However, no acknowledgement receipts were received from the various institutions that received the bursary.

Consequently, the accuracy and completeness of bursary - secondary schools figure of Kshs.12,300,000 and bursary - tertiary Institutions figure of Kshs.17,500,000 for the year ended 30 June, 2020 could not be confirmed.

3.0 Sports Projects

The statement of receipts and payments reflects other grants and transfers balance of Kshs.38,721,207 for the year ended 30 June, 2020. Included in this figure is an amount of Kshs.2,060,707 in respect to sports projects as disclosed in Note 7 to the financial statements. However, examination of the ledgers and supporting schedules provided for audit indicated a payment of Kshs.1,053,707 to a contractor for supply and delivery of assorted sports kits which is not supported by invoices or payment vouchers.

Consequently, the accuracy and completeness of sports project figure of Kshs.2,060,707 for the year ended 30 June, 2020 could not be confirmed.

4.0 Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.638,183 as at 30 June, 2020. However, examination of the bank reconciliation statement for the month of June, 2020 revealed stale cheques amounting to Kshs.9,213,471, which have been outstanding since 2018. No explanation was provided as to why the same have not been reversed in the cash book. Further, two cheques totalling Kshs.61,627 issued in April, 2017 and one transfer of Kshs.50,000 made in June, 2019 have remained uncleared to date.

Therefore, the accuracy and completeness of the cash and cash equivalents balance of Kshs.638,183 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 reflects Project Management committee bank balances of Kshs.18,826,370 held in sixteen (16) project bank accounts as at 30 June, 2020. However, the Management did not provide the cash books, bank reconciliation statements and bank confirmation certificates of bank balance in respect of each of the PMC bank accounts for audit review.

Consequently, the accuracy, validity, existence and completeness of the project Management committee bank balances of Kshs.18,826,370 as at 30 June, 2020 could not be confirmed.

6.0 Summary of Fixed Assets Register

Annex 4 to the financial statements reflects fixed assets balance of Kshs.34,941,057. However, the fixed assets register was not provided for audit review.

Consequently, the validity, accuracy, and completeness of the fixed assets balance of Kshs.34,941,057 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 - Turkana South Constituency Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical

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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 statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.179,146,233 and Kshs.109,698,509 respectively resulting to an under funding of Kshs.69,447,724 or 39% of the budget.

Similarly, the actual expenditure reflects a balance of Kshs.109,060,326 against an approved budget of Kshs.109,698,509 resulting to an under-expenditure of Kshs.638,183 or 0.6% of the budget.

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

2.0 Project Verification Report

During the year under review, seventeen (17) projects costing a total of Kshs.68,083,632 were verified in the month of February, 2021 out of which six (6) of them had issues as shown in the table below;

Projects Verification

S/No.	Project Name	Project Activity	Budgeted Amount (Kshs.)	Amount disbursed during the Year (Kshs.)	Remarks
1	Nagetei Girls Secondary School	Construction of a 50 students capacity twin laboratory to completion	7,500,000	7,500,000	80% Complete. Contractor not on site
2	Lochwaa Secondary School	Construction of 2 classrooms – Kshs.3,000,000, drilling of borehole and installation of hand pump – Kshs.2,500,000,	9,000,000	8,940,000	Classroom completed. Borehole not constructed and handpump not installed.

S/No.	Project Name	Project Activity	Budgeted Amount (Kshs.)	Amount disbursed during the Year (Kshs.)	Remarks
		Construction of chain link perimeter fence with steel metal gate (Kshs.3,500,000),			Incomplete construction of perimeter fence.
3	Kadongolo Primary School	Construction of 2 classrooms Kshs.2,600,000 and equipping with 50 pupils double desks Kshs.400,000	3,000,000	3,000,000	Complete and in use. However, cracks have developed.
4	Kaputir Secondary School	Construction of a 50 students' capacity twin laboratory to completion	7,500,000	7,500,000	80% Complete. Contractor not on site.
5	Kapelibok Secondary School	Construction of 2 classrooms Kshs.3,000,000, drilling of borehole and installation of handpump Kshs.2,500,000, Construction of chain link perimeter fence with steel metal gate Kshs.3,500,000	9,000,000	8,940,000	Fence Complete. Classrooms complete. Borehole not constructed and handpump not installed.
6	Lokapel Mixed Secondary School	Construction of a 50 students' capacity Twin laboratory to completion	7,500,000	7,500,000	Laboratory Incomplete. Contractor not on site
		Total	43,500,000	43,380,000	

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 Transfers to Other Government Entities

The statement of receipts and payments for the year ended 30 June, 2020 reflects transfers to other government entities balance of Kshs.56,870,400 which includes Kshs.8,940,000 transferred to Lochwaa secondary school for the construction of 2 classrooms, drilling of a borehole and installation of hand pump and construction of chain link perimeter fence with steel metal gate. The contract was awarded at a contract sum of Kshs.8,940,000. An examination of the project management committee bank statements and bank certificates indicated a balance of Kshs.1,487,289 as at 30 June, 2020. However, a physical verification of the projects revealed that, the drilling of the bore hole and installation of the pump at a cost of Kshs.2,500,000 had not been done. Further, no completion certificates were availed for audit verification.

In the circumstances, the value for money for the expenditure of Kshs.2,500,000 for the year ended 30 June 2020 could not be confirmed.

2.0 Other Payments

The statement of receipts and payments for the year ended 30 June, 2020 reflects other payments balance of Kshs.4,677,028 meant for the ICT Hub as disclosed in Note 9 to the financial statements. However, examination of the documents provided for audit revealed that the funds were disbursed to two primary schools, Loyapata primary for fencing of school compound and Napusimoru primary for construction of one (1) classroom and supply of desks of Kshs.3,177,028 and Kshs.1,500,000 respectively. No approval or authority for reallocation of the funds from the ICT Hub to primary school projects was availed for audit verification, contrary to Section 68 of the Public Finance Management Act, 2012.

In the circumstances, the Fund Management was in breach of the law.

3.0 Other Grants and Transfers

3.1 Bursaries to Secondary Schools and Tertiary Institutions

The statement of receipts and payments reflects other grants and transfers balance of Kshs.38,721,207 which includes bursaries to secondary schools and tertiary institutions of Kshs.12,300,000 and Kshs.17,500,000 respectively all totalling to Kshs.29,800,000 as disclosed in Note 7 to the financial statements. However, there was no evidence to show that vetting, identification and categorizing of needy students was done by the bursary subcommittee that should include the area education office or a representative from the Ministry of Education in accordance with Board circular reference VOL1/111 dated 13 September, 2010.

Consequently, the legality of education bursary payments amounts of Kshs.29,800,000 during the year ended 30 June, 2020 could not be confirmed.

3.2 Emergency Projects

The statement of receipts and payments reflects other grants and transfers balance of Kshs.38,721,207 for the year ended 30 June, 2020 which includes emergency payments amounting to Kshs.4,550,500 incurred on various emergency projects during the year.

However, no evidence was provided for audit review, to show that the Fund Management reported to the Board, the occurrence of emergency within thirty days contrary to Section 20(2) of the National Government Constituencies Development Fund (Regulations), 2016 which states that the 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 Fund Management was in breach of the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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 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 Fund's financial reporting process, reviewing the effectiveness of how 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 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 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