

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - BARINGO CENTRAL CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Baringo Central Constituency set out on pages 19 to 63, which comprise of the statement of assets and liabilities as at 30 June, 2021 and the statement of receipt and payments, statement of cash flows and summary statement of appropriation 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 - Baringo Central Constituency as at 30 June, 2021 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 with the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Unsupported Committee Expenses

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects an expenditure of Kshs.9,772,769 in respect of use of goods and services. The amount includes Committee expenses of Kshs.3,425,000, which was incurred by members during their visits to projects. However, the expenditure was not supported by way of payment vouchers, minutes of committee meetings, list of projects visited, work tickets and monitoring and evaluation reports.

In the circumstances, the accuracy and occurrence of committee expenses balance of Kshs.3,425,000 could not be confirmed.

2. Unsupported Transfers to Other Government Entities

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects disbursement of Kshs.95,250,000 in respect of transfers to other Government entities. The amount includes Kshs.77,350,000 transferred to primary schools for renovation and construction of classrooms and levelling of playing fields out of which Kshs.37,600,000 incurred on thirty five (35) projects was not supported with bills of quantities (BQs) giving estimated costs of the projects, tender/quotation opening register and minutes, tender/quotation evaluation and award minutes, notification of award and regret letters, acceptance of award letters, signed contract agreements, certificates of completion and Project Management Committee (PMC) bank statement.

In the circumstances, the accuracy and completeness of the Kshs.37,600,000 transferred to primary schools could not be confirmed.

3. Unaccounted for Transfers to Secondary School Projects

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects disbursements of Kshs.95,250,000 in respect of transfers to other Government entities. This amount includes Kshs.17,900,000 transferred to various secondary schools to undertake works that include completion of laboratories, dormitories, halls and classrooms out of which transfers amounting to Kshs.6,300,000 was not supported with BQs giving estimated costs of the projects, tender/quotation opening register and minutes, tender/quotation evaluation and award minutes, notification

of award and regret letters, acceptance of award letters, signed contract agreements, certificates of completion and Project Management Committee (PMC) bank statements.

In the circumstances, the accuracy and completeness of Kshs.6,300,000 transferred to secondary schools could not be confirmed.

4. Unsupported Purchase of Sports Items

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects an amount of Kshs.56,496,358 in respect of other grants and transfers. The expenditure includes Kshs.2,998,200 spent on sports projects, out of which an amount of Kshs.1,572,800 was incurred on purchase of uniform kits, balls and trophies for distribution to competing sports teams. However, no evidence was provided to confirm that the items were taken on charge and subsequently distributed to registered sports teams.

In the circumstances, the accuracy and completeness of Kshs.1,572,800 could not be confirmed.

5. Unsupported Acquisition of Assets

The statement of receipts and payments and as disclosed in Note 8 to the financial statements reflects an expenditure of Kshs.3,671,470 in respect of acquisition of assets. Included in the amount is Kshs.246,600 incurred on the purchase of a Motor cycle whose support documents such as the delivery note, user manual, inspection and acceptance certificate and a logbook were not provided for audit.

In the circumstances, the accuracy, valuation and existence of the of the Motor Cycle valued at Kshs.246,600 could not be confirmed.

6. Inaccuracy of Cash and Cash Equivalents

The statement of assets and liabilities and as disclosed in Note 10(a) to the financial statements reflects a balance of Kshs.30,754,130 in respect of cash and cash equivalents. Review of the bank reconciliation statement revealed that the bank balance reflected in the reconciliation statement of Kshs.38,471,611 differs with the amount reflected on the certificate of balance of Kshs.38,691,611 resulting to unreconciled variance of Kshs.220,000. Further, the bank reconciliation statement reflects payments in the cashbook not in bank statements amounting to Kshs.7,717,480 out of which cheques totalling Kshs.3,300,999 had gone stale and had not been reversed in the cashbook.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.30,754,130 could not be confirmed.

7. Non-Disclosure of Retention Monies

The statement of assets and liabilities and as disclosed in Note 12(a) reflects Nil balance in respect of retention money. However, records provided for audit revealed that Kshs.3,097,446 was recovered as retention money from seven progressive certificates paid for the ongoing construction of the NG-CDF building. Further, Management did not maintain a deposit register.

In the circumstances, the accuracy, completeness and fair presentation of the statement of assets and liabilities could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Baringo 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 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. Budgetary Control and Performance

The summary statement of appropriation reflects final receipts budget and actual amount received on comparable basis of Kshs.242,907,181 and Kshs.199,218,302 respectively resulting to an underfunding of Kshs.43,688,879 or 18% of the budget. Similarly, the statement also reflects final expenditure budget and actual expenditure incurred on comparable basis of Kshs.242,907,181 and Kshs.168,464,172 respectively resulting to an overall budget under performance of Kshs.74,443,009 or 30% of the budget.

The underfunding and under-performance affected the planned activities and may have negatively affected service delivery to the public.

2. Unresolved Prior Year Matters

In the audit report of the previous year, a number of paragraphs were raised. However, Management has not resolved prior year issues as disclosed in the progress on follow-up of auditor recommendations on Page 62 to the financial statements.

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 Resource 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. Unsupported Use of Goods Expenditure

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects an amount of Kshs.9,772,769 in respect of use of goods and services. Included the amount is Kshs.704,932 incurred on printing, advertising and information, supplies and services out of which Kshs.382,259 was not supported with requisitions from the user departments. This is contrary to Regulation 71(1) of the Public Procurement and Disposal of Assets Regulations, 2020 which requires the head of the user department to initiate the procurement process through a requisition as per the approved procurement plan.

In the circumstances, Management was in breach of the Procurement Regulations.

2. Unsupport Security Projects Expenditure

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects other grants and transfers expense of Kshs.56,496,358. The balance includes Kshs.9,850,000 incurred on security projects out of which Kshs.7,500,000 was transferred to four projects namely Lemlem chief's office, Ewale chief's office, Kapsoo Brownin chief's office and Kabasis chief's office. However, no documentary evidence on how the projects were procured was provided.

In the circumstances, it was not possible to ascertain whether value for money was realised.

3. Emergency Projects

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects an expenditure of Kshs.56,496,358 in respect of other grants and transfers. Included in the amount is Kshs.13,900,606 spent on emergency projects out of which Kshs.2,100,000 was spent on two (2) projects at Kapsogo primary school and Kapsogo day secondary school which were not emergency in nature. This is contrary to Section 8(3) of the National Constituency Development Fund Act, 2015 which states that emergency shall be construed to mean an urgent unforeseen need for expenditure for which it is in the opinion of the Committee that it cannot be delayed until next financial year without harming the public.

In the circumstance, the regularity of the expenditure of Kshs.2,100,000 could not be confirmed.

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, except for the matters 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

Bursary to Secondary Schools

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects an amount of Kshs.56,496,358 in respect of other grants and transfers. Included in this amount is Kshs.21,241,968 being bursary disbursed to secondary schools. However, analysis of the schedule for bursaries to schools revealed double payment of Kshs.162,000 to twenty (20) students who irregularly received more than one (1) bursary allocation. Further, one hundred and three (103) students received bursary allocations that were above the set limits of Kshs.10,000 and Kshs.5,000 for boarding and day schools respectively provided in the guiding policy. In addition, no minutes of resolutions by the Committee to award bursaries outside the set limits were provided.

In the circumstances, the Fund's set internal controls were not effective.

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 controls, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to 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 controls 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 controls would not necessarily disclose all matters in the internal controls 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 controls 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 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 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

16 September, 2022