

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KAPENGURIA 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 - Kapenguria Constituency set out on pages 35 to 74, which comprise of the statement of financial assets and liabilities as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows, 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 - Kapenguria Constituency as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with the 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

Variations in Other Committee Expenses and Committee Allowances

The statement of receipts and payments reflects use of goods and services amount of Kshs.8,363,303 which, as disclosed in Note 5 to the financial statements indicates other committee expenses and committee allowances amounting to Kshs.400,000 and Kshs.2,248,000, respectively. However, the schedules provided indicates other committee expenses and committee allowances of Kshs.3,245,500 and Kshs.3,114,800 resulting to unexplained variances of Kshs.2,845,500 and Kshs.866,800 respectively.

In the circumstances, the accuracy and completeness of the use of goods and services balance of Kshs.8,363,303 could not be confirmed.

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

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Kapenguria 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 on comparable basis of Kshs.181,073,271 and Kshs.134,614,392 respectively, resulting to an under-funding of Kshs.46,458,879 or 26% of the budget. Similarly, the Fund spent Kshs.130,121,073 against an approved budget of Kshs.181,073,271 resulting to an under-expenditure of Kshs.50,952,198 or 28% of the budget.

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

2. Approved but Un-Implemented Projects

Review of the budget execution by programmes and sub-programmes indicated that several projects approved for implementation were not implemented by the close of the financial year as shown in **Appendix I**.

Further, the information contained in Project Implementation Status (PIS) report did not tally with that contained in Budget Execution by Programs and Sub-Programmes. In the PIS, the non-implemented projects.

In the circumstances, the public did not derive any benefits from the non-implemented projects.

3. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

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. Unsupported Emergency Expenses

The statement of receipts and payments reflects other grants and transfers of Kshs.78,494,937 which includes emergency projects of Kshs.7,187,600 as disclosed in Note 7 to the financial statements. However, the emergency reserves were disbursed without evidence to show that the projects implemented were indeed emergencies in nature as required under Section 8(3) of the National Government Constituencies 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 the next financial year without harming the public interest of the constituents.

2. Undisbursed Funds from National Government Constituencies Development Fund (NGCDF) Board

The summary statement of appropriation reflects transfers from NGCDF Board previous year's outstanding disbursements amount of Kshs.43,980,844 which increased to Kshs.46,458,879 as at 30 June, 2021 implying that several programmes listed were not executed as indicated in the unutilized Funds balance.

In the circumstances, delay in implementation and completion of planned projects is an indication that the public may not have realized the benefits accruing from the planned programs and activities.

3. Incomplete Projects

The statement of receipts and payment reflects other grants and transfer of Kshs.78,494,937 which, as disclosed in Note 7 to the financial statements includes environment projects valued at Kshs.2,745,000 used to construct a five hundred (500) meter Kapsurum Primary School Access tarmac road and laying of two (2) Culverts. However, physical inspection revealed that the road was not constructed, and the culverts were substandard. The expenditure of Kshs.2,745,000 spent on environmental projects was not effective and accountable as required under section 68(1) of the public Finance Management Act, 2012 which states that an Accounting Officer shall be accountable to the National Assembly for ensuring that the resources of the respective entity for which he or she is the Accounting Officer are used in a lawful and authorized; effective, efficient, economical and transparent way.

In the circumstances, 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 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 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 the 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability 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 Fund 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 Fund 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 Fund 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 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 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 Fund 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 Fund's 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 Fund's 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

30 September, 2022

APPENDIX

Appendix I: Non-Implemented Projects

No.	Programmes/Sub-Programmes	Budget (Kshs)	Actual (Kshs.)	Balance (Kshs.)
1.	Kapkecha Secondary School	300,000	0	300,000
2.	Kamayech Secondary School.	500,000	0	500,000
3.	Siyoi Mixed Secondary School	1,500,000	0	1,500,000
4.	Safina Secondary School	1,000,000	0	1,000,000
5.	Cheposekek Girls School	500,000	0	500,000
6.	Katumkwo Primary school	300,000	0	300,000
7.	Chelokotetwo Primary school	300,000	0	300,000
8.	Kongelai Primary school	500,000	0	500,000
9.	Kruru Primary school	500,000	0	500,000
10.	Koitukum Primary school	400,000	0	400,000
11.	Kabwrok Primary	500,000	0	500,000
12.	Kitelakapel Primary	700,000	0	700,000
13.	Kapchila Primary	800,000	0	800,000
14.	Kaisakat Primary	500,000	0	500,000
15.	Sinenden Primary	800,000	0	800,000
16.	Arap Maina Primary	500,000	0	500,000
17.	Lokorwa Primary	800,000	0	800,000
18.	Kaptaposwo Primary	400,000	0	400,000
19.	Kamketo Primary	500,000	0	500,000
20.	Kapsurum Primary	500,000	0	500,000
21.	Kipkorinya Primary	500,000	0	500,000
22.	Krengot Primary	800,000	0	800,000
23.	Siyoi Primary	1,800,000	0	1,800,000
24.	Priro Primary	500,000	0	500,000
25.	Ptira Primary	500,000	0	500,000
26.	Toptolim Primary	300,000	0	300,000
27.	Kitale Posho Primary	500,000	0	500,000
28.	Mortome Primary	500,000	0	500,000
29.	Nateleng Primary	300,000	0	300,000
30.	Kodengel Primary	500,000	0	500,000
31.	Cheporor Primary	500,000	0	500,000
32.	Kreswo Primary	500,000	0	500,000

	Total	19,000,000		19,000,000
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