

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NAKURU TOWN WEST 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 - Nakuru Town West Constituency set out on pages 18 to 51, which comprise of the statement of assets and liabilities as at 30 June, 2021 and the statement of receipts 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 National Government Constituencies Development Fund - Nakuru Town West 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Unsupported Project Management Committee (PMC) Bank Balances

Annex 5 to the financial statements reflects thirty-three (33) PMC bank balances totalling to Kshs.12,307,257. However, the balances were not supported with expenditure returns, cash books and bank reconciliation statements.

In the circumstances the accuracy and completeness of the PMC bank balances totalling to Kshs.12,307,257 could not be confirmed.

2.0 Unacknowledged Bursary Payments

The statement of receipts and payments reflects other grants and transfers amount of Kshs.85,894,188 which, as disclosed in Note 7 to the financial statements, includes bursary disbursements to secondary schools amount of Kshs.24,040,100. However, the bursary listing indicated that some beneficiary students from some institutions had unusual registration numbers for amounts totaling to Kshs.1,349,000. Further, out of the total bursary disbursements amount of Kshs.24,040,100, only bursaries amounting to Kshs.7,525,000 were acknowledged by the receiving institutions leaving an amount of Kshs.16,515,100 as unacknowledged.

In the circumstances, the accuracy and regularity of the bursary payments to secondary schools amount of Kshs.24,040,100 could not be confirmed.

3.0 Unsupported Expenditure

The statement of receipts and payments reflects transfers to other Government entities amount of Kshs.27,010,898 relating to funds disbursed to various PMCs. However, actual expenditure returns and acknowledgement letters from institutions that received the funds were not provided for audit verification. This is contrary to Regulation 15(1)(d) of the National Government Constituencies Development Fund Regulations, 2016, which states that the Project Management Committees shall prepare returns and file them with a Constituency Committee.

In the circumstances, it was not possible to confirm whether the funds totalling to Kshs.27,010,898 were received and utilized for the budgeted projects in the year under review.

4.0 Transfer to Primary Schools

The statement of receipts and payments reflects transfers to other Government units amounting to Kshs.27,010,898 which, as disclosed in Note 6 to the financial statements, includes transfers to primary schools amounting to Kshs.20,410,898. Out of this balance, an amount of Kshs.2,400,000 was transferred to Muslim Primary School for the construction of two (2) classrooms, labeling and furnishing with 80 lockers. However, audit verification revealed that no construction of classrooms was carried out. Instead the amount was utilized for the construction of twelve (12) door toilets. No contract documents for the construction of either the classrooms or toilets was provided for audit verification.

In the circumstances, the validity and value for money for transfer to primary schools amount of Kshs.2,400,00 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 – Nakuru Town West 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

Budgetary Control and Performance

The summary statement of appropriation reflects final receipts budget and actual on comparable basis of Kshs.177,919,093 and Kshs.132,830,214 respectively resulting to an under-funding of Kshs.45,088,879 (or 25%) of the budget. The underfunding affected the planned activities and projects worth Kshs.45,088,879 and may have impacted negatively on service delivery for the constituents.

No satisfactory explanations have been rendered contrary to the values and principles of public service as provided for under Article 232(1)(c) of the Constitution which requires responsive, prompt, effective, impartial and equitable provision of services.

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 Project Implementation Status

During the year under review, the Constituency had an approved budget of Kshs.177,919,093 to be spent on forty-two (42) projects out of which an amount of Kshs.16,503,984 was disbursed to six (6) projects which were completed, twelve projects with a budget of Kshs.72,527,617 were ongoing while twenty-four (24) projects with a budget of Kshs.52,627,277 had not started as at 30 June, 2021.

Due to non-completion of a total of the thirty-six (36) projects, the residents of Nakuru Town West Constituency failed to receive the benefits accruing from planned programs and activities for the year ended 30 June, 2021.

2.0 Stalled Projects

The project implementation report revealed three devolved projects with total funding amount of Kshs.14,482,759 were still ongoing since the financial year 2013/2014 and 2014/2015. The projects were never funded to completion or handed over to the County Government. The three incomplete projects are attributed to non-prioritizing of ongoing projects by National Government Constituencies Development Fund Board. This is contrary to Section 46(2) of the National Government Constituencies Development Fund Act, 2015 that requires ongoing projects to be given priority.

In addition, the following anomalies were noted:

- i. The Project implementation status report indicated that Full Gospel Church-Merissa Academy-Lalwet Borehole Access Roads which was allocated Kshs.3,837,500 for heavy grading and compact of 4km access road had not started. However, Annex 5 on PMC bank balances indicated that the Project had a bank balance of Kshs.1,885,812 as at 30 June, 2021. This therefore means an amount of Kshs.1,951,688 had already been spent on the Project.
- ii. Kaptembwo chief/assistant chief's office project for the construction of 2 door male and female public septic toilet block at a budget of Kshs.500,000 was indicated as not started. However, Annex 5 to the financial statements on PMC bank balances indicated the project had a balance of Kshs.1,138,836. It could not be established the reason for not starting and completing the project yet the funds were available.
- iii. Kapkures Health Centre Soymet Access Road project for the rehabilitation of the road with an allocation of Kshs.1,500,000 was indicated as complete. However, Annex 5 to financial statements on PMC bank balances indicated the project had a balance of Kshs.3,748,348 which is a clear indication that the project was over budgeted.

In addition, delay in project implementation may lead to loss of public funds due to cost escalation of materials which also delays service delivery to residents of Nakuru Town West Constituency.

In the circumstances, the accuracy, validity, completeness and value for money for the projects implemented 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, 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 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 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 the Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal 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 the Fund's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to 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

27 July, 2022