

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NAROK EAST 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 - Narok East Constituency set out on pages 18 to 45, which comprise of the statement of financial assets and liabilities as at 30 June, 2021 and the statement of receipts and payments, statement of changes in net assets, statement of cash flows and 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 effects of the matter 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 - Narok East 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

Unsupported Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.20,777,487 as disclosed in Note 10(a) to the financial statements. Review of the bank reconciliation statements in support of the cash and cash equivalents balance, revealed receipts totalling Kshs.1,390,560 in cash book not yet recorded in the bank statement. However, the amount was not supported or explained.

In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.20,777,487 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 - Narok East 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

During the year under review, National Government Constituencies Development Fund - Narok East Constituency had a revenue budget of Kshs.215,502,096 against actual receipts of Kshs.167,413,217 (or 78%) resulting to a shortfall of Kshs.48,088,879 (or 22%) of the total budget. Similarly, the Fund had an expenditure budget of Kshs.215,502,097 and actual expenditure of Kshs.146,635,731, resulting to net under expenditure of Kshs.68,866,365 (or 32%) of the approved budget.

Failure to implement projects as envisaged negatively impacted on the service delivery to the constituents of Narok East Constituency.

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. Lack of a Training Needs Assessment

The statement of receipts and payments reflects an expenditure of Kshs.9,624,717 on use of goods and services. Included in this figure under Note 5 is training expenses totalling Kshs.677,200. However, the training expenses were not supported with training needs assessment as required under Section H.3 (1) of the Public Service Commission Human Resource Manual of May, 2016.

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

2. Irregular Compensation of Employees on Contract

The statement of receipts and payments reflects compensation of employees amount of Ksh.3,476,214 as disclosed under Note 4 to the financial statements. Review of employee files revealed that the employees' contracts had expired and had not been renewed.

Under the circumstances, the regularity of the payment of Kshs.3,476,214 on compensation of employees could not be confirmed.

3. Irregular Use of Emergency Funds

Note 7 to the financial statements reflects emergency projects totalling Kshs.6,016,000 in respect of the cost of projects implemented using emergency funds. However, the Management did not report the utilization of the emergency reserve to the National Government Constituencies Development Fund Board within thirty (30) days of the occurrence of the emergency as required in Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016.

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

4. Irregular Procurement of Office and General Supplies

The statement of receipts and payments and as disclosed under Note 5 to the financial statements reflects use of goods and services amount of Kshs.9,624,717. Included in the amount is Kshs.830,300 in respect of procurement of office and general supplies and services. However, quotations floated to prospective suppliers, tender evaluation and inspection and acceptance committee reports were not provided for audit.

In the circumstances, the regularity of the expenditure of Kshs.830,300 on office and general supplies could not be confirmed.

5. Poor Workmanship in Implementation of Projects

The Fund awarded a contract to a firm for the construction of 2 classrooms and 3 Staff houses at a contract sum of Kshs.2,300,000 and Kshs.3,000,000 respectively at Nturumet Secondary School. However, physical inspection revealed that the floor had cracks floor while no electricals works were done. Further, the rooms were too small and the drawings were not provided for audit review.

In addition, the Fund awarded a contract to a firm for construction of 2 classrooms at a contract sum of Kshs.2,300,000 at Oletukat Primary School. However, physical inspection revealed that the floor had cracks floor while no electricals works were done.

In the circumstances, the value for money on the funds used in the implementation of the two (2) projects could not be confirmed.

6. Use of Incomplete Projects

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects transfers to other Government entities amounting to Kshs.82,400,000 for projects implementation. Physical inspection of three (3) projects which included construction of two class rooms at Olesharo Girls Secondary School and Oletkat Primary School at a cost of Kshs.2,300,000 each and construction of staff houses at Nturumeti Secondary School at a cost of Kshs.3,000,000 revealed that the projects were put into use before completion and handing over.

In the circumstances, the value for money on the funds used in the implementation of the three (3) projects could not be confirmed.

7. Failure to Maintain Project Management Committee (PMC) Minutes

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects transfers to other Government entities of Kshs.82,400,000. However, review of the transfers supporting documents revealed that there were no PMC meeting minutes for ten (10) projects implemented in the constituency costing Kshs.39,400,000.

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

8. Unsupported Project Management Committee (PMC) Account Balances

Note 17.4 to the financial statements reflects PMC account balances of Kshs.13,412,628 as disclosed in Annex 5 to the financial statements. However, cash books, bank statements and bank reconciliation statements for the PMC bank accounts were not provided for audit. Further, the PMC account balances relate to projects that are complete and in use as per the project implementation status report. However, the bank accounts have not been closed in line with Section 7 (1) of the National Government Constituencies Development Fund Act, 2015.

In the circumstances, the accuracy of the PMC account balances of Kshs.13,412,628 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 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 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.

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 abolish 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 money is applied in an effective manner.

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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 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 controls.
- 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 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 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 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

06 September, 2022