

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NAROK NORTH 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 the 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 North Constituency set out on pages 16 to 56, 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 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 - Narok North 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Variances Between Financial Statements and Trial Balance Amounts

Review of the financial statements amounts and those in the trial balance revealed variances as shown below:

Description	Financial Statement Amounts (Kshs.)	Trial Balance Amounts (Kshs.)	Variances (Kshs.)
Bank Balances	17,105,842	16,083,206	1,022,636
Use of Goods and Services	11,149,456	7,350,501	3,798,955
Other Grants and Transfers	25,652,126	26,223,741	(571,615)
Prior Year Adjustment	0	-3,798,956	3,798,956

However, the variances were not explained or reconciled.

In the circumstances, the accuracy and completeness of the balances reflected in the financial statements could not be confirmed.

2. Unsupported Bursary Expenditure

The statement of receipts and payments reflects other grants and transfers totalling Kshs.25,625,126 which, as disclosed in Note 7 to the financial statements includes bursary to secondary schools and tertiary institutions of Kshs.16,691,000 and of Kshs.8,012,885 respectively, all totalling to Kshs.24,703,885. However, the bursaries awarded and disbursed were not acknowledged through official receipts or acknowledgement letters from beneficiary institutions. Further, the bursary to secondary schools amounting to Kshs.8,012,885 varies with the ledger balance of Kshs.8,584,500 resulting to an unexplained and unreconciled variance of Kshs.571,615.

In the circumstances, the propriety and accuracy of bursary expenditure amounting to Kshs.24,703,885 for the year ended 30 June, 2021 could not be confirmed.

3. Inaccuracies in Cash and Cash Equivalent

The statement of assets and liabilities reflects cash and cash equivalent balance of Ksh.17,105,842 and as disclosed in Note 10 to the financial statements. Review of the bank reconciliation statement revealed bank amounting to Kshs.22,620 have not been recorded in the cash book and disclosed as an expenditure.

In the circumstances, the accuracy and completeness of the cash and cash equivalent balance of Ksh.17,105,842 as at 30 June, 2021 could not be confirmed.

4. Project Management Committee (PMC) Account Balances

Note 17.4 under other important disclosures reflects PMC account balances of Kshs.8,834,269 as further disclosed in Annex 5. However, the PMC Bank accounts cash books, bank statements and bank reconciliation statements were not provided for audit

In the circumstances, the accuracy and completeness of PMC account balances of Kshs.8,834,269 as at 30 June, 2021 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 North 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.

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 Training Expenses

The statement of receipts and payments reflects a balance of Kshs.11,149,455 in respect of use of goods and services which, as disclosed in Note 5 to the financial statements includes training expenses of Kshs.755,000. However, the expenses were not supported with training needs assessment as required by 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. Use of Incomplete Projects

The statement of receipts and payments reflects transfers to other government entities balance of Kshs.111,077,120 which, as disclosed in Note 6 to the financial statements includes transfers to different primary schools amounting to Kshs.77,897,949 for various projects. Physical inspection revealed that three (3) projects were put into use before they were completed and officially handed over to the schools. However, inspection reports and completion certificates from the engineer were not provided for audit.

In the circumstances, the public may not have received value for money on the incomplete projects.

3. Project Implementation Status

Physical inspection of project implementation status undertaken in the month of April, 2022 revealed the following anomalies: -

(i) Delayed Completion of Project

As previously reported, project inspection done on 25 April, 2022 revealed that the construction of ninety six (96) beds capacity dormitory block was still incomplete, although painting and decoration, plastering of the floor, ceiling works, windows, doors, were done. Further, the contractor was not on site and electric works and mechanical works were not done, Engineers, certificates of payment and invoices were not provided for the Kshs.3,900,000 transferred to a contractor.

(ii) Naituyupaki Primary School-Construction of Two Classroom

Physical inspection conducted on the above project revealed damaged floor with hollow cracks and missing window inches and stoppers. Interim and completion certificate for Kshs.2,400,000 transferred to the project was not provided for audit.

(iii) Anaibor Ajijik Primary School- Construction of a School Dormitory

Physical inspection conducted on the project revealed that the dormitory was incomplete. The ceiling, floor, painting, electrical works, toilet plastering and painting had not been done. In addition, Interim and completion certificates for Kshs.4,000,000 transferred to the project was not provided for audit.

(iv) Olturoto Primary School-Construction of Two Classes

Physical inspection conducted on the project revealed that the two (2) classrooms were incomplete. The contractor was not on site, the floor was damaged and window panes were poorly fixed. Further, interim and completion certificate for Kshs.2,400,000 transferred to the project was not provided for audit.

In the circumstances, the public may not have received value for money on the incompleting classes.

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 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 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 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 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 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 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 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

30 September, 2022