

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NAROK 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 - Narok West Constituency set out on pages 17 to 52, which comprise of the statement of assets and liabilities as at 30 June, 2021, 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 - Narok 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015

Basis for Qualified Opinion

Inaccuracy in Cash and Cash Equivalents

The statement of assets and liabilities reflect cash and cash equivalents balance of Kshs.13,858,052 whereas Note 10A to the financial statements reflects a balance of Kshs.14,123,500 resulting to an unexplained and an unreconciled difference of Kshs.265,448.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs,13,858,500 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 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.

Other Matter

1. Budgetary Control and Performance

The statement of appropriation reflects final receipts budget and actual on comparable basis of Kshs.210,979,633 and Kshs.160,390,754 respectively resulting to an underfunding of Kshs.50,588,879 (or 24%) of the budget. Similarly, the Fund expended Kshs.146,159,704 against an approved budget of Kshs.210,979,633 resulting to an under expenditure of Kshs.64,819,931 or 31% of the budget

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

2. Unresolved Prior Year Matters

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements. However, Management has not resolved the issues nor disclosed all the prior year matter as provided by the Public Sector Accounting Standards Board templates.

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. Non-Compliance with the Public Sector Accounting Standards Board Template

Review of the financial statements presented for audit revealed the following errors;

- i. The opening and closing balances for Project Management Committee (PMC) balances in Note 17.4 to financial statement were omitted.
- ii. The closing and opening balances of summary of fixed assets register at Annex 4 to financial statement were Kshs.20,285,110 and Kshs.6,193,924 respectively. This resulted to an unexplained a variance of Kshs.14,091,186.
- iii. The financial statements omitted the sequential page numbering from pages 20 to 54.

In the circumstances, Management did not comply with the requirements of the Public Sector Accounting Standard Board template.

2. Lack of Ownership Document

The statement of receipts and payments and as disclosed in Note 6 to the financial statements, reflects transfers to other government units amount of Kshs.99,900,000. Included in this amount are transfers to secondary schools amounting to Kshs.27,000,000 out of which Kshs.7,000,000 was transferred to Ilmotiok Secondary School for the purchase of a 51-seater school bus. However, the Log book for the school bus was not provided for audit and the bus could not be physically verified during the audit.

In the circumstances, value for money on the expenditure of Kshs.7,000,000 could not be confirmed.

3. Projects Implementation

Review of the project implementation status report as of 30 June, 2021 indicated that, eighty (80) projects with an allocation of Kshs.123,855,610 were at different implementation status. Twenty-three (23) projects costing Kshs.52,800,000 were complete and in use, three (3) projects costing Kshs.9,600,000 were ongoing, thirty-nine (39) projects costing Kshs.16,415,610 had neither started nor had the tendering process commenced. Further, fifteen (15) projects costing Kshs.45,040,000 had not been started due to non-release of funds. In addition, the following unsatisfactory observations were noted;

3.1 Incomplete Projects

Three (3) projects with a funding allocation of Kshs.9,600,000 were incomplete. No satisfactory explanation has been rendered for not implementing the projects in time.

In the circumstances, the Fund has not received value for money from the incomplete projects.

3.2 Procurement of Buses

The Fund procured two buses for two primary schools at a total cost of Kshs.14,000,000 as per the LPO No.001 dated 27 September, 2020. One of the specifications for the buses was that they were to be fully built 51-seater semi luxury bus. However, physical inspection of the buses delivered in April, 2022 revealed that the buses were 46-seater contrary to Section 48(3)(b) of the Public Procurement and Assets Disposal Act, 2015 which requires the inspection and acceptance committee to inspect and review goods, works or services in order to ensure compliance with the terms and specifications of the contract. In addition, the logbooks for these vehicles were also not provided for audit

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

3.3 Failure to Provide Completion Certificates

Ten (10) completed projects valued at Kshs.16,700,000 were inspected on in April, 2022. However, completion certificates were not provided for audit and no explanation was provided for the deficiencies in projects implementation contrary to Section 25(1) of NG CDF Act, 2015

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

4. Unaccounted for Bursaries

The statement of receipts and payments reflects other grants and transfers amount of Kshs.34,815,304 which includes expenditure totalling to Kshs.25,218,961 in respect of bursaries to secondary schools and tertiary institutions as disclosed in Note 7 to the financial statements. However, the following unsatisfactory matters were observed;

- i. The Fund made bursary payments totalling to Kshs.25,218,961. However, Management did not provide for audit the approved/signed education bursary subcommittee meeting minutes stipulating the selection and award process including criteria of the National Government Constituency Development Fund Board circular no: NG-CDFB/CEO/BOARD CIRCULARS VOL II (021).
- ii. The Constituency Development Fund Committee (CDFC) did not maintain a bursary applications register indicating how vetting is done and how the successful applicants were awarded the bursary.
- iii. The list of beneficiaries provided revealed that the total bursaries issued amounted to Kshs.13,141,000 whereas the financial statement reflected an amount of Kshs.25,218,961 resulting to an unreconciled variance of Kshs.12,077,961. In addition, bursary payments totalling to Kshs.2,685,000 were not supported with details of beneficiaries such as, admission numbers, name of student, name of Institution and amount for each student.
- iv. As per the project code list for the financial year 2020-2021 the amount allocated for bursaries was Kshs.24,500,000 against an expenditure amount of Kshs.25,218,961 resulting to an over-expenditure of Kshs.718,961.

In the circumstances, the propriety of the expenditure amounting to Kshs.25,218,961 could not be confirmed as a proper charge to public funds.

5. Environment Projects not Implemented by Project Management Committee

The statement of receipts and payments reflects other grants and transfers amount of Kshs.34,815,304 as disclosed in Note 7 to the financial statements, out of which an amount of Kshs.2,449,600 relates to an expenditure on environment projects.

Review of the Fund's records indicates that the Fund procured the services of a supplier to purchase and install 10,000 Litre water tanks, gutters and water bases for eight (8) Primary Schools. The procurement of the supplier was done by the Constituency Committee which is contrary to the Fund's Regulations 2016. The eight (8) Primary Schools acknowledged the receipt of water tanks from the supplier, but, installation of the gutters and water bases had not been done by the contractor.

In the circumstances, Constituents failed to get value for money from the expenditure.

6. Closure of Project Management Committee Bank Accounts

Annex 5 to the financial statements reflects Project Management Committee (PMC) bank balances for forty-three (43) bank accounts totalling to Kshs.16,415,610. Included in this balance are twenty (20) projects with a total balance of Kshs.2,242,810 reflected at annex 3 on unutilized funds with a status of completed and in use, However, the bank accounts for the completed projects which were indicated as complete and were still active. This is contrary to Section 12(8) of the National Government Constituencies Development Fund Act, 2015 which states that, 'All unutilized funds of the Project Management Committee shall be returned to the Constituency account'.

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, except for the matter 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

Lack of Staff Establishment and Scheme of Service

Examination of personnel records disclosed that the Fund did not have an approved scheme of service for its staff to define job categories by profession, qualifications and experience, career progression and conditions of progression.

In the absence of a scheme of service, it was not possible to ascertain how recruitment and promotion of staff is conducted.

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 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 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 the Fund 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 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 controls 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 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 the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls 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

06 September, 2022