

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - BARINGO NORTH CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2022**

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## **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 the 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 - Baringo North Constituency set out on pages 1 to 49, which comprise of the statement of assets and liabilities as at 30 June, 2022, 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 - Baringo North Constituency as at 30 June, 2022, 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**

### **1.0 Inaccuracies in the Financial Statements**

The financial statements presented for audit had the following inaccuracies: -

- 1.1. Note 12A to the financial statements reflects comparative retention amount of Kshs.4,935,629 instead of the audited balance Kshs.5,312,671 resulting to an unreconciled and unexplained variance of Kshs.377,042;
- 1.2. The statement of cash flow reflects comparative opening cash balance of Kshs.24,237,598 instead of the audited balance of Kshs.19,811,861 resulting to an unreconciled and unexplained variance of Kshs.4,425,737;
- 1.3. The statement also reflects comparative closing cash balance of Kshs.28,663,335 instead of the audited balance of Kshs.24,237,598 resulting to an unreconciled and unexplained variance of Kshs.4,425,737.

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

### **2.0 Unreconciled Differences in Employee Compensation**

The statement of receipts and payments reflect compensation of employees amount of Kshs 2,064,552. However, the supporting schedules reflects Kshs.1,676,952 resulting to an unreconciled and unexplained variance of Kshs.387,600.

In the circumstances, the accuracy and completeness of compensation of employees amount of Kshs.2,064,552 could not be confirmed.

### **3.0 Variances between Financial Statements and Supporting Schedules**

The statement of receipts and payments reflects use of goods and services of Kshs.14,820,220 which differed with the supporting schedules amount of Kshs.9,663,068 resulting to unreconciled and unexplained variance of Kshs.5,154,981 as detailed below:

<b>Particulars</b>	<b>Financial Statement Amount (Kshs.)</b>	<b>Supporting Schedule Amount (Kshs.)</b>	<b>Variance (Kshs.)</b>
Electricity	121,092	32,089	89,003
Water and Sewerage Charges	96,500	15,000	81,500

<b>Particulars</b>	<b>Financial Statement Amount (Kshs.)</b>	<b>Supporting Schedule Amount (Kshs.)</b>	<b>Variance (Kshs.)</b>
Communication, Supplies and Services	314,660	90,770	223,890
Domestic Travel and Subsistence	2,285,200	1,000,000	1,285,200
Printing, Advertising and Information Supplies and Services	387,249	0	387,249
Training Expenses	0	2,010,600	(2,010,600)
Hospitality Supplies and Services	257,805	474,124	(216,319)
Other Committee Expenses	5,543,479	1,830,999	3,712,480
Committee Allowances	2,825,420	1,239,081	1,586,339
Office General Supplies and Services	866,263	1,283,505	(417,242)
Fuel, Oil and Lubricants	1,100,000	1,150,000	(50,000)
Bank Charges	21,041	0	21,041
Other operating Expenses	150,000	0	150,000
Routine Maintenance MV	704,340	536,900	167,440
Routine Maintenance Other Assets	145,000	0	145,000
<b>Total</b>	<b>14,818,049</b>	<b>9,663,068</b>	<b>5,154,981</b>

In the circumstances, the accuracy and completeness of use of goods and services expenditure of Kshs.14,820,220 could not be confirmed.

#### **4.0 Unsupported Transfers to Other Government Units**

The statement of receipts and payments reflects transfers to other government units of Kshs.71,900,000. However, the Project Management Committee bank statements, expenditure returns and project implementation status report in support of the amount were not provided for audit.

In the circumstances, the accuracy and completeness of transfers to other government units of Kshs.71,900,000 could not be confirmed.

#### **5.0 Unsupported Bursary Payments**

The statement of receipts and payments reflects other grants and payments of Kshs.68,804,304. This amount includes bursary payments to secondary schools of Kshs.35,135,215 and tertiary institutions of Kshs.17,664,950 totalling to Kshs.52,800,165 which were not supported by detailed schedules indicating the student name, admission number, cheque number, amount awarded and name of institution.

In the circumstances, the regularity, accuracy and completeness of bursary payments of Kshs.52,800,165 could not be confirmed.

## **6.0 Unsupported Sports Expenditure**

The statement of receipts and payments reflects other grants and transfers of Kshs.68,804,304 as disclosed in Note 7 to the financial statement out of which, Kshs.5,977,739 incurred on sports expenditure. However, the amount differs with the supporting schedule of Kshs.6,428,739 resulting to an unreconciled and unexplained variance of Kshs.410,000. Further, no store receipt and issue vouchers supported with the distribution list of items procured were provided for audit.

In the circumstances, the accuracy and completeness of the sports expenditure of Kshs.6,428,739 could not be confirmed.

## **7.0 Unsupported Acquisition of Assets**

The statement of receipts and payments reflects acquisition of assets of Kshs.4,631,320. However, the amount differs with the summary of fixed assets balance of Kshs.4,537,320 resulting to an unreconciled and unexplained variance of Kshs.94,000. The amount also includes purchase of Information Communication Technology (ICT) equipment, software and other assets of Kshs.1,753,320 in respect to internet facility. However, a physical verification conducted in the month of March, 2023 revealed that the Fund offices had no access to internet facilities.

In the circumstances, the accuracy and completeness of acquisition of assets amount of Kshs.4,631,320 could not be confirmed.

## **8.0 Unsupported Cash and Cash Equivalents**

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.29,070,716. However, the bank reconciliation statement presented in support of the balance reflects payments in cashbook not yet recorded in bank statement (unpresented cheques) of Kshs.1,717,493 whose clearance were not supported by subsequent bank statements.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.29,070,716 could not be confirmed.

## **9.0 Unsupported Project Management Committee Bank Balances**

Annex 5 to the financial statements reflects project management committee bank balances of Kshs.41,907,865 and balance brought forward of Kshs.79,551,792. However, the Management Committee (PMC) bank balances, expenditure returns and project implementation status reports in support of the balances were not provided for audit.

In the circumstances, the accuracy and completeness of Project Management Committee account bank balances of Kshs.41,907,865 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 - Baringo 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.

### **Other Matter**

#### **Budgetary Control and Performance**

The summary statement of appropriation reflects final receipts budget and actual on comparable basis of Kshs.216, 710,263 and Kshs.192,121,283 respectively resulting to underfunding of Kshs.24,588,879 or 11% of the budget. Similarly, the Fund spent Kshs.162,220,396 against an approved budget of Kshs.216,896,361 resulting to an under performance of Kshs.54,675,965 or 25% of the budget.

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

## **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, I confirm that, nothing 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**

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 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 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 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 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 controls 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 controls 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 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 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 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 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**

**19 June, 2023**