

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - BARINGO SOUTH 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 purpose.
- C. Report on the 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 South 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 receipt 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 South 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. Non-Adherence to End of Year Cut Off**

The statement of receipts and payments reflect total payments amount of Kshs.218,071,069 for the year ended 30 June, 2022. Included in the balance are expenditure of Kshs.4,292,857 incurred after 30 June, 2022 contrary to Regulation 97(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the accounts of the National Government entities shall record transactions which take place during a financial year running from the 1st July to the 30th June.

In the circumstances, the completeness and accuracy of the expenditure amounting to Kshs.4,292,857 incurred after the end of the financial year could not be confirmed.

### **2.0. Inaccuracies in the Cash and Cash Equivalents**

The statement of assets and liabilities reflects bank balance of Kshs.7,268,487 as disclosed in Note 10A to the financial statements. Examination of the reconciliation statement reflects payments in the cashbook not in bank statements amounting to Kshs.20,726,651 which includes stale cheques amounting to Kshs.7,370,751. Further, there was no documents availed for audit review showing the dates when the unrepresented cheques totalling to Kshs.13,355,900 were subsequently cleared in the bank.

In addition, the bank reconciliation statement includes receipts in cash book not recorded in bank amounting to Kshs.14,624 and payments in bank (bank charges) of Kshs.98,528 not yet recorded in the cashbook. No explanation was given for failure to reverse the stale cheques or record the payments in the cashbook.

In the circumstances, the completeness and accuracy of the bank balance of Kshs.7,268,487 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 - Baringo South 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 in the year under review.

## **Other Matter**

### **1.0. Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management had not resolved the issues nor given any explanation for the failure to implement the recommendations.

### **2.0. Non-Implementation of Approved Projects**

During the financial year 2021/2022, NG-CDF Baringo South Constituency had an approved project budget amount of Kshs124,750,880 on seventy-eight (78) projects out of which fourteen (14) projects with a budget amount of Kshs.8,050,000 had not started as at 30 June, 2022.

In the circumstances, value for money for the non-implementation of approved projects amounting to Kshs.8,050,000 may have impacted negatively on service delivery to the public.

### **3.0. Unconfirmed PMC Bank Balances**

Annex 5 to the financial statements reflect PMC Bank balances of Kshs.9,580,567. However, the cash books, bank reconciliation statements, certificate of bank balances, bank statements and expenditures return for all the Project Management Committee bank accounts were not provided for audit review.

In the circumstances, the accuracy and completeness of the PMC bank balance of Kshs.9,580,567 could not be confirmed.

## **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 of Conclusion**

#### **1.0. Irregular Expenditure on Other Grants and Transfers**

The statement of receipts and payments reflects other grants and transfers amount of Kshs.123,591,300 as disclosed in Note 7 to the financial statements. The amount

includes expenditure on emergency projects of Kshs.9,942,200. However, the Management did not report to the Board within thirty (30) days of the occurrence of the emergency in the format prescribed by the Board contrary to Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016 which states that the utilization of the emergency reserve be reported to the Board within thirty (30) days of the occurrence of the emergency in the format prescribed by the Board.

Further, expenditure on other grants and transfers include environment projects of Kshs.5,213,657 which further include an amount of Kshs.700,000 transferred to a Secondary School for renovation of school's toilets. However, the project was not budgeted for but approved by the Committee under emergency funding in its meeting held on 12 January, 2022. In addition, there was no report on occurrence of any emergency in the school and therefore, not clear why the committee approved the project as emergency project.

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

## **2.0. Irregularities in the Procurement of Primary Schools' Projects**

The statement of receipts and payments reflects transfers to other Government Units amount of Kshs.76,765,760 as disclosed in Note 6 to the financial statements. Included in the expenditure are transfers to primary schools amounting to Kshs.51,450,000. Review of procurement records revealed that Project Management Committees (PMCs) did not have procurement experts which lead to violation of procurement laws and procedures as the process of tender opening, evaluation and awards were carried out by the same committee members in one sitting. Further,, the regret letters and notification of award to bidders were sent on the same day the contract was signed and subsequent issuance of LPOs to the winning bidder contrary to Section 135(3) of the Public Procurement and Assets Disposal Act, 2015 which states that the written contract shall be entered into within the period specified in the notification but not before fourteen days have elapsed following the giving of that notification provided that a contract shall be signed within the tender validity period.

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

## **3.0. Procurements Outside the IFMIS e-Procurement Module**

The statement of receipts and payments reflects transfers to other Government Units amount of Kshs.76,765,760 as disclosed in Note 6 to the financial statements. The expenditure includes transfer to Primary Schools, Secondary Schools and Tertiary Institutions amount of Kshs.51,450,000, Kshs.24,815,760, and Kshs.500,000, respectively in respect of various projects that were undertaken by the Institutions. Review of the Funds operational systems and project files revealed that the procurement of goods, works and services was done outside the IFMIS e-procurement module since Management had not implemented Integrated Financial Information System (IFMIS). This is contrary to the Executive Order No. 6 of 6 March, 2015 that directed all Government entities including State Corporations and Public Universities to immediately migrate their

procurement systems to the e-Procurement platform developed by The National Treasury.

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

#### **4.0. Irregular Issuance of Bursary to Secondary Schools**

The statement of receipts and payments reflects an amount of Kshs.123,591,300 in respect of other grants and transfers as disclosed in Note 7 to the financial statements. Included in the expenditure is an amount of Kshs.46,000,000 on bursaries to Secondary Schools. However, analysis of bursaries to Secondary Schools reflects that eleven (11) students who shared similar admission numbers were awarded bursaries amounting to Kshs.63,000.

In the circumstances, the regularity and completeness of bursary to Secondary Schools amounting to Kshs.63,000 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 complying, 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, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, 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**

##### **Weak Information Technology Internal Controls**

During the year under review, the Management did not have in place Information Communication Technology (ICT) Policy, IT policy, Disaster and recovery Policy and IT Steering policy which are vital in effective and efficient management of the entity IT resources. Further an IT steering committee which is important in performing the oversight function and formulation of policies to ensure that essential information does not fall into wrong hands.

In the circumstances, the integrity, security and reliability of the Fund's financial data and internal controls could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires 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 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 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 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 noncompliance. 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 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**

**14 June, 2023**