

REPORT OF THE AUDITOR GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LAIKIPIA WEST CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2022

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 Control, 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 control, 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 - Laikipia West Constituency, set out on pages 1 to 37, which comprise 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 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 National Government Constituencies Development Fund - Laikipia West 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

Unsupported Expenditure on Security Project

Note 7 to the financial statements reflects an amount of Kshs.60,728,640 in respect of other grants and transfers which includes Kshs.12,570,000 in respect to transfers to security projects which further includes Kshs.10,984,419 for the construction of Rumuruti Police Divisional Headquarters.

In the year under review, the Fund transferred Kshs.6,900,000 to the Project Management Committee. However, there was no evidence that the returns, Bills of Quantities, project's work plans and budgets had been prepared contrary to National Government Constituency Development Fund Regulations, 2016 which provides that there shall be appointed a Project Management Committee for each project in a Constituency in accordance with Section 36 of the Act which shall prepare returns and file them with a Constituency Committee on a timely basis and account for funds to the Constituency Committee.

In the circumstances, the accuracy and validity of the Kshs.12,570,000 expenditure could not be confirmed.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Laikipia West Constituency's Management in accordance with ISSAI 130 on the 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 judgement, 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

1. Budgetary Control and Performance

The Fund's summary statement of appropriation reflects Kshs.184,621,248 and Kshs.172,532,369 in respect of budgeted and actual receipts, respectively, resulting to underfunding of Kshs.12,088,879 or 7% of the budget.

Similarly, the Fund expended Kshs.167,124,909 against an approved budget of Kshs.184,621,248 resulting to an under-expenditure of Kshs.17,496,339 or 9% of the budget.

The underfunding and underspending reflect equivalent services expected but not delivered to the public. There is, therefore, need for Management to re-look at its budgeting mechanism with a view to focusing on areas which will improve service delivery to the residents of Laikipia West Constituency.

2. Project Implementation Status

Note 6, 7 and 9 to the financial statements reflects an amount of Kshs.93,178,673, Kshs.60,728,640 and Kshs.450,000 in respect to transfers to other Government units, other grants and transfers and other payments respectively, all totalling to Kshs.154,357,313 which was earmarked for project implementation during the year.

The project implementation status report as at 30 June, 2022 indicated that the Fund budgeted for seventy-eight (78) projects worth Kshs.139,193,087 to be undertaken during the year. However, seventy-five (75) projects worth Kshs.133,293,087 were completed, one (1) project worth Kshs.5,200,000 was on going and two (2) projects worth Kshs.700,000 had not been started.

In the circumstances, the public failed to get the expected goods and services equivalent to Kshs.5,900,000 that was budgeted but not completed.

3. Prior Year Unresolved Issues

In the previous year, one issue was raised under Other Matter and another on Report on Lawfulness and Effectiveness in Use of Public Resources. Although the Management has indicated that these have been resolved, the matters remained unresolved as the Public Accounts Committee is yet to deliberate on the Report for 2020/2021.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, and 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. Transfer to Other Government Units

1.1 Transfer to Primary Schools

Note 6 to the financial statements reflects an amount of Kshs.93,178,673 in respect to transfer to other Government units which includes Kshs.54,677,923 in respect to transfer to primary schools which includes Kshs.5,544,526 transferred to three (3) primary schools for construction and renovation of classrooms and administration block.

The Fund through the School's Project Management Committees constructed new classrooms and renovated the existing ones at Ndaragwiti and Ngarachi Primary School's at contract sums of Kshs.900,000 and Kshs.2,300,000 respectively. However, the two projects were not labelled contrary to Regulation15(1)(f) of the National Government Constituencies Development Fund Regulations, 2016 which provides that there shall be appointed a Project Management Committee for each project in a Constituency in accordance with section 36 of the Act which shall undertake project closure, labelling and handover upon completion.

In addition, the Fund constructed an administration block at Rumuruti DEB Primary School at a cost of Kshs.2,344,526. However, although the project was complete and in use, there were roof leakages in the ceiling and cracks on the walls which is an indication of poor workmanship.

In the circumstances, value for money of the Kshs.5,544,526 expenditure could not be confirmed.

1.2 Transfers to Secondary Schools

Note 6 to the financial statements reflects an amount of Kshs.93,178,673 in respect to transfer to other Government units which includes Kshs.38,500,750 in respect to transfer to secondary schools which further includes Kshs.6,300,000 transferred to three (3) secondary schools for the construction of laboratory, administration block and classrooms. However, the following observations were made:

- i. Two (2) standard classrooms were constructed at Gituamba Secondary School at a cost of Kshs.2,300,000. However, although the Bills of Quantity provided for rainwater gutters, the same had not been made good. Further It was observed that there were holes on the floors yet the classrooms were yet to be put in use and the project had erroneously been labelled as being for 2020/2021 instead of 2021/2022 financial year.
- ii. The Fund through the School's Project Management Committees constructed a laboratory structure and an administration block at costs of Kshs.2,800,000 and Kshs.1,200,000 at Emgwen and Gatero Secondary Schools, respectively. However, the two projects were not labelled contrary to Regulation15(1)(f) of the National

Government Constituencies Development Fund Regulations, 2016 which provides that there shall be appointed a Project Management Committee for each project in a Constituency in accordance with Section 36 of the Act, which shall undertake project closure, labelling and handover upon completion.

In the circumstances, the value for money for the Kshs.6,300,000 expenditure could not be confirmed.

2. Security Projects

Note 7 to the financial statements reflects an amount of Kshs.60,728,640 in respect to other grants and transfers which includes Kshs.12,570,000 in respect of security projects which further includes Kshs.2,200,000 transferred for construction of two (2) chiefs offices. However, the following observations were made:

- i. The Fund constructed Gituamba Chief's Office at a cost of Kshs.1,100,000 but although the office is already in use, there were cracks on the walls and the floors and gaps on the exterior foundations that would be catastrophic in the short run. In addition, the project was not labelled despite being handed over.
- ii. Further, the Fund constructed and handed over Mithiga Location Chiefs Office at a cost of Kshs.1,100,000 without labelling it contrary to Regulation 15(1)(f) of the National Government Constituencies Development Fund Regulations, 2016 which provides that there shall be appointed a Project Management Committee for each project in a Constituency in accordance with Section 36 of the Act which shall undertake project closure, labelling and handover upon completion.

In the circumstances, the value for money for the projects could not be confirmed.

3. Irregular Administration of Emergency Funds

Note 7 to the financial statements reflects an amount of Kshs.60,728,640 in respect to other grants and transfers which includes Kshs.7,192,207 in respect to emergency projects which further includes Kshs.3,950,000 transferred to four schools to construct toilets on an emergency basis.

However, the Fund did not provide evidence that the utilization of the emergency reserves was reported to the Fund Board within thirty days of the occurrence of the emergency as required by Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016 which requires that the utilization of the emergency reserve to be reported to the Board within thirty days of the occurrence of the emergency.

In the circumstance, the Fund is in breach of law.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs) 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 comply, 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 CONTROL, 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 control, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance to the International Standards for Supreme Audit Institutions (ISSAIs) 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 the 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 services, disclosing, as applicable, matters related to sustainability of services and using the going concern 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 control in order to give an assurance on the effectiveness of internal control, 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 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 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 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

16 May, 2023