

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SAMBURU 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 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 - Samburu West Constituency set out on pages 1 to 47, 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 the National Government Constituencies Development Fund - Samburu 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 Public Finance Management Act, 2012 and comply with the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Cash and Cash Equivalents - Stale Cheques

The statement of assets and liabilities reflects a bank balance of Kshs.46,875,599. The bank reconciliation statement for this bank account reflects payments in cash book not in bank statement for unpresented cheques amounting to Kshs.8,569,899. However, the amount includes stale cheques totalling Kshs.607,157 which had not been reversed in the cash book as at 30 June, 2022.

In the circumstances, the accuracy and completeness of the bank balance of Kshs.46,875,599 could not be confirmed.

2. Summary of Fixed Assets Register

Annex 4 to the financial statements reflects a balance of Kshs.24,114,011 in respect to summary of fixed assets which includes buildings and structures balance of Kshs.10,590,000. However, the asset register provided for audit review reflects a nil balance for the same items resulting to an unexplained variance of Kshs.10,590,000.

Further, the Fund assets were not tagged as required.

In the circumstances, the completeness and validity of the summary of fixed assets register balance of Kshs.24,114,011 could not be confirmed.

3. Misposting of Committee Members Allowances

Note 5 to the financial statements reflects Kshs.8,311,656 in respect to use of goods and services which includes a balance of Kshs.2,296,000 in respect of office and general supplies and services. Included in this balance is an amount of Kshs.920,000 incurred on allowances for committee members which was mis-posted to office and general supplies and services instead of committee allowance.

In the circumstances, the balance for office and general supplies and services of Kshs.2,296,000 was overstated by Kshs.920,000.

4. Failure to Supported Bank Reconciliations Statements - Project Management Committee Bank Balances

Note 17.4 to the financial statements reflects Project Management Committees (PMC) balances amounting to Kshs.10,232,560. However, the bank reconciliations statements and their related supporting documents were not provided for audit review contrary to

Regulation 90(1) of the Public Finance Management (National Government) Regulations, 2015 which require that Accounting Officers shall ensure bank accounts reconciliations are completed for each bank account held by that Accounting Officer, every month and submit a bank reconciliation statement not later than date 10 of the subsequent month to the National Treasury with a copy to the Auditor-General.

In the circumstances, the validity and accuracy of the PMG account balances of Kshs.10,232,560 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 - Samburu West Constituency Management in accordance with the 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 summary statement of appropriation for the year ended 30 June, 2022 reflects budgeted receipts of Kshs.215,054,014 and actual receipts of Kshs.208,837,289 resulting to underfunding of Kshs.6,216,725 or 3% of the budget. Similarly, the Fund expended Kshs.161,961,690 against an approved budget of Kshs.215,054,014 resulting to an under-expenditure of Kshs.53,092,324 or 25% 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, several paragraphs were raised under the report on financial statements, report on lawfulness and effectiveness in use of public resources, and report on effectiveness of internal control, risk management and governance. Although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the relevant parliamentary committee has not met to deliberate on the same.

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. Delayed Project – Kenya Medical Training College (Maralal Campus)

Review of the Project Implementation Status (PIS) report revealed that construction of the Kenya Medical Training College (Maralal Campus) was to be undertaken during the year and Kshs.20,000,000 was allocated for the project. However, at the time of the audit the Project Management Committee (PMC) for implementing the project was yet to be established and the monies allocated were still lying idle at the Samburu West NG-CDF main account hence denying the public the benefits accruing from the use of the project.

In the circumstances, the value for money of the Kshs.20,000,000 could not be confirmed.

2. Incomplete Project - Samburu West Technical Training Institute

The statement of receipts and payments together with, Note 6 to the financial statements reflects transfer to other government units of Kshs.79,817,234 which includes transfers to tertiary institutions totalling Kshs.10,000,000. The amount was transferred to Meru National Polytechnic as part of the Samburu West NG-CDF contribution for the partnership between the Ministry of Education and the NG-CDF for the construction of the proposed Samburu West Technical Training Institute which was to be mentored by the Meru National Polytechnic.

However, it was noted that, despite the contract for the project having been awarded in August, 2014 at a contractual sum of Kshs.46,491,835 the project was yet to be completed. Physical verification revealed that the project site was abandoned and the clerk of works did not provide plausible explanation why the construction works were not ongoing.

In the circumstances, the value for money and regularity of the Kshs.10,000,000 incurred on the above project could not be confirmed.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (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 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, and based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Control, 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 control, risk management and overall governance were not effective.

Basis for Conclusion

Lack of Risk Management Policy

As previously reported, the Management had not developed a risk management policy to guide it on risk assessment and formulation of risk mitigation strategies in the year under review. This is contrary to Regulation 165(1)(a)(b) of the Public Finance Management Act (National Government) Regulations, 2015 which requires the Accounting Officer to ensure that the National Government entity develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal control that builds robust business operations.

In the circumstances, it has not been possible to confirm whether the internal control built within the financial and operational systems were functioning as intended.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs) 2315 and 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 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 services, disclosing, as applicable, matters related to the sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease its 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 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 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 control may become inadequate because of changes in conditions, or that the degree of compliance with the Fund's 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

12 May, 2023