

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – NAROK 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 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 1 to 35, 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 Fund 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 National Government Constituencies Development Fund Regulation, 2016, the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

1.1 Compensation of Employees

The statement of receipts and payments reflects compensation of employees of an amounts of Kshs.4,139,353 and as disclosed in Note 4 to the financial statements. The amount is at variance with the payrolls balance of Kshs.3,692,906, resulting to unexplained and unreconciled variance of Kshs.446,447.

In the circumstances, the accuracy and completeness of compensation of employees payments of Kshs.4,139,353 could not be confirmed.

1.2 Bursary Payments

The statement of receipts and payments reflects other grants and transfers of amounts of Kshs. 46,846,082 which includes Kshs.17,895,194 and Kshs.17,564,000 in respect of bursary to secondary schools and bursary to tertiary institutions totalling to Kshs.35,459,194 and as disclosed in Note 7 to the financial statements. However, review of the bursary beneficiary schedules detailing the institutions, students' names and admission numbers revealed bursary and transfers of amounts of Kshs.17,024,500 and Kshs.17,566,000 in respect of bursary to secondary schools and bursary to tertiary institutions respectively totalling to Kshs.34,590,500 resulting to unexplained and unreconciled variance of Kshs.868,694.

Further, bursary payments of amounts of Kshs.4,857,000, Kshs.1,702,000 and Kshs.2,487,000 totalling to Kshs.9,046,000 were irregularly issued to three hundred eighty-five (385), one hundred sixty-two (162) and one hundred twenty-eight (128) beneficiaries without admission or registration numbers, beneficiaries sharing similar admission numbers in their respective schools/institutions and beneficiaries without students' names respectively.

In the circumstances, the propriety, accuracy and completeness of bursary payments of Kshs.17,895,194 and Kshs.17,564,000 in respect of bursary to secondary schools and bursary to tertiary institutions could not be confirmed.

2. Unsupported Transfers from the Board

The statement of receipts and payments reflects transfers from National Government Constituencies Development Fund (NGCDF) Board of an amount of Kshs.187,677,758 and as disclosed in Note 1 to the financial statements. However, the amount includes authority to incur expenditure (AIE) No. A895076 of an amount of Kshs.5,500,000 whose code list, authority to incur expenditure and bank statements extract were not provided for audit.

In the circumstances, the accuracy and completeness of transfers from the (NGCDF) board of an amount of Kshs.5,500,000 could not be confirmed.

3. Abandoned Projects

Statement of receipts and payments reflects transfers to other Government units of an amount of Kshs.122,800,000 which includes an amount of Kshs.69,200,000 in respect to transfers to secondary schools. The transfers to secondary schools include an amount of Kshs.5,000,000 to Esoit Secondary School for construction of two classrooms, two teachers housing units of one bedroom and four door toilets all to completion. However, audit verification of the project in the month of April, 2023 revealed that the project was incomplete and the contractor was not on site, school had no students, school's registration certificate was not provided for audit review and the Projects Management Committee was not in place. The projects pending works include labelling, external finishes on the walls and toilets for people living with disability (PWD). In addition, 4-door toilet included in the contract was constructed outside the school compound with no access from the school.

In the circumstances, the accuracy and completeness of the amounts of Kshs.5,000,000 expenditure for the construction of two classrooms, two teachers housing units of one bedroom and four door toilets and value for money from the projects could not be confirmed.

4. Unaccounted for Emergency Funds

Statement of receipts and payments reflects transfers to other grants and other of an amount of Kshs.46,846,082 which includes an amount of Kshs.6,950,113 in respect to emergency projects. The emergency projects includes an amount of Kshs.796, 800 to Lekanka Primary school for re-equipping of borehole. However, review of the expenditure returns revealed that the project was initially funded by European Union and implemented by the National Drought Management Authority. Physical verification in the month of April 2023 confirmed no evidence of work done by Fund and the project was not labelled.

In the circumstances, the accuracy and completeness of the amounts of Kshs.796, 800 to Lekanka Primary school for re-equipping of borehole and value for money from the projects could not be confirmed.

5. Incomplete Project Implementation

Statement of receipts and payments reflects transfers to other Government units of an amount of Kshs.122,800,000 which includes an amount of Kshs.69,200,000 in respect to transfers to secondary schools. The transfers to secondary schools include an amount of Kshs.19,000,000 and Kshs.6,000,000 to Kishemouruak and Olderkesi secondary schools for construction of the administration block of six (6) offices and toilets of fifteen (15) doors and construction of a120-bed dormitory to completion respectively. However, audit verification in the month of April 2023 revealed that the work was not done as per bills of quantities (BQs). The BQs listed the construction of six (6) offices and toilets of fifteen (15) doors but only three (3) offices and toilets of nine (9) doors were constructed respectively. Further, the dormitory is complete and in use but has not been partitioned and doors to ablution block were not fitted as per (BQs).

In the circumstances, the accuracy and completeness of the amounts of Kshs.19,000,000 and Kshs.6,000,000 to Kishemouruak and Olderkesi secondary schools for construction of the administration block of six (6) and toilets of fifteen (15) doors and construction of a 120-bed dormitory to completion respectively and value for money from the projects could not be confirmed.

6. Stale Cheques

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.16,121,842 and as disclosed in Note 10 to the financial statements. Review of the bank reconciliation statement as at 30 June, 2022 reflects unrepresented cheques totaling to Kshs.7,538,923 out of which Kshs.244,727 were stale and had not been reversed in the cash book. Similarly, the statement reflected receipts in bank statement not yet recorded in cashbook of Ksh.906 which had not been receipted since November, 2018 and whose details were not provided for audit.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.16,121,842 could not be confirmed.

7. Project Management Committee Bank Account Balances

Note 17.4 to the financial statements reflects Project Management Committee (PMC) bank account balances of Kshs.12,330,300 held in one hundred (100) bank accounts as disclosed in Annex 5 to the financial statements. However, the certificate of bank balances in support of the bank balances reflected balances of Kshs.2,290,833 resulting unreconciled variance of Kshs.10,039,467.

In the circumstances, the accuracy and completeness of the Project Management Committee account balances of Kshs.12,330,300 could not be confirmed.

8. Long Outstanding Imprest

As disclosed in Note 11 to the financial statements, the statement of assets and liabilities reflects outstanding imprest balance of Kshs.373,000 which was issued on 30 June, 2017

of which human resource records indicates that the employee left employment in that year. However, Management has not demonstrated any appropriate measures taken to recover the outstanding amount.

In the circumstances, accuracy, completeness and recoverability of outstanding imprest balance of Kshs.373,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National 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.

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 other key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

The summary statement of appropriation reflects final payments budget of Kshs.201,908,810 and actual on comparable basis of Kshs.185,413,969 respectively resulting to an under absorption of Kshs.16,494,841.

The under absorption may have negatively affected the planned activities and service delivery to the residents.

2. Unresolved Prior Year Matters

In the audit of the previous year, several issues were raised. Management has not resolved the issues or provided reasons for the delay in resolving the prior year audit issues as required by the Public Sector Accounting Standards Board template and The National Treasury's Circular Ref: AG/4/16/3/Vol.3(66) dated 6 July, 2022.

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. Failure to Transfer Unutilized Funds

Note 17.4 to the financial statements reflects Project Management Committee account balances of Kshs.12,330,300 out of which Kshs.1,486,413 is held in forty-six (46) bank accounts for closed projects which had not been transferred to the constituency account. 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.

2. Irregular Engagement of Constituency Employees

The statement of receipts and payments reflects compensation of employees of Kshs.4,139,353 in respect fourteen (14) employees engaged in various cadres. However, the National Government Constituency Development Fund Board recommends four (4) employees. Further, the Constituency Committee did not have a clear organizational structure backed by job description for each employee in place contrary to the NG-CDF Board circular referenced NGCDFB/CEO/BOARDCIRCULARS Vol.II (014).

In the circumstances, Management was in breach of NGCDF board policy guidelines.

3. Irregular Reallocation of Funds

Review of the payment vouchers and approved code list on projects revealed that funds of an amounts of Kshs.3,700,000, Kshs.1,000,000 and Kshs.800,000 totalling to Kshs.5,500,000 were reallocated to bursary for tertiary institutions, Oloibormurt primary school and Olkiloriti primary school projects. However, the projects had not been budgeted for and no authority approving the reallocation from the National Government Constituencies Development Fund Board was provided for audit review. In addition, four (4) projects allocated amounts totalling to Kshs.8,500,000 had their activities and scopes changed without the Boards approvals. This was contrary to Section 6 (2) of the National Government Constituencies Development Fund Act, 2015 which states that once funds are allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose during the financial year with the approval of the Board.

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

4. Irregular Implementation of Environment Projects

Statement of receipts and payments reflects other grants and other transfers of an amount of Kshs.46,846,082 and as disclosed in Note 7 to the financial statements which

includes an amount of Kshs.1,731,776 for installation of 10,000 Litre water tanks, gutters and water bases for five (5) Primary and three (3) Secondary Schools. However, review of the payment vouchers and expenditure returns revealed that the procurement of the supplies were done by the Constituency Committee which is contrary to Regulations 15 (1a)(6) of National Government Constituency Development Fund Regulation, 2016 which states 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 implement projects in consultation with its relevant departments and government. A constituency Committee shall not convert itself into a PMC.

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

5. Incomplete Projects

During the year under review, seventy-eighty (78) projects with a cost of Kshs.139,321,063 were planned for implementation. However, review of the project implementation status report as at 30 June, 2022 revealed that five (5) projects valued at Kshs.5,134,174 were incomplete.

In the circumstances, value for money for the incomplete five (5) projects valued at Kshs.5,134,174 could not be confirmed.

6. Unsupported Implemented Projects

During the year under review, seven (7) projects totaling to Kshs.26,000,000 for the construction of two (2) dormitories, two (2) classrooms, three (3) teachers housing units and purchase of a fifty one (51) seater school bus were sampled for audit verification in the month of April, 2023. Six (6) projects were completed except one. However, the projects were not labelled, BQs for one project and log book for the school bus were not provided for audit review contrary to Regulations 15 (1f and 4a) of the National Government Constituency Development Fund Regulation, 2016 which states that there shall be appointed a project management committee for each project in a Constituency in accordance with Section 36 of the NGCDF Act, 2015 which shall undertake project closure, labelling and handover upon completion. A project management committee shall prepare the requisite budgets and bills of quantities, assisted by relevant government officers.

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, 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 control, 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 comply 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 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 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 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 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

04 July, 2023