

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - POKOT 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 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 - Pokot South Constituency set out on pages 1 to 40, 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 - Pokot 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. Unsupported Education Bursary**

The statement of receipts and payments reflects other grants and transfers amount of Kshs.76,873,366 as disclosed in Note 7 to the financial statements. This amount includes bursary to secondary schools' of Kshs.40,621,400 and tertiary institutions of Kshs.17,463,100. However, review of records revealed that disbursements amounting to Kshs.19,887,500 were not acknowledged by the respective learning institutions. Further, the criteria used in award of bursaries was not provided for audit.

In the circumstances, the occurrence and accuracy of bursary payments of Kshs.19,887,500 could not be confirmed.

### **2. Inaccurate Summary of Fixed Assets Register**

Annex 4 to the financial statements - summary of fixed assets register reflects cumulative historical asset amount of Kshs.6,362,243 as at 30 June, 2022 which comprises of; transport equipment - Kshs.6,158,843, office equipment, furniture and fittings - Kshs.119,400, and ICT equipment, software and other assets - Kshs.84,000. However, the Fund's fixed assets register includes nine (9) computers donated by the National Government Constituencies Development Fund Board whose value has not been determined and included in the financial statements. Further, the Fund's assets amount decreased by Kshs.120,999 from Kshs.6,483,242 as at 30 June, 2021 to Kshs.6,362,243 as at 30 June, 2022 without any evidence of asset disposal.

In addition, ICT equipment, software and other ICT assets valued at Kshs.84,000 were not recorded in the Fund's asset register.

In the circumstances, the accuracy and completeness of the Fund's fixed assets historical cost amount of Kshs.6,362,243 could not be confirmed.

### **3. Unconfirmed Project Management Committee Bank Balances**

Annex 5 to the financial statements - Project Management Committee (PMC) bank balances reflects cumulative balance of Kshs.20,434,523 for twenty-one (21) bank accounts. However, the cash books, bank reconciliation statements, certificate of bank balances and bank statements for the respective bank accounts were not provided for audit. Further, during the year, development funds amounting to Kshs.93,936,100 were disbursed to thirty-seven (37) projects, an indication of non-disclosure of sixteen (16) project management committee bank balances.

In the circumstances, the accuracy and completeness of the PMC bank account balances of Kshs.20,434,523 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 - Pokot 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 to report in the year under review.

### **Other Matter**

#### **1. Budgetary Control and Performance**

The summary statement of appropriation reflects final receipts budget and actual on a comparable basis of Kshs.197,894,712 and Kshs.185,805,853 respectively resulting into underfunding of Kshs.12,088,879 or 6% of the budget. Similarly, the Fund spent Kshs.176,363,562 against an approved budget of Kshs.197,894,712 resulting to an under expenditure of Kshs.21,531,150 or 11% 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**

The Management has not addressed audit issues in 2020/2021 financial year report contrary to Section 149(2)(l) of the Public Finance Management Act, 2012 which require accounting officers designated for National Government entities to try to resolve any issues resulting from an audit that remain outstanding.

## **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. Delay in Disbursement of Funds from the Board**

The statement of receipts and payments reflects transfers from National Government Constituencies Development Fund Board amount of Kshs.170,088,879 during the year ended 30 June, 2022. However, the amount of Kshs.170,088,879 includes Kshs.33,000,000 or 19% of total receipts budgeted for in 2020/2021 financial year. Further, the Board had not disbursed Kshs.12,088,879 as at 30 June, 2022 relating to 2020/2021 financial year budget contrary to Section 39(2) of the National Government

Constituencies Development Fund Act, 2015 which states that the disbursement of funds to the Constituency Fund account shall be effected at the beginning of the first quarter of each financial year with an initial amount equivalent to twenty-five per centum of the allocation for the constituency and thereafter the Constituency Fund account shall be replenished in three equal instalments at the beginning of the second, third and fourth quarters of the financial year and Section 40(1) which stipulates that the Board shall ensure that the list of projects forwarded to it by each constituency is, upon approval, funded in accordance with the Act.

In the circumstances, the Board is in breach of the law.

## **2. Transfers to Other Government Entities**

The statement of receipts and payments reflects transfers to other Government units of Kshs.86,547,234 as disclosed in Note 6 to the financial statements. This amount includes transfers to primary schools' of Kshs.10,700,000, transfers to secondary schools' of Kshs.74,847,234 and to tertiary institutions of Kshs.1,000,000.

The following unsatisfactory observations were made:

### **2.1 Mbayai Central Primary School**

Included in transfers to primary schools' amount of Kshs.10,700,000 is Kshs.1,500,000 paid Mbayai Central Primary School for construction of two (2) classrooms to completion. However, project contract, expenditure returns, reports detailing particulars of project proposals, project funding, approved drawings and structural designs, signed contractual inspection and acceptance reports and CDFC monitoring, and evaluation reports were not provided for audit.

Audit inspection of the project conducted in March, 2023 revealed that the project was at the lintel level, one side of the structure wall for each of the two classrooms was not constructed and the contractor was not on site and no work was ongoing despite Kshs.1,500,000 having been paid to the contractor.

### **2.2 Lomuke Secondary School**

Included in the transfers to secondary schools' amount of Kshs.74,847,234 is Kshs.4,955,567 paid to St. Paul Lomuke Secondary School for construction of administration block. However, the Fund Management did not provide tender advertisement notice, opening tender committee minutes and attendance register, tender evaluation and awarding committee minutes and attendance register, CDFC monitoring and evaluation reports and works completion certificates for audit.

Project inspection carried out in March, 2023 revealed that plumbing works, wall painting, electrical works, construction of latrines and rainwater installations items that include gutters, ridges and swan neck were not done. The contractor was not on site and no work was ongoing.

In the circumstances, the Fund did not get value for money on expenditure.

## **3. Lack of Clerk of Works**

Review of records revealed that the Fund budgeted for projects valued at Kshs.93,936,100 for implementation which involved extensive civils works. However, the Fund Management did not engage the services of a technical staff – clerk of works to assist in the project implementation contrary to Section 45(1) of the National Government Constituencies Development Fund Act, 2015.

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 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 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 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 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'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 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 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 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**

**30 June, 2023**