

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – BARINGO SOUTH CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019

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 14 to 56, which comprise of the statement of assets and liabilities as at 30 June, 2019, statement of receipts and payments, statement of cash flows and the summary statement of appropriation - recurrent and development combined 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 the National Government Constituencies Development Fund – Baringo South Constituency as at 30 June, 2019, 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 Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Use of Goods and Services

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services amount of Kshs.7,242,160. However, expenditure on office and general supplies, hospitality services and communication, airtime amount of Kshs.172,230, Kshs.199,340 and Kshs.142,000 respectively, all totalling to Kshs.513,570 were not adequately supported by ledgers or registers.

Under the circumstances, the accuracy, completeness and validity of expenditure on use of goods and services totalling to Kshs.513,570 for the year ended 30 June, 2019 could not be confirmed.

2. Unsupported Bursary

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers totalling to Kshs.34,273,753. However,

included in this amount are bursaries totalling to Kshs.27,643,753 which were not supported by a detailed listing of the beneficiary students.

Under the circumstances, the accuracy, validity and completeness of other grants and transfers totalling to Kshs.27,643,753 for the year ended 30 June, 2019 could not be confirmed.

3. Inaccuracies in Cash and Cash Equivalents

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities reflects bank balance amount of Kshs.21,563,327. However, bank reconciliation statement reflected unrepresented cheques amounting to Kshs.7,700,318 out of which stale cheques amounted to Kshs.3,117,697. However, the cheques had not been written back into the cash book.

Under the circumstances, the accuracy and completeness of cash and cash equivalent balance of Kshs.21,563,327 as at 30 June, 2019 could not be confirmed.

4. Unsupported Committees Bank Balance

Note 15.4 to the financial statements discloses Project Management Committee (PMC) bank accounts balance totaling to Kshs.14,621,779 as at 30 June, 2019. However, supporting documents such as; cash books, bank reconciliations and statements were not provided.

Consequently, the accuracy and completeness of PMC bank accounts balance of Kshs.14,621,779 as at 30 June, 2019 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 to report in the year under review.

Other Matter

1. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development reflects final receipts budget and actual on comparable basis of Kshs.169,856,471 and Kshs.114,326,597 respectively, resulting to underfunding of Kshs.55,529,874 or 33% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.169,856,471 and Kshs.92,752,270 respectively, resulting to an under expenditure of Kshs.77,104,201 or 45% 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 issues were raised. Management has indicated the issues as resolved, however Parliament has not discussed the report.

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 Project Implementation

The Project Status Report as at 30 June, 2019 indicated that one hundred and seventy-one (171) projects with budget allocation totalling to Kshs.395,010,344 at different implementation statuses as detailed out below: -

Project Status	Count	Amount (Kshs)
Ongoing	31	78,610,690
Not started due to non-release of funds	33	64,600,000
Prior years ongoing projects – Not prioritized	107	251,799,654
Total	171	395,010,344

Prior year incomplete projects but not prioritized in the current year were one hundred and seven (107) with funding allocation amount of Kshs.251,799,654. This is contrary to Section 46(2) of NGCDF Act, 2015 which requires ongoing projects to be prioritized and NGCDF Regulations 2016 Sec 11(1)(j) which requires the Constituency

Committee to ensure that projects receive adequate funding and are completed within three (3) years.

In the circumstances, I am unable to confirm whether the public will obtain value for money for the delayed projects.

2. Unsatisfactory Implementation of Projects

Eight (8) projects with funding allocation of Kshs.8,900,000 were sampled for physical verification during the month of January, 2020 and unsatisfactory observations made as shown in **Appendix I**.

Further, there was no evidence of the 10% retention money being withheld from the contractors to during the defect liability period.

No satisfactory explanation has been rendered for delays in completing the projects.

Consequently, I am unable to confirm whether the public will get value for money on the projects unsatisfactory implemented.

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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Overall Governance section of my report, I confirm that, 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

1. Lack of Rental Receipts Records

The Fund building is being occupied by other institutions who should be paying rent and reported as other receipts in the financial statements. However, during the year

under review no rent receipts have been reported. Tenancy agreements were also not provided.

Under the circumstances, the effectiveness of controls over renting of the extra office space could not be confirmed.

2. Lack of Risk Management Policy

The Fund does not have a risk management policy in place which include risk management strategies, fraud prevention mechanism; and (b) a system of risk management and internal control that builds robust business operations.

In the circumstances, the Fund is exposed to the risk of business disruptions should the unmitigated risks crystallize.

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 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 financial reporting process, reviewing the effectiveness of how the Fund 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 overall 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 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 Funds' 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

01 October, 2021

Appendix I: Unsatisfactory Implementation of Projects

Project Name	Details	Cost (Kshs)	Observations
Salabani Primary School	Construction of an administration Block	800,000	Contractual agreement and certificate of progress were not availed; project was on the fourth course with expenditure amount of Kshs.1,714,410 having been incurred.

Project Name	Details	Cost (Kshs)	Observations
Kamungei Primary School	Completion of two (2) classrooms	600,000	Bills of quantities were not provided, one class had been built. There was no evidence of bank balances to build the second class.
Kapkoibai Primary School	Construction of a classroom	800,000	There was no certificate for works done while floor and walls of the class had cracks.
Kamuga Primary School	Construction of one classroom	1,000,000	The class was in use but the floor and walls had cracks.
Kimoigut Primary School	Construction of one classroom	700,000	The class was complete and in use but the floor and walls had cracks. Quotations were not provided to evidence competitive sourcing of the contractor.
Kimalel Primary School	Completion of administration block	1,000,000	The project had been constructed up to the lintel level and roofing, fixing of doors and windows, plastering, keying and painting were pending. Bills of quantities and certificate of works done were not provided.
Rorobai Primary School	Construction of one class room	700,000	The class was complete and in use but the floor and walls had cracks. The certificate of works done was not provided.
Ilchamus Chief's Office	Completion of Ilchamus Chief's Office	800,000	Incomplete works: rain water harvesting system was not done and there was evidence of roof leakages.
Total		6,400,000	