

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - BARINGO CENTRAL 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 Central Constituency set out on pages 11 to 45, which comprise the statement of assets and liabilities as at 30 June, 2019, and the 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 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 - Baringo Central 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. Unsupported Expenditure on Other Grants and Transfers

The statement of receipts and payments reflects other grants and transfers of Kshs.57,922,468 (2018:Kshs.35,840,289). As disclosed under Note 7 to the financial statements, the balance included Kshs.22,584,475 and Kshs.17,374,525 being bursaries to secondary schools and tertiary institutions respectively, both totaling to Kshs.39,959,000. However, details of beneficiaries of bursaries amounting to Kshs.8,776,450 were not provided. Further, and as previously reported, no evidence was provided that the beneficiaries of bursaries were vetted as required under Regulation 21(3) of National Government Constituencies Development Fund Regulations, 2016, which requires a Constituency Committee to vet all persons proposed to receive support in accordance with the guidelines issued by the Board.

Under the circumstances, the accuracy and validity of other grants and transfers balance of Kshs.57,922,468 could not be confirmed.

2. Bank Balances

The statement of assets and liabilities and Note 10A to the financial statements, reflect bank balances of Kshs.832,445. However, the June, 2019 bank reconciliation statement reflected un-presented cheques amounting to Kshs.11,687,911 of which Kshs.1,150,611 were stale and had not been written back in the cash book.

Consequently, the accuracy of the bank balances of Kshs.832,445 as at 30 June, 2019, could not be confirmed.

3. Fixed Assets

The Summary of Fixed Assets Register disclosed at Annex 4 to the financial statements, reflects various asset classes with a historical cost balance of Kshs.27,651,938 as at 30 June, 2019. However, the fixed assets register reflected assets with a balance of Kshs.5,980,512 resulting to an unreconciled variance of Kshs.21,671,426.

Consequently, the accuracy of the summary of fixed assets register could not be confirmed.

4. Fund Balance

The statement of assets and liabilities reflects net financial assets of Kshs.832,445 which are represented by an equivalent fund balance. However, the fund balance is erroneously described as net liabilities.

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 Central 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

Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual receipts on comparable basis of

Kshs.214,108,919 and Kshs.159,068,043 respectively resulting to an overall budget under funding of Kshs.55,040,876 or 26%. The Fund's expenditure was limited to the receipts realized.

The under-funding affected implementation of the planned activities and projects which may have impacted negatively on service delivery to the residents of Baringo Central Constituency.

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. Projects Implementation

1.1. Incomplete Prior Years' Projects

The projects status report as at 30 June, 2019, indicated that one-hundred and thirteen (113) projects with a funding allocation of Kshs.77,123,897 were incomplete of which forty-three (43) related to prior financial years but were not prioritized contrary to Section 46(2) of National Government Constituencies Development Fund Act, 2015 which requires ongoing projects to take precedence over all other projects in funding. In the circumstances, value for money may not be realized from the projects. The delay impacted negatively on service delivery to the residents of Baringo Central Constituency.

1.2. Audit Inspection of Projects

Audit inspection undertaken in January, 2020, on seven (7) projects with a funding allocation of Kshs.13,700,000 revealed the following anomalies:

Project Location	Project Description	Cost (Kshs.)	Observations
Tereben Primary School	Completion of administration block	1,000,000	Despite exhausting the full allocation for the financial year 2018/2019, the project was incomplete and the contractor had abandoned the site. Also, no retention monies had been withheld to guard against defects.

Project Location	Project Description	Cost (Kshs.)	Observations
Salawa Primary School	Completion of dining hall	1,000,000	Dining hall was incomplete, walls had developed cracks indicative of poor workmanship.
A.I.C Visa Oshwal Primary School	Completion of a four (4) wing multipurpose hall	5,500,000	One out four wings was complete and in use. The project allocation of Kshs.5,500,000 had been exhausted with the remaining 3 wings incomplete and abandoned.
Sigowa Primary School	Completion of administration block	1,000,000	The allocation in financial year 2018/2019 had been exhausted and the project was incomplete.
Kaprogonya Primary School	Construction of one classroom	1,000,000	Kshs.800,000 was utilized to project completion and the balance of Kshs.200,000 was used for construction of pit latrine in breach of Section 12(8) of NG-CDF Act 2015 which requires unutilized funds of project management committee to be returned to constituency account.
Kisore Primary School	construction of 4 classrooms	3,200,000	The project was complete and in use but unbranded.
Sigowo Primary	constriction of administration block	1,000,000	The allocation for the financial year 2018/2019 had been exhausted while the project was incomplete.
Total		13,700,000	

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

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 services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the Management is aware of intention to either terminate the Fund or 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 going concern 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

01 October, 2021