

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Kuresoi North Constituency set out on pages 10 to 43, which comprise of the statement of financial 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, the financial statements present fairly, in all material respects, the financial position of the National Government Constituencies Development Fund - Kuresoi North Constituency as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with the 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 Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Kuresoi North 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 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 combined reflects final receipts budget and actual on comparable basis of Kshs.127,285,684 and Kshs.127,285,684 respectively. Similarly, the statement reflects final payments budget and actual payments on a comparable basis of Kshs.127,285,683 and Kshs.111,704,615

respectively, resulting to an under absorption of Kshs.15,581,068 or 12% of the approved budget. No explanations have been provided for the under absorption.

The 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, issues were raised. The 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. Irregular Maintenance of Committee Bank Balances

Annex 5 to the financial statements discloses Project Management Committee (PMC) bank balance totalling to Kshs.47,707,973. Included in the balance are forty-five (45) PMC bank accounts with total balance of Kshs.15,887,852 whose project status is indicated as complete. However, the balances have not been returned into the Fund bank account contrary to National Government Constituencies Development Fund Act, 2015 Section 6 (5).

Consequently, the Management is in breach of the law.

2. Delay in Project Implementation

Review of the Project Implementation Status Report as at 30 June, 2019 indicated that one hundred and sixty (160) projects with funding allocation totalling to Kshs.147,547,287 were at different implementation statuses. The projects included one hundred and eleven (111) projects with funding allocation amounting to Kshs.94,135,200 which were incomplete without satisfactory explanation.

In the circumstances, I am unable to confirm whether value for money will be realized from the incomplete projects with funding allocation amounting to Kshs.94,135,200 for the year ended 30 June, 2019.

3. Unsatisfactory Implemented Projects

Fifteen (15) projects with funding allocation amount of Kshs.16,800,000 were sampled for physical verification during the month of February, 2020. Several unsatisfactory observations were noted as shown in **Appendix I**.

No satisfactory explanations were provided for the deficiencies in the projects sampled.

Consequently, I am unable to confirm if the public will realize value for money from the projects valued at Kshs.16,800,000 for the year ended 30 June, 2019.

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 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 Risk Management Policy

The Fund did not have a risk management policy in place. This is contrary to the provisions of Section 165(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer shall ensure that the national government entity develops (a) risk management strategies, which include fraud prevention mechanism; and (b) a system of risk management and internal control that builds robust business operations.

Consequently, I am unable to confirm whether the measures in place are adequate to proactively identify risks and ensure that they are appropriately mitigated before they crystalize.

2. Lack of Strategic Plan

The Fund did not have a Strategic Plan in place. This is contrary to the provision of Section 68(2)(g) of the Public Finance Management Act, 2012 that requires an Accounting Officer shall prepare a strategic Plan for the entity in conformity with the medium-term fiscal framework and fiscal policy objectives of the National Government.

Consequently, the Management is in breach of the law.

3. Unconfirmed Rental Income

The Fund did not report any rental income in the year under review despite its office block being occupied by tenants. Further, the amount of rental income received or receivable could not be established as the tenancy agreements were not provided.

Under the circumstances, internal control measures in regards to rental income, collection and accounting could not be confirmed.

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 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 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

03 November, 2021

Appendix I: Unsatisfactory Implementation of Projects

No.	Project Beneficiary and Details	Allocation (Kshs.)	Observations
1	Bygum Primary School - Construction of administration block	1,500,000	<ul style="list-style-type: none"> - Roofing sheets used were gauge 30 instead of gauge 28 specified in the bills of quantity (BQ); and - The walling had developed cracks while the paint was peeling off.
2	Silibwet Gaa Primary School - Construction of two (2) classrooms	1,200,000	<ul style="list-style-type: none"> - The walling had developed cracks while the paint work was peeling off and - The fitted door was single instead of the double specified in the BQ.
3	Mawingu Primary School - Construction of two (2) classrooms costing Kshs.1,000,000 and Internal plastering and painting of Administration Block costing Kshs.200,000	1,200,000	<ul style="list-style-type: none"> - Administration block was constructed in 2017/2018 financial year but no works had been done in 2018/2019 financial year despite the funding allocation of Kshs.1,200,000; - The fitted door was single instead of the double specified in the BQ.
4	Silibonik Primary School - Construction of two (2) classrooms	1,200,000	<ul style="list-style-type: none"> - The floor and walling had developed cracks; - Roofing sheets used were gauge 30 instead of gauge 28 specified in the BQ; and - The fitted door was single instead of the double specified in the BQ.
5	Mkulima Primary School - Construction of two (2) classrooms	1,000,000	<ul style="list-style-type: none"> - The amount was explained to have been approved in 2017/2018 financial year, however, the respective code list was not provided; - The BQ was not provided; and - The floor, plastering, painting and labelling of the Project were undone.
6	Roret Primary School - Construction of one (1) classroom	600,000	<ul style="list-style-type: none"> - The Project was co-funded with the School Board of Management, however, the Memorandum of Understanding on the Funding and implementation was not provided; and - Painting was not done.
7	ELCK Kongoi Girls' Secondary School -	1,000,000	<ul style="list-style-type: none"> - The project cost as per the BQ was Kshs.4,596,924 with funding allocation of

No.	Project Beneficiary and Details	Allocation (Kshs.)	Observations
	Construction of laboratory		Kshs.1,000,000 leading to unfunded gap of Kshs.3,596,924; - The Contractor was not on site, while the floor, painting, and window panes were not done.
8	Kiptenden Sirikwa Primary School - Construction of two (2) classrooms	1,000,000	- The BQ was not provided and; - The walls had developed cracks and the window panes were falling off.
9	Kamara Primary School - Reroofing, floor concreting and painting of four (4) classrooms	1,000,000	- The BQ was not provided and; - Painting and Flooring were not done.
10	Baringo Secondary School - Construction of laboratory costing Kshs.1,200,00 and construction of two (2) class rooms costing Kshs.1,000,000	2,200,000	- The BQ was not provided and; - The schedule of expenditure provided supported only Kshs.300,000 leaving out a balance of Kshs.1,900,000; - The laboratory, painting was peeling off and the ceiling, rain water harvesting gutters, down pipes were undone; and - Two (2) class rooms had paints peeling off while the walls had developed cracks.
11	Mawingu Secondary School- Floor Concreting, Plastering, Fixing Doors, Windows, Fascia Boards and Painting Laboratory	200,000	- The BQ was not provided and - The window panes were not fitted.
12	Nyota Chief's Office - Construction of Chief's Office	1,000,000	- The toilet was not constructed while the office floor and walls had developed cracks. - The paint was peeling off.
13	Kamara Chief's Office - Construction of Chief's Office	1,000,000	- The floor had developed cracks while paint was peeling off.
14	Mau Summit Police Station- Completion of Mau Summit Police houses	200,000	- Internal walls were unpainted while fascia board and external plastering were not done.
15	Construction of Deputy County Commissioner's Residence - Construction of Deputy County Commissioner's residence at Sirikwa	2,500,000	- The floor had developed cracks; and - Land ownership documents were not provided.

No.	Project Beneficiary and Details	Allocation (Kshs.)	Observations
	Total	16,800,000	