

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MARAKWET EAST 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 - Marakwet East Constituency set out on pages 1 to 30, 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 - Marakwet East 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1.0 Unreconciled Variances Relating to Unutilized Funds

The unutilized fund balances reflected under Annex 3 to the financial statements differed with the budget utilization differences reflected in the summary statement of appropriation-recurrent and development combined as shown:

Item	Unutilized balance as per the summary statement of appropriation (Kshs.)	Unutilized Balance reflected under Annex 3 (Kshs.)	Variance (Kshs.)
Compensation of employees	1,629,738	1,150,000	479,738
Use of goods and services	4,215,179	1,163,789	3,051,390
Transfers to other government units	28,330,743	17,400,000	10,930,743

Other grants and transfers	33,372,672	51,327,181	(17,954,509)
Acquisition of assets	1,488,203	-	1,488,203
Other payments	4,677,027	1,488,203	3,188,824

No explanation or reconciliation was provided for the differences. In addition, the comments for the unutilized balances and the comparative unutilized fund balances have not been reflected under Annex 3.

In the circumstances, the accuracy of the unutilized fund balances could not be confirmed.

2.0 Unsupported Project Management Committee Account Balances

Note 15.4 to the financial statements reflects Project Management Committee account balances of Kshs.24,183,083 as at 30 June, 2019. However, cash books, bank confirmation certificates and bank reconciliation statements in support of the balances were not provided for audit.

Consequently, the accuracy, completeness and existence of the reported balance of Kshs.24,183,083 held in the project management committee bank accounts as at 30 June, 2019 could not be confirmed.

3.0 Unsupported Expenditure on Emergency Projects

The statement of receipts and payments reflects other grants and transfers of Kshs.48,974,616 which as disclosed in Note 7 to the financial statements included emergency projects of Kshs.5,480,000. However, returns and supporting documents for projects relating to construction of toilets at a cost of Kshs.1,900,000 were not provided for audit.

Consequently, the accuracy and validity of other grants and transfers of Kshs.48,974,616 could not be confirmed.

4.0 Inaccurate Balances in the Summary Statement of Appropriation

The summary statement of appropriation reflects actual payments for use of goods and services of Kshs.9,631,122 which differs with the payments of Kshs.9,615,622 reflected in the statement of receipts and payments by Kshs.15,500. In addition, the balance of Kshs.125,555,593 transferred from the National Government Constituencies Development Fund (NGCDF) Board reflected in the summary statement of appropriation differed with the balance of Kshs.125,540,093 - comprising the transfers of Kshs.108,984,483 reflected in the statement of receipts and payments and the opening bank balance of Kshs.16,555,610 – by Kshs.15,5000.

In the circumstances, the accuracy of the summary statement of appropriation – recurrent and development combined 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 - Marakwet East 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

1.0 Budget Control and Performance

The summary statement of appropriation – recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.180,580,968 and Kshs.125,571,093 respectively resulting to an under-funding of Kshs.55,009,875 or 31% of the budget. Similarly, the Fund expended Kshs.106,867,406 against an approved budget of Kshs.180,580,968 resulting to an under-expenditure of Kshs.73,713,562 or 41% of the budget which may have impacted negatively on service delivery to the residents of Marakwet East constituency.

2.0 Unresolved Prior Year Audit Matters

As disclosed under the progress on follow up of auditor recommendations section of the financial statements, various prior year audit issues remained unresolved as at 30 June, 2019. Management has not provided satisfactory reasons for the delay in resolving the prior year audit issues.

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

1.0 Delayed Implementation of Projects and Projects with Defects

The project status report provided for audit indicated that Kshs.88,601,460 was allocated to one hundred and fourteen (114) projects out of which Kshs.57,662,757 had been disbursed to seventy-eight (78) projects as at 30 June, 2019. Implementation of fifty-one (51) projects with a budget of 38,319,257 had not started, while forty (40) projects with a budget of Kshs.35,688,203 were ongoing. The delayed implementation of the projects resulted from late disbursement of funds by the NGCDF Board.

Further, audit inspection in January, 2020 on twenty-four (24) projects costing Kshs.29,169,257, revealed that ten (10) projects were complete and in use while fourteen (14) projects costing Kshs.14,469,257 were either incomplete or with defects.

Consequently, late disbursement of funds and the resultant delay in implementation of projects denied the residents of Marakwet East constituency the benefits or services that would have accrued from the projects that were to be implemented.

2.0 Ownership of Land for Marakwet East Sub-County Headquarters

The statement of receipts and payments reflects other grants and transfers of Kshs.48,974,616. As disclosed at Note 7 to the financial statements, the transfers included security projects of Kshs.10,500,000 out of which an amount of Kshs.2,400,000 was disbursed to Marakwet East Sub-County Headquarters Project Management Committee to purchase land for expansion of the Sub-County Headquarters. However, documents to confirm ownership of the land and the approved physical plan of the area were not provided for audit.

Consequently, value for money on the expenditure 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 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 governance.

In preparing the financial statements, Management is responsible for assessing the National Government Constituencies Development Fund - Marakwet East Constituency's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern 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 National Government Constituencies Development Fund - Marakwet East Constituency 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 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 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 National Government Constituencies Development Fund - Marakwet East Constituency 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 National Government Constituencies Development Fund - Marakwet East Constituency ability to continue as a going concern or 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 National Government Constituencies Development Fund - Marakwet East Constituency to cease to continue as a going concern or 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 National Government Constituencies Development Fund - Marakwet East Constituency 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

13 September, 2021