

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – MARAKWET WEST CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Marakwet West Constituency set out on pages 1 to 26, 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 - Marakwet West 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 Qualified Opinion**

#### **1. Inaccuracies in Cash and Cash Equivalents**

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities reflects cash and cash equivalent totalling to Kshs.21,553,933. However, a review of bank reconciliation statement for the month of June, 2019 showed unrepresented cheques amounting to Kshs.11,456,784 out of which cheques amounting to Kshs.168,501 were stale. However, the cheques had not been written back in the cash book.

Consequently, the accuracy, completeness and validity of the cash and cash equivalent totalling to Kshs.21,603,933 reflected in the statement of assets and liabilities as at 30 June, 2019 could not be confirmed.

#### **2. Unsupported Transfer to Other Government Entities**

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfer to other Government Entities totalling to Kshs.51,960,071.

The balance includes an amount of Kshs.2,000,000 that was transferred to Kapsowar Boys Secondary School for construction of a dormitory. Review of records indicated that the school made a request for funding for an amount of Kshs.4,000,000 out of the total amount of Kshs.9,000,000 required for the project. The balance amount of Kshs.5,000,000 was to be contributed by parents and stakeholders through a fundraising which was scheduled for 1 November, 2018.

However, co-funding arrangement indicating the extent of works to be carried out by each entity, bills of quantities, cash book, bank statements, evidence of the fundraising and how much was raised and duly supported payment vouchers were not provided.

Further, this balance includes an amount of Kshs.2,946,875 which was transferred to various primary schools for purchase of land. However, the title deeds and valuation reports were not provided.

Consequently, the accuracy, completeness and validity of the transfer transferred to Kapsowar Boys Secondary School amount of Kshs.2,000,000 and an amount of Kshs.2,946,875 for land purchase for various schools for the year ended 30 June, 2019 could not be confirmed.

### **3. Unsupported Bursaries**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other transfers and other transfers totalling to Kshs.39,647,755. The balance includes bursaries to secondary and tertiary institutions amount of Kshs.16,200,698 and Kshs.11,183,799 respectively, all totalling to Kshs.27,384,497. However, Management did not provide evidence of criteria used and whether the Bursary Sub-committee was constituted as required by the NGCDF Board Circular reference VOL1/111 of 13 September, 2010.

Consequently, the accuracy, completeness and validity of bursaries amount of Kshs.27,384,497 for the year ended 30 June, 2019 could not be confirmed.

### **4. Unsupported Committee Account Balances**

Note 15.4 to the financial statements reflects Project Management Committee account balances amounting to Kshs.14,838,196 as at 30 June, 2019. However, cash books, bank confirmation certificates and bank reconciliation statements from the Project Management Committees were not provided. Further, balances of forty-two (42) accounts as detailed in the attached Annex 3 to the financial statements, which had balances of Kshs.10,717,027 as at 30 June, 2018 were not reflected as at 30 June, 2019. No information was provided on how the funds were utilized during the year and subsequent closure of the accounts. As a result, the balances could be misstated.

In the circumstances, the accuracy, completeness and validity of Project Management Committee account balances of Kshs.14,838,196 as at 30 June, 2019 could not be ascertained.

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 West 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 combined reflects final receipts budget and actual on comparable basis of Kshs.181,063,573 and Kshs.126,022,697 respectively, resulting to an under-funding of Kshs.55,040,876 or 30% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.181,052,573 and Kshs.104,418,764 respectively, resulting to an under expenditure of Kshs.76,633,809 or 42% 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. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

## **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 Implementation Status Report provided indicated that allocation totalling to Kshs.111,544,326 for one hundred and ninety-three (193) projects was made. The report showed that a total of Kshs.58,669,609 had been disbursed to one hundred and twenty-five (125) projects as at 30 June, 2019.

Further, only fifty-nine (59) projects were complete, thirty-nine (39) projects with a budget total of Kshs.27,088,940 were ongoing while ninety-five (95) projects with a budget total of Kshs.63,945,387 had not started as at 30 June, 2019. The delay in implementation resulted from late disbursement of funds by the NGCDF Board and non-funding of the entire approved budget totalling to Kshs.181,063,573 for the financial year in which only an amount of Kshs.126,011,697 was received.

In addition, Project Management Committees for twenty-seven (27) projects were allocated an amount of Kshs.11,520,386 by the end of the year had not started and no reasons has been provided for the delay.

In the circumstances, I am unable to confirm whether the public will obtain value for money from the delay in implementation of projects.

### **2. Unsatisfactory Implementation of Projects**

During the year under review, twenty-five (25) projects costing Kshs.20,785,000 were verified in the month of February, 2020. However, several unsatisfactory observations were made against some projects totalling to Kshs.12,250,000 as detailed in **Appendix I**.

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

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. Unfunctional Fixed Assets**

Annex 4 to the financial statements disclose a summary of fixed asset register amounting to Kshs.25,371,793. However, assets amounting to Kshs.2,232,000 and a motor vehicle were not functional. No explanations have been provided for not disposing these assets or repairing them for use.

In the circumstances, I am unable to confirm existence of effective internal controls on assets.

### **2. Control Weaknesses**

During the audit exercise the Management did not provide documents such as; Human resource policies and procedures, approved organizational chart, approved code of conduct for employees and disaster recovery plan or business continuity plan.

In the circumstances, I am unable to confirm existence of effective internal controls at the Fund.

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 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**

**05 October, 2021**

## Appendix I: Unsatisfactory Implemented Projects

No.	Project Details	Amount Disbursed in the year (Kshs.)	Observation
1	Cheles Primary School- Construction of one classroom to completion	500,000	-Cracks had developed on the floor -Pavement slab and some window glasses not done.
2	AIC Cheles Mixed Secondary School- Construction of one classroom to completion	500,000	-Complete and in use. -Some sections of the floor have peeled while others have cracks.
3	Kipkener Primary School- Construction of a library	3,000,000	Project is complete but not in use
4	Sinon Primary School- Renovation of four classroom (Screeding of floor and wall plastering)	400,000	Flooring had not been done.
5	St. Marks Mixed Boarding and Day Secondary School – Litei- Completion of laboratory (Painting, ceiling, plumbing and gas system)	1,400,000	-Works ongoing. -First coast of paint had been applied. The contractor indicated that the second coat was not included in the BoQs which was not provided.
6	Kaptabuk Primary School- Completion of one classroom to completion	400,000	-Complete and in use. -Cracks developed on floors and Project not labelled.
7	Cheptulon Primary School- Completion of a Dormitory	700,000	Complete but not in use
8	Chesingei Primary School- Construction of one classroom to completion	600,000	-Complete and in use. -Cracks had developed on the floor.
9	Chemulany Primary School- Construction of one classroom to completion	400,000	-Incomplete. -Window and door glasses not fitted while verandah, pavement and plaster of the outer wall not done.
10	Mosongo Primary School- Construction of one classroom to completion	500,000	-Incomplete. -Window glasses, pavement slab and roofing of verandah not done. -Project not labelled.
11	Moek Kapkures Primary School- Construction of one classroom to completion	500,000	-Incomplete but in use. -Plastering, doors and windows not done.

<b>No.</b>	<b>Project Details</b>	<b>Amount Disbursed in the year (Kshs.)</b>	<b>Observation</b>
12	Kipkermen Primary School- Construction of three (3) classrooms to completion	1,000,000	-Two (2) classrooms complete and in use. -Project not labelled.
13	Kemeloi Primary School- Purchase of land two (2) acres	850,000	-title or sale agreement to confirm land ownership not provided.
14	Kondabilet Chief's Office- Completion of chief's office	1,000,000	- There was one steel cabinet against two (2) steel cabinets approved. -only two (2) ordinary chairs against thirty (30) approved were available.
15	Jemunada Secondary School- Completion of laboratory (Plumbing and gas piping)	500,000	-Project incomplete. -Gas and water pipes not covered. -Cabinets not complete.
	<b>Total</b>	<b>12,250,000</b>	