

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SAMBURU 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 - Samburu East Constituency set out on pages 8 to 37, 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 - Samburu East 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. Variances Between the Financial Statements and Supporting Schedules

The balances reported in the Notes to the financial statements were at variance with the supporting schedules balances as detailed below: -

| Component | Note to Financial Statements Balance (Kshs.) | Schedule Balance (Kshs.) | Variance (Kshs.) |
|--------------------------------------|---|---------------------------------|-------------------------|
| Bursary Tertiary | 18,928,799 | 17,748,141 | 1,180,141 |
| Bursary Secondary | 14,435,141 | 15,765,141 | 1,330,000 |
| Domestic Travel | 299,250 | 178,250 | 121,000 |
| Training | 1,378,200 | 1,838,200 | 460,000 |
| Other Committee Expenses | 3,166,285 | 3,839,600 | 673,315 |
| Office General Supplies and Services | 684,968 | 178,635 | 506,333 |
| Other Operating Expenses | 677,250 | 0 | 677,250 |
| Total | 39,569,893 | 39,647,967 | 4,948,039 |

No reconciliations were provided.

Consequently, the accuracy, completeness and validity of the expenditures totalling to Kshs.39,569,893 for the year ended 30 June, 2019 could not be confirmed.

2. Unsupported Compensation of Employees

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects compensation of employees' totalling to Kshs.2,568,285. However, gratuity payments and staff arrears amounting to Kshs.59,165 and Kshs.160,925 respectively, all totalling to Kshs.220,090 were not supported by; staff list, amount payable, period of payment and outstanding payables brought forward.

Consequently, the accuracy, completeness and validity of the reported compensation of employees cost of Kshs.220,090 for the year ended 30 June, 2019 could not be confirmed.

3. Inaccuracy in Bank Balance

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities reflects bank balances of Kshs.6,500,818. However, the bank reconciliation statement provided reflected payments in cashbook not in the bank account amounting to Kshs.52,748,403 out of which cheques totalling to Kshs.28,123 were stale. However, the cheques were not written back into the cashbook.

Consequently, the accuracy and completeness of bank balance of Kshs.6,500,818 reflected in the statement of assets and liabilities as at 30 June, 2019 could not be confirmed.

4. Unsupported Bursaries

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers totalling to Kshs.47,093,609. The balance includes bursaries amounting to Kshs.33,363,940. However, the bursary disbursements were not supported by; individual student details; name, admission number, names of the institution, beneficiary amount and cheque number.

Further, bursary payments amounting to Kshs.1,642,500 was awarded to two hundred and fourteen (214) students attending private colleges which were not accredited by the Government.

Consequently, the accuracy, completeness and validity of bursaries amounting to Kshs.33,363,940 for the year ended 30 June, 2019 could not be confirmed.

5. Unsupported Transfers to Other Government Units

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other Government Units amount of Kshs.102,435,407. Included in the balance is transfer to Tipito Girls Secondary School amounting to Kshs.16,270,000 out of which an amount of Kshs.6,230,491 was not earmarked for specific projects.

Consequently, the accuracy and validity of the transfers to other Government Units amount of Kshs.6,230,491 for the year ended 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 – Samburu 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

Unresolved Prior Year Matters

In the audit report of the previous year, several 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. Non-compliance with Public Sector Accounting Standards Board Requirements

The annual report and the financial statements had the following errors; postal address for the Independent auditors is inaccurate, ICPAK membership number for the accountant is missing, Note 3 to the financial statements discloses that the amounts are rounded up to the nearest Kenya shilling which is not the case, blank page for the Auditor-General's report is omitted and the Chairman of the NGCDF Committee forward Note on use of goods and services has an error. Further, the Notes are not presented as per the approved template.

This is contrary to Public Sector Accounting Standards Board (PSASB) financial reporting template issued in June, 2019 for a National Government entity and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

Consequently, the annual report and the financial statements for the year ended 30 June, 2019 are not IPSAS compliant.

2. Delay in Project Implementation

Review of the Project Implementation Status Report as of 30 June, 2019 indicated that one hundred and eighteen (118) projects with funding allocation total of Kshs.107,416,431 were at different implementation statuses.

From the Report, one hundred and three (103) projects with funding allocation totalling to Kshs.95,716,431 were incomplete and ongoing or had not started. The delays were attributed to the slow tendering processes and delay in funds disbursements by NGCDF Board.

Consequently, it has not been possible to confirm whether value for money will be realized from the incomplete projects with funding allocation totalling to Kshs.95,716,431 for the year ended 30 June, 2019.

3. Unsatisfactory Implementation of Projects

Sixteen (16) projects with Fund allocation amount of Kshs.20,500,000 were sampled for physical verification during the month of February, 2020. However, unsatisfactory observations were made as shown in **Appendix I**.

No satisfactory explanations were provided for the deficiencies in the project's implementations.

Consequently, I am unable to confirm whether the public will realize value for money from the projects valued at Kshs.20,500,000 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 matter 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

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, it has not been possible to confirm whether the risks faced have been identified and appropriately mitigated.

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 | Cost (Kshs.) | Observations |
|-----|--|--------------|---|
| 1 | Milimani Primary School - Construction of one (1) classroom to completion | 1,000,000 | <ul style="list-style-type: none"> - Classroom completed and in use, however, lighting points, power points and power distribution specified in the Bill of Quantities (BQ) had not been done; and - Contractor had left site after receiving full contract payment. |
| 2 | Lderkesi Primary School - Construction of one (1) classroom to completion | 900,000 | <ul style="list-style-type: none"> - Classroom completed and in use however, lighting points, power points and power distribution specified in the BQ had not been done; - Contractor had left site after receiving full contract payment; and - Hand over minutes and certificates of practical completion were not provided. |
| 3 | Sereolipi Primary School - Construction of one (1) classroom to completion | 900,000 | <ul style="list-style-type: none"> - Classroom completed and in use, however branding, lighting points, power points and power distribution specified in the BQ had not been done. - The Contractor was not on site. |
| 4 | Lerata Primary School - Construction of one (1) classroom to completion | 900,000 | <ul style="list-style-type: none"> - Classroom completed and in use, however branding, lighting points, power points and power distribution specified in the BQ had not been done. - The Contractor was not on site but had been paid in full. |
| 5 | Ndonyowasin Primary School - Construction of one (1) classroom to completion | 1,000,000 | <ul style="list-style-type: none"> - Classroom completed and in use, however, certificate of practical completion from public works was not available for audit review. |
| 6 | Marti Epareu Primary School - Construction of two (2) door pit latrine to completion | 250,000 | <ul style="list-style-type: none"> - Latrines were complete and in use, however, certificate of practical completion from public works was not provided. |
| 7 | Girgir Primary School - Acquisition of school furniture | 300,000 | <ul style="list-style-type: none"> - Ten (10) book shelves not purchased despite full expenditure of the allocated funds. |
| 8 | Milimani Primary School - Construction of two (2) door pit latrine to completion | 250,000 | <ul style="list-style-type: none"> - Windows and urinal drain pipes were not fixed. |
| 9 | Matakواني Primary School - Construction of one (1) classroom to completion | 1,000,000 | <ul style="list-style-type: none"> - Lighting points, power points and power distribution specified in the BQ had not been done; and - Contractor had been paid in full and had left the site. |

| No. | Project Beneficiary and Details | Cost (Kshs.) | Observations |
|------------|---|---------------------|---|
| 10 | Nkaroni Primary School - fencing using concrete poles and chain link barbed wire an area of thirteen (13) hectare's | 2,000,000 | <ul style="list-style-type: none"> - Project incomplete with about two hundred (200) meters not fenced and school gate specified in the BQ was outstanding; - Contractor had been paid in full despite the remaining works and was not on site. |
| 11 | Uaso Girls Secondary School - Construction of three (3) classrooms to completion | 3,000,000 | <ul style="list-style-type: none"> - Floors were worn out with evidence of pot holes that need renovations, and - Branding, Celotex Pin Up Board and Wrot Cypress Edging around the chalk boards specified in the BQ were undone. |
| 12 | Uaso Girls Secondary School - Construction of three (3) four (4) door pit latrines to completion | 1,500,000 | <ul style="list-style-type: none"> - Only three (3) door latrines were constructed instead of the four (4) door as specified in the BQ. |
| 13 | Uaso Girls Secondary School - Water piping from water source to the school (a distance of 500m) | 500,000 | <ul style="list-style-type: none"> - About 450 meters of piping had been done but had not been used since there was no water from the source; - The contractor was not on-site and had been paid in full; and - There was no formal hand over of the project to the Project Management Committee. |
| 14 | Narasha Boys Secondary School - Construction of dormitory to roofing level | 3,000,000 | <ul style="list-style-type: none"> - Dormitory was incomplete, the contractor was not on site citing inadequate financing. |
| 15 | Narasha Boys Secondary School - Construction of two (2) four (4) door pit latrine to completion | 1,000,000 | <ul style="list-style-type: none"> - Latrines were completed and in use, however branding had not been done. - There was an upward cost variation of Kshs.360,000 (36%) which had not been paid to the contractor as a result of construction of a urinal bay which was not in the BQ. |
| 16 | Narasha Boys Secondary School - Construction of three (3) classrooms to completion | 3,000,000 | <ul style="list-style-type: none"> - There was an upward cost variation by Kshs.500,000 (17%) which had not been paid to the contractor as a result of change of floor plan without approval. - The following works; Wrot Cypress Edging around the chalk board and Celotex Pin Up Boards specified in the BQ were outstanding. |
| | Total | 20,500,000 | |