

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NAROK NORTH CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Narok North Constituency set out on pages 17 to 59, which comprise the statement of assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and 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 effect 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 the National Government Constituencies Development Fund - Narok North Constituency as at 30 June, 2020, 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Presentation and Disclosures in the Financial Statements

A review of the Fund's financial statements submitted for audit revealed the following inadequacies:

- 1.1** The cover page of the financial statement has template guide "Revised Template 30 June, 2020" instead of deleting.

- 1.2 The statement of entity management responsibilities refers to “Entity” instead of National Government Constituencies Development Fund - Narok North Constituency.
- 1.3 Page for report of the independent auditor is missing.
- 1.4 The title on Page 17 reads report of the Independent Auditors on the National Government Constituencies Development Fund - Narok North Constituency statement of Receipts and Payments instead of Statements of Receipts and Payment.
- 1.5 The auditor’s recommendations are not based on the Auditor-General’s report but on management letter for the year 2018/2019.

Consequently, the financial statements do not conform to the reporting format prescribed by the Public Sector Accounting Standard Board (PSASB) in accordance with Section 194(1) (d) of the Public Finance Management Act, 2012.

2. Inaccuracies in the Financial Statements

The audit of the financial statements revealed the following unsatisfactory issues: -

2.1 The statement of receipts and payments reflects Kshs.70,990,970 in respect to total payments. However, examination of the expenditure categories against their respective supporting ledgers revealed unreconciled variances detailed below:

	Financial statements Kshs.	Ledger Kshs.	Variance Kshs.
Utilities, Supplies and Services	306,320	171,820	134,500
Training Expenses	459,500	0	459,500
Routine Maintenance (Other Assets)	44,350	0	44,350
Bursaries – Tertiary Institutions	2,105,000	2,125,000	-20,000

2.2 Note 17.4 to the financial statements on the PMC bank balances reflects a balance of Kshs.5,794,198 as at 30 June, 2020 . However, the certificate of bank balances indicate that the various PMC bank accounts had a total amount of Kshs.4,976,239 as at 30 June, 2020 resulting to unexplained/unreconciled variance of Kshs.817,959.

2.3 Further, the PMC accounts records indicated that, fifteen (15) bank accounts holding a total of Kshs.1,382,078 were omitted from the disclosed PMC bank balances of Kshs.5,794,198 under annex 5.

In addition, six (6) PMC bank balances as disclosed under Note 17.4 and Annex 5 to the financial statements varies with the bank balance confirmations resulting to unreconciled variance of Kshs.2,658,892 as detailed below:

Name	Account Number	Bank Certificate Kshs.	Annex 5 Kshs.	Variance Kshs.
Narianta Primary School	0360279809496	0	500	500
Katakala Secondary School	0360277622328	147,817	767,817	620,000
Naisuya Primary School	0360269100301	1,060	52,060	51,000
Ole Ntaiyia Primary School	0360279787413	238,680	180	238,500
Empatipat Primary School	0360279791511	(704)	1,548,688	1,549,392
Narianta Primary School	0360279809496	200,000	500	199,500

Consequently, the accuracy of the financial statements as at 30 June, 2020 could not be confirmed.

2.4 Cash and Cash Equivalents

The statement of assets and liabilities reflects Kshs.1,592,091 in respect to cash and cash equivalents. However, Board of Survey Report (F.O.51) as at 30 June, 2020 indicated that cash on hand and at bank amounted to Kshs.3,807,718 resulting to unexplained/unreconciled balance of Kshs.2,215,627.

A review of the respective bank reconciliation statement for the month of June, 2020 revealed stale cheques amounting to Kshs.881,536. No explanation that was provided for failure to reverse or replace the stale cheques.

Consequently, the accuracy and validity of the cash and equivalents balance of Kshs.1,592,091 as at 30 June, 2020 could not be confirmed.

2.5 Accounts Receivables

The statement of assets and liabilities reflect Kshs.4,123,000 in respect to accounts receivables (outstanding imprests). However, the corresponding Note 11 to the financial statements and the Board of Survey Report reflect no outstanding imprests.

In the circumstances, the accuracy and validity of accounts receivables (outstanding imprests) balance of Kshs.4,123,000 as at 30 June, 2020 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 - Narok 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 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 are no key audit matters to report in the year under review.

Other Matter

Budgetary Control and Performance

The summary statement of appropriation reflects final receipts budget and actual on comparable basis of Kshs.142,274,829 and Kshs.72,907,105 respectively resulting to an under-funding of Kshs.69,367,724 or 49% of the budget. Similarly, the Fund expended Kshs.70,990,970 against an approved budget of Kshs.142,274,829 resulting to an under-expenditure of Kshs.71,283,852 or 50% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Narok North 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. Other Grants and Other Payments

Note 7 to the financial statements reflects Kshs.10,549,760 in respect to other grants and other payments which includes Kshs.6,400,000 in respect to emergency projects. However, audit examination of the procurement process for the emergency projects amounting to Kshs.2,600,000 revealed that only two bidders were considered in the award of the tenders. This is contrary to Section 106(2d) of the Public Procurement and Asset Disposal Act, 2015, which states that at least three persons shall submit their quotations prior to evaluation.

In addition, no evidence has been provided for audit review to confirm that Management complied with provisions of Sections 24, 25 and 48 of the National Government Constituencies Development Fund Act, 2015 which provides that emergency expenditure be reported to the Board.

In the circumstances, the National Government Constituency Development Fund - Narok North Constituency Management is in breach of the law.

2. Unremitted Statutory Deductions

The statement of receipts and payments reflects Kshs.3,635,210 in respect to compensation of employees which includes Kshs.1,543,316 paid in respect to pension and other social security contributions. However, statutory deductions from employees amounting to Kshs.381,158 was withheld but was not remitted to third parties as required by law.

The Fund Management is, therefore, in breach of the law.

3. Bursaries

Note 7 to the financial statements reflects Kshs.10,549,760 in respect to other grants and other payments. However, examination of bursary records for the year ended 30 June, 2020 revealed that the Fund's Management awarded bursaries to various beneficiaries amounting to Kshs.4,149,760 for which no evidence that the awards were authorized by the committee on bursaries was provided for audit review.

In the circumstances, the Fund Management is in breach of the law.

4. Project Implementation Status

Physical verification of project under implementation revealed the following unsatisfactory matters: -

4.1 Olepolos Primary School – Construction of 96 Beds Capacity Dormitory Block

Audit inspection done on 26 January, 2021 revealed that the dormitory was incomplete, contractor was not on site and painting and decoration, plastering of the floor, ceiling works, windows, doors, electric works and mechanical works were not done. Further, inspection reports from the Engineers, certificates of payment and invoices were not provided for the Kshs.3,900,000 transferred to Towfiq Building Construction Limited.

4.2 Naituyupaki Primary School-Construction of two Classroom

Audit inspection done on 26 January, 2021 revealed that the project was already in use with no handover from National Government Constituencies Development Fund

Narok North Constituency Management Committee and inspection reports from the engineers were not provided for audit review.

4.3 Katakala Secondary School - Purchase Office Furniture, Chairs and 100 Desks

Audit inspection done on 27 January, 2021 revealed that M/s Batimo Limited was paid Kshs.1,000,000 for supply of 100 desks. However, no evidence to show delivery of the 100 desks was provided for audit review and no desks were branded 2019/2020 in the school as evidence of procurement in the year under review.

Consequently, the occurrence and value for money on the Kshs.1,000,000 expenditure on desks could not be confirmed.

In the circumstances, the implementation of various projects was poorly done and the Fund Management is in breach of the law.

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 Fund's ability to continue to sustain 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 Fund financial reporting process, reviewing the effectiveness of how the Management 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 Fund 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 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 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

08 February, 2022