

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NAKURU TOWN 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 - Nakuru Town East Constituency set out on pages 11 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 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 – Nakuru Town 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 the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Errors in the Annual Reports and the Financial Statements

The annual reports and the financial statements prepared and presented for audit had the following errors:

- 1.1.** Blank page for the insertion of the Auditor-General's report has been omitted;
- 1.2.** Disclosure Note 15.4 Project Management Committee (PMC) bank balances and detailed listing at Annex 5 are blank;
- 1.3.** Annex 4 -summary of fixed assets register at page 35 is blank despite evidence of expenditure on fixed assets including building and structures, office equipment, furniture and fittings as at 30 June, 2018; and
- 1.4.** The progress on follow up of auditor recommendations at page 36 is blank despite unresolved issues which appeared in 2017/2018 report.

This is contrary to the format prescribed by the Public Sector Accounting Standard Board (PSASB) in accordance with section 194(1) (d) of the Public Finance Management Act, 2012.

Consequently, the annual report and the financial statements as prepared and presented are not in compliance with International Public Sector Accounting Standards (IPSAS) template.

2. Inaccuracies in Financial Statements

The financial statements as prepared and presented for audit had the following inaccuracies : -

- 2.1. The summary statement of appropriation- recurrent and development combined reflects unexplained unapproved projects of Kshs.34,131,036.
- 2.2. The statement of receipts and payments reflects transfers from National Government Constituencies Development Fund Board of Kshs.67,748,274 while the summary statement of appropriation: recurrent and development combined reflects Kshs.74,238,220 resulting to an unexplained variance of Kshs.6,489,946.

Under the circumstances, the accuracy and completeness of summary statement of appropriation - recurrent and development combined for the year ended 30 June, 2019 could not be confirmed.

3. Variances in Comparative Balances

The comparative balances in Note 15.3 differ with the audited figures for the prior year and as detailed below:-

Item	Comparative Balances (Kshs)	Audited Balance (Kshs)	Variance (Kshs)
Unutilized funds			
Compensation	943	-	943
Use of Goods	3,623,195	4,849,718	(1,226,523)
Amounts due to other Government Entities	7,700,000	7,900,000	(200,000)
Amounts due to Grants and other Transfers	6,714,082	12,919,538	(6,205,456)
Unapproved Projects	8,131,036	-	8,131,036
Sub Total	26,169,256	25,669,256	500,000
Other Variances			

Item	Comparative Balances (Kshs)	Audited Balance (Kshs)	Variance (Kshs)
Project Management Committee Account Balances	-	6,476,425	(6,476,425)
Annex 4 summary of Fixed Assets	-	4,853,700	(4,853,700)

No explanations or disclosures by Notes to the financial statements have been provided.

Under the circumstances, the accuracy and completeness of the comparative balances in the financial statements for the year ended 30 June, 2019 could not be confirmed.

4. Unsupported Payments

4.1. Use of Goods and Services

The statement of receipts and payments reflects use of goods and services of Kshs.7,578,338;(2018-Kshs.3,424,767) and as disclosed in Note 5 to the financial statements. Included in the payment is an amount of Kshs.1,144,078 relating to various items as detailed below, which have not been adequately supported by way of; schedules, ledgers, cashbook and payment vouchers.

Item	Amount (Kshs)
Utilities, Supplies and Services	540,239
Communication, Supplies and Services	252,000
Office, General Supplies and Services	100,000
Routine Maintenance - Other Assets	251,839
Total	1,144,078

Consequently, the accuracy and validity of the use of goods and services amount of Kshs.,7,578,338 for the year ended 30 June, 2019 could not be confirmed.

4.2 Unsupported Bursary Payments

The statement of receipts and payments reflects other grants and other payments of Kshs.44,006,512;(2018-Kshs.42,271,057) and as disclosed in Note 7 to the financial statements. Included in the bursaries to secondary and tertiary institutions of Kshs.33,432,012 are bursary payments amounting to Kshs.4,869,393 which were not supported by detailed beneficiaries listing. Further, Fund's bursary policy and criteria used to identify 162 full scholarships for students amounting to Kshs.4,100,000 was not made available for audit review.

4.2.1 Unsupported Environmental Expenditure

Included in the environmental activities is Kshs.1,902,000 for purchase of tree seedlings that was not supported by with distribution listings and acknowledgement by the beneficiary schools and institutions .

Under the circumstances, the accuracy and validity of other grants and transfers expenditure of Kshs.44,006,512 for the year ended 30 June, 2019 could not be confirmed.

5. Misclassification of Expenditure

The statement of receipts and payments reflects other payments amount of Kshs.2,900,000;(2018-Kshs.3,000,000) and as disclosed in Note 9 to the financial statements. Included in this expenditure is Kshs.700,000 for construction of constituency offices which should have been classified under acquisition of assets. No adjustment was made to the financial statements to correct the misclassification.

Consequently, accuracy and presentation of other payments cost of Kshs.2,900,000 for the year ended 30 June 2019 could not be confirmed.

6. Inaccuracies in Bank Balances

The statement of assets and liabilities reflects bank balances of Kshs.596,320;(2018-Kshs. 6,489,946) and as disclosed in Note 10A to the financial statements. A review of the bank reconciliation statement in support of the bank balance revealed un-presented cheques out of which stale cheques totalling to Kshs.270,553 with some dating far back to year 2014 have not been written back into the cash book. Bank charges in the bank statement but not in the cash book amounting to Kshs.336,309 and dating far back to the year 2016 have also not been expensed in the cashbook.

Under the circumstances, the accuracy and completeness of the bank balances of Kshs.596,320 as at 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 - Nakuru Town 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

Budgetary Control and Performance

The summary statement of appropriation- recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.137,410,132 and Kshs.74,238,220 respectively resulting to underfunding of Kshs.63,171,912 or 46 % of the budget. Similarly, the Fund spent Kshs.73,641,900 against an approved budget of Kshs.137,410,131 resulting to an under-expenditure of Kshs.63,768,232 or 46% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Nakuru Town East 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. Failure to Respond to Management Letter

Contrary to the provisions of Public Audit Act, 2015 Section (4) which states that the accounting officer shall within fourteen days from the date of receipt of the draft management letter, submit a response to the Auditor-General including remedial actions that have been undertaken to address any qualifications in the draft management letter,

The Management did not respond to the 2018/19 financial management letter issued on 21 February, 2020.

To the extent, the Management is in breach of the law.

2. Incomplete Projects

The project implementation status report as at 30 June 2019 indicates that eighty (80) projects with funding allocation of Kshs.43,504,923 out of which sixty-nine (69) were complete, and eleven(11) were ongoing and at various implementation status.

This is indicative of slow progress in the completion of the projects and may impact negatively on service delivery for the residents of Nakuru East Town Constituency.

3. Unsatisfactorily Implemented Projects

Five (5) projects with funding allocation of Kshs.10,700,000 were sampled for verification during the month of February, 2020 and the following observations were made: -

Name of the Project	Project Details	Project Cost (Kshs)	Verification Remarks
Karatina Chief's Camp	Construction of Drainage, painting of Office and Construction of four (4) single house units for AP Police	2,200,000	The project was in complete and was at the roofing stage, despite the entire allocation being disbursed to the Project Management Committee
Rhino Police Post	Fixing Doors and painting of five (5) Houses, Construction of Sanitary Block and Connection of Electricity	600,000	Painting of the police post including the houses and connection of electricity has been done. However, construction of the sanitary block is yet to be done. The entire allocation had been disbursed to the Project Management Committee
Purchase of two hundred and twenty (220) desks	Purchase of Desks and Lockers at kshs.5,000 per set	1,100,000	The list of the beneficiary school with recipient signature or the acknowledgement receipt was not provided for the audit verification. The entire allocation had been disbursed to the Project Management Committee

Name of the Project	Project Details	Project Cost (Kshs)	Verification Remarks
Maria Veronica	Roofing of Multipurpose Hall. Construction of three hundred (300) student capacity Dormitory to completion	5,800,000	The roofing was complete and the hall was in use. However, the dormitory was incomplete despite the entire allocation being disbursed to the Project Management Committee.
Kiratina Secondary School	Construction of the Administration Block	1,000,000	Project ongoing
Total		10,700,000	

Consequently, value for money from the projects valued at Kshs.10,700,000 for the year ended 30 June, 2019 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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Overall 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 does not have a risk management policy that guides on assessment and evaluation of risk and to develop the strategies to mitigate them. This is contrary to Regulation 165(1) of the Public Finance Management Act (National Government) Regulations, 2015 which require the Accounting Officer to ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism; and a system of risk management and internal control that builds robust business operations.

Consequently, it was not 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 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's 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 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 noncompliance. 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

10 February, 2022