

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MARAKWET EAST 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 - Marakwet East Constituency set out on pages 14 to 52, which comprise of the statement of financial assets and liabilities as at 30 June, 2020 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 effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respect, the financial position of the National Government Constituencies Development Fund - Marakwet East 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

1.0 Transfers to Other Government Entities

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects transfers to other Government entities amounting to Kshs.76,238,513 relating to funds disbursed to various Project Management Committees. The balance includes an amount of Kshs.45,369,257 under transfers to secondary schools which include an amount Kshs.2,300,000 disbursed to St. Paul Kapkondot Secondary School for the completion of a library. Review of the contract indicated that the Project Management Committee of the school was implementing the project under labour based contract where the committee purchased materials and engaged labourers. However, the Project Management Committee did not maintain records of materials purchased, their usage and balances.

Further, the balance includes disbursements to Mogil Secondary School and Simbirir Girls High School balance of Kshs.350,000 each all totalling to Kshs.700,000 on

administrative costs. However, the expenditure was not supported with verifiable documentary evidence.

In the circumstances, it was not possible to confirm the accuracy, completeness and validity funds totalling to Kshs.76,238,513.

2.0 Unsupported Award of Bursary to Tertiary Institutions

The statement of receipts and payments as disclosed in Note 7 to the financial statements, reflects other grants and transfers balance of Kshs.53,132,745. The balance includes bursary disbursements of Kshs.33,694,745. However, the criteria used to vet, approve and award the students bursary was not availed.

Further, the bursary sub-committee did not include two co-opted members from the area education office seconded by the Ministry of Education as stipulated in the National Government Constituencies Development Fund Act, 2015.

In the circumstance, the accuracy, completeness and validity of bursaries totalling to Kshs.33,694,745 could not be confirmed.

3.0 Unsupported Committee Account Balances

Disclosed in Note 17.4 to the financial statements is Project Management Committee account balances of Kshs.48,191,333. However, cash books, bank confirmation certificates and bank reconciliation statements from the Project Management Committees were not provided.

In the circumstance, the validity, accuracy, completeness and existence of Committee account balances of Kshs.48,191,333 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 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 Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.210,0976,787 and Kshs.141,729,063 respectively resulting to an under-funding of Kshs.68,367,724 or 32% of the budget. Similarly, the Fund expended Kshs.140,795,312 against an approved budget of Kshs.210,0976,78 resulting to an under-expenditure of Kshs.69,301,475 or 33% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Marakwet East constituency.

2.0 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 satisfactory explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury and Planning Circular reference No.AG.4/16/3 Vol.1(9) dated 24 June, 2020.

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 Delay in Project Implementation

Review of the project status reports and relevant records availed for audit review revealed that a total of Kshs.89,080,064 was disbursed to seventy-six (76) projects for the construction of buildings during the year under review. However, forty projects (40) budgeted for Kshs.52,230,064 were completed, thirty-three (33) projects with a total cost of Kshs.33,650,000 were ongoing, two (2) projects with a total cost of Kshs.1,700,000 had not started while one (1) Project with a budget of Kshs.1,500,000 had not started yet had received the funds.

Further, projects with a total cost of Kshs.127,971,204 some dating back to the financial year 2014/2015 had stalled. No explanation was provided by the fund for not allocating funds for completion of the stalled projects.

Consequently, it could not be confirmed whether the public will obtain value for money on the delayed projects.

2.0 Unsatisfactory Implementation of Projects

Project verification of thirteen (13) projects with a funding amounting to Kshs.42,900,000 carried out in the month of February, 2021 revealed unsatisfactory matters in six (6) of the projects with a total cost of Kshs.12,200,000 as shown in the table below:

	Project Name	Activity	Disbursement (Kshs.)	Observations
1.	Ngenyireel Primary School	Construction of six (6) classroom to completion	4,000,000	Title of Land not availed, construction on going, No regular curing was done,
2.	Kimuren Primary School	Renovation of eight (8) classrooms	3,000,000	Painting was not satisfactorily done
3.	Sambalat Primary School	Construction of one classroom and fencing	1,500,000	Construction of the classroom was incomplete
4.	Tuturung primary school	Construction of two (2) classroom	1,200,000	Incomplete, ongoing.
5.	Liter Primary School	Fencing of four (4) acre school compound	1,000,000	Complete but some posts were loose
6.	Queen of Peace Secondary School	Completion of dormitory	1,500,000	Not accounted for
	Total		12,200,000	

Consequently, it could not be confirmed whether the public will obtain value for money on 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. 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

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 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 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 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 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

17 February, 2022