

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – MARAKWET WEST 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 West 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 National Government Constituencies Development Fund Marakwet West 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 Financial Management Act, 2012.

Basis for Qualified Opinion

1.0 Cash and Cash Equivalents

As disclosed in note 10A to the financial statements, the statement of assets and liabilities reflects bank balances of Kshs.7,667,883 as at 30 June, 2020. The bank reconciliation statement for the month of June 2020 reflected payments in the cash book not yet recorded in bank statement in respect of unrepresented cheques amounting to Kshs.3,204,089 out of which cheques with a total of Kshs.151,261 were stale and no reason or explanation was provided for not reversing the stale cheques in the cash book. Further, included in the stale cheques of Kshs.151,260.75 were cheques totalling to Kshs.93,261 relating to unremitted Value Added Tax subjecting the Fund to likely penalties to Kenya Revenue Authority for failing to remit mandatory statutory deductions.

Consequently, the accuracy, validity and completeness of the bank balance figure of Kshs.7,667,883 as at 30 June, 2020 could not be confirmed.

2.0 Project Management Committee Account Balances

Disclosed under Note 17.4 to the financial statements is a figure of Kshs.26,410,551 relating to project management committee accounts as at 30 June, 2020. However, cash books, bank confirmation certificates and bank reconciliation statements from the

Project Management Committees were not provided for audit review. Further, balances of ninety nine (99) accounts totalling to Kshs.14,838,196 as at 30 June, 2019 were not included in the balances as at 30 June, 2020. No information was provided on how the funds were utilized during the year and subsequent closure of the accounts. In the circumstances, the validity, accuracy, and completeness of project management committee account balances of Kshs.26,410,551 as at 30 June, 2020 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of in accordance with ISSAI 30 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 Mater

1.0 Budgetary Control and Performance

1.1 Budget Absorption

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.216,012,533 and Kshs.146,644,809 respectively resulting to an under-funding of Kshs.69,367,724 or 32.1% of the budget. The project expenditure was limited to the amounts realised.

Further, Marakwet National Government Constituencies Development Fund utilized Kshs.138,976,926 against receipts totalling Kshs.146,644,809 resulting to under absorption of Kshs.7,667,883 or 5.2% of total receipts.

Based on the approved final budget, the under funding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the people of Marakwet.

Consequently, the residents of Marakwet West constituency were denied the benefits or services that would have accrued from the projects that were to be implemented.

2.0 Projects

2.1 Projects Implementation Status

A review of the project implementation status as at 30 June, 2020 indicated that a total of fifty (50) projects were funded at an estimated cost of Kshs.26,390,000 out of which six (6) project with an estimated value of Kshs.3,150,000.00 were completed and in use, four (4) projects with estimated cost of Kshs.2,200,000 were yet to start, forty (40), projects with an estimated cost of Kshs.20,840,000 were on going as at the time of audit. Failure to complete the funded projects is an indication that programs or activities were not implemented as planned thus not achieving the intended objective of improving delivery of goods and services to the people of Marakwet West Constituency.

2.2 Projects Verification

During the year under audit, twenty-five (25) projects with total disbursement of Kshs.35,630,000 were verified in February, 2021 and it was observed that 10 projects were completed and in use while 15 were not satisfactorily implemented as they either showed signs of poor workmanship or lacked approved architectural designs.

Consequently, the residents of Marakwet West Constituency did not receive the benefits accruing from planned programs and activities for the year ended 30 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for [Conclusion on Lawfulness and Effectiveness in Use of Public Resources/Adverse Opinion] section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Transfers to Other Government Entities

1.1 Construction of Dining Hall at Yemit Boys Secondary School

The statement of receipts and payments reflects transfers to other government units amounting to Kshs.76,474,940 which includes transfers to secondary schools amounting to Kshs.36,289,940. Out of this balance an amount of Kshs.4,000,000 was incurred on the construction of dining hall (walling, roofing and plastering) to Yemit Boys Secondary School. However, the project files lacked monthly expenditure returns, reports detailing particulars of project management committees (PMCs), project proposals, details of project funding, approved drawings and structural designs, signed contractual

agreement with terms and conditions, inspection and acceptance reports and Constituencies Development Fund Committee monitoring and evaluation reports. Further, projects verification on 25 February, 2020, revealed that plastering was not done, walling was done on the entire two sides of the structure. The project appeared to have stalled since no work was ongoing as at the time of audit inspection.

Consequently, the propriety of Kshs.4,000,000 spent on the construction of dining hall for the year ended 30 June, 2020 could not be confirmed.

1.2 Unsupported Expenditure

The statement of receipts and payments for the year ended 30 June, 2020 reflects transfers to other government units of Kshs.76,474,940 relating to funds disbursed to various Project Management Committees. However, actual expenditure returns and acknowledgement letters from institutions that received the funds were not availed for audit verification. This is contrary to Section 15(1)(d) of the National Constituency Development Fund Regulations, 2016 which states that the Project Management Committees shall prepare returns and file them with a Constituency Committee.

In the circumstances, it was not possible to confirm validity and completeness of Kshs.76,474,940 utilized on the budgeted projects in the year under review.

Un Resolved Prior Year Matters

Review of progress on follow up of auditor recommendations revealed that issues raised in the audit report for 2018/2019 financial year has since remained unresolved contrary to section 149(2)(l) of the Public Finance Management Act, 2012 which require accounting officers designated for national government entities to try to resolve any issues resulting from an audit that remain outstanding.

Consequently, the 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, except for the matter(s) described in the Basis for [Conclusion on Effectiveness of Internal Controls, Risk Management and Governance/Qualified Opinion] section of my report, 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.

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 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 money is applied in an effective manner.

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 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 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 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 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

07 February, 2022

