

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Narok East Constituency set out on pages 16 to 40, which comprise the statement of assets and liabilities as at 30 June, 2020, statement of receipts and payments, statement of cash flows and summary statement of appropriation 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 - Narok 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

### **Basis for Qualified Opinion**

#### **Cash and Cash Equivalents**

The statement of assets and liabilities as at 30 June, 2020 reflect a balance of Kshs.9,045,494 in respect of cash and cash equivalents. However, a review of the bank reconciliation statement as at the same date revealed stale cheques amounting to Kshs.351,120. No explanation has been provided for failure to update the cash book with the amount of stale cheques.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.9,054,494 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 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 statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.193,647,151 and Kshs.123,926,359 respectively resulting to an under funding of Kshs.69,720,792 or 36% of the budget.

Similarly, the actual expenditure reflects a balance of Kshs.114,880,866 against an approved budget of Kshs.193,647,151 resulting to an under-expenditure of Kshs.78,766,285 or 41% of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the citizens.

## **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. Transfers to Other Government Units**

##### **1.1 Project Verification**

During the year under review, the Fund undertook the implementation of twenty-one (21) projects in schools at a cost of Kshs.76,443,166 according to the project implementation summary. However, an audit inspection carried out in the month of February, 2021 revealed that seven (7) of the schools with expenditure totaling to Kshs.26,100,000 had various anomalies as indicated below:

S/No.	Project	Description	Amount (Kshs.)	Finding
1	Ereto Primary School	Construction of 2 classrooms	2,300,000	Poor workmanship of the floor
2	Oloika Primary School	Construction of 3 No. Staff House	3,000,000	No electrical fittings done The paint job is not 3 coats as captured in the BQ.
3	Olepunyua Primary School	Proposed erection and completion of 96 beds dormitory block	5,500,000	Poor drainage to the sock pit. No hand wash basins as captured in the Bills of Quantity.
4	Ntulele Primary School	Construction of 2 classrooms	2,300,000	No electrical fittings done Poor workmanship of the floor
5	Kisite Hill Secondary school	Construction of laboratory	5,000,000	Circular hollow columns were 8 instead of 9 Bunsen burner were 14 instead of 20. Only 1 gas cylinder of capacity 13 kg instead of 2 cylinders with 50kg capacity.
6	Olorien Secondary school	Erection of 3 staff houses	3,000,000	No d8 and d12 used to put up the concrete columns. No sock pits and manholes have been constructed No walkway constructed as directed in the Bill Quantity.
7	Olesharo Girls Secondary School	Laboratory block	5,000,000	Poor quality of finishes. Wall already developing cracks Only 1pc 13 kg gas cylinder instead of 2 50kg cylinder. Six hollow section instead of nine. There should be 39 gutters. No gutters had been installed
<b>Total</b>			<b>26,100,000</b>	

In the circumstances, value for money for projects work Kshs.26,100,000 during the year ended 30 June, 2020 could not be confirmed.

## 1.2 Unlabeled Projects

Project inspection carried out in the month of February, 2021 revealed that all projects undertaken for the year under review which were complete or yet to be completed were not labeled contrary to Section 15(1)[f] of The National Government Constituencies Development Fund (Regulations), 2016.

In the circumstances, the management of the Fund was in breach of the law.

## **2. Project Management Committees (PMCs)**

Examination of Project Management Committees (PMCs) records revealed that project management committee minutes were not provided for audit verification on the various projects implemented. In addition, the establishment and existence of the committees could not be confirmed. Further, expenditure returns by the various PMCs were not submitted for audit review contrary to section 31. (1) of the National Government Constituencies Development Fund Act, 2013.

In the circumstances, the validity of the total expenditure of Kshs.76,443,166 could not be confirmed.

## **3. Failure to Update Fixed Assets Register**

Annex 4 to the financial statements which has a summary of fixed assets register reveals that the Fund as at 30 June, 2020 had assets worth Kshs.25,240,000. However, the fixed assets register has not been provided for audit review. Further, an asset verification exercise carried out at the Fund's offices revealed that the assets have not been tagged exposing them to loss.

In the circumstances, the Fund management was 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 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 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 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**

**11 February, 2022**