

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NAROK 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 - Narok West Constituency set out on pages 17 to 47, 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 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 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 National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

Cash and Cash Equivalents

The statement of assets and liabilities as at 30 June, 2020 reflects a balance of Kshs.4,088,029 in respect of cash and cash equivalents. However, a review of bank reconciliation statements revealed stale cheques amounting to Kshs.1,036,397. No explanation has been provided for failure to update the cash book with the amount of stale cheques.

Further, the board of survey report indicate that cash on hand as at 30 June, 2020 amounted to Kshs.373,000 which has not been disclosed in the statement of assets and liabilities.

In addition, the statement reflects a balance of Kshs.373,000 relating to outstanding imprests. The imprest was issued to a Fund Account Manager in 2016/2017 financial year and has since left employment. The recoverability of the outstanding imprest is therefore in doubt.

In the circumstances, the accuracy and completeness of the statement of assets and liabilities 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 West 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

Budget Control and Performance

The Fund had an approved budget of Kshs.194,890,590 against actual expenditure of Kshs.121,061,837 resulting to under expenditure of Kshs.73,828,754 or approximately 38%. The Management did not adhere to the budget contrary to values and principles of public service as provided for under Article 232 (1-c) of the Constitution which requires responsive, prompt, effective, impartial and equitable provision of services.

Consequently, the under absorption may have impacted negatively on service delivery to the constituents of Narok West.

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. Irregular Procurement of Projects

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other government units of Kshs.69,960,000 for the year ended 30 June, 2020. The Fund implemented various projects through the Project Management Committees. The following procurement irregularities were noted in all the projects implemented: -

- i. The tenders for all the projects were not advertised/or notice served to prequalified suppliers as per the requirements of Section 96 (1) of the Public Procurement and Asset Disposal Act, 2015.

- ii. The tender committees for all the projects were not appointed in writing.
- iii. The evaluation reports did not contain a preliminary evaluation, financial evaluation and technical evaluation as per the requirements of Section 46(4a) of the Public Procurement and Asset Disposal Act, 2015.
- iv. There were no Public Works Officer/Engineers' estimates for all the projects as per the requirements of Section 84(1) of the Public Procurement and Asset Disposal Act, 2015.
- v. There were no letters of acceptance by the contractors for all the projects as per Section 87(2) of the Public Procurement and Asset Disposal Act, 2015.
- vi. Though the contractors had been paid, there was no evidence that withholding tax had been withheld and remitted to KRA for all the projects implemented.
- vii. No records on retention monies were provided for audit review and audit could not establish how the defects occurring within the defect period were addressed and at whose cost.
- viii. Payments were not made based on engineers' certificates.
- ix. No handing over reports by Public Works Officer for all the projects were submitted for audit review.

In the circumstances, the Management was in breach of the law.

2. Un-accounted for Provisional Sums

During the year under review, Narok West NG-CDF implemented several projects through PMCs. A review of Bill of Quantities for the projects implemented revealed that the Fund incurred a total of Kshs.1,350,000 on provisional sums which was not justified as no supporting documents were provided for audit review.

In the circumstances, the propriety of the expenditure of Kshs.1,350,000 on provisional sums could not be confirmed.

3. Irregularities in Award of Bursaries

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers of Kshs.41,433,784 for the year ended 30 June, 2020 out of which Ksh.21,940,863 was in respect to payment of bursaries. Examination of bursary records for the year ended 30 June, 2020 revealed that the Management awarded bursaries to various beneficiaries. However, there were unexplained differences in bursary awarded to students in the same school and award of bursaries to students in private primary and secondary schools. In the circumstances, it is not possible to confirm that the bursaries of Kshs.21,940,863 for the year ended 30 June, 2020 were awarded to needy beneficiaries as stipulated in the National Government Constituency Development Fund Act, 2015 and Regulations, 2016.

4. Failure to Update Fixed Assets Register

Annex 4 to the financial statements (summary of fixed asset register) indicate that the Narok West NG-CDF as at 30 June, 2020 had assets worth Kshs.19,711,810. However, the fixed assets register was not provided for audit review as a result of which, the accuracy of the summary of fixed asset register as disclosed in Annex 4 cannot be confirmed.

5. Non-Remittance of VAT Deducted

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other government units of Kshs.69,960,000 for the year ended 30 June, 2020 which includes transfers to Primary Schools of Kshs.58,360,000. Out of this figure was payment of two school buses for Sekenani and Leshuta Primary Schools at Kshs.13,237,931 exclusive of VAT. However, Value Added Tax of Kshs.722,069 reported as having been paid has not been supported by acknowledgement of receipt from KRA. As a result, it is not possible to confirm whether or not the payment was actually made.

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.

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 the Management is aware of intention to either dissolve the Fund or 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 entity 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 as a going concern or 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 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