

REPORT OF THE AUDITOR GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LAIKIPIA EAST CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2022

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Control, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal control, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Laikipia East Constituency set out on pages 1 to 35, which comprise the statement of assets and liabilities as at 30 June, 2022, and the 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 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 - Laikipia East Constituency as at 30 June, 2022, 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 Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Cash and Cash Equivalents - Stale Cheques

The statement of assets and liabilities and as disclosed in Note 10 to the financial statements reflects a balance of Kshs.18,797,919 in respect of cash and cash equivalents. However, the June, 2022 bank reconciliation statement reflects unpresented cheques totalling Kshs.18,675,488 which includes stale cheques totalling Kshs.816,242 and which had not been replaced or reversed in the cash book as at the time of the audit.

In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.18,797,919 could not be confirmed.

2. Unaccounted for Retention Funds

The statement of assets and liabilities and as disclosed in Note 12A to the financial statements reflects a balance of Kshs.2,277,286 in respect to retention money. However, Management did not provide the retention monies ledgers and registers clearly detailing the names of contractors, the opening retention balances, additional retentions and release of retentions monies during the year.

In the circumstances, the completeness and accuracy of the retentions balance of Kshs.2,277,285 could not be confirmed.

3. Inaccurate Gratuity

The statement of assets and liabilities reflects Kshs.43,400 in respect to gratuity comparative balance. However, the 2020/2021 financial statements reflects Kshs.434,000 on the same item resulting to a variance of Kshs.390,600.

In the circumstances, the accuracy of the gratuity comparative balance could not be confirmed.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Laikipia East Constituency Management in accordance with the ISSAI 130 on the 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 judgement, 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. Budgetary Controls and Performance

The summary statement of appropriation for the year ended 30 June, 2022 reflects budgeted expenditure of Kshs.215,014,866 and actual expenditure of Kshs.198,494,233 resulting to under expenditure of Kshs.16,520,633 or 8% of the budget.

The underspending of the budget by Kshs.16,520,633 reflects equivalent services expected but not delivered to the residents of Laikipia East Constituency. There is, therefore, need for Management to re-look at its budgeting mechanism with a view to focusing on areas which will improve service delivery to the residents of Laikipia East Constituency.

2. Project Implementation Status

Note 6, 7 and 8 to the financial statements reflects amounts of Kshs.42,760,000, Kshs.66,198,664 and Kshs.38,218,185 in respect to transfers to other Government units, other grants and transfers and acquisition of assets respectively all totalling to Kshs.147,176,849 which was earmarked for project implementation during the year. The project implementation status report as at 30 June, 2022 indicated that the Fund budgeted for thirty-five (35) projects worth Kshs.126,600,960 to be undertaken during the year. However, twenty-eight (28) projects worth Kshs.112,800,960 were completed while seven (7) projects worth Kshs.13,800,000 were still on going.

In the circumstances, the public did not get value for money on the Kshs.13,800,000 ongoing projects. There is need for the Fund Management to review its project planning mechanism with a view to prioritizing projects which will be implemented during the financial year resulting to higher positive impact.

3. Prior Year unresolved Issues

In the audit report of the previous year, an issue was raised under Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, although the Management has indicated that these issues have been resolved, the matters remained unresolved as the Public Accounts Committee had not met to deliberate on the same.

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. Single Sourcing in Procurement of Construction Materials

Note 9 to the financial statements reflects an amount of Kshs.38,721,000 in respect of other payments, which include Kshs.2,000,000 transferred to Laikipia East Kenya National Library Services Project Management Committee for construction of a fence. Records provided indicate that the committee acquired construction materials amounting to Kshs.1,352,540 directly from the suppliers without subjecting them to competitive bidding contrary to Section 91(1) of Public Procurement and Asset Disposal Act, 2015 which provides that open tendering shall be the preferred procurement method for procurement of goods, works and services.

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

2. Unconfirmed Procurements of Primary Schools Projects

Note 6 to the financial statement reflects an amount of Kshs.42,760,000 in respect of transfers to other Government units which includes Kshs.26,660,000 transferred to primary schools which further includes Kshs.11,600,000 transferred to four (4) primary schools' Project Management Committees for construction and renovation of classrooms and ablution blocks.

Records provided indicate that, although the project management committees engaged contractors to carry out the works, the technical evaluation reports, inspection and acceptance committee reports and regret letters to unsuccessful bidders were not provided for audit review contrary to Section 9(1)(e) of the Public Audit Act, 2015 which provides that for the purposes of carrying out his or her duties effectively, the Auditor-General, or an officer authorized shall have unrestricted access to all books, records, returns, reports, electronic or otherwise.

In the circumstances, the Management was in breach of the law and audit could not confirm the tender evaluation process.

3. Transfer to Other Government Units

3.1 Transfer to Primary Schools

Note 6 to the financial statements reflects an amount of Kshs.42,760,000 in respect of transfer to other Government units which includes Kshs.26,660,000 in respect of transfer to primary schools which further includes Kshs.2,700,000 transferred to Bungoma

Primary School for construction of two classrooms at Kshs.2,400,000 and purchase of seventy-five (75) desks totalling to Kshs.300,000. However, the following anomalies were noted;

- i. The funds used had been meant for Matanya Primary School and no approval for reallocation of funds was provided for audit review.
- ii. The seventy-five (75) desks were yet to be procured by the time of the audit.
- iii. The walls of the classroom had cracked which is an evidence of poor workmanship.

In the circumstances, the value for money of the Kshs.2,700,000 expenditures could not be confirmed.

3.2 Transfers to Secondary Schools

Note 6 to the financial statements reflects an amount of Kshs.42,760,000 in respect to transfer to other Government units which includes Kshs.13,000,000 in respect to transfer to secondary schools which further includes Kshs.4,800,000 transferred to Mwioko Mixed Day Secondary School for construction of single laboratory to completion. However, the following anomalies were noted:

- i. On painting and decoration there was supposed to be applied three coats of silk Vinyl Paints to plastered walls, columns and beams. Instead, the contractor applied one coat of Emulsion water-based paint costing Kshs.337,050.
- ii. The project was not labelled contrary to Section 15 (1) (f) of the National Government Constituencies Development Fund Regulations, 2016.
- iii. Fire alarm points had not been put in place.
- iv. The Laboratory was not in use and the administration converted it to staff/teacher's workstation.

In the circumstances, poor implementation of projects may result into projects that do not last the intended economic life and the public may not have achieved value for money on the expenditure spent on the projects.

4. Other Payments - Huduma Center Makutano in Ngobit

Note 9 to the financial statements reflects an amount of Kshs.38,721,000 in respect to other payments which includes Kshs.36,571,000 in respect to funds transfer to Huduma Center Makutano in Ngobit for the completion of the project. However, physical verification revealed the following anomalies: -

- i. The project was complete but not in use since handing over had not been done despite the fact that there was no construction works going on.
- ii. The project was not labelled contrary to Section 15(1)(f) of the National Government Constituencies Development Fund Regulations, 2015.

In the circumstances, the value for money of the Kshs.36,571,000 expenditure could not be confirmed.

5. Improper Administration of Bursary Funds

Note 7 to the financial statements reflects an amount of Kshs.66,198,664 in respect to other grants and transfers which includes Kshs.14,243,200 in respect of bursaries to tertiary institutions which further includes Kshs.3,298,200 paid to Batian Driving School to train 239 motor vehicle drivers. However, no evidence was provided to confirm invitation for applications to sponsor needy students for a driving course.

No minutes analyzing applications and making recommendations to the Fund and its subsequent approval for successful applicants contrary to the National Government Constituencies Development Fund Board Circular Ref: NG-CDFB/CEO/BOARD CIRCULARS VOL II (021) dated 18 June, 2020 which provides that the bursary subcommittee shall invite applications and analyze the applications making recommendations for approval clearly stating the list of both successful and unsuccessful applicants.

In the circumstances, the regularity and validity of the bursary disbursements of Kshs.3,298,200 could not be confirmed.

The audit was conducted in accordance with the 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 comply, 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 CONTROL, 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 described in the Basis for Conclusion on Effectiveness of Internal Control, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal control, risk management and overall governance were not effective.

Basis for Conclusion

Lack of Internal Audit Function

Laikipia East Constituency Fund did not have an internal audit section contrary to Section 73(1)(a) of the Public Finance Management Act, 2012 which stipulates that every National Government entity shall ensure that it has appropriate arrangements for

conducting internal audit according to the guidelines issued by the Accounting Standards Board.

In addition, although the financial statements state that the National Government Constituencies Development Fund Board had constituted an Audit and Risk Management Committee to provide fiduciary oversight, no evidence was adduced to show that the committee met during the year under review to discuss audit reports and make recommendation on risk mitigation.

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

The audit was conducted in accordance with the ISSAIs 2315 and 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 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 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 comply 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 control, 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 control 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

16 May, 2023