

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NAROK NORTH 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 Controls, 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 controls 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 overall 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

Disclaimer of Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Narok North Constituency set out on pages 1 to 46, which comprise the statement of financial assets and liabilities as at 30 June, 2022, and the statement of receipts and payments, statement of cash flows and summary statement of appropriations 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my

report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Variances Between the Financial Statements and Prior Year Comparative Balances

Comparison between the financial statements and the prior year audited balances reflects an unexplained variances in various items as detailed below:

Item	Note	Financial Statements (Kshs.)	Audited Financial Statements (Kshs.)	Variance (Kshs.)
Decrease in Amounts Receivable	Statement of Cash Flows	-	4,123,000	(4,123,000)
Acquisition of Assets	Budget Execution by Sector	5,500,000	10,000,000	(4,500,000)
Amounts Due to Other Government Entities	Note 17.3	23,014,432	17,818,173	5,196,259
Acquisition of Assets	Note 17.3	5,500,000	10,000,000	(4,500,000)
Funds Pending Approval	Note 17.3	-	692,260	(692,260)
PMC Account Balances	Note 17.4	5,794,198	8,834,269	(3,040,071)

In the circumstances, the accuracy and completeness of prior year balances as disclosed in the financial statements could not be confirmed.

2. Inaccuracies in the Compensation of Employees

The statements of receipts and payments reflects compensation of employees amount of Kshs.3,447,306 as disclosed in Note 4 to the financial statements. However, the amount differs with the payment vouchers amount of Kshs.2,053,089 resulting to an unexplained variance of Kshs,1,394,217. Further, during the year under review one (1) employee was not competitively recruited. This is contrary to Regulation 18 (1) of the National Government Constituencies Development Regulations, 2016 which states that a Constituency Committee may engage staff through a transparent and competitive process. Further, the payroll provided for audit review did not indicate employee details such as designation and employment number. In addition, the staff establishment was not provided.

In the circumstances, the accuracy, completeness, existence and occurrence of compensation of employees' expenditure of Kshs.3,447,306 could not be confirmed.

3. Unsupported Training Expenses

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.12,758,482 as disclosed in Note 5 to the financial statements. The amount includes training expenses of Kshs.3,364,500 incurred on capacity building of National Government Constituencies Development and Project Management Committee Members. However, the expenditure was not supported with training needs

assessment, invitation letters and attendance register. This is contrary to Section H.3 of the Public Service Commission Human Resource Manual of May, 2016 which states that training in the Public Service to be based on Training Needs Assessment which shall be conducted after every three (3) years in each State Department. Selection of trainees for all training programmes will be based on identified needs and will emphasize training for performance improvement that address Individual, Organizational and National goals.

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

4. Unsupported and Misclassified Expenditure on Office and General Supplies and Services

The statement of receipts and payments reflects an amount of Kshs.12,758,482 in respect of use of goods and services as disclosed in Note 5 to the financial statements. Included is office and general supplies and services expenditure of Kshs.1,020,530 which includes monitoring and evaluation expenditure of Kshs.470,000. However, the monitoring and evaluation reports were not provided for audit contrary to Regulation 26 (2) National Government Constituencies Development Fund Regulations, 2016 which states that a Constituency Committee shall carry out monitoring and evaluation of the projects at regular intervals and shall submit reports on the monitoring and evaluation exercise. Further, the expenditure was wrongly charged to office and general supplies and services instead of other Committee expenses.

In the circumstances, the regularity, classification and completeness of the office and general supplies and services expenditure of Kshs.470,000 could not be confirmed.

5. Unsupported Transfers to Other Government Units

The statement of receipts and payments reflects transfer to other Government entities totalling to Kshs.103,385,924 as disclosed in Note 6 to the financial statements which includes transfers to primary and secondary schools amounting to Kshs.62,489,664 and Kshs.40,896,260, respectively for construction works. However, the transfers for the construction works were not supported with payment vouchers, procurement records such as bills of quantities from qualified quantity surveyor, tender advertisements, tender evaluation minutes, signed contract, Inspection and Acceptance Committee reports, interim/completion certificates, Project Management Committee (PMC) accounting records such as cashbooks, bank statements and expenditure returns and evidence that the projects were implemented in consultation with relevant Government Departments. Further, contractors for works in the primary schools' projects were awarded tenders without NCA registration certificates, tax compliance certificates and three (3) year audited financial statements. In addition, project status was not provided for verification.

In the circumstances, the accuracy, completeness and value for money for transfers to other Government units totalling to Kshs.103,385,924 could not be confirmed.

6. Unconfirmed Issuance and Bursary

The statement of receipts and payments reflects an amount of Kshs.72,327,707 in respect of other grants and transfer as disclosed in Note 7 to the financial statements. Included is bursary to secondary schools and tertiary institutions amounting to Kshs.27,454,500 and Kshs.23,278,500, respectively. However, acknowledging receipts confirming that the amounts have been credited to the beneficiaries' fees account were

not provided for verification. Further, it was not confirmed how the beneficiaries were vetted and recommended for bursary award. In addition, it was not possible to establish the basis of disapproving some applications and how much the successful students or applicants were awarded.

In the circumstances, the accuracy, regularity and completeness of the bursary to secondary schools and tertiary institutions amounting to Kshs.27,454,500 and Kshs.23,278,500, respectively could not be confirmed.

7. Unapproved Security Projects

The statement of receipts and payments reflects other grants and transfers amount of Kshs.72,327,707 as disclosed in Note 7 to the financial statements which includes security projects expenditure of Kshs.7,200,000. However, the expenditure was not supported with procurement records such as list of prequalified suppliers, tender advertisements, tender evaluation minutes, signed contract, Inspection and Acceptance Committee reports, interim/completion certificates, Project Management Committee (PMC) expenditure returns and evidence that the projects were implemented in consultation with relevant Government Departments. Further, the expenditure includes unapproved security projects totalling to Kshs.4,600,000.

In the circumstances, the accuracy, completeness and regularity of security projects expenditure of Kshs.7,200,000 could not be confirmed.

8. Unconfirmed Expenditure on Emergency Projects

The statement of receipts and payments reflects other grants and transfer amount of Kshs.72,327,707 as disclosed in Note 7 to the financial statements which includes emergency projects expenditure of Kshs.14,394,707. However, the expenditure exceeds the approved budget of Kshs.7,192,207 by Kshs.7,202,500 or 200%. Further, the nature of emergency was not provided for audit. In addition, payment vouchers totalling to Kshs.7,492,657 were not provided for audit.

In addition, no documentary evidence was provided to confirm the utilization of the emergency reserve was reported to the Board within thirty (30) days of the occurrence of the emergency. This is contrary to Regulation 20(2) of the National Government Constituencies Development Regulations, 2016.

In the circumstances, the accuracy and completeness of the emergency projects expenditure of Kshs.14,394,707 could not be confirmed. Further, Management was in breach of law.

9. Unsupported Purchase of a Vehicle

The statement of receipts and payments reflects acquisition of assets amount of Kshs.5,180,000 as disclosed in Note 8 to the financial statements. The expenditure relates to purchase of a double cabin pickup motor vehicle. The tender was awarded after evaluation of four bids. However, procurement records such as user requisition, tender advertisement, appointment of the Tender Committees, tender opening and evaluation minutes, professional opinion, letter of offer, acceptance letter, signed contract, Inspection and Acceptance Committee reports. Further, ownership records for the vehicle were not provided for audit.

In the circumstances, the accuracy, completeness and ownership of purchase of motor vehicle amounting to Kshs.5,180,000 could not be confirmed.

10. Stale Cheques

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.2,184,182. However, review of the bank reconciliation statement for the month of June, 2022 reflects unpresented cheques totalling to Kshs.16,132,647.58 which include stale cheques amount of Kshs.85,244 which have not been reversed in the cashbook.

In the circumstances, the accuracy, completeness and existence of cash and cash equivalents balance of Kshs.2,184,182 could not be confirmed.

11. Unconfirmed Project Management Committee (PMC) Bank Balances

Other important disclosures as disclosed in Note 17.4 to the financial statements reflects Project Management Committee (PMC) bank balances of Kshs.3,172,184 in respect of thirty-seven (37) PMC bank balances as further disclosed in Annex 5 to the financial statements. However, the project implementation status report indicates that three hundred and seventy-five (375) projects have been funded since the inception of the Fund. However, cash books, closing bank balance confirmation certificates and bank reconciliation statements were not provided for audit. Further, only thirty-seven (37) PMC bank balances have been disclosed in the financial statements. The remaining three hundred and thirty-eight (338) PMC bank account balances have not been disclosed. It was also not confirmed when the bank accounts are operational.

In addition, the PMC bank balances for three hundred and seventy-one (371) completed projects have not been surrendered to the main Constituency Fund bank account in compliance with Section 12(8) of the National Government Constituencies Development Fund Act, 2015 which requires all unutilized funds of the Project Management Committee to be returned to the Constituency account.

In the circumstances, the accuracy, completeness and existence of PMC bank balances of Kshs.3,172,184 could not be confirmed.

12. Unconfirmed Fixed Assets

Summary of fixed asset register as disclosed in Annex 4 reflects assets historical cost of Kshs.19,699,046. However, the summary of fixed asset register reflects nil land balance yet the Fund has buildings and structures with a cost of Kshs.6,133,133. Further, ownership documents for motor vehicles valued at Kshs.9,715,000 were not provided for audit. In addition, the assets register as provided for in Regulation 143 of the Public Finance Management (National Government) Regulations, 2015 was not provided for audit.

In the circumstances, the accuracy, completeness and ownership of the fixed assets balance of Kshs.19,699,046 could not be confirmed.

13. Project Verification

The statement of receipts and payments reflects transfer to other Government Units and other grants and transfer amount of Kshs.103,385,924 and Kshs.72,327,707, respectively

as disclosed in Note 7 and 8 to the financial statements. Physical inspection on projects implemented by the Fund revealed the following anomalies:

13.1 Unconfirmed Construction of Pit Latrine

The construction of pit latrine at Enabelibel Nursery School was allocated a funding of Kshs.650,000 under the emergency projects and which was not utilized for the intended purpose. Physical verification conducted in the month of March, 2023, revealed that no activity relating to the project was undertaken at the school. Further, the project file, bill of quantities, and technical drawings were not provided for audit review.

13.2 Unsupported Construction of Two Classrooms

The construction of two (2) class rooms at JS Ole Naeku Primary was allocated an amount of Kshs.2,200,000. However, despite the two (2) classrooms being completed, project file, bill of quantities, and technical drawings were not provided for audit.

In the circumstances, regularity and value for money for the non-implementation of approved project amounting to Kshs.650,000 may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and overall governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit 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 controls, risk management and overall 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 the Management is aware of the intention to terminate the Fund or to cease operation.

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

My responsibility is to conduct an audit of the Fund's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal controls, risk management and overall governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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.

However, because of the matters described in the Basis for Disclaimer Opinion, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion on lawfulness and effectiveness in the use of public resources, and effectiveness of internal controls, risk management and overall governance.

I am independent of National Government Constituencies Development Fund - Narok North 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

12 June, 2023