

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - AWENDO CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2021

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 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 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 - Awendo Constituency set out on pages 17 to 58, which comprise of the statement of assets and liabilities as at 30 June, 2021, 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 effects of 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 - Awendo Constituency as at 30 June, 2021, 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. Inaccuracies in the Financial Statements

The annual report and financial statements as prepared and presented for audit had the following anomalies;

- i. The statement of receipts and payments reflects compensation of employees' expenditure balance of Kshs.2,880,913 as disclosed in Note 4 to the financial statements while, the ledger reflected a total balance of Kshs.2,908,663 resulting to an unexplained and an unreconciled variance of Kshs.27,750.
- ii. The statement of receipts and payments reflects use of goods and services expenditure balance of Kshs.8,485,396 as disclosed in Note 5 to the financial statements while, the ledger reflected a total balance of Kshs.7,517,096 resulting to an unexplained and an unreconciled variance of Kshs.968,300.
- iii. The statement of receipt and payments reflects other grants and transfers expenditure balance of Kshs.36,650,541 while Note 7 to the financial statements reflects Kshs.34,896,041 leading to an unexplained and an unreconciled variance of Kshs.1,754,500.
- iv. As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers figure of Kshs.34,896,041 which includes Kshs.20,363,407 in respect to security and emergency projects. However, the supporting schedules provided for audit reflects Kshs.23,918,907 leading to an unreconciled difference of Kshs.3,555,500.
- v. The statement of assets and liabilities reflects a nil balance on gratuity as at 30 June, 2021 while Note 12B to the financial statements reflects Kshs.401,255 resulting to an unexplained and an unreconciled variance of Kshs.401,255.

In the circumstances, the accuracy and completeness of the financial statements 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 - Awendo 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 summary statement of appropriation for the year under review reflects total budgeted receipts of Kshs.209,472,253 and actual receipts on comparable basis of Kshs.162,983,434 resulting to overall receipts shortfall of Kshs.46,488,819 or 22% of the budget. Similarly, the statement reflects final expenditure budget and actual expenditure on comparable basis of Kshs.209,472,253 and Kshs.150,247,236 respectively resulting to an under expenditure amounting to Kshs.59,225,017 or 28% of the budget.

The receipts shortfall and under expenditure affected the planned activities and impacted negatively on service delivery to the public.

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 sections 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 Entities

1.1 Implementation of Projects on Land Without Ownership Documents

The statement of receipts and payments reflects transfers to other Government entities amount of Kshs.98,891,129 which includes transfers to tertiary institutions of Kshs.31,185,968 as disclosed in Note 6 to the financial statements. Review of expenditure documents established that an amount of Kshs.9,931,966 was utilized towards the construction of Awendo Kenya National Library and fencing of Awendo Kenya Medical Training Institute. However, ownership documents for the parcels of land on which the projects were erected were not provided.

Further, physical verification in April, 2022 revealed that a private developer had encroached on the library land. This is contrary to the provisions of Constituencies

Development Fund (CDF) Board circular reference CDF Board Circulars/VOL.1/(108) dated 24 August, 2010 .

In the circumstances, Management is in breach of the Constituency Development Fund (CDF) Board Circular.

1.2 Delayed Completion of Administration Block at Siruti Secondary School

The statement of receipts and payments reflects transfers to other Government entities amount of Kshs.98,891,129 which includes transfers to secondary schools of Kshs.38,599,609 as disclosed in Note 6 to the financial statements. Review of expenditure documents revealed that an amount of Kshs.1,000,000 was incurred towards completion of an administration block at Siruti Secondary School. However, physical verification in April, 2022 revealed that the electrical works, tiling and ceiling board work had not been done and the contractor was not on site.

In the circumstances, the value for money for the funds spent on the project could not be confirmed.

1.3 Incomplete Renovation of Classrooms at Mariwa Primary School

The statement of receipts and payments reflects transfers to other Government entities expenditure balance of Kshs.98,891,129 which includes transfers to primary schools of Kshs.29,105,552 as disclosed in Note 6 to the financial statements. Review of expenditure records established that an amount of Kshs.1,000,000 was incurred towards renovation of five (5) classrooms at Mariwa primary school. However, physical verification of the project in April, 2022 revealed that walling, roofing and painting of two (2) classrooms were completed and put into use while the works on the three (3) classrooms had not been completed.

In the circumstances, the value for money spent on the project could not be confirmed.

2. Non-Operational Innovation Hub at the Kenya National Library - Awendo

The statement of receipts and payments reflects other payments expenditure balance of Kshs.1,169,257 as disclosed in Note 9 to the financial statements. Review of documents established that the expenditure was in respect of supply and installation of innovation hub at the Awendo Kenya National Library through a local contractor. However, physical verification in April, 2022 revealed that installation of the Information Communication Technology (ICT) equipment is complete but was not fully operational due to lack of internet connectivity.

In the circumstances, the value for money for the Kshs.1,169,256 expenditure incurred on the project may not be realized by the public.

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

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 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 controls 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 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 controls 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 controls would not necessarily disclose all matters in the internal controls 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 controls 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 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 controls.

- 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 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 controls 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

23 September, 2022