

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - CHUKA IGAMBANG'OMBE 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 - Chuka Igambang'ombe Constituency set out on pages 12 to 55, 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 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 - Chuka Igambang'ombe Constituency as at 30 June, 2021, and 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 Other Grants and Other payments

The statement of receipts and payment and as disclosed under Note 7 to the financial statements reflects other grants and other payments of Kshs.61,484,640 which includes an amount of Kshs.14,580,600 and Kshs.18,391,750 in respect to bursaries to secondary schools and tertiary institutions respectively both totaling to Kshs.32,972,350. However, schedules provided for audit reflected Kshs.23,927,000 resulting to an unreconciled variance of Kshs.9,045,350.

Further, included in Kshs.61,484,640 is Kshs.2,125,000 on environmental projects. However, the supporting ledger reflects Kshs.2,040,000 relating to the same item resulting to unreconciled variance of Kshs.85,000.

In the circumstances, the accuracy of expenditure of Kshs.32,972,350 and Kshs.2,125,000 on bursaries and environment projects both totalling Kshs.35,097,350 could not be confirmed.

2. Inaccuracies in the Notes and Annexures to the Financial Statements

Disclosure Note 17.3 to the financial statements reflects unutilized funds balance of Kshs.160,629,806. However, the respective detailed Annex 3 reflects a balance of Kshs.106,755,786 resulting to an unreconciled variance of Kshs.53,874,020.

Further, Annex 4 to the financial statements on summary of fixed assets register reflects historical cost balance of Kshs.37,107,703. However, a recast of the asset register balances provided for audit review resulted to a total cost of Kshs.2,661,500, resulting to unreconciled variance of Kshs.34,446,203. Further, a recast of summary of fixed assets register gave an amount of Kshs.37,157,703, resulting to unreconciled variance of Kshs.50,000.

In the circumstances, the accuracies of the two (2) annexures to the financial statements cannot be confirmed.

3. Unsupported Projects Expenditure

The statement of receipts and payment and as disclosed in Note 7 to the financial statements reflects other grants and other payments of Kshs.61,484,640 which includes an amount of Kshs.6,479,000 for social security programmes. However, the supporting ledger or schedules were not provided for audit.

Further, the financial statements and as disclosed in Note 9 reflects other payments Kshs.3,000,000 for construction of ICT hubs in Mugwe and Kaanwa which was re-allocated to construction of social halls. However, the supporting documents including expenditure returns and bill of quantities were not provided for audit.

In the circumstances, the propriety of expenditure of Kshs.9,479,000 could not be confirmed.

4. Unsupported Project Management Committee (PMC) Bank Balances

Note 17.4 to the financial statements and as detailed in Annex 5 of the financial statements reflects PMC account balances of Kshs.567,029. However, the PMC balances were not supported with cash books, bank statements, bank reconciliations statements, certificate of bank balances and quarterly reports to a Constituency Committee on the status of the Project Management Committee accounts.

In the circumstances, the accuracy and existence of PMC accounts balances of Kshs.567,029 could not be confirmed.

5. Mis-Allocated Acquisition of Assets

The statement of receipts and payments and as disclosed in Note 8 to the financial statements reflects acquisition of assets of Kshs.4,062,758 relating to purchase of office furniture and general equipment. However, scrutiny of documents provided revealed that the amount related to furniture for primary schools and security projects,

In these circumstances, the completeness and accuracy of acquisition of assets expenditure of Kshs.4,062,758 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 - Chuka Igambang'ombe 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 reflects a final receipts budget and actual amounts on comparable basis of Kshs.267,385,591 and Kshs.180,067,724 respectively resulting to an under funding of Kshs.87,317,867 or 33% of the budget. Similarly, the Fund spent Kshs.160,629,806 against approved budget of Kshs.267,385,591 resulting to under expenditure of Kshs.106,755,785 or 40% of the budget.

The underfunding and under expenditure may have negatively impacted on service delivery to the public.

Further, included in total final expenditure budget of Kshs.267,385,591 is Kshs.10,787,053 in respect to funds pending approval. The nature and composition of the funds pending approval is not disclosed in the financial statements.

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 and Qualified Opinion 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. Diversion of Funds for Construction of Classroom to Purchase of Land

The statement of receipts and payments and as disclosed in Note 6 to the financial statement reflects transfers to other Government units of Kshs.83,475,000 which includes transfers to primary schools amount of Kshs.54,900,000 which further includes an amount disbursed to Gacigongo Primary School of Kshs.1,000,000 for construction of one classroom to completion.

However, the funds were diverted to purchase of land without an approval of re-allocation from the board. This is contrary to Section 6(2) of the National Government Constituencies Development Fund Act, 2015 which stipulates that once funds are

allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose during the financial year with the approval of the Board.

Further, the land sale agreement was signed on 4 February, 2021, a day before the committee deliberations and approval.

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

2. Assets not Tagged and Insured

Annex 4 to the financial statements reflects summary of fixed asset register of Kshs.37,107,703 relating to fixed assets. However, physical inspection of the assets revealed that the assets were not tagged for ease of identification and movement. This is contrary to Regulation 139(1) of the Public Finance Management (National Governments) Regulations, 2015 which stipulates that an accounting officer of a National Government entity shall take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse by ensuring that movement and conditions of assets can be tracked by putting in place processes and procedures both electronic and manual for the effective, efficient, economical and transparent use of the government entity's asset.

Further, the fixed assets were not insured. This is contrary to Section 36 (3) of the National Government Constituencies Development Fund Act, 2015 which stipulates; All fixed and movable assets, including equipment bought under this Act for use by the Constituency Committee, shall be the property of the Board and shall be insured in the name of the Board.

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

3. Delay in implementation of projects

Review of Projects Status Report revealed that during the budget periods 2017/2018 to 2019/2020; one hundred thirty-three (133) projects worth Kshs.62,000,000 had not been started and sixty-six (66) worth Kshs.57,625,000 had stalled all amounting to Kshs.119,625,000.

Further, at time of audit in April 2022, the Fund had not received an amount of Kshs.43,200,000 from the National Government Constituencies Fund Board for year 2020/2021.

In the circumstances, failure to implement budgeted projects may have denied the public benefits that would have been derived from the planned projects.

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 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 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 controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain its 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 overall 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's 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

09 September, 2022