

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - ISIOLO NORTH 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 - Isiolo North Constituency set out on pages 15 to 56, 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 the 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 the National Government Constituencies Development Fund - Isiolo North 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

1.0 Inaccuracies in Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.33,507,717 as disclosed in Note 11A to the financial statements . However, the bank reconciliation statement showed unrepresented cheques amounting to Kshs.15,099,528, which includes twenty-one (21) stale cheques totalling Kshs.2,884,225 that had not been replaced or reversed in the cash book in April, 2022.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.33,507,717 could not be confirmed.

2.0 Inaccuracies in the Statement of Cash flows

The statement of cash flows reflects a balance of Kshs.100,000 relating to prior year adjustments as disclosed in Note 14 to the financial statements. However, the note does not explain or show how this balance was arrived at or what it relates to.

In the circumstances, the accuracy and regularity of the balance of Kshs.100,000 in the statement of cash flows could not be confirmed.

3.0 Unsupported Transfers to Other Government Units

The statement of receipts and payments reflects transfers to other Government units amount of Kshs.71,125,118 which, as disclosed in Note 6 to the financial statements includes an amount of Kshs.32,425,118 relating to transfers to Secondary Schools. However, disbursement to three (3) Secondary Schools amounting to Kshs.6,850,000 did not have supporting documents such as tenders, quotations, Opening Evaluation and Award Minutes, Professional Opinion, Letters of Offer and Acceptance and Contract Agreements.

In the circumstances, the accuracy and completeness of transfers to other Government units expenditure of Kshs.6,850,000 could not be confirmed.

4.0 Unsupported Other Grants and Transfers

The statement of receipts and payments reflects other grants and transfers expenditure of Kshs.34,867,003 which, as disclosed in Note 7 to the financial statements, includes an amount of Kshs.4,145,000 relating to bursary disbursements to Secondary Schools which in turn includes an amount of Kshs.3,832,000 and Kshs.5,973,000 totalling to Kshs.9,805,000 disbursed to various institutions. However, the bursary disbursements

were not supported with student applications and vetting records together with acknowledgement letters or receipts from the beneficiary institutions.

Further, the balance includes an amount of Kshs.18,263,200 in respect to bursary disbursements to tertiary institutions which further include Kshs.6,145,200 disbursed to various Kenya Medical Training Centre (KMTC) Campuses for the fully sponsored students. However, review of records revealed that the disbursements were not supported with the Bursary Vetting Committee Minutes that authorized the full scholarship programme and student application forms as evidence that the students applied and qualified for the full sponsorship programme. Also, the basis for the award of full sponsorship to KMTC students could not be confirmed.

In the circumstances, accuracy and completeness of other grants and transfers expenditure of Kshs.15,950,200 could not be confirmed.

5.0 Inaccuracies in Unutilized Funds

The unutilized fund as disclosed in Note 17.3 reflects a balance of Kshs.78,496,596. However, Annex 3 on the same item reflects a balance of Kshs.89,104,221 resulting to an unreconciled or unexplained variance of Kshs.10,607,625.

In the circumstances, accuracy of unutilized funds balance of Kshs.10,607,625 could not be confirmed.

6.0 Inaccuracies in Project Management Committee Account Balances

Note 17.4 reflects a balance of Kshs.10,149,374 relating to Project Management Committee Account balances while Annex 5 on the same item reflects Kshs.79,204 resulting to an unreconciled variance of Kshs.10,070,170.

In the circumstances, the accuracy and completeness of Project Management Committee Account balance of Kshs.10,149,374 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 - Isiolo 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. 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

1.0 Budgetary Control and Performance

The summary statement of appropriation reflects final receipts budget and actual on comparable basis of Kshs.194,970,295 and Kshs.149,881,416 respectively resulting to under-funding of Kshs.45,088,879 or 23% of the budget. Further, the Fund expended a total of Kshs.116,473,699 against an approved budget of Kshs.194,970,295 resulting to an under-expenditure of Kshs.78,496,597 or 40% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

2.0 Unresolved Prior Year Matters

In the report of the previous year, several issues were raised under report on the financial statements and report on lawfulness and effectiveness in use of public resources. However, review of the progress on follow up of Auditor's recommendations showed that the Management had not resolved the issues. Management did not give reasons for the delay in resolving the issues.

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

1.0 Non - Compliance with the Public Sector Accounting Standards Board (PSASB) Requirements

The progress on follows up of auditor recommendations included in the annual report and financial statements is not signed by the accounting officer. This was contrary to Public Sector Accounting Standard Board (PSASB) template which requires the same to be signed by the accounting officer.

In the circumstances, the annual reports and financial statements do not fully comply with the PSASB prescribed format.

2.0 Irregular Re-allocation of Project Funds

The statement of receipts and payments reflects an amount of Kshs.71,125,118 relating to transfer to other Government units as disclosed in Note 6 to the financial statements includes an amount of Kshs.32,425,118 relating to transfers to secondary schools, which

further includes an amount of Kshs.2,400,000 disbursed to Korbesa Day Secondary School for completion of a science laboratory through plastering, flooring, painting, gas installation, plumbing works, fixing doors and windows. However, documents presented for audit revealed the disbursement was used in construction of two (2) classrooms. The approval from the NG-CDF Board for the reallocation of the funds was not provided contrary to Section 6(2) of the National Government Constituencies Development Fund Act, 2015 which states 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.

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

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, except for the matter described in the Basis for Conclusion on Internal Controls, 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 controls, risk management and overall governance were not effective.

Basis for Conclusion

Untagged Fixed Assets

As reported in previous years, Annex 4 to the financial statements reflects Kshs.27,612,000 relating to summary of fixed assets as at 30 June, 2021, which includes assets valued at Kshs.1,812,500 which were not tagged for ease of tracking and identification contrary Regulation 139(1)(b) of the Public Finance Management (National Government) Regulations, 2015 which states that an accounting officer of a national government entity shall take full responsibility and ensure that proper control systems exist for assets and that movement and conditions of assets can be tracked.

In the circumstances, existence of effective controls of assets could not be confirmed. The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit so as 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 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 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

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 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 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 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

06 September, 2022