

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KABONDO KASIPUL 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

Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Kabondo Kasipul 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 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, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund - Kabondo Kasipul 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 Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Kabondo Kasipul 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 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. Budgetary Control and Performance

The summary statement of appropriation reflects total budgeted receipts of Kshs.226,556,976 and actual receipts of Kshs.176,578,097 resulting to a receipts deficit of Kshs.49,978,880 or 22% of the budget. Similarly, the statement reflects a final expenditure budget and actual expenditure on comparable basis of Kshs.226,556,977 and Kshs.172,923,400 respectively, resulting in an under-expenditure of Kshs.53,633,577 or 24% of the budget.

The under-funding and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the residents of Kabondo Kasipul Constituency.

2. Unresolved Prior Year Audit Matters

In the prior year's audit report, several issues were raised under the Report on Financial Statements and the Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not provided satisfactory 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 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

1.0 Transfers to Other Government Entities

The statement of receipts and payments reflects transfers of Kshs.99,040,200 to other government entities which includes transfers of Kshs.26,178,221 to secondary schools as disclosed in Note 6 to the financial statements. The following observations were made regarding the expenditure:

1.1 Stalled Construction of Twin Science Laboratory Block at Wan'gapala High School

Audit review of expenditure records established that an amount of Kshs.6,430,000 was disbursed to Wang'apala High School towards construction of a Twin Science Laboratory. The contract was awarded to a local contractor at a contract sum of Kshs.5,595,891 and a cumulative amount of Kshs.5,199,585 had been paid as at the time of audit. However, audit inspection of the Project at the time of audit on 13 April, 2022 revealed that the construction works had been done up to lintel level, or approximately 20% complete and the works had stalled as the contractor was not on site.

In the circumstances, projects costs may escalate and the students and other stakeholders may not obtain value for money from expenditure.

1.2 Stalled Construction of Library and Computer Laboratory at Owiro Secondary School

Review of expenditure records established that an amount of Kshs.2,500,000 was disbursed to Owiro Secondary School towards construction and completion of a Library and Computer Laboratory. The contract was awarded to a local contractor at a contract sum of Kshs.3,499,845 with a cumulative amount of Kshs.2,500,000, or 72 % having been paid as at the time of audit. However, audit inspection of the Project at the time of audit on 13 April, 2022 revealed that the contractor was not on site and the work had stalled.

In the circumstances, value for money on the amount of Kshs.2,500,000 expended on the Project could not be ascertained.

2.0 Failure to Report Utilization of Emergency Reserves

The statement of receipts and payments reflects other grants and other payments amounting to Kshs.54,429,603 which includes emergency projects of Kshs.5,107,310 as disclosed in Note 7 to the financial statements. However, Management did not report occurrences of emergency to the Board within thirty (30) days as required by Regulation 20 (2) of the National Government Constituencies Development Fund Regulations, 2016.

In the circumstances, Management was in breach of law.

3.0 Failure to Involve Project Management Committees in Implementation of Projects

Review of expenditure records relating to emergency projects revealed that projects amounting to Kshs.4,060,079 were implemented without involving the Project Management Committees (PMCs). In addition, payments amounting to

Kshs.4,228,619 were made directly to four (4) firms engaged to implement roads and bridges projects without involving the PMCs. This is contrary to Regulation 15(1) of the National Government Constituencies Development Regulations, 2016 which provides for the appointment and roles of a Project Management Committee for each project in a Constituency.

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

4.0 Anomalies in Implementation of Roads and Bridges Projects

As disclosed in Note 7 to the financial statements, the amount of Kshs.54,429,603 for other grants and other payments includes expenditure of Kshs.4,263,643 on roads and bridges. However, the construction of access roads is a devolved and not a National Government function and thus Management contravened Section 24(a) of the National Government Constituencies Development Fund Act, 2015 which provides that a Project under the Act shall only be in respect of works and services falling within the functions of the National Government under the Constitution.

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

5.0 Failure to Brand Completed Security Projects

As disclosed at Note 7 to the financial statements, Kshs.5,735,982 was paid relating to security projects. However, audit inspection of the projects revealed that three (3) projects implemented at a cost of Kshs.3,154,335 were complete and in use but had not been branded as required under Regulation 11(1)(cc) of the National Government Constituencies Development Regulations, 2016 which provides that the functions of a Constituency Committee includes ensuring that projects are labelled in accordance with the guidelines issued by the Board.

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

6.0 Lack of a Properly Constituted Bursary Sub-Committee

As disclosed in Note 7 to the financial statements, bursaries to secondary schools and tertiary institutions and special schools totalled to Kshs.34,778,032. However, the Bursary Sub-Committee as constituted did not co-opt two members, one whom must be the Area Education Officer or a representative of the of Ministry of Education, in contravention of the provisions of the Constituency Development Fund Board Circular Reference VOL1/111, dated 13 September, 2010 which requires formation of a Sub-Committee of Constituency Development Fund to manage the bursary scheme including two co-opted members one of whom must be an Education Officer or an Officer seconded from the Ministry of Education.

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

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 overall 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 control, 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 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 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 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 going concern 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 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