

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KACHELIBA 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 - Kacheliba Constituency set out on pages 15 to 53, 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 - Kacheliba 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. Unsupported Acquisition of Assets

The statement of receipts and payments reflects acquisition of assets amount of Kshs.1,216,321 as disclosed in Note 8 to the financial statements. However, payment vouchers and expenditure returns for the expenditure were not provided for audit review.

In the circumstances, the accuracy of the acquisition of assets expenditure of Kshs.1,216,321 could not be confirmed.

2. Unsupported Fixed Assets

The summary of fixed assets register in Annex 4 of the financial statements reflects fixed assets balance of Kshs.55,140,612 which includes transport equipment of Kshs.30,134,112 and building and structures of Kshs.24,480,000. However, logbooks for the motor vehicles and motorcycle and valuation certificates for the buildings and structures were not provided for audit review.

Further, review of the assets register presented for audit review reflected fixed assets balance of Kshs.68,566,105 resulting to an unreconciled variance of Kshs.13,425,493 as shown below:

Item	Summary of Fixed Assets Register (Kshs.)	Assets Register (Kshs.)	Variance (Kshs.)
Buildings and Structures	24,480,000	37,000,000	(12,520,000)
Transport Equipment	30,134,112	30,987,606	362,827
Office Equipment, Furniture and Fittings	526,500	184,000	342,500
ICT Equipment	-	394,499	(394,499)
Total	55,140,612	68,566,105	(13,425,493)

In the circumstances, the accuracy, ownership and valuation of fixed assets balance Kshs.55,140,612 could not be confirmed.

3. Unsupported Other Grants and Transfers

The statement of receipts and payments reflects other grants and transfers balance of Kshs.63,031,900, which, as disclosed in Note 7 to the financial statements includes bursary to Secondary Schools and Tertiary Institutions of Kshs.28,374,900 and Kshs.8,791,000 respectively all totalling to Kshs.37,165,900. Out of the amount issued only Kshs.416,000 was acknowledged by the respective institutions. The balance of Kshs.36,749,900 issued as bursaries to schools was not acknowledged. Further, the following unsatisfactory matters were noted statement of receipts and payments reflects other grants and transfers balance of Kshs.63,031,900. This includes bursary to secondary schools and tertiary institutions of Kshs.28,374,900 and Kshs.8,791,000 respectively as indicated in Note 7 of the financial statements. Documentary evidence provided for audit revealed the following:

- i. Secondary School beneficiaries did not fill application forms and thus it was not possible to establish how the beneficiaries were picked.
- ii. Ward Committee meeting minutes where needy students were identified were not signed and the names of the beneficiaries were not attached to the minutes.
- iii. Management issued bursaries to students who had overpaid their fees, which left doubt as to whether vetting took place or whether there was equity in distribution of the bursary.
- iv. Management issued bursaries to persons who were not students in the schools as indicated below or used the wrong names and as such the amounts issued could not be confirmed.

In the circumstances, the accuracy and completeness of other grants and transfers amount of Kshs.63,031,900 could not be confirmed.

4. Irregular Training Expenses

The statement of receipts and payments reflects use of goods and services of Kshs.11,267,586 as disclosed in Note 5 to the financial statements. However, under training expenses, an expenditure amount of Kshs.310,000 was payments of per diems and allowances and conference fees made to Fund's staff between 27 August, 2020 to 1 September, 2020.

However, the following unsatisfactory observations were made:

- i. The per diems and conference fees were withdrawn through cash, rather than through the payee's accounts.
- ii. The details of the facilitators including their profession and qualification for the workshop training were not provided.

- iii. The car hire services receipt was dated 16 July, 2020 which is one month before the training was undertaken.
- iv. There were no work tickets or bus tickets provided to support the travel to the venue of the training and back to office.
- v. There were no quotations raised for the provision of the conference facility services hence it was difficult to confirm the criteria used to identify the service provider.
- vi. No invoice was raised by the hotel or service provider for the venue of training.
- vii. Attendance registers and programme for the training were not provided for audit review.

In the circumstances, the accuracy, completeness and regularity of the expenditure of Kshs.310,000 on training expenses could not be confirmed.

5. Unsupported Project Management Committee Bank Balances

Note 17.4 as well as Annex 5 to the financial statements reflect bank balance of Kshs.2,705,035. However, audit review revealed that a total of Kshs.87,841,061 was disbursed to forty-five (45) projects but Management did not disclose their Project Management Committee bank balances as at 30 June, 2021. Further, certificate of bank balances, bank reconciliation statement and cashbooks for the forty-five (45) Project Management Committee (PMC) bank accounts and for the bank balance of Kshs.2,705,035 were not provided for the audit review.

In the circumstances, the accuracy and completeness of the Project Management Committee bank balances of Kshs.2,705,035 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 - Kacheliba 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. Budgetary Control and Performance

The summary statement of appropriation reflects final receipts budget and actual on comparable basis of Kshs.210,086,022 and Kshs.161,967,724 respectively, resulting to an underfunding amounting to Kshs.48,118,298 or 23% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling Kshs.210,086,022 and Kshs.150,771,512 respectively resulting to an under expenditure amounting to Kshs.59,314,510 or 28% of the budget.

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

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board.

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 matter 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. Non-Compliance with the Public Sector Accounting Standard Board (PSASB) Requirements

The summary statement of appropriation is not titled. This is contrary to the Public Sector Accounting Standard Board (PSASB) template.

In the circumstances, the presentation and disclosure of the summary statement of appropriation did not comply with the prescribed format by the Public Sector Accounting Standards Board template.

2. Delay in Project Implementation

During the year 2020/2021, there were fifty-seven (57) projects budgeted for implementation. Out of these fourteen (14) projects were already complete. Further, twenty-three (23) projects which received disbursements totalling to Kshs.52,425,580 were physically verified in May, 2022 and were found to be incomplete .

In the circumstances, the value for money and regularity of expenditure Kshs.52,425,580 occurred on the projects could not be confirmed.

3. Lack of Technical Expertise for Clerk of Works

During the year under review the Fund earmarked projects valued at Kshs.95,562,061 for implementation. However, Management did not engage the services of the technical expert - clerk of works to assist in the project implementation. This was contrary to Section 45(1) of the National Government Constituencies Development Fund Act, 2015.

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, 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 controls, 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 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 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 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 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 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 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

05 September, 2022