

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – KIAMBAA 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 Constituency Development Fund - Kiambaa Constituency set out on pages 32 to 61, 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 the National Government Constituencies Development Fund – Kiambaa 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management, Act 2012.

Basis for Qualified Opinion

1. Stale Cheques in Bank Reconciliation Statement

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities reflects cash and cash equivalent balance of Kshs.39,964,754. However, bank reconciliation statement in support of the cash and cash equivalent balance reflects unrepresented cheques totalling Ksh.2,460,004 out of which cheques amounting to Kshs.122,144 were more than six-months (6) old and hence were stale.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.39,964,754 could not be confirmed.

2. Inaccuracies in the Budget Execution by Sectors and Projects

The budget execution by sectors and projects reflects budget and actual mounts whose computed totals differ with corresponding amounts reflected in the summary statement of appropriation, resulting in unreconciled variances as analyzed below:

Budget Item	Amount as per Summary Statement of Appropriation (Kshs)	Amount as per Budget Execution by Sectors and Projects (Kshs)	Variance (Kshs)
Original Budget	137,428,879	129,032,181	8,396,698
Opening Balance (C/Bk) and AIA)	13,491,288	13,042,085	449,203
Final Budget	221,164,376	211,441,990	9,722,386
Actual on Comparable Basis	128,770,742	128,321,539	449,203

Further, the budget execution by sectors and projects schedule does not have sub-totals and grand totals.

In the circumstances, the accuracy and completeness of the budget execution by sectors and projects for the year ended 30 June, 2021 could not be confirmed.

3. Undelivered Furniture and Equipment

The statement of receipts and payments and the corresponding Note 7 to the financial statements reflects other grants and transfers amount of Kshs.65,063,721 which includes

security projects expenditure amounting to Kshs.20,559,004. Included in the expenditure is an amount of Kshs.5,019,258 for the purchase of ICT equipment and furniture for the proposed ICT hub at the Constituency Chief's Office's Multi-Purpose Hall. However, evidence of delivery of the equipment and furniture was not provided.

In the circumstances, value for money for the expenditure of Kshs.5,019,258 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 Constituency Development Fund - Kiambaa 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 final receipts budget and actual on comparable basis totalling Kshs.221,164,376 and Kshs.154,367,724 respectively resulting to an underfunding of Kshs.66,796,652 or 30% of the budget. Similarly, the Fund spent Kshs.128,770,742 against an approved budget of Kshs.221,164,376 resulting to an under-expenditure of Kshs.92,393,633 or 42% of the budget.

The under-expenditure affected the planned activities and may have 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 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 Reporting Framework

The financial statements presented reflects inconsistencies in page numbering, repetition of page numbers and some pages not numbered. Further, table of content at page number 1 is not consistently paginated, for instance between page 1 is followed by page number 18 leaving a gap of 17 pages while, the summary statement of appropriation and budget execution by sectors are not paged.

In the circumstances, Management has not conformed to the prescribed template as issued by the Public Sector Accounting Standards Board.

2. Transfers to Other Government Units

The statement of receipts and payments and the corresponding Note 6 to the financial statements reflects transfers to other Government units amounting to Kshs.52,544,343 which includes transfers to primary and secondary schools' expenditures of Kshs.47,534,343 and Kshs.5,010,000 respectively. Review of records revealed the following unsatisfactory matters:

2.1. Non-Compliance with the Public Procurement Process

Included in the transfers to other Government units are transfers to primary and secondary schools' expenditures of Kshs.47,534,343 and Kshs.5,010,000 respectively. However, examination of payment vouchers, projects files, and other records revealed that the tender evaluation reports lacked the scores awarded by each evaluator. The regret letters sent out to the unsuccessful bidders did not indicate the winning bidder as is required by Section 87(3) of the Public Procurement and Asset Disposal Act, 2015. The Accounting Officer did not publish and publicize all contract awards on the Fund's notice boards at conspicuous places, and website within the prescribed period as is required by the Section 138(1) of the Public Procurement and Asset Disposal Act, 2015.

2.2. Delayed Completion of St. Angela Secondary School Project

The balance includes transfers to primary schools amounting to Kshs.47,534,343 which includes an amount of Kshs.1,000,000 disbursed to Angela Secondary School for construction of a dormitory to suspended slab level. No explanation was given as to why the project was charged under primary schools. Further, the project status report indicated that the project was complete, audit inspection carried out in the month of April, 2022 revealed that painting and plumbing works had not been completed.

2.3. Delayed Completion of Karuri Primary School Project

Included in the transfers to secondary schools amount of Kshs.5,010,000 is Kshs.4,610,000 disbursed to Karuri Primary School for completion of terraces, including changing rooms, ground beams, roofing, walling, finishes, coping stone and door exhaustible ablution block. Although the project status report indicated that the project was complete, audit inspection carried out in the month of April, 2022 revealed that roofing and changing rooms were not completed.

In the circumstances, value for money for the expenditure of Kshs.52,544,343 on transfers to other Government units could not be confirmed.

4. Irregular and Unsupported Expenditure on Bursaries

The statement of receipts and payments and the corresponding Note 7 to the financial statements reflects other grants and transfers amount of Kshs.65,063,721 which includes bursaries expenditure amounting to Kshs.34,410,008.

However, no evidence was provided to confirm the use of the Education Bursary, Mock Examinations and Continuous assessment Tests Committee in the identification and vetting of the beneficiaries. Further, acknowledgment receipts from the schools were also not provided.

In the circumstances, value for money for the expenditure of Kshs.39,429,266 relating to bursaries could not be confirmed.

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 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 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 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

19 August, 2022