

REPORT OF THE AUDITOR-GENERAL ON THE NATIONAL GOVERNMENT CONSTITUENCIES FUND - KITUI EAST 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 the National Government Constituencies Development Fund - Kitui East Constituency set out on pages 19 to 54, 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 the National Government Constituencies Development Fund - Kitui East 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 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 - Kitui East 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 for the year ended 30 June, 2021 reflects receipts budget and actual amounts on comparable basis of Kshs.228,432,732 and Kshs.169,843,853 respectively, resulting in an underfunding of Kshs.58,588,879 or 26% of the budget. Similarly, the Fund spent an amount of Kshs.144,558,237 against the approved budget of Kshs.228,432,732 resulting to an under-expenditure of Kshs.83,874,495 or 37% of the budget.

The underfunding and underperformance affected the planned activities of the Fund 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 some of the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

Report of the Auditor-General on the National Government Constituencies Development Fund - Kitui East Constituency for the year ended 30 June, 2021

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. Incomplete Classroom at Kalalani Secondary School

The statement of receipts and payments and Note 6 to the financial statements reflects transfers to other government units amount of Kshs.63,900,000 as at 30 June, 2021. The expenditure includes transfers to secondary schools of Kshs.30,300,000 which further includes the amount of Kshs.1,000,000 incurred on construction of one classroom at Kalalani Secondary School. However, physical inspection of the project carried out on 29 April, 2022 revealed that the classroom floor was not done as per the contract specifications.

In the circumstances, value for money on the expenditure of Kshs.1,000,000 incurred on the project for the year ended 30 June, 2021 could not be confirmed.

2. Delay in Completion of Projects

Review of the project implementation status report as at 30 June, 2021 revealed that a total of Kshs.137,088,879 was allocated for implementation of ninety-four (94) projects. Further, the report indicated that eighty-six (86) projects, or 91%, worth Kshs.122,888,879 were completed and put to use. However, a total of four (4) projects worth Kshs.9,200,000 were on-going while the remaining four (4) projects with an allocation of Kshs.5,000,000 had not commenced. No explanation was provided for the delay in completion of the projects.

In the circumstances, value for money may not have been realized for the amount of Kshs.14,200,000 incurred on the delayed projects for the year ended 30 June, 2021.

3. Irregular Procurement of Projects

The statement of receipts and payments and Note 6 to the financial statements reflects transfers to other government units of Kshs.63,900,000 as at 30 June, 2021. However, review of procurement documents revealed that nine (9) projects worth Kshs.20,000,000 were awarded to contractors without considering the signed professional opinion(s) from the head of procurement function. This is contrary to Section 84(1) of the Public Procurement and Asset Disposal Act, 2015 which provides for the signed professional opinion.

In the circumstances, the regularity of the expenditure of Kshs.20,000,000 incurred on the projects could not be confirmed.

4. Non-Compliance to the Public Sector Accounting Standards Board Reporting Requirements

Review of the financial statements for the year ended 30 June, 2021 presented for audit revealed that page 22 was repeated twice while page 33 of the financial statements is missing. Further, the headings are not indicated on the pages of the financial statements as prescribed by the recommended reporting template.

In the circumstances, the financial statements did not comply with the reporting template of the Public Sector Accounting Standard Board.

5. Construction of a Pit Latrine at Mwitika Primary School

The statement of receipts and payments and Note 7 to the financial statements reflects other grants and transfers expenditure of Kshs.66,161,062 as at 30 June, 2021. The expenditure includes emergency projects of Kshs.8,225,000 which further includes the amount of Kshs.1,400,000 which was allocated for the construction of an eight (8) door pit latrine at Mwitika Primary School. However, physical inspection of the project carried out on 29 April, 2022 revealed that a five (5) door toilet was constructed by the contractor instead of the eight (8) door facility as per the specifications in the bill of quantities. Further, the project was not branded.

In the circumstances, the propriety and value for money from the expenditure of Kshs.1,400,000 incurred on the project 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 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 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 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 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

23 September, 2022