

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KURESOI SOUTH 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 - Kuresoi South Constituency set out on pages 17 to 46, which of comprise 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 Kuresoi South Constituencies Development Fund 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

1.1 Use of Goods and Services

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.11,192,365 as disclosed in Note 5 to the financial statements against a recomputed amount of Kshs.8,685,655, resulting into an unreconciled amount of Kshs.2,506,710. Further, the comparative use of goods and services expenditure of Kshs.6,179,765 varies with the recomputed amount of Kshs.3,664,906 resulting to an unreconciled variance of Kshs.2,514,859.

1.2 Compensation of Employees

The statement of receipt and payments reflects compensation of employees' expenditure of Kshs.3,635,664 as disclosed in Note 4 to the financial statements, which differs with the supporting payroll amount of Kshs.3,856,412 resulting into an unreconciled variance of Kshs.220,748.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

2. Unsupported Committee Expenses

The statement of receipts and payments reflects use of goods and services balance of Kshs.11,192,365 as disclosed in Note 5 to the financial statements. The balance includes an amount of Kshs.4,333,000 incurred on committee expenses out of which an amount of Kshs.1,401,000 was payment for the facilitation of the monitoring and evaluation exercises. However, the evaluation reports and motor vehicle work tickets were not provided for audit to support the expenditure.

In the circumstances, accuracy and completeness of committee expenses of Kshs.1,401,000 could not be confirmed.

3. Unsupported Other Grants and Other Payments

The statement of receipts and payments reflects other grants and transfers balance of Kshs.52,253,063 as disclosed in Note 7 to the financial statements. The balance includes bursary payments in respect of students in tertiary institutions of Kshs.15,889,300 out of

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which an amount of Kshs.1,990,000 were granted to beneficiaries whose names and admission numbers were not provided for audit. Further, an expenditure of Kshs.5,439,131 was incurred towards sports projects. However, the inspection and acceptance committee certificate, store receipt and issue records including the beneficiaries list were not provided for audit review.

In the circumstances, accuracy and validity of bursary payments Kshs.1,990,000 and sports projects Kshs 5,439,131 could not be confirmed.

4. Unconfirmed Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.18,889,140 as disclosed in Note 10 to the financial statements. However, the bank reconciliation statement reflects payments in cash book not in bank (unpresented cheques) of Kshs.4,592,346, out of which there were stale cheques of Kshs.605,352 that had not been reversed in the cash book. Further, the statement reflects payments in the bank but not in cash book of Kshs.226,598 that were not updated in the cash book since March, 2018.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.18,889,140 as at 30 June, 2021 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 - Kuresoi South 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 receipts on comparable basis of Kshs.208,719,110 and Kshs.145,472,724, respectively resulting into an under-funding of Kshs.45,688,879 or 22% of the budget. Similarly, the Fund spent Kshs.144,141,093 against an approved budget of Kshs.208,719,110 resulting into an under-expenditure of Kshs.64,578,018 or 31 % 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

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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, Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

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. Failure to Prepare a Strategic Plan

The Fund Management failed to prepare a strategic plan contrary to Section 68 (2) (g) of the Public Finance Management Act, 2012 that requires an Accounting Officer to prepare a strategic plan in conformity with the medium-term fiscal framework and fiscal policy objectives of the National Government.

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

2. Non-Utilization of Project at Kimuroroch Secondary School

The statement of receipts and payments reflects transfers to other government units of Kshs.77,060,000 as detailed under Note 6 to the financial statements. Included in the balance is Kshs.600,000 for the construction of a six (6) door pit latrine. However, project bank statements and project committee members details were not provided for audit. This is contrary to Regulation 11(1)(o) of National Government Constituencies Development Fund Regulations, 2016 that requires the Constituency Committee to ensure the formation of Project Management Committee, opening project accounts, project implementation and closure of projects. Further, project verification carried out on 18 May, 2022, observed that despite the project being completed, the school had no students for a period in excess of two years and pit latrine had not been put to use.

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

3. Failure to Update the Assets Register

The statement of receipts and payments reflects use of goods and services balance of Kshs.11,192,365 out of which Kshs.200,000 was incurred on specialized materials and services in respect of purchase of a braille machine. However, there was no evidence

that these assets acquired were included in the fixed assets register. This is contrary to the provisions of Section 162(1) of the Public Procurement and Asset Disposal Act, 2015 which requires an Accounting Officer of a procuring entity to ensure that all inventory, stores and assets purchased be received and taken on charge as a basis for ensuring that all procured items are properly accounted for and put in proper use as intended by the procuring entity. The assets remained unrecorded and therefore could not be verified.

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 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 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.

In preparing the financial statements, Management is responsible for assessing the Fund's ability 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 money is applied in an effective manner.

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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control 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 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'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 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 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 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

29 September, 2022