

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MAARA 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 control, 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 - Maara Constituency set out on pages 14 to 61, which comprise the statement of assets and liabilities as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows, summary statement of appropriation and Budget execution by sectors and projects 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 - Maara Constituency as at 30 June, 2021, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and 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.

Basis for Qualified Opinion

The following balances reflected in the financial statements were not supported with sufficient appropriate records:

1. Cash and Cash Equivalents

1.1 Unreconciled Bank Account

The statement of assets and liabilities reflects cash and cash equivalents totalling Kshs.45,303,828, as further disclosed in Note 10A to the financial statements. However, the bank reconciliation statement as at 30 June, 2021 reflected unrepresented cheques totalling to Kshs.6,657,755 which included stale cheques totalling Kshs.330,481. In view of the stale cheques, the cash and cash equivalents balance was understated by Kshs.330,481.

In addition, the bank reconciliation statement reflected payments in the bank not entered in the cashbook totalling Kshs.2,040 and therefore overstated the cash and cash equivalents by the same amount.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance totalling Kshs.45,303,828 could not be confirmed.

1.2 Project Management Committee (PMC) Bank Balances

Note 6 and Note 7 to the financial statements reflect Kshs.88,348,451 and Kshs.24,230,954 in respect of transfers to other Government entities and other grants and other transfers respectively or Kshs.112,579,405 in aggregate. The balance includes Kshs.37,489,909 reflected at Note 17.4 and Annex 5 as Project Management Committee (PMC) bank balances, being unspent project funds held by various PMCs as at 30 June, 2021. However, cashbooks, bank certificates and bank reconciliation statements in respect to 126 projects holding balances totalling Kshs.33,836,285 as at 30 June, 2021 were not provided for audit review.

In the absence of these records, the existence and accuracy of the Kshs.33,836,285 PMC bank balances could not be confirmed. In addition, the Fund Management is in breach of the law.

2. Other Grants and Other Payments

The statement of receipts and payments reflects other grants and transfers totalling Kshs.24,230,954, as further disclosed in Note 7 to the financial statements. The balance includes bursaries totalling Kshs.1,219,600, Kshs.3,447,000 and Kshs.7,000 disbursed to secondary schools, tertiary institutions and special schools respectively, all totalling to Kshs.4,673,600. However, receipt voucher acknowledgements provided for audit were for bursaries totalling Kshs.2,870,000 only. As a result, receipt of bursaries totalling Kshs.1,803,600 by beneficiary institutions could not be confirmed.

In the absence of sufficient records the accuracy, and propriety of bursaries expenditure totalling to Kshs.4,673,600 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 - Maara 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. Except for the matter(s) described in the Basis for Qualified Opinion section, 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.216,728,573 and Kshs.171,084,694 respectively resulting to a revenue shortfall of Kshs.45,643,879 or 21% of the budget. Similarly, the actual expenditure totalled Kshs.126,580,865 against an approved budget of Kshs.216,773,571 resulting to under-expenditure of Kshs.90,192,706 or 42% of the budget.

In the circumstances, the revenue shortfall and under-expenditure constrained execution of planned activities and may have impacted negatively on the capacity of the Fund to deliver projects and services planned for the residents of Maara Constituency.

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 Disburse Bursary Allocations

Examination of budget records indicated that the approved budget for bursaries was Kshs.34,272,219. In addition, allocations totalling Kshs.8,341,931 for the previous year (2019/2020) were received during the year under review. Therefore, total bursaries available for distribution in the year under review amounted to Kshs.42,614,150. However, as indicated elsewhere in this report, Management only disbursed Kshs.4,673,600 or 11% of the budgeted funds. This was a significant decrease from the previous year's disbursement totalling Kshs.26,721,500. It was not clear why Management retained the funds instead of disbursing them to needy students in the Constituency.

In view of the anomaly, the needy students may have been denied education services and therefore the objectives for the year under review may not have been attained.

2. Unsatisfactory Implementation of School Renovation Projects

Examination of records on transfers to other Government entities indicated that disbursements totalling Kshs.62,624,676 were made to primary schools in the year under review. In three schools included in the audit sample, the renovations were not done in a satisfactory way.

The records indicated that Kshs.3,200,000 was disbursed to Kariakomo Primary School for renovation of seventeen classrooms and the staffroom. Similarly, Kshs.1,500,000 was transferred to Egakiramba Primary School for the renovation of nine classrooms. The records further indicated that Kshs.1,150,000 was transferred to Maguma Primary School for the Renovation of nine classrooms. The renovations entailed fixing floors, windows, doors, verandahs, reroofing, painting and plastering to completion. However, audit inspections at the three schools revealed that the projects were not executed as expected.

At Kariakomo Primary School, the audit inspection revealed that although the School had received all the funds, floors for five classrooms had not been fixed. In addition, the project was not labeled, contrary to Regulation 11(1)(c) of the National Government Constituencies Development Fund (Regulations), 2016. The provision requires each Constituency Committee to label projects in accordance with the guidelines issued by the Board.

At Egakiramba Primary School, floors for five classrooms were not done to completion, and veranda floors the classrooms were not renovated. Further, windows for six classrooms were not fitted, and doors for two classrooms fell off after they were fixed. At Maguma Primary School, the floors were not done to completion, and painting and plastering of the classrooms was not completed.

In the circumstances, the projects were not implemented as intended and value for money may not have been attained on the expenditure totalling Kshs.5,850,000 incurred thereof.

3. Lack of Records on Expenditures on Environment Projects

Examination of expenditure records on other grants and transfers indicated that the Fund spent Kshs.2,300,000 on environmental projects in the year under review. The balance included Kshs.1,900,000 disbursed for implementation of fourteen (14) environmental projects. However, the respective work plans, expenditure returns and projects' files were not provided for audit review contrary to Regulation15(1) of the National Government Constituencies Development Fund Regulations, 2016. The provision requires Project Management Committee to maintain proper records on implemented projects.

In the absence of sufficient records regularity and value for money on the expenditure totaling Kshs.1,900,000 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

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter discussed in the Basis for Effectiveness of Internal Controls, Risk Management and Governance, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Incomplete Fixed Assets Register

Annex 4 to the financial statements contains the summary of the Fund's fixed asset register as at 30 June, 2021 which reflects assets with a historical cost of Kshs.5,930,689. However, review of the main register and physical verification of the assets indicated that contrary to Section 139(1) of the Public Finance Management (National Government) Regulations, 2015, the Fund's assets were not tagged for ease of identification and tracking. The Regulation requires each Accounting Officer of a National

Government entity to maintain proper control systems for assets and establish preventative means to eliminate theft, security threats, losses, wastage and misuse of the assets.

Further, the assets were not insured as required by Section 36(3) of the National Government Constituencies Development Fund Act, 2015. The law provides that all fixed and movable assets, including equipment bought under the Act for use by a Constituency Committee are property of the Board and should be insured accordingly.

In view of these omissions Management was in breach of the law and as a result, safe custody of the fixed assets valued at Kshs.5,930,689 could not be confirmed.

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 governance.

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 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 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 controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 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 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

22 September, 2022