

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MOIBEN 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 the National Government Constituencies Development Fund - Moiben Constituency set out on pages 13 to 46, which comprise the statement of assets and liabilities as at 30 June, 2021, and 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 Constituencies Development Fund - Moiben 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

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

1. Other Grants and Transfers

The statement of receipts and payments reflects other grants and transfers totalling Kshs.55,953,970 which include bursaries to secondary schools and tertiary institutions totalling Kshs.15,255,000 and Kshs.18,454,000 respectively, all totalling Kshs.33,709,000, as disclosed in Note 7 to the financial statements.

However, records on the selection criteria applied to award the bursaries, and the processes followed by the Bursary Sub-Committee in this regard, were not provided for audit. Further, evidence of acknowledgement of the bursaries by the beneficiaries' institutions was not provided for audit review.

In the absence of records on the selection criteria, award process and receipt of the bursaries by the reported beneficiaries, the occurrence, measurement validity and propriety of the bursaries totalling Kshs.33,709,000 reflected in the financial statements as having been disbursed to various institutions in the year under review could not be confirmed.

2. Project Management Committee Bank Balances

Note 17.4 to the financial statements reflects Project Management Committee (PMC) bank balances totalling Kshs.150,756,755.00, as further disclosed in Annex 5 to the financial statements. However, the respective cash books, bank reconciliation statements, certificates of bank balance and bank statements were not provided for audit review.

In the circumstances, the existence, accuracy, and completeness of the Project Management Committee bank balance totalling Kshs.150,756,755.00 could not be confirmed.

In the absence of records on the selection criteria and award process, conformity of the awards to the NGCDF Board Circular Reference VOL1/111 of 13 September, 2010 could not be confirmed. The Circular requires the Constituency Development Fund to form a Sub-Committee to manage the bursary scheme whose members should include an Education Officer or an Officer seconded from Ministry of Education. Similarly, in the absence of evidence of receipt of the bursaries by the reported beneficiaries, the occurrence and propriety of the bursary disbursements 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 - Moiben 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 budgeted receipts and actual receipts totalling Kshs.227,740,548 and Kshs.182,700,668, resulting to a revenue shortfall of Kshs.45,039,880 or 20% of the budget. Similarly, the Fund spent Kshs.155,689,324 against the approved budget totalling Kshs.227,740,548, resulting to under-expenditure of Kshs.72,051,224 or 32% of the budget.

The underfunding and underperformance constrained the implementation of planned activities and may have impacted negatively on service delivery to the residents of Moiben 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 matter(s) 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. Unsatisfactory Implementation of School Projects

Seven (7) school projects budgeted to be implemented by the Fund at an aggregate cost of Kshs.47,900,000 were verified during the audit. However, several unsatisfactory issues were noted in regard to implementation of the projects. These included delay in launch or

completion of the projects and lack of records on certification of the respective works, as further explained in the Appendix to this report.

Delay in completion of the budgeted projects denied the residents of Moiben Constituency benefits expected from the projects. In addition, in the absence of works certificates, the quality of the works executed could not be confirmed to have met the specifications of the respective projects.

2. Variation of Contract for Construction of Constituency Office

Examination of expenditure records indicated that the Fund spent Kshs.2,667,422.00 on construction of buildings, in the year under review. The Committee had in 2019 entered into a contract valued at Kshs.8,863,200 for construction of the Funds office in the Constituency. However, the National Government Constituency Development Fund (NGCDF) Committee thereafter approved the variation of the contract by Kshs.972,984 from Kshs.8,863,200 to Kshs.9,836,384 on 14 October, 2019. However, contrary to Section 139(4)(d) of the Procurement and Disposal Act, 2015, the variation was not executed within the contract period. In addition, the record, if any, of the reasons given by the Project Management Committee for the variation was not provided for audit.

In the circumstances, the regularity of the variation could not be confirmed.

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.

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

The 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 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 cease operations.

The 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 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 controls 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 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 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

26 September, 2022

Appendix

Unsatisfactory Implementation of Projects

Payee	Grant Amount (Kshs.)	Audit Observations
St Marys Kimogoch Primary School	7,500,000.00	A sum of Kshs.6,500,000.00 was to be incurred on construction of four (4) classrooms to completion and Kshs.1,000,000.00 to purchase lockers and chairs. However, physical verification revealed that construction was incomplete and the lockers had not been purchased.
Ngomongo Primary School	6,500,000.00	A sum of Kshs.1,500,000.00 was to be spent on construction of one-story building of four (4) classrooms, Kshs.4,000,000.00 on construction of two(2) classrooms on the ground floor and Kshs.1,000,000.00 on purchase of 200 lockers. Bills of Quantities and payment certificates for all the classrooms were not provided for audit. Goods Received Notes and Issue Notes for 200 lockers were not provided for audit.
Kapnasu Secondary School	9,200,000.00	Kshs.2,000,000.00 was to be incurred on a 40-student capacity laboratory and Kshs.7,000,000.00 on a 51-seater school bus. However, audit verification indicated that, the laboratory was incomplete, contractor was not on site. The 51-seater school bus had not been purchased.
Tembelio Secondary School	7,200,000.00	The expenditure was not supported by Project Management Committee (PMC) contract agreement and bank statement. Further audit verification indicated that the 51-seater school bus was not purchased.
Tugen Estate Secondary School	7,000,000.00	Kshs.6,000,000.00 was to be incurred on a 40-student capacity laboratory, Kshs.500,000.00 on assorted laboratory equipments and Kshs.500,000.00 on purchase of 100 stools and two tables. Expenditure on the laboratory was not supported by PMC payment certificates bank statements. Audit verification indicated that the laboratory was incomplete and the contractor was not on site. Goods received notes and issue notes on assorted laboratory equipment's and 100 stools and 2two tables were not provided for audit verification.
AIC Chebisaas Boys Secondary School	7,000,000.00	Kshs.7,000,000.00 was to be spent on construction of a twin 80-student capacity laboratory. However, the expenditure was not supported by PMC payment certificates and bank statements. Audit indicated confirmed that project was not completed.
Chelalang' Secondary School	3,500,000.00	Kshs.3,500,000.00 was incurred on completion of a 40 student capacity science laboratory. However, the expenditure was not supported by PMC payment certificates and bank statements. Audit verification indicated that the project was incomplete and the contractor was not on site.
Total	47,900,000.00	