

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NORTH IMENTI 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 - North Imenti Constituency set out on pages 15 to 50, 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 National Government Constituencies Development Fund - North Imenti 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

1.0 Inaccuracies in the Financial Statements

1.1 Project Management Committee Bank Balances

Disclosed in Note 17.4 to the financial statements and as analyzed in Annex 5 is a balance of Kshs.15,713,145 in respect of Project Management Committee (PMC) prior year account balances. However, the balance varies with the amount reflected in the previous year's audited financial statements of Kshs.4,653,069 resulting to an unexplained variance of Kshs.11,060,076. Further, Note 17.4 reflects PMC account balances for the year under review amounting to Kshs.22,342,351 while Annex 5 reflects Kshs.22,197,068 resulting to unreconciled and unexplained variance of Kshs.145,283.

In addition, Management did not provide for audit the PMC accounts respective bank statements, cashbooks, bank reconciliation statements and certificate of bank balances.

In the circumstances, the accuracy of the PMC bank balances of Kshs.22,342,351 could not be confirmed.

1.2 Statement of Cash flows

The statement of cash flows reflects a comparative cash out flow from investing activities balance of Kshs.2,399,349. However, the prior year's audited statement of cash flows reflects a balance of Kshs.154,200 resulting to an unexplained and unreconciled variance of Kshs.2,245,149.

In the circumstances, the accuracy of the statement of cash flows could not be confirmed.

2. Unsupported Prior Year Adjustments

The statement of assets and liabilities reflects prior year adjustment balance of Kshs.300,000 which was not supported or explained.

In the circumstances, accuracy of the prior year adjustment balance of Kshs.300,000 could not be confirmed.

3. Unsupported Acquisition of Assets

The statement of receipts and payments and as disclosed in Note 8 to the financial statements reflects acquisition of assets expenditure of Kshs.2,274,270 which relates to

construction of buildings. However, supporting documents including payment vouchers and procurement records were not provided for audit review.

In the circumstances, the accuracy and completeness of acquisition of assets expenditure of Kshs.2,274,270 could not be ascertained.

4. Unsupported Other Grants and Transfers - Security Projects

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects other grants and transfers expenditure of Kshs.60,587,354. Included in this amount is Kshs.14,060,000 in respect of security projects out of which Kshs.850,000 was incurred on construction and procuring of furniture for Runogone Chiefs Camp. However, supporting documents including invoices and certificate of works completed were not provided for audit. Further, review of the tender documents revealed that the firm that was awarded the contract completed tender documents which was different from the ones filed by the unsuccessful bidders and no evidence was provided to support that an addendum was issued to all the bidders.

In the circumstances, the accuracy and regularity of the expenditure on security projects of Kshs.850,000 could not be confirmed.

5. Unsupported Environment Projects

The statement of receipts and payments reflects other grants and transfers of Kshs.60,587,354 as disclosed in Note 7 to the financial statements. Included in the amount is Kshs.2,747,354 relating to environment projects which was incurred on procurement and distribution of hand washing tanks and plastic water tanks to various schools within the Constituency. However, Management did not provide documents in support of this expenditure including invoices, delivery notes, bank statements, inspection reports, payment authorization and bill of quantities. Further procurement records to support how the suppliers were identified were not provided for audit review.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.2,747,354 could not be confirmed.

6. Unsupported Bursary to Secondary Schools

The statement of receipts and payments and as disclosed in Note 7 reflects expenditure of Kshs.60,587,354 in respect of other grants and transfers. Included in this amount is Kshs.36,730,000 relating to bursary disbursed to secondary schools, out of which Kshs.15,892,000 was disbursed to tertiary institutions. However, Management did not provide the list of the beneficiaries. Further, evidence that applications for bursaries were done and that the applicants were vetted was not provided for audit review.

In the circumstances, the accuracy and value for money for Kshs.15,892,000 incurred 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 - North Imenti 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 Matter

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 a revenue budget of Kshs.210,446,029 and actual revenue of Kshs.165,357,150 resulting to a revenue short fall of Kshs.45,088,879 or 21% of the budget. Similarly, the Fund spent Kshs.148,392,214 against a budget of Kshs.210,446,029 resulting to budget under absorption of Kshs.62,053,815 or 29% of the budget.

The underfunding and underperformance may have negatively affected planned activities and services 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 of Conclusion

1. Irregular Renewal of Security Contract

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.10,633,993 which as disclosed under Note 5 to the financial statements includes Kshs.642,083 in respect to security operations. Review of the contract agreements revealed that Management entered into a one (1) year renewable contract for the provision of security services with a service provider in June, 2020 which was subsequently renewed in June, 2021. However, no evidence that Management carried out a value for money assessment to determine whether the terms designated in the contract agreement remained competitive as at the time of renewal. This was contrary to Section 114(2) of the Public Procurement and Asset Disposal Act, 2015.

Further, evidence of appointment of the tender evaluation and tender opening committee members, advertisement for the tender and tender bids, list of prequalified suppliers and the procurement plan were not provided for audit review.

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

2. Irregular Routine Maintenance Expenditure

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects use of goods and services expenditure of Kshs.10,633,993. Included in this amount is Kshs.173,065 relating to routine maintenance of vehicles and other transport equipment which was not supported with driver's report on defects. Further, the services were procured through direct procurement and no justification was provided for the use of the direct procurement method. This is contrary to Section 103(2)(a) of the Public Procurement and Asset Disposal Act, 2015.

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

3. Unsatisfactory Implementation of Projects

The statement of receipts and payments reflects transfer to other government entities amount of Kshs.72,438,241 which as disclosed in Note 6 to the financial statements includes transfer to Primary schools amount of Kshs.41,688,241. Included in the transfers to Primary schools balance is Kshs.1,600,000 incurred on renovation of eight (8) classrooms at Gitoro Primary School. However, review of the project files and physical verification done in April, 2022 revealed poor workmanship as the floor had cracks and the paint was peeling off. Further, fasteners and permanent vents with mosquito gauze provided for in the bill of quantities had not been done.

In the circumstances, the public may have not gotten value for money on Kshs.1,600,000 incurred on the project.

4. Unsatisfactory Implementation of Emergency Projects

The statement of receipts and payments and as disclosed in Note 7 reflects a balance of Kshs.60,587,354 in respect of other grants and transfers. Included in this amount is Kshs.5,050,000 in respect of emergency projects out of which Kshs.1,200,000 was incurred on construction of a special classroom, toilet, and kitchen at Meru School for Mentally Challenged school. However, physical verification of the project done in April, 2022 revealed that installation of 150 by 100 millimeter box gutters and 75 millimeter diameter rainwater down pipe provided for in the bills of quantity had not been done. Further, the toilet had been partially done.

In the circumstances, value for money on the expenditure of Kshs.1,200,000 incurred on the emergency project could not be confirmed.

5. Non-Compliance with the PSASB Requirements

In the audit report of the previous year, several paragraphs were raised. However, Management has not disclosed prior year audit recommendations in the annual reports and how it has resolved them contrary to the provisions of the Public Sector Accounting Standards Board (PSASB) template.

In the circumstances, the Fund's financial statements are not prepared in accordance with the PSASB prescribed format.

6. Delayed Project Implementation

Examination of the Project Implementation Status Report provided for audit revealed that a total of Kshs.185,887,325 was disbursed to one hundred and ninety-nine (199) projects out of which one hundred and twelve (112) projects worth Kshs.133,903,342 were complete, thirty-four (34) projects worth Kshs.39,942,206 were on going while fifty-three (53) projects worth Kshs.12,041,777 had not started.

In the circumstances, value for money may not be obtained on the delayed implementation of projects.

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 comply, 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 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 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 controls, risk management and 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 comply 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 Funds 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 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 controls that might have 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 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's 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's 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 September, 2022