

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NYARIBARI CHACHE 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 - Nyaribari Chache Constituency set out on pages 15 to 48, 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, 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 Government Constituencies Development Fund - Nyaribari Chache 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 Constituency Development Fund Act, 2015.

Basis for Qualified Opinion

1. Unsupported Use of Goods and Services

The statement of receipts and payments reflects use of goods and services of Kshs.16,521,323 as disclosed in Note 5 to the financial statements. The amount includes committee expenses (allowances) of Kshs.8,900,000 out of which Kshs.5,650,000 was spent on monitoring and evaluation. However, this amount was not supported with back to office reports. In addition, the amount includes other committee expenses of Kshs.6,000,000 out of which Kshs.1,250,000 should have been classified under committee allowances line item.

In the circumstances, the accuracy and completeness of the use of goods and services amount of Kshs.14,900,000 could not be confirmed.

2. Unsupported Prior Year Adjustment

The statement of assets and liabilities reflects a prior year adjustment balance of Kshs.3,375,742 while Note 14 to the financial statements reflects Nil balance resulting to an unexplained variance of Kshs3,375,742. In addition, the presentation is not in line with International Public Sector Accounting Standard (IPSAS) 3 which requires all prior year adjustments to be effected through the previous period balances.

In the circumstances, the accuracy of prior year adjustment balance of Kshs.3,375,742 could not be confirmed.

3. Inaccuracies in the Cash and Cash Equivalent Balance

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.32,612,061. However, the bank reconciliation statement reflects unrepresented cheques of Kshs.17,291,514 which includes stale cheques totaling to Kshs.488,343 which had not been reversed in the cashbook.

In the circumstances, the accuracy and completeness of cash and cash equivalent balance of Kshs.32,612,061 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 - Nyaribari Chache 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 final receipts and actuals on comparable basis of Kshs.210,667,002 and Kshs.176,478,123 respectively, resulting to an under-funding of Kshs.34,188,880 or 16% of the budget. Similarly, the statement reflects final budget and actual expenditure on comparable basis of Kshs.210,667,002 and Kshs.147,241,804 respectively, resulting to an under-expenditure of Kshs.63,425,198 or 30% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service 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 sections 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. Lack of Specifications for School Buses

A review of documents revealed that an amount of Kshs.14,400,000 was transferred to Machongo and Nyansara Secondary schools for the supply of two (2) 51-seater school buses at a cost of Kshs.7,200,000 each. However, tender documents provided for audit did not contain detailed specifications which formed basis of the tender award.

In the circumstance, value for money on the expenditure of Kshs.14,400,000 incurred in the procurement of the buses could not be confirmed.

2. Incomplete Administration Block Project

During the year under review the Fund transferred an amount of Kshs.1,320,835 to Boronyi Secondary School for the construction of a one-storey administration block which

was co-funded with the Ministry of Education. However, the scope of works for each party was not defined. Further, audit inspection in April, 2022 revealed that the building was not complete and the contractor was not on site.

In the circumstances, value for money on the expenditure of Kshs.1,320,835 incurred in the construction of the administration block could not be confirmed

3. Failure to Label Completed Projects

During the year under review the Fund spent Kshs.1,500,000 on the construction of a six (6) door pit latrine at Nyabiosi Secondary School and a storey dormitory at Nyanko Secondary School. The projects were verified on 20 April, 2022 to be completed but not labelled. This was contrary to Regulation 11(1)(cc) of the National Government Constituencies Development Regulations, 2016 which requires a Constituency Committee to ensure that projects are labelled in accordance with the guidelines issued by the Board.

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

4. Unsupported Contract Variation in Construction of Tuition Block

The amount of transfers to other Government units of Kshs.58,637,901 includes transfers to tertiary institutions amount of Kshs.3,891,918 for the construction of a tuition block-Phase II at Kenya Medical Training College, Ibeno Campus at contract sum of Kshs.15,559,440. However, review of the project file revealed cost variation of Kshs.2,278,847 or 15% of the contract amount without justification. Further, audit inspection in April 2022 revealed that the project had not been completed.

In the circumstances, value for money of the expenditure of Kshs.3,891,918 incurred in construction of a tuition block could not be confirmed.

5. Improperly Constituted Bursary Fund Committee

The Fund Bursary Committee was constituted by four (4) members being the chairperson, assistant chairperson and two (2) other members excluding the area Education Officer or a co-opted member from the Ministry of Education. This was contrary to the requirements of the NG-CDF Board Secretariat's Guidelines for management of bursary under the Standard Procedures Section (4) which requires that a sub-committee of the Constituency Development Fund Committee (CDFC) be formed to manage the bursary scheme, including two (2) co-opted members, one who must be the area Education Officer or an officer seconded by the Ministry.

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

6. Unsupported Sports Expenditure

The statement of receipts and payments reflects other grants and transfers balance of Kshs.57,964,000 as disclosed in Note 7 to the financial statements. The balance includes sports projects amount of Kshs.4,550,000 out of which Kshs.3,497,000 was spent on

purchase of sporting equipment. However, records of receipt and issue of this equipment were not provided for audit.

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 effective processes and systems of internal controls, 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 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 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 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 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 as 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

29 September, 2022