

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - BONDO CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2022

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 the 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 - Bondo Constituency set out on Pages 1 to 37, which comprise the statement of assets and liabilities as at 30 June, 2022, 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 effects of the matter 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 - Bondo Constituency as at 30 June, 2022, 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

Unsupported Bursary Disbursements

The statement of receipts and payments reflects other grants and transfers balance of Kshs.71,190,178 which, as disclosed in Note 7 to the financial statements, includes bursaries of Kshs.28,031,000 and Kshs.12,200,900 disbursed to secondary schools and tertiary institutions respectively, totalling to Kshs.40,231,900.

However, full names of the learning institution as per the bank account name, bank name, bank branch name, bank account numbers of the learning institutions, bursary amounts, full name of the students, admission numbers, type of institutions, County in which the learning Institutions were located, were all not provided for audit.

In the circumstances, accuracy, completeness and authenticity of bursaries amount of Kshs.40,231,900 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 - Bondo 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

Unresolved Prior Year Matters

In the audit report of the previous year, some issues were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved the issues or given any explanation for failure to resolve the issues.

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. Anomalies in Project Implementations

The statement of receipts and payments reflects transfers to other Government units balance of Kshs.114,875,118 which, as disclosed in Note 6 to the financial statements, comprises transfers to primary schools amount of Kshs.51,375,118 and transfers to secondary schools amount of Kshs.63,500,000. However, audit of the expenditure revealed the following unsatisfactory matters:

1.1 Renovation of Classrooms in Masita Primary Schools

The transfers to primary schools amount of Kshs.51,375,118 includes Kshs.1,498,900 spent on renovation of three (3) classrooms in Masita Primary School. However, audit inspection of the project in March, 2023 revealed that one newly renovated classroom had huge cracks on the walls which, if not rectified, the wall may soon collapse thereby putting students' lives at risk. This was an indication of poor workmanship.

In the circumstances, value for money of the expenditure of Kshs.1,498,900 could not be confirmed.

1.2 Renovation of Classrooms in Maranda Primary School

The transfers to primary schools amount of Kshs.51,375,118 also includes Kshs.4,000,000 utilized for renovation of eight (8) classrooms in Maranda Primary School. However, audit inspection of the project in March, 2023 revealed that wall skirting (verandah) was not done, exposing the walls to damages and deterioration, the plastering on all the walls was poorly done, the wall plaster inside all classrooms was not even, and there were cracks on the windows, an indication of poor workmanship.

In the circumstances, value for money of the expenditure of Kshs.4,000,000 could not be confirmed.

1.3 Construction of staff House Maranyona Secondary School

The transfers to secondary schools amount of Kshs.63,500,000 includes Kshs.2,000,000 spent in respect of the construction of a staff house in Maranyona Secondary School. However, audit inspection of the project in March, 2023 revealed that water was seeping

through the foundation into the house and the house was not painted as stipulated in the bill of quantities. Although Management stated that works at the school were ongoing, there was no signage post. In addition, it was observed that the house was occupied before being officially handed over to the school.

In the circumstances, value for money of the expenditure of Kshs.2,000,000 could not be confirmed.

2. Unutilized Funds

The summary statement of appropriation reflects a balance of Kshs.18,635,113 in respect of total budget utilization difference. As disclosed in the budget execution by sectors and projects, the amount includes Kshs.1,017,103 which was to be utilized for purchase of four (4) acres of land for the expansion of Nyangoma Teachers Training Institute. However, the balance remained unutilized for three years since the financial year 2019/2020. No explanation was provided for the failure to utilize the available funds.

In the circumstances, the objectives of the Fund may not be achieved as intended. Also, value for money of the unspent funds may not be realized.

3. Other Grants and Transfers

The statement of receipts and payments reflects other grants and transfers balance of Kshs.71,190,178 as disclosed in Note 7 to the financial statements. However, audit of this expenditure revealed the following unsatisfactory matters:

4. Unsupported Emergency Funds

The balance of Kshs.71,190,178 includes Kshs.12,415,096 in respect of emergency projects expenditure. However, there was no proof provided to ascertain that the emergency related to urgent, unforeseen needs for expenditure that could not be delayed until the next financial year without harming the public interest of the constituents. Further, the Fund Management did not report the expenditure from the emergency reserve to the Board within 30 days of utilizing the emergency funds. This was contrary to Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016, which states that the utilization of the emergency reserve shall be reported to the Board within thirty days of the occurrence of the emergency, in the format prescribed by the Board.

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

5. Under Allocation of Bursary

The balance of Kshs.71,190,078 also includes bursaries amount of Kshs.40,231,900 which is 22% of total allocation for the Fund, contrary to Regulation 21(5) of the National Government Constituencies Development Fund Regulations, 2016, which provides that a Constituency Committee shall allocate not less than twenty-five percent (25%) of the funds allocated to a constituency for bursaries.

In the circumstances, Management was in breach of law.

6. Non-Remittance of Statutory Deductions on Committee Allowances

The statement of receipts and payments reflects use goods and services expenditure of Kshs.10,932,655 which, as disclosed in Note 5 to the financial statements, includes an amount of Kshs.3,727,278 in respect of committee allowance. However, review of records revealed that the allowances were paid to various Constituency Committee members without being taxed. This was contrary to Section 37(1) of the Income Tax, which states that (1) an employer paying emoluments to an employee shall deduct therefrom, and account for tax thereon, to such extent and in such manner as may be prescribed.

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, 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 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 overall 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 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 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 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 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 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

05 July, 2023