

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KABONDO KASIPUL 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

Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Kabondo Kasipul Constituency set out on pages 1 to 41, 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, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund–

Kabondo Kasipul 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Kabondo Kasipul 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 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. I have determined that there were no key audit matters to communicate in my report.

Other Matter

1. Unresolved Prior Year Audit Matters

Various prior year audit issues remained unresolved as at 30 June, 2022. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

2. Budgetary Control and Performance

The summary statement of appropriation reflects total budgeted receipts and actual on comparable basis amounts of Kshs.190,722,455 and Kshs.177,532,455 respectively, resulting in an underfunding of Kshs.13,190,000 (or 7% of the budget). Similarly, the summary statement of appropriation reflects approved final budget expenditure of Kshs.190,722,456 and actual expenditure of Kshs.173,566,874 resulting in an under-expenditure of Kshs.17,155,581 (or 9% of the budget).

The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the residents of Kabondo Kasipul 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 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

1.0. Transfers to Other Government Units

The statement of receipt and payment reflects transfers to other Government units balance of Kshs.96,589,118 as disclosed in Note 6 to the financial statements. However, audit of this expenditure revealed the following unsatisfactory matters:

1.1. Unapproved Re-allocation of Project Activity at Abuoye Primary School

The balance of Kshs.96,589,118 includes transfers to primary schools amount of Kshs.72,656,415 out of which, Kshs.500,000 was disbursed to Abuoye primary school for completion of renovation of three (3) classrooms, entailing external plastering, screeding, fixing terrazzo and painting. However, field verification in April, 2023 revealed that the Kshs.500,000 was used to construct an administration block. However, Management did not provide for audit the approval by the Board. This was contrary to Section 6(1) of the National Government Constituency Development Fund Act, 2015 which provides that once funds are allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose during the financial year with the approval of the Board.

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

1.2. Delayed Completion of 300 Students Capacity Hall at Kotienditi Secondary School

The balance of Kshs.96,589,118 includes transfers to secondary schools amount of Kshs.23,932,703 for the completion of 300 students capacity hall - electrical installation, plastering, floor casting, glazing, pavement slab and painting work - at Kotienditi Secondary school. However, audit inspection carried out on 29 March, 2023 revealed that the project was incomplete but in use. Outside plastering had not been done and inside plastering had been done but not painted.

In the circumstances, value for money of the expenditure of Kshs.23,932,703 could not be confirmed.

2.0. Other Grants and Transfers

The statement of receipts and payments reflects other grants and transfers balance of Kshs.62,201,967 as disclosed in Note 7 to the financial statements. However, audit of this expenditure revealed the following unsatisfactory matters:

2.1. Failure to Constitute Project Management Committees on Environment Projects

The balance of Kshs.62,201,967 includes an expenditure of Kshs.4,923,977 on environmental projects. However, review of the records revealed that the projects were implemented without involving the project management committees as required by Regulation 15(1) of the National Government Constituency Development Regulations, 2016, which states that there shall be appointed a project management committee for

each project in a Constituency which shall—(a) implement projects in consultation with the relevant departments of government; (b) maintain proper records of all minutes, accounting documents and other records in relation to projects being implemented; (c) open and maintain an independent bank account for each project; (d) prepare returns and file them with a Constituency Committee.

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

2.2. ICT Hub at Wang'chieng Chiefs Office

The balance of Kshs.62,201,967 includes an expenditure on security projects of Kshs.5,006,000 out of which, Kshs.1,175,000 was utilized for the completion of an ICT Hub at Wang'chieng Chiefs Office. The scope of works entailed tiling, ceiling, construction of worktops, supply of 20 chairs, construction of toilet with 2 doors and urinal, purchase of furniture-1 office desk and 1 office chair, fencing and installation of a gate. However, audit inspection of the project on 28 and 29 March, 2023 revealed that the ICT hub was not operational, the project was not labelled, work tops constructed for ICT hub use were idle due to non-use. Further, the sourcing and engagement of the contractor was not done by Wang'chieng Chief's Office.

In the circumstances, value for money of the expenditure of Kshs.1,175,000 for the year ended 30 June, 2022 could not be confirmed.

2.3. Completion of 4 Roomed Chief's Office at Kakelo Chief's Office

The expenditure on security projects of Kshs.5,006,000 includes Kshs.250,000 utilized for Completion of 4 roomed Chief's Office at Kakelo Chief's Office, which entailed electrical works and painting. However, audit inspection of the project on 28 and 29 March, 2023 revealed that only 3 rooms were constructed and the project was not labelled.

In the circumstances, value for money of the expenditure of Kshs.250,000 for the year ended 30 June, 2022 could not be confirmed.

2.4. Idle Project - Completion of 2 Families 2 Roomed AP Houses at Kokwanyo Chief's Office

The expenditure on security projects of Kshs.5,006,000 includes Kshs.450,000 utilized for completion of 2 families 2 roomed AP houses at Kokwanyo Chief's Office, which entailed plastering, floor screeding and plumbing. However, audit inspection of the project on 28 and 29 March, 2023 revealed that the project was completed but not in use and was deteriorating due to non-use.

In the circumstances, value for money of the expenditure of Kshs.450,000 for the year ended 30 June, 2022 could not be confirmed.

2.5. Tiling, Construction of Worktops, Supply of 20chairs, 1 Office Desk and 1 Office Chair at Oriwo Vocational and ICT Center

The expenditure on security projects of Kshs.5,006,000 includes Kshs.800,000 utilized for tiling, construction of worktops, supply of 20 chairs, 1 office desk an 1 office chair at Oriwo Vocational and ICT Center. However, audit inspection of the project on 28

and 29 March, 2023 revealed that the worktops had not been constructed and the Hub was not operational.

In the circumstances, value for money of the expenditure of Kshs.800,000 for the year ended 30 June, 2022 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

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, 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

Lack of a Complete Fixed Asset Register

Audit review revealed that the fixed asset register maintained by the Management did not capture important details such as the assets unique identification numbers for office equipment, furniture and fittings. This was contrary to Regulation 143(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

In the circumstances, Management had not established effective internal controls over the fixed assets to eliminate theft, security threats, losses, wastage and misuse

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 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 control, 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 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 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 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 which 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 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 which 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 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 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

13 June, 2023