

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KITUTU MASABA 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 the National Government Constituencies Development Fund - Kitutu Masaba Constituency set out on pages 1 to 47, which comprise of the statement of assets and liabilities as at 30 June, 2022, and the statement 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 - Kitutu Masaba 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 Qualified Opinion

1. Unpresented Cheques

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.631,054 and as disclosed in Note 10A to the financial statements. However, bank reconciliation statement as at 30 June, 2022 reflects payments in the cash book not yet recorded in the bank statement (Unpresented cheques) amounting to Kshs.6,046,812, some dating back to January, 2022 and majority of them relate to bursaries for school fees to various learning institutions. It is not clear why the cheques remained unpresented given that the beneficiaries were needy students. In addition, no bank statement was provided to confirm when the unpresented cheques were cleared.

In the circumstances, the accuracy and completeness of the cash and cash equivalents of Kshs.631,054 could not be confirmed.

2. Unaccounted Expenditure

The statement of receipts and payments reflects other grants and transfers amount of Kshs.107,353,870 which, as disclosed in Note 7 to the financial statements, includes expenditure on emergency projects of Kshs.4,840,000. However, examination of payment vouchers revealed that payments amounting to Kshs.1,278,000 were not disclosed in the financial statements.

In the circumstances, the accuracy and propriety of Kshs.4,840,000 spent on emergency projects could not be confirmed.

3. Unexplained Variance in Fixed Assets Balance

The summary of fixed asset register at Annex 4 to the financial statements reflects total fixed assets balance of Kshs.39,907,983 as at 30 June, 2022 which differs with a corresponding balance of Kshs.37,005,883 recorded in the assets register provided for audit, resulting to an unreconciled variance of Kshs.2,902,100.

In the circumstances, the accuracy and completeness of the fixed assets balance of Kshs.39,907,983 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 - Kitutu Masaba 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.

Emphasis of Matter

1. Budgetary Control and Performance

The summary statement of appropriation reflects budgeted receipts and actual on comparable basis amounts of Kshs.271,115,014 and 158,088,879 respectively resulting to an underfunding of Kshs.113,026,135 or 42% of the budget. Similarly, the statement reflects budgeted expenditure and actual on comparable basis amounts of Kshs.271,115,014 and Kshs.244,062,106, resulting to an under expenditure of Kshs.27,052,908 or 10% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

2. Unimplemented Sports and Environment Projects

Included in the approved code list for financial year ended 30 June, 2022 is an amount of Kshs.2,741,778 allocated for implementation of environment projects, which comprises of Kshs.1,841,777 relating to planting of trees seedlings in nineteen (19) primary schools at a cost Kshs.96,939 and Kshs.900,000 in respect of 3-doors toilets for Gekano DOK, Geteni and Nyakongo Primary Schools for persons living with disabilities at a cost of Kshs.300,000 each. Further, the approved code list includes Kshs.2,741,778 for sports activities which was meant to organize Constituency sports tournament and award of balls and game skits to the participating teams in all wards. However, examination of expenditure returns and ledgers details revealed that the sports and environment projects were not implemented during the year under review.

In the circumstances, the non-implementation of these projects impacted negatively on service delivery to the public.

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.

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. Transfers to Other Government Entities

1.1 Unsupported Change of Project Activity

The statement of receipts and payments reflects transfers to other Government units amount of Kshs.118,877,758 which, as disclosed in Note 6 includes transfers to secondary schools' of Kshs.52,877,758. This amount in turn includes Kshs.1,500,000 which was utilized on construction of a dormitory at Rigoma Girls Secondary School. According to the approved code list for the year under review, the approved project was construction of a dining hall at the school. However, approval of the Board for the change of the project was not provided for audit review. In addition, audit inspection carried out in March, 2023 revealed that the construction of the dormitory was still in progress.

In the circumstances, the propriety and value for Kshs.1,500,000 spent on this project could not be confirmed and the Management was in breach of the law.

1.2 Completion of Classrooms at Tombe Mixed Secondary School

The statement of receipts and payments reflects transfers to other Government units amount of Kshs.118,877,758 which, as disclosed in Note 6 includes transfers to secondary schools' of Kshs.52,877,758. This amount in turn includes Kshs.1,000,000 transferred Tombe Girls Secondary School for the completion of four (4) classrooms on 1st floor of an existing building. The project started in the financial year 2005/2006 when the foundation was laid and as at 30 June, 2022 a total of Kshs.5,326,210 had been spent on the project. However, audit inspection carried out in March, 2023 revealed that the project was incomplete and no works were going on. The Management explained that the slow implementation progress of the project was due to underfunding.

In the circumstances, the propriety and value for Kshs.1,000,000 spent on this project for the year ended 30 June, 2022 could not be confirmed.

1.3 Unutilized Funds at St. Anatole Nyanchori Secondary School

The statement of receipts and payments reflects an amount of Kshs.118,877,758 in respect to transfers to other Government units which, as disclosed in Note 6 to the financial statements includes transfers to secondary schools of Kshs.52,877,758. This amount in turn includes Kshs.1,000,000 disbursed to St. Anatole Nyanchori Secondary School for the completion of a one hundred (100) students capacity laboratory in respect to walling, roofing, windows, doors and plastering.

However, audit inspection carried out in March, 2023 revealed that the project had not been started and the funds were still in the bank account which raises the question as to whether the school was ready to utilize these funds for the intended purpose. Further, evidence of new proposals to the Board for approval for the utilization of the Kshs.1,000,000 as required by Section 26(1) of the National Government Constituencies Development Fund Act, 2015 was not provided for audit review.

In the circumstances, the value for Kshs.1,000,000 disbursed for the implementation of this project could not be confirmed.

1.4 Failure to Brand Completed Projects

The statement of receipts and payments reflects an amount of Kshs.118,877,758 in respect to transfers to other Government units which as disclosed in Note 6 to the financial statements includes transfers to primary schools of Kshs.66,000,000. This amount in turn includes an expenditure of Kshs.5,000,000 on five (5) projects in five (5) primary schools. However, audit inspection of the five(5) primary schools' projects in March, 2023 revealed that they had not been branded contrary to Regulation 11(1)(cc) of the National Government Constituencies Development Regulations, 2016 which states that the functions of a Constituency Committee is to ensure projects are labelled in accordance with the guidelines issued by the Board.

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

2. Failure to Insure Fixed and Movable Assets

Annex 4 – summary of fixed assets register reflects assets with historical cost of Kshs.39,907,983. However, review of the records revealed that the fixed assets were not insured. This was contrary to Section 36(3) of the National Government Constituencies Development Fund Act, 2015 which requires that all fixed and movable assets, including equipment bought under this Act for use by the Constituency Committee shall be the property of the Board and shall be insured in the name of the Board.

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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

Failure to Carry Out Staff Performance Appraisal

The statement of receipts and payments reflects compensation of employees' expenditure of Kshs.4,180,243 and as disclosed in Note 4 to the financial statements. However, review of the personal files provided for audit revealed that Management did not evaluate performance of employees through performance appraisals. It is therefore unclear on what basis staff performance appraisals were done.

In the circumstances, the performance criteria used to evaluate staff could not be confirmed.

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 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 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 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 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 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 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

18 July, 2023