

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KURIA EAST 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 - Kuria East Constituency set out on pages 1 to 39, which comprise of the statement of assets and liabilities as at 30 June, 2022, 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 - Kuria East 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. Transfers to Other Government Units

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects transfers to other Government units balance of Kshs.73,260,580. However, the following anomalies were noted:

1.1 Unsupported Purchase of Land for Guana Secondary School

The transfers to other Government units balance includes an amount of Kshs.949,000 which was disbursed to Guana Secondary School for purchase of a two-acre parcel of land for school expansion. However, the project file containing procurement records and ownership documents was not provided for audit.

In the circumstances, the accuracy and propriety of the expenditure of Kshs.949,000 and the ownership of the land purchased could not be confirmed.

1.2 Unsupported Transfers to Primary School

The transfers to other Government units balance includes transfers to primary schools of Kshs.47,042,753. However, procurement records including, the approved annual procurement plan, list of prequalified suppliers, evaluation committee appointment letters, evaluation reports, professional opinion and signed contract agreements for payments amounting to Kshs.25,882,753 were not provided for audit review.

In the circumstances, the accuracy and validity of the transfers to primary schools of Kshs.25,882,753 could not be confirmed.

2. Unsupported Expenditure on Social Security Program

The statement of receipts and payments reflects other grants and transfers balance of Kshs.62,339,639 as disclosed in Note 7 to the financial statements. The balance includes an expenditure of Kshs.6,000,000 on social security programme. Information provided for audit indicated that the amount was paid to the National Health Insurance Fund for one thousand (1,000) needy people within Kuria East Constituency. However, Management did not provide for audit the criteria used to identify the beneficiaries and Committee meeting minutes that approved the expenditure.

In the circumstances, the regularity and propriety of the expenditure of Kshs.6,000,000 could not be confirmed.

3. Unsupported Project Management Committee Bank Balances

Annex 5 of the financial statement reflects Project Management Committees bank balances of Kshs.6,453,515 and Kshs.4,512,829 as at 30 June, 2022 and 30 June, 2021 respectively. However, the recalculated balances as at 30 June, 2022 and 30 June, 2021 were Kshs.1,930,252 and Kshs.2,141,520 respectively, resulting in unexplained variances of Kshs.4,523,163 and Kshs.2,371,309. In addition, certificates of balance supporting the amount of Kshs.6,453,515 for the year ended 30 June, 2022 were not provided for audit.

In the circumstances, the accuracy of the Project Management Committees bank balance of Kshs.6,453,515 as at 30 June, 2022 could not be confirmed.

4. Inaccuracies in the Fixed Assets Balances

Annex 4 of the financial statements on summary of fixed asset register reflects historical cost balance of Kshs.5,796,331. However, variances between balances reflected in the financial statements and balances reflected in asset register were noted as summarized below:

Asset Class	Cost as per Financial Statements (Kshs.)	Cost as per Fixed Asset Register (Kshs.)	Variance (Kshs.)
Transport Equipment	5,120,464	5,264,262	(143,798)
Office Equipment, Furniture and Fittings	432,382	370,000	62,382
ICT Equipment, Software and Other ICT Assets	312,498	162,029	150,469

In addition, the asset register included donated ICT equipment and Government land whose values could not be established.

In the circumstances, the accuracy of the fixed assets balance of Kshs.5,796,331 and the valuation of donated assets and Government land 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 - Kuria East 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

1. Budgetary Control and Performance

The summary statement of appropriation reflects final receipts budget of Kshs.191,218,345 and actual receipts Kshs.152,588,879 resulting to a shortfall of Kshs.38,629,466 or 20% of the budget. Similarly, the Fund spent Kshs.147,683,819 against an approved budget of Kshs.191,218,345, resulting to an under-expenditure of Kshs.43,534,526 or 23 % of the budget.

The revenue shortfall led to non-implementation of all planned activities impacting negatively on service delivery to the residents of Kuria East Constituency.

2. Unimplemented Primary Schools Projects

Examination of the approved code list revealed that nine (9) projects with a budgetary allocation of Kshs.6,000,000 in respect of transfers to primary schools were not implemented due non-disbursement of funds by the National Government Constituencies Development Fund Board.

In the circumstances, the expected benefits from the projects were not realized.

3. Unresolved Prior Year Audit Matters

In the audit report of the previous year, several issues were raised. The issues remained unresolved as at 30 June, 2022. Management did not provide reasons for the delay in resolving the prior year audit 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. Unauthorized Over-Expenditure in Renovation of Classrooms at Motarakwa Primary School

The statement of receipts and payments and as disclosed in Note 6 to the financial statements, reflects transfers to other Government units balance of Kshs.73,260,580 which includes Kshs.3,000,000 transferred to Motarakwa Primary School for renovation of six (6) classrooms. However, the budgeted amount for the project as per the approved code list for 2020/2021 financial year was Kshs.2,000,000 resulting to an unapproved over expenditure of Kshs.1,000,000. This was in contravention of Regulation 43(2) of the Public Finance Management (National Government) Regulations, 2015 that provides that National Government entities shall execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan with the exception of

unforeseen and unavoidable spending dealt with through the Contingencies Fund, or supplementary estimates.

In addition, audit inspection carried out in March, 2023 revealed that the project was complete and in use. However, the floor had chipped off and paint was peeling off, an indication of poor workmanship.

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

2. Failure to Brand Projects

Audit inspection carried in March, 2023 revealed that projects implemented at a cost of Kshs.15,850,000 were not branded as required by Regulation 11(1)(c) of the National Government Constituencies Development Fund Regulations, 2016 which states that one of the functions of the constituency committee is to ensure projects are labelled in accordance with the guidelines issued by the Board.

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

3. Irregular Reallocation of Project Funds - Igena Itambe Primary School

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects transfers to other Government units balance of Kshs.73,260,580 which includes Kshs.1,000,000 spent in construction of four (4) new classrooms at Igena Itambe Primary School awarded at a contract sum of Kshs.3,600,000. Project inspection carried out in March, 2023 revealed that the amount was re-allocated without approval to renovation of four (4) classrooms. This was contrary to Section 6(2) of the National Government Constituencies Development Fund Act, 2015, which states 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.

4. Stalled Dormitory at Matare Boys

The construction of a one-storey 400 capacity boys dormitory at Matare Boys Secondary School started in the year 2016 and in the budget for the 2021/2022 financial year it was allocated Kshs.2,500,000. The works involved plastering of first floor and painting of the whole building. However, the allocation was not released to the school during the year under review. In addition, records of prior payments were not provided for audit. Further, field inspection of the project in March, 2023 revealed that the dormitory had not been painted, there was poor workmanship on the plastering and roofing as evidenced by cracks on the wall and leaking roof and there was no evidence of ongoing works.

In the circumstances, value for money spent on the project could not be confirmed.

5. Failure to Report Expenditure of Emergency Reserve to the Board

The statement of receipts and payments reflects other grants and transfers balance of Kshs.62,339,639 as disclosed in Note 7 to the financial statements. The balance includes expenditure on emergency projects of Kshs.7,304,139. However, Management did not provide evidence to confirm that the use of the emergency reserves was reported to the Board within 30 days as required by Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016 which provides that 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.

6. Anomalies in the Implementation of Projects

Projects inspection carried out in March, 2023 revealed various anomalies in implementation of projects. Projects implemented at a cost of Kshs.19,750,000 had anomalies including poor workmanship, failure to complete projects in time, non-functioning components of the projects and failure to implement projects as per specifications.

In the circumstances, it was not possible to confirm value for money spent on implementation of the 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 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, 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

Imprest Management

Review of the cash book revealed that the Fund made payments for operations through issuance of imprest as evidenced by the imprest warrant attached to the payment vouchers. However, Management did not maintain an imprest register or memorandum

cash book for imprest management. As a result, it was not possible to confirm the status of the imprests issued during the year.

In the circumstances, the existence effective internal controls over imprest management 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 controls, 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 controls, risk management and 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 controls 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 controls 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 Management.

- Conclude on the appropriateness of 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 Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls 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

11 July, 2023