

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SEME 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 Constituency Development Fund - Seme Constituency set out on pages 1 to 52, 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 Constituency Development Fund - Seme 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 Constituency Development Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Use of Goods and Services Expenditure

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.11,133,566 which includes training expenses of Kshs.1,566,562 and fuel, oil and lubricants of Kshs.1,150,000 respectively as disclosed in Note 5 to the financial statements. However, review of records revealed that training expenses of Kshs.417,500 and fuel, oil and lubricants of Kshs.1,150,000 were not supported with Electronic Tax Registers (ETR) generated receipts.

In the circumstances, the accuracy and completeness of use of goods and services expenditure totalling to Kshs.1,567,500 could not be confirmed.

2. Unsupported Bursaries Expenditure

The statement of receipts and payments reflects Kshs.84,890,295 in respect of other grants and transfers and as disclosed in Note 7 to the financial statements includes Kshs.74,108,163 disbursed to various education institutions as bursaries. However, review of the payment vouchers revealed disbursements totalling to Kshs.3,385,000 were not supported by acknowledgement letters or receipts from the benefitting institutions.

In the circumstances, the accuracy and completeness of bursaries expenditure of Kshs.3,385,000 for the year ended 30 June, 2022 could not be confirmed.

3. Unreversed Stale Cheques

The statement of assets and liabilities reflects bank balance of Kshs.22,170,288 as disclosed in Note 10A to the financial statements. However, review of the bank reconciliation statements revealed that stale cheques totalling to Kshs.3,335,560 which had not been reversed back in the cash book. This is contrary Section 90.(1) Public Finance Management Regulations 2015 which states that accounting officers shall ensure any discrepancies noted during bank reconciliation exercise are investigated immediately and appropriate action taken including updating the relevant cash books.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.22,170,288 as at 30 June, 2022 could not be confirmed and Management was in breach of the law.

4. Unconfirmed Ownership and Grounded Assets

Annex 4 of the financial statements reflects fixed asset balance of Kshs.34,427,355 which includes transport equipment of Kshs.5,152,000. However, audit verification revealed that two motor cycles were grounded and not functional. In addition, included in the fixed asset register is a grounded motor vehicle whose log book was not provided for audit confirmation. Further, the balance includes office equipment, furniture and fittings balance of Kshs.2,112,454, out which items with a reported historical cost of Kshs.115,400 were not functional and idle.

In the circumstances, the ownership and completeness of fixed assets with a reported balance of Kshs.5,267,400 as at 30 June, 2022 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 - Seme 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 indicates that the Fund expended Kshs.186,801,873 against an approved budget of Kshs.224,541,850 resulting in an under expenditure of Kshs.37,739,977 or 17% of the budget.

The under expenditure 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 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

Incomplete and Sub-Standard Works in Implementation of Schools Projects

The statement of receipts and payments reflects transfers to other Government units of Kshs.82,133,102 which includes transfers to primary schools of Kshs.58,237,000 and transfers to secondary schools of Kshs.17,876,102 respectively as disclosed in Note 6 to the financial statements. Review of records revealed that an amount of Kshs.8,650,000 was disbursed to (6) primary school towards construction of classrooms and Kshs.4,200,000 was disbursed to two (2) secondary schools towards construction of a classroom and a laboratory. However, field inspection of the projects in March, 2023, revealed various instances of poor workmanships and delays in completion of projects as detailed in the table below.

Institution	Project Details	Amount (KShs)	Anomalies
Abol Primary School	Construction of 2No. Standard Classroom	1,200,000	-Falling Exterior plaster finish- poor workmanship -Work in progress.
Lieye Primary School	Renovation of 1No. Classroom	1,200,000	-Missing window panes. -Renovations inclusive of roof works, plaster works, electrical, fenestrations and floor tile work.
Asino Primary School	Renovation of 2No. Classroom	1,050,000	-Falling Exterior plaster finish via ingress of water via capillarity/ cold joint. -Works complete but missing window panes.
Aduong Monge Secondary School	Construction of 1No. Laboratory	1,600,000	-Branding yet to be done. -Lab complete and in use; though fumes chamber glass not fitted properly.
Keyo Kodo Primary School	Construction of 2 no. Classrooms	2,600,000	-Poor workmanship; ramp already worn out.
Ndiru Mixed Secondary School	Construction of 2 no. Classrooms	2,600,000	-Contractor terminated the contract and abandoned the site: was using sub-standard materials
Asol Primary School	Renovation of 4No. Classrooms	1,300,000	-Branding yet to be done. -Window stays not properly fitted/ -Stair edge strips not properly bound in grout.
Atoya Primary School	Construction of 1No. classroom	1,300,000	Tile edge strip not properly anchored in grout. -Plaster works defects. Classroom yet to be put in use.
		12,850,000	

In the circumstances, value for money on the funds totalling to Kshs.12,850,000 spent on schools projects for the year ended 30 June, 2022 may not have been realized.

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 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 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 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 controls, 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 its services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or 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 Fund's 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 was 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 considered 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 controls 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:

- Identified and assessed 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 obtained 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 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 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 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

17 July, 2023