

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – BUURI 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 – Buuri Constituency set out on pages 1 to 38, 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 National Government Constituencies Development Fund – Buuri 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

1. Unsupported Committee Allowances

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.5,875,023 as disclosed in Note 5 to the financial statements. The amount includes committee allowance of Kshs.1,336,000 paid in form of sitting allowances. However, the expenditure was not supported by attendance registers indicating the name of attendee, date, nature of each meeting and a minute book.

In the circumstances, the accuracy and completeness of committee allowance of Kshs.1,336,000 could not be confirmed.

2. Unsupported Bursary Expenditure

The statement of receipts and payments reflects other grants and other transfers of Kshs.81,062,867 as disclosed in Note 7 to the financial statements. The expenditure includes bursary disbursements to secondary schools, tertiary schools and special schools of Kshs.42,367,000. However, the criteria for bursary disbursements, Bursary Committee minutes, list of all applicants, list of unsuccessful applicants, list of all successful applicants and application forms were not provided audit. In addition, there was no Bursary Committee to oversee this process.

In the circumstances, the accuracy and completeness of bursary disbursements of Kshs.42,367,000 could not be confirmed.

3. Variance in Transfers

The statement of receipts and payments reflects transfers to other Government units of Kshs.58,300,000 and other grants and transfers of Kshs.81,062,867 both totalling to Kshs.139,362,867 for project implementation during the year. However, the project implementation status report reflects Kshs.122,400,878 resulting to unexplained and unreconciled variance of Kshs.16,961,989.

In the circumstances, the accuracy and completeness of transfers of Kshs.16,961,989 could not be confirmed.

4. Unsupported Project Management Committee (PMC) Bank Balances

Note 17.4 and Annex 5 to the financial statements reflects Project Management Committee (PMC) bank accounts balance of Kshs.3,120,974. However, the respective bank statements, cashbooks, bank reconciliation statements and certificates of bank balances were not provided for audit.

In the circumstances, the accuracy and completeness of the PMC bank balances of Kshs.3,120,974 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 – Buuri 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 reflects final revenue budget of Kshs.192,514,314 and actual revenue of Kshs.154,421,570 resulting to a revenue short fall of Kshs.38,092,744 or 20% of the budget. Similarly, the statement reflects final budgeted expenditure of Kshs.192,514,314 and actual expenditure of Kshs.154,421,570 resulting to an under expenditure of Kshs.38,092,744 or 20% of the budget. In addition, the percentage of budget performance utilization difference for the receipts and payments were indicated at 86% and 92 % instead of 80% for both.

The underfunding and under absorption 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 of Conclusion

1. Project Implementation Status

Review of the project implementation status report revealed that a total of Kshs.122,400,878 was disbursed to one hundred and one (101) projects out of which ninety-five (95) worth Kshs.112,900,878 were complete, three (3) projects worth Kshs.5,000,000 were on going while three (3) projects worth Kshs.4,500,000 had not started.

In the circumstances, value for money for three (3) ongoing projects worth Kshs.5,000,000 and the three (3) not started projects worth Kshs.4,500,000 could not be confirmed.

2. Incomplete Laboratory

Note 6 to the financial statements reflects transfers to secondary schools amount of Kshs.13,250,000 out of which Kshs.1,500,000 was for the completion of forty-five (45) sitting capacity laboratory at Ontulili Mixed Secondary School. However, review of the project files and physical verification in March, 2023 revealed that the practical tables had not been fully fitted with tiles as provided for in the bill of quantities and some had started chipping off. Also, the project had not been labelled.

In the circumstances, the propriety and value for money for the Kshs.1,500,000 expenditure could not be confirmed.

3. Unsupported Transfers to Primary Schools

Note 6 to the financial statements reflects transfers to primary schools of Kshs.45,050,000 which includes Kshs.3,000,000 for levelling DEB Ontulili and Kimbo Primary Schools fields to completion at Kshs.1,500,000 each. However, the project files provided for audit did not have project inspection reports, engineers estimate, completion certificates, bill of quantities and procurement records indicating how the contractors were identified including other details such as valid tax compliance certificates and valid National Construction Authority (NCA) certificates. In addition, physical verification revealed that fields had not been properly leveled an indication of poor workmanship.

In the circumstances, value for money of Kshs.3,000,000 for levelling two (2) primary schools fields could not be confirmed.

4. Incomplete Re-Roofing

Note 6 to the financial statements reflects transfers to primary schools of Kshs.45,050,000 which includes Kshs.1,500,000 for re-roofing and painting of six (6) classrooms at Muruguma Primary School and Kshs.1,500,000 for re-roofing of six (6) classrooms at Kiirua Primary School. However, physical verification revealed only five (5) classes and four (4) classrooms respectively were re-roofed instead of six (6) in each school. In addition, the two (2) projects had been marked complete and in use but there was no handing over reports, completion certificates, inspection and acceptance reports.

In the circumstances, the value for money of Kshs.3,000,000 incurred in the two (2) primary schools could not be confirmed.

5. Unused Toilets

Note 6 to the financial statements reflects transfer to secondary schools amount of Kshs.13,250,000 which includes Kshs.1,000,000 for construction of two (2) toilet blocks at Kangaita Mixed Secondary School. However, physical verification in March, 2023 revealed that the works had been completed but the toilets were not in use. In addition, the bill of quantities provided for eight (8) doors for each block but one block had six (6) doors while the other had only three (3) doors. Further, the bills of quantities provided for rain water disposal gutters, handwashing sinks, ceramic tiles and windows which were not fitted despite the contractor being paid in full.

In the circumstances, the value for money for the Kshs.1,000,000 expenditure could not be confirmed.

6. Unapproved Expenditure

The statement of receipts and payments reflects other payments of Kshs.3,845,512 as disclosed in Note 9 to the financial statements. The amount relates to purchase of revision books for various primary and secondary schools but the criteria for distribution was not explained and most books were verified to have worn-out. In addition, only Kshs.2,000,000 had been budgeted and approved for revision books resulting to unexplained over expenditure of Kshs.1,842,512. This was contrary to Regulation 44 (2) of the Public Finance Management (National Government) Regulations, 2015

which states 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 the circumstances, Management was in breach of the law.

7. Failure to Constitute Procurement Committees

During the year under review, Management did not provide appointment letters to confirm the Ad hoc Opening and Evaluation Committees to open, evaluate and record the procurement proceedings. This was contrary to Section 44(1) and 2(b) of the Public Procurement and Asset Disposal Act, 2015 which states that an accounting officer of a public entity shall be primarily responsible for ensuring that the public entity complies with the Act. In the performance of the responsibility under subsection (1), an Accounting Officer shall constitute all Procurement and Asset Disposal Committees within a procuring entity in accordance with the Act.

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 comply, 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

Failure to Maintain Fixed Assets Register

During the year under review, Management did not maintain a fixed asset register to indicate the model and serial number, asset number, quantity/size, responsible official, class, category of assets and its condition among other details. Also, the assets were not coded or tagged for ease of identification and tracking contrary to Regulation 139(1)(b) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, the internal controls on maintenance of fixed assets register 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 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 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 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 comply 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 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 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 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

13 June, 2023