

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - CHUKA IGAMBANGOMBE 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 - Chuka Igambangombe Constituency set out on pages 2 to 42, 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, 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 - Chuka Igambangombe 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. Inaccuracy in Unutilized Funds

As disclosed in Note 17.3 to the financial statements are previous year's unutilized funds balance of Kshs.106,755,785. However, Annex 3 to the financial statements reflects previous years balance of Kshs.106,735,785 resulting to unexplained variance of Kshs.20,000.

2. Unsupported Project Management Committee (PMC) Account Balances

As disclosed in Note 17.4 and Annex 5 to the financial statements are Project Management Committee (PMC) bank account balances amounting to Kshs.6,443,256. However, cash books, bank reconciliation statements and duly signed certificates of bank balances were not provided for audit .

In the circumstances, the accuracy and completeness of the PMC account balance of Kshs.6,443,256 could not be confirmed.

3. Unsupported Use of Goods and Services

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects use of goods and services amounting to Kshs.10,078,761 which includes committee expenses amounts of Kshs.2,821,900 which further includes payments totalling to Kshs.317,000 incurred towards project monitoring and evaluation by the Constituency Committee. However, program and itinerary of the project monitoring exercise, evidence of travel, attendance registers and project monitoring reports were not provided for audit.

Further, the statement includes training expenses amounting to Kshs.1,599,500 being amount paid for training services offered to staff members and various committees across the constituency. However, a training need assessment report to show the nature of trainings and the training programs to confirm that the trainings took place were not provided for audit.

In the circumstances, the accuracy and completeness of Kshs.1,916,500 for use of good and services could not be confirmed.

4. Unsupported and Unauthorized Grants and Transfers

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects other grants and transfers amounting to Kshs.80,093,132 which includes bursaries disbursed to secondary schools, tertiary institutions and special

schools amounting to Kshs.29,007,500, Kshs.16,291,500 and Kshs.6,185,000 respectively. However, bursary payments totalling to Kshs.4,919,000 or 9.5% of the total bursaries disbursed were not acknowledged through issuance of receipts by the beneficiary schools and institutions. In addition, nine hundred and thirty-four (934) students were awarded bursary grants totalling to Kshs.4,113,000 without admission numbers which would have determined whether the beneficiaries were bonafide students in the respective institutions .

Further, other grants and transfers includes social security programmes amounting to Kshs.5,400,000. However, approved project code list reflected an approved budget of Kshs.3,996,000 towards the social security programs resulting to unauthorized expenditure of Kshs.1,404,000. The Management did not provide an explanation why the expenditure on social security programs exceeded the approved budget.

In the circumstances, the accuracy and propriety of the above balances 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 - Chuka Igambangombe 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 and actual on comparable basis of Kshs.243,844,664 and Kshs.213,902,688 respectively, resulting to an under funding of Kshs.29,941,976 or 12% of the budget. Similarly, the Fund expended Kshs.196,975,830 against an approved budget of Kshs.243,844,666, resulting to an under expenditure of Kshs.46,868,836 or 19% of the budget.

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

2. Delay in Project Implementation

During the year under review, the Board approved a budget of Kshs.225,149,218 to implement a total of one hundred and eighty one (181) projects. However, analysis of the status report revealed that one hundred and fifty one (151) projects with a budget of Kshs.109,304,070 were implemented while thirty (30) projects with a budget of Kshs.115,845,148 or 51% of the budgeted projects were not implemented.

The underperformance in project implementation affected the planned activities and may have impacted negatively on service delivery to the citizens.

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. Failure to Maintain Expenditure Returns

Review of expenditure records revealed that the Fund Management transferred Kshs.4,300,000 to seven primary schools to finance various projects and Kshs.700,000 was paid for construction of Weru Assistant Chief's Office. However the Fund did not maintain minutes of appointment of Project Management Committees, tender advertising, opening and tender evaluation minutes and expenditure returns. This is contrary to Regulation 15(l) of the National Government Constituencies Development Fund Regulations, 2016 which states that there shall be appointed a Project Management Committee for each project in a Constituency in accordance with Section 36 of the Act which shall implement projects in consultation with the relevant departments of government, maintain proper records of all minutes, accounting documents and other records in relation to projects being implemented, prepare returns and file them with a Constituency Committee on a timely basis and account for funds to a Constituency Committee.

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

2. Irregular Diversion of Funds from Planned Projects

The Fund Management transferred Kshs.700,000 to Makanyanga Secondary School for construction of one classroom to completion. However, from the Project Management Committee minutes presented for audit, the Committee acknowledged receipt of the funds and agreed to divert the funds from the original purpose of constructing a classroom to renovation of existing classes without approval from the Board.

Further, the Management transferred Kshs.1,000,000 to St. Paul Njaina Secondary School for construction of one (1) classroom to completion. However, the Project Management Committee diverted the funds from construction of a classroom to the construction of an ablution block at a cost of Kshs.700,000 without the approval of the Board and did not account for the remaining balance of Kshs.300,000. This is contrary to Section 6 (2) of the National Government Constituencies Development Fund Act, 2015 which stipulates 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, the Management was in breach of the law.

3. Irregular Administration of Emergency Funds

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects other grants and transfers amounting to Kshs.80,093,132 which includes emergency projects expenses amounting to Kshs.8,650,000 which further includes Kshs.500,000, Kshs.300,000 and Kshs.200,000 transferred to Nthambo Police Post, Kanyaki Primary School and Kaarange Primary School respectively all totalling to Kshs.1,000,000. However, the Management did not maintain expenditure returns from the respective Project Management Committees. This is contrary to Regulation 15(1) of the National Government Constituencies Development Fund Regulations, 2016 which states that there shall be appointed a Project Management Committee for each project in a Constituency in accordance with Section 36 of the Act which shall implement projects in consultation with the relevant departments of government, maintain proper records of all minutes, accounting documents and other records in relation to projects being implemented, prepare returns and file them with a Constituency Committee on a timely basis and account for funds to a Constituency Committee.

Further, the Fund transferred Kshs.300,000 to Kanyaki Primary School for completion of classroom through emergency funds. However, the project does not meet the criteria for emergency funding as defined in Section 8(3) of the National Government Constituencies Development Fund Act, 2015 which states that emergency shall be construed to mean an urgent, unforeseen need for expenditure for which it is in the opinion of the Committee that it cannot be delayed until the next financial year without harming the public interest of the constituents.

In addition, during the year, the Fund utilized a total of Kshs.8,650,000 in respect to emergency projects. However, the utilization was not reported to the Board within thirty days of the occurrence of the emergency. This is contrary to Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016 which states 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, the Management was in breach of the law.

4. Failure to Tag and Insure Assets

Review of the fixed assets registers and physical verification of the assets revealed that the office equipment, furniture and fittings valued at Kshs.8,772,253 were not tagged for ease of identification and movement. This is contrary to Regulation 139(1) of the Public Finance Management (National Government) Regulations, 2015 which stipulates that an Accounting Officer of a National Government entity shall take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse by ensuring that movement and conditions of assets can be tracked by putting in place processes and procedures both electronic and manual for the effective, efficient, economical and transparent use of the Government entity's asset.

Further, the fixed assets were not insured. This is contrary to Section 36 (3) of the National Government Constituencies Development Fund Act, 2015 which states 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, the Management was in breach of the law.

5. Irregular Bursary Disbursements

Review of the subcommittee expenditure documents revealed that Kshs.51,484,000 was issued as bursary to secondary schools, special schools and tertiary Institutions. However, the Vetting Committee Members and the Chairman did not sign the application forms. In addition, amount awarded to successful applicants was not indicated on the application forms. Further, Vetting Committee minutes showing award and rejection of applications were not provided for audit to confirm whether bursary applicants were vetted. This is contrary to Regulation 21(3) of the National Government Constituencies Development Fund Regulations, 2016 which stipulates that a Constituency Committee shall vet all persons proposed to receive support in accordance with guidelines issued by the Board.

In the circumstances, the 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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and 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 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 the 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 the 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 overall 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 controls 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 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 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 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 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 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

25 May, 2023