

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - GALOLE 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, gazetted 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 - Galole Constituency set out on pages 1 to 34, 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 the National Government Constituencies Development Fund - Galole 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

1.0. Unconfirmed Accuracy of Cash and Cash Equivalents Balance

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.14,110,649. However, the bank reconciliation statement for the month of June, 2022 included a reconciling amount of Kshs.782,260 in respect of unrepresented cheques. Included in the list of unrepresented cheques were stale cheques totaling to Kshs.377,000 which had not been reversed in the cash book.

In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.14,110,649 could not be confirmed.

2.0. Unsupported Expenditure in Transfers to Primary Schools

The statement of receipts and payments reflects transfers to other government units balance of Kshs.35,250,400 which, as disclosed in Note 4 to the financial statements, includes transfers to primary schools amount of Kshs.25,545,400 out of which, Kshs.9,940,000 was spent on projects whose Bills of Quantities were not provided for audit.

In the circumstances, the accuracy of transfers amounting to Kshs.9,940,000 to primary schools could not be confirmed.

3.0. Other Grants and Transfers

The statement of receipts and payments reflects other grants and transfers balance of Kshs.111,539,282 as disclosed in Note 5 to the financial statements. However, the following audit issues were noted:

3.1. Unsupported Bursary Payments

The other grants and transfers balance of Kshs.111,539,282 includes bursaries amount of Kshs.96,006,226 out of which, Kshs.4,751,000 was disbursed to various institutions whose acknowledgement letters or official receipts were not provided for audit.

In the circumstances, the accuracy of bursary payments amounting to Kshs.4,751,000 could not be confirmed.

3.2. Unsupported Expenditure from Emergency Reserve

The other grants and transfers balance of Kshs.111,539,282 also includes expenditure on emergency projects of Kshs.9,198,208 out of which, Kshs.3,609,415 was in respect of projects whose Bills of Quantities were not provided for audit.

Further, Management did not report the emergency expenditure to the National Government Constituencies Development Fund Board within 30 days of the occurrence of the emergency expenditure. This was contrary to Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016, which provides that the utilization of the emergency reserve shall be reported to the Board within thirty (30) days of the occurrence of the emergency, in the format prescribed by the Board.

In the circumstances, the accuracy of emergency expenses amounting to Kshs.3,609,415 could not be confirmed. In addition, Management was in breach of the law.

4.0. Unconfirmed Accuracy of Fixed Assets Balance

The summary of fixed asset register at Annex 2 to the financial statements reflects fixed assets balance of Kshs.44,251,583 as at 30 June, 2022. However, the supporting fixed asset register was not provided for audit. Further, the cost of land on which the buildings and structures reflected in the Annex were built was not disclosed and ownership documents for the land were also not provided for audit.

In the circumstances, the accuracy and completeness of the fixed assets balance of Kshs.44,251,583 and the ownership of the land could not be confirmed. In addition, it was not possible to confirm the existence of effective internal controls over fixed assets.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Galole 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 audit 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 which, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report on in the year under review.

Other Matter

1.0. Budgetary Control and Performance

The summary statement of appropriation reflects final receipts budget and actual on comparable basis amounts of Kshs.190,284,544 and Kshs.182,095,665 respectively, resulting to an underfunding of Kshs.8,188,879 or 4% of the budget. Similarly, the Fund spent Kshs.167,985,016 against the approved budget of Kshs.190,284,544, resulting to an under expenditure of Kshs.22,299,528 or 12% of the budget.

The underfunding and under expenditure may have adversely affected planned activities and service delivery to the residents of Galole Constituency.

2.0. Delayed Projects Implementation

Review of the Project Implementation Status Report provided for audit revealed that Management planned to implement thirty-six (36) projects at a total cost of

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Kshs.102,496,896 during the year under review. According to the report, thirty (30) projects were completed, while six (6) projects with a budget of Kshs.36,200,000 were on-going even though the projects were supposed to be completed before 30 June, 2022.

Failure to implement the projects in time may have denied Galole constituents the intended services.

3.0. Unresolved Prior Year Matters

In the audit report for the previous year, several issues were raised. However, the Management had not resolved the issues as at 30 June, 2022. Management did not provide an explanation for the failure to resolve the prior year 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

1.0. Lack of Project Management Committees Records and Reports

Management did not provide for audit Project Management Committee records, including procurement plans, work plans, as well as handover reports to the Constituency Development Committees for the projects completed worth Kshs.8,600,000. This was contrary to Regulation 15(2) of the National Government Constituencies Development Fund Regulation, 2016, which provides that a Project Management Committee shall prepare and submit hand over reports to a Constituency Committee, and Regulation 15(4)(b), which provides that a Project Management Committee shall prepare work plans showing how it intends to utilize the funds given to it for implementing the project.

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

2.0. Lack of Constituency Oversight Committee

Management did not establish a constituency Oversight Fund Committee, as required by Section 53(1) of the National Government Constituencies Development Fund Act, 2015.

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 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 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 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 control in order to give an assurance on the effectiveness of internal controls, risk management and 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 which 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 which 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 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

30 May, 2023