

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - ISIOLO SOUTH 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 Control, 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 - Isiolo South Constituency set out on pages 1 to 36, 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 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 - Isiolo South 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 Prior Year Adjustments

As previously reported, the statement of assets and liabilities reflects an amount of Kshs.5,960,030 described as prior year adjustments. However, the nature of the prior year adjustment has not been explained in the financial statements.

In the circumstances, the accuracy and validity of the prior year adjustments could not be confirmed.

2.0 Accuracy of Fixed Assets Register

Annex 4 to the financial statements reflects Kshs.16,510,000 in respect to historical cost of assets brought forward. However, the closing historical cost in the previous financial year reflects Kshs.15,787,000 resulting to unexplained variance of Kshs.723,000.

In the circumstances, the accuracy of the fixed assets register balance of Kshs.16,510,000 could not be confirmed.

3.0 Inaccuracy of Summary Statement of Appropriation

The summary statement of appropriation reflects Kshs.179,156,569 in respect to total actual payment on comparable basis. However, a recast of the same reflects Kshs.184,427,069 resulting to unexplained variance of Kshs.5,270,500.

In the circumstances, the accuracy of the summary statement of appropriation could not be confirmed.

4.0 Unaccounted for Bursary Funds

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects Kshs.96,872,488 in respect to other grants and transfers which includes bursaries amounting to Kshs.17,170,943 disbursed to various secondary schools and Kshs.35,067,767 to tertiary institutions all totalling to Kshs.52,238,710 for the benefit of needy students.

However, the minutes of the bursary committee detailing how the bursaries were awarded were not provided for audit review. Further, examination of payment vouchers and supporting documents revealed that disbursements totalling Kshs.13,923,770 were not acknowledged through official receipts or acknowledgement letters by the beneficiary institutions.

In the circumstances, the accuracy and completeness of other grants and transfers of Kshs.52,238,710 for the year under review could not be confirmed.

5.0 Variance Between Transfers by the National Fund Board and the Receipts Reported by the Fund

Note 1 to the financial statements reflects Kshs.157,488,879 being transfer from the National Government Constituency Development Fund (NGCDF) Board for the year ended 30 June, 2022. However, examination of the records held by the National Government Constituency Development Fund (NGCDF) Board reflected Kshs.158,088,879 as receipts resulting in unexplained variance of Kshs.600,000.

In the circumstances, the accuracy of receipts of Kshs.157,488,879 could not be confirmed.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Isiolo South Constituency Management in accordance with ISSAI 130 on the 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 for the year ended 30 June, 2022 reflects budgeted receipts of Kshs.211,755,448 and actual receipts of Kshs.179,156,569 resulting to underfunding of Kshs.32,598,879 or 15% of the budget.

Similarly, the Fund expended Kshs.184,427,069 against an approved budget of Kshs.211,755,448 resulting to an under-expenditure of Kshs.27,328,379 or 13% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

2. Projects Implementation Status

During the year under review the Fund budgeted to implement twenty-nine (29) projects worth Kshs.133,948,166. Review of the project implementation status revealed that the Fund Management Committee completed twelve (12) projects amounting to Kshs.75,648,166, and fourteen (14) projects worth Kshs.47,200,000 were ongoing, while three (3) projects with estimated cost of Kshs.1,400,000 had not started. All these projects had been budgeted for and funded in the year ended 30 June, 2022.

In the circumstances, the value for money of the Kshs.1,400,000 funding in respect of projects not started for the year could not be confirmed.

3. Unresolved Prior Year Matters

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Control, Risk Management and Governance. Although the Management has indicated that the issues have been resolved, the matters have remained unresolved as the relevant parliamentary committee has not met to deliberate on the same.

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 Incomplete Garbatulla Project

The statement of receipts and payments and Note 7 to the financial statements reflects Kshs.96,872,488 in respect to other grants and other transfers which includes Kshs.35,200,000 for security projects. Included in Kshs.35,200,000 is Kshs.30,000,000 disbursed to Garbatulla Police Project for completion of the modern police station. However, review of the project file and physical verification carried out in March, 2023 revealed the following: -

- i. The project completion period expired on 25 November, 2022 and no evidence of extension of contract period was provided for audit review. Further, there was no updated progress reports prepared for the project. This is contrary to Section 139(2)(a) of Public Procurement and Assets Disposal Act, 2015, which provides that an accounting officer of a procuring entity, on the recommendation of an evaluation committee, may approve the request for the following, which request shall be accompanied by a certificate from the tenderer making a justification for such cost extension or contract period.
- ii. Payment certificate dated 9 May, 2022 for Kshs.11,600,049 for payment on account did not show how the certificate sum was arrived at contrary to Regulation 104(1) of the Public Finance Management (National Government) Regulations, 2015 which provides that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.
- iii. Provisional sum amounting to Kshs.5,200,000 was made in the Bills of Quantities as contingencies and project management expenses. However, utilization of the same was not supported with detailed schedules of payment and other supporting

documents. Further, there was no evidence documented to confirm that the utilization of provisional sum was requested and approved by tender evaluation committee as required by Section 139(2) of Public Procurement and Assets Disposal Act, 2015.

- iv. No environmental Impact assessment study was initiated/undertaken before commencement of the project on the waste management as required by Section 58 of the Environmental Management and Coordination Act, 1999 (amended 2015) and Regulation 10 of the environmental (impact assessment and audit) regulations, 2003.
- v. The Bid bonds for the projects have long expired and the Fund did not request the contractors to renew their Bid Bonds as required by Regulation 41(4) and (5) of the Public Procurement and Asset Disposal Regulations, 2006 which states that the procuring entity shall, where it extends the tender validity period, request the tenderers to extend the period of validity of their tender securities. Therefore, the Fund would not be able to receive liquidated damages in case of non-performance by contractors as the bid bond had long expired without renewal.
- vi. A site visit to the premises revealed that the contractor failed to put up a signboard for the construction works while in the Bill of Quantities Kshs.50,000 had been billed for the work. Double door 1200 by 2400 had not been put up at the time of the visit. Three lever mortices lock complete with set lever was missing despite being billed. The sixty (60) curtain tracks billed were missing. Handrails and bottom rails had not been installed. Grilling work, armoury tiles, tiling work around the house and staircase works had also not been done. This is contrary to Section 48(4) of Public Procurement and Asset Disposal Act, 2015 which provides that the inspection and acceptance committee to ensure that the correct quantity of the goods is received; ensure that the goods, works or services meet the technical standards defined in the contract; ensure that the goods, works or services have been delivered or completed on time, or that any delay has been noted; and issue interim or completion certificates, as appropriate and in accordance with the contract.

In the circumstance, the value for money for the Kshs.30,000,000 could not be confirmed and the Management was in breach of the law.

2.0 Non-Compliance with Public Sector Accounting Standards Board and Reporting Templates

The financial statements for the year under review did not have the National Sub-County Accountant's ICPAK membership number. This is contrary to the reporting template issued by the Public Sector Accounting Standards Board in June, 2022 which requires the National Sub-County Accountant to sign and indicate his/her Institute of Certified Public Accountants of Kenya (ICPAK) membership number under the indicated statement(s).

In the circumstances, the financial statements do not comply with the reporting template issued by the Public Sector Accounting Standards Board (PSASB).

3.0 Untagged Assets

As previously reported, Annex 4 to the financial statements reflects Kshs.16,510,000 in respect to summary of fixed assets. However, furniture & fittings and Information Communication Technology (ICT) equipment valued at Kshs.1,510,000 were not tagged for ease of tracking and identification contrary to Regulation 139(1)(a) and (b) of the Public Finance Management (National Government) Regulations, 2015 which states that an accounting officer of a national government entity shall take full responsibility and ensure that proper control systems exists for assets and preventive mechanism are in place to eliminate theft, security threats, loss, wastage and misuse and that movement and condition of assets can be tracked.

Further, the assets were not insured contrary to Section 31(4) 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 Development Fund Committee shall be the property of the Board to be insured in the name of the Board.

In addition, the building structures sit on un surveyed land of unknown value and the land was not registered in the name of the National Government Constituencies Development Fund Board contrary to Section 31(4) 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 Development Fund Committee shall be the property of the Board.

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 Control, 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 control, risk management and overall governance were not effective.

Basis for Conclusion

Unutilized Funds

The statement of receipts and payments, and as disclosed in Note 6 to the financial statements reflects a balance of Kshs.71,206,388 in respect to transfer to other government units. However, despite the management of National Government Constituency Development Fund disbursing funds to respective project management committees (PMCs), the projects with a total budget of Kshs.27,328,172 were not implemented during the year under review.

In the circumstance, Management should put in place proper mechanisms to ensure implementation of all planned and funded projects.

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 sustain 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 control, 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 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 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 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

16 May, 2023