

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KEIYO NORTH 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 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 - Keiyo North Constituency set out on pages 1 to 44, 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 - Keiyo North 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 Project Management Committee Bank Balances

Not 17.4 to the financial statements reflects Project Management Committee (PMC) bank balances totalling to Kshs.16,890,872. However, cash books, bank balance confirmation certificates, bank statements and bank reconciliation statements for PMC accounts with a total balance of Kshs.12,527,719 were not provided for review.

In the circumstance, the existence, accuracy, completeness and ownership of the Project Management Committee bank balances of Kshs.12,527,719 as at 30 June, 2022 could not be confirmed.

2. Inaccuracy of the Summary Statement of Appropriation

The summary statement of appropriation reflects final receipts budget and actual on a comparable basis of Kshs.223,980,072 and Kshs.223,980,072 respectively resulting to Zero (0) variance. However, the statement erroneously reflects a variance of Kshs.41,802,314 in the budget utilization column. Further, the statement reflects actual receipts of Kshs.223,980,072 whereas the statement of receipts and payments reflects actual amount of Kshs.182,177,758 resulting to unexplained variance of Kshs.41,802,314.

In the circumstances, the accuracy and completeness of the receipts balances of Kshs.223,980,072 reported in the summary statement of appropriation for the year ended 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 National Government Constituencies Development Fund - Keiyo North 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. Budget as a Control and Budget Performance

The summary statement of appropriation reflects final receipts budget and actual on a comparable basis of Kshs.223,980,072 and Kshs.223,980,072 respectively. Similarly, the Fund expended Kshs.198,671,366 against an approved budget of Kshs.223,980,072 resulting to an under-expenditure of Kshs.25,308,706 or 11.3% of the budget.

In the circumstances, the underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

There were issues raised in the audit report for 2020/21 financial year of which no report or recommendations from the Fund's Management and oversight bodies were submitted for review. The issues remain unresolved contrary to Section 149(2)(l) of the Public Finance Management Act, 2012 which require accounting officers designated for national government entities to try to resolve any issues resulting from an audit that remain outstanding.

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

3. Project Implementation Status

During the financial year under review, ninety-two (92) projects were allocated funds totaling to Kshs.94,472,500 out of which sixty-four (64) projects costing Kshs.59,968,000 were complete and in use, whereas one (1) project costing Kshs.450,000 was complete and not yet in use, twenty-six (26) projects costing Kshs.33,054,500 were still ongoing, and one (1) project costing Kshs.1,000,000 had not been started. Further, it was observed that the funding for all the CDF operations was far below the approved budget making it difficult for the Fund to operate optimally. The slow pace of project completion means residents of Keiyo North constituency may not benefit from the projects as intended.

In the circumstance, service delivery and projected developments failed to take place hence citizens of Keiyo North constituency did not receive value from incomplete projects.

4. Project Verification

During the year under review, twenty-four (24) primary school projects with disbursements of Kshs.22,100,000 were physically verified in March, 2023. Fourteen (14) projects with funding of Kshs.14,050,000 were found to be complete, while Nine (9) projects with funding of Kshs.5,250,000 were still ongoing and one (1) project with a funding of Kshs.750,000 had not started. Further, ownership of the land on which the developments were carried out and the registration status of the institutions with the Ministry of Education could not be confirmed as the Fund does not retain a copy of the certified documents. In addition, ownership of land purchased for school's expansion could not be confirmed as the land title deeds were not provided for verification.

Funding of projects in institutions whose registration and land ownership status has not been confirmed could lead to delays in projects implementation. In addition, delay in fund disbursement and non-implementation of approved projects denies residents of Keiyo North Constituency benefits accruing from the approved projects.

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. Summary of Assets Register

The financial statements under Annex 4 reflects Kshs.15,845,032 as the value of all the fixed assets of the Fund. However, the fixed assets register provided for audit had one (1) HP Scanjet 5590 series whose purchase price was not indicated. Further, the value of land was not included in the asset register neither was it disclosed in the summary of assets register. In addition, ownership documents for the land were not provided for audit.

In the circumstance, it is not possible to confirm the value of assets held by the Fund.

2. Emergency Projects

The statement of receipts and payments reflects other grants and transfers amount of Kshs.92,687,700 which included emergency projects payments amounting to Kshs.5,297,000 as reflected in Note 7 to the financial statements. Examination of payment vouchers in respect of the projects revealed that expenditure totalling to Kshs.550,000 in respect of Kabulwo Primary School and Kewapsos primary school did not have evidence to prove that they were emergencies in nature and did not therefore qualify to be funded under emergencies vote.

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 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, 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

Cash and Cash Equivalents – Unpresented Cheques

The statement of assets and liabilities reflects a balance of Kshs.25,902,896 for cash and cash equivalents as disclosed in Note 10A to the financial statements. Review of the bank reconciliation statement revealed an amount of Kshs.25,482,206 which represented 157 unpresented cheques with some dating as far back as 21 March, 2022. Management did not explain why payments would be made and then payees fail to cash their cheques. Further, the cheque dispatch register was not provided for review and it was not possible to confirm if or when the cheques were dispatched.

Delay in the presentation of the cheques may affect the subsequent cash and bank balances for the Fund.

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 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 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 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 Fund 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

13 June, 2023