

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NORTH IMENTI 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 control, 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 – North Imenti Constituency set out on pages 1 to 51, 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, 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 – North Imenti 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

1.0 Failure to Acknowledge Bursary

The statement of receipts and payments reflects other grants and transfers of Kshs.67,695,027 as disclosed in Note 6 to the financial statements. Included in this amount is Kshs.48,769,850 in respect to bursary - tertiary institutions out of which only Kshs.38,654,040 was acknowledged leaving a balance of Kshs.10,115,810 or 21% unacknowledged.

In the circumstances, the regularity of the bursaries amounts of Kshs.10,115,810 could not be confirmed.

2.0 Irregular Expenditures on Transfer to Secondary Schools

The statement of receipts and payments reflects transfers to other Government units of Kshs.89,850,000 as disclosed in Note 6 to the financial statements. Included in this amount is Kshs.31,350,000 in respect to transfers to secondary schools. However, review of the expenditure revealed the following anomalies;

- i. Runogone Day Secondary School was allocated Kshs.700,000 for completion of a 400-capacity dining hall, external finishes, kitchen floor, wall plastering, painting, plumbing works, energy saving jiko installation and purchase of 50 dining hall tables and 100 benches. However, verification conducted in March, 2023 revealed that the school had not been supplied with the 50 tables and 100 benches. Further, the school PMC account had a nil balance;
- ii. Kinoru Day Secondary School was allocated Kshs.500,000 for completion of dining hall and ceiling for kitchen stores, plastering, flooring, painting, purchase of 30 dining hall tables, 60 benches and installation of water system. However, verification done in March, 2023 revealed that the ceiling for the stores had not been done and no water system had been installed.

In the circumstances, the regularity and value for money for the expenditure of Kshs.1,200,000 could not be confirmed.

3.0 Unsupported Project Management Committees (PMC) Account Balances

Note 17.4 on other important disclosures and Annex 5 to the financial statements reflects Kshs.26,131,973 in respect to PMC account balances whose cashbooks, bank statements, bank reconciliation statements and certificates of bank balances were not provided for audit. Further, the balances were not returned to the constituency account contrary to Section 12(8) of National Government Constituencies Development Fund Act, 2015 which stipulate that all unutilized funds in the Project Management Committee accounts shall be returned to the constituency account.

In the circumstances, the accuracy and completeness of the PMC account balance of Kshs.26,131,973 could not be confirmed. Further, Management was in breach of the law.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - North Imenti 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

1.0 Budgetary Control and Performance

The summary statement of appropriation reflects final receipts budget of Kshs.199,863,175 and actual revenue of Kshs.187,774,296 resulting to an underfunding of Kshs.12,088,879 or 6% of the budget. Similarly, the Fund spent Kshs.171,867,798 against an approved budget of Kshs.199,863,174 resulting to an under expenditure of Kshs.27,995,385 or 14% of the budget.

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

2.0 Previous Year's Audit Report

The previous year's audit report of the Auditor-General for the Fund highlighted several audit issues. However, the Fund Management has not provided evidence of how the issues were dealt with and therefore are still outstanding.

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 Imprest Management and Control

Review of records revealed that the Fund did not maintain an imprest register to record issuance and control of imprests. Imprests were issued to staff without confirmation of

surrender of previously held, resulting to multiple imprest issuance. This is contrary to Regulation 93 (4) (b) of the Public Finance Management (National Government) Regulations, 2015, which states that before issuing temporary imprest to an officer, the Accounting Officer should ensure that the applicant has no outstanding imprests.

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

2.0 Irregularities in the Implementation of Primary Schools Projects

The statement of receipts and payments reflects transfers to other Government units of Kshs.89,850,000 as disclosed in Note 6 to the financial statements. Included in this amount is transfer to primary schools amount of Kshs.58,500,000 out of which Kshs.2,000,000 was transferred to Kambereu and Mbeu Primary Schools. However, the following anomalies were noted;

- i) Kambereu Boarding Primary School was allocated Kshs.1,100,000 for completion of boy`s dormitory, plastering, fixing metal doors and painting. However, verification conducted in the month of March, 2023 revealed that the school had not completed the dormitory and plastering has not been done;
- ii) Mbeu Primary School was also allocated Kshs.900,000 for renovating five (5) classrooms, roofing, flooring, wall plastering and painting. However, verification conducted in the month of March, 2023 revealed that flooring, wall plastering and painting has not been done.

In the circumstances, value for money on the expenditure of Kshs.2,000,000 could not be confirmed.

3.0 Delayed Delivery of Water Tanks to Primary Schools

The statement of receipts and payments reflects transfers to other Government units of Kshs.89,850,000 as disclosed in Note 6 to the financial statements. This amount includes transfers to primary schools of Kshs.58,500,000 out of which Kshs.723,800 was incurred on purchase of seven (7) 10,000 litres water tanks for primary schools. However, verification conducted in the month of March, 2023, revealed that the tanks were still lying at the Fund offices and had not been collected by the respective beneficiary schools.

In the circumstances, the regularity and value for money in the expenditure of Kshs.723,800 could not be confirmed.

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 so as 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 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 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 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 controls 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 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 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 controls 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

31 May, 2023