

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - OL KALOU 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 National Government Constituencies Development Fund - Ol Kalou Constituency set out on pages 1 to 44, which comprise of the statement of assets and liabilities as at 30 June, 2022, 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 the National Government Constituencies Development Fund – Ol Kalou 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 Inaccuracies in the Financial Statements

a) Double Payment on Emergency Projects

The statement of receipts and payments reflects a total expenditure of Kshs.157,030,382 which, as disclosed in Note 7 to the financial statements, includes other grants and transfers of Kshs.94,990,634. However, examinations of payment vouchers and other supporting documents revealed double payments on two emergency projects amounting to Kshs.3,886,000.

In the circumstances, the accuracy and propriety of expenditure amounting to Kshs.3,886,000 could not be confirmed.

b) Unsupported Expenditure

Included in other grants and transfers of Kshs.94,990,634 is an amount of Kshs.48,056,000 in respect of bursaries to secondary schools. However, review of documents provided revealed a transfer of Kshs.6,500,000 to Olkalou NG-CDF Bursary Committee which was not supported by payment voucher and list of beneficiaries. Further, Olkalou NG-CDF Bursary Committee Account was not disclosed in the financial statements.

In the circumstances, the accuracy and propriety of the expenditure amounting to Kshs. 6,500,000 could not be confirmed.

2.0 Unsupported Balances

Review of the financial statements revealed that various items with a total balance of Kshs.206,245,757 were not supported with ledgers, schedules and adjusting journals.

In the circumstances, the accuracy and completeness of the financial statements balances totalling Kshs.206,245,757 could not be confirmed.

3.0 Variances Between the Comparative Balances and Prior Year Audited Financial Statements

Comparison between 2020/2021 audited financial statements and the financial statements presented for audit revealed variances between the comparatives as shown below.

Component	Balance as per Audited Financial Statements for 2020/2021 (Kshs.)	Comparative Balance as per 2021/2022 Financial Statements (Kshs.)	Variance (Kshs.)
Communication, Supplies And Services	134,900	394,900	(260,000)
Domestic Travel and Subsistence	0	407,600	(407,600)
Training Expenses	0	620,000	(620,000)
Other Committee Expenses	0	908,000	(908,000)
Committee Allowance	0	3,730,000	(3,730,000)
Office and General Supplies and Services	0	309,565	(309,565)
Other Operating Expenses	0	400,000	(400,000)
PMC Account Balances	22,181,181	6,453,996	15,727,185

In the circumstances, the accuracy and completeness of the respective financial statements balances could not be confirmed.

4.0 Project Management Committee Bank Balances

Annex 5 to the financial statements reflects Project Management Committee accounts balances totalling to Kshs.27,165,700 which is at variance with the total of Kshs.17,165,700 reflected in the certificates of bank balances resulting to an unexplained variance of Kshs.10,000,000. Further, the balance has not been returned to the constituency account in spite many projects being completed and handed over to the user as per Section 12(8) of the National Government Constituencies Development Fund Act, 2015 which states that all unutilized funds of the Project Management Committee shall be returned to the constituency account.

In the circumstances, the accuracy and completeness of the amount of Kshs.27,165,700 could not be confirmed. Management was also in breach of the law.

5.0 Unsupported Committee Expenses and Allowances

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects Kshs.12,620,635 in respect to use of goods and services out of which Kshs.8,330,000 is in respect of committee expenses and allowances. However, the amount was not supported with requisite documents like prior approvals, attendance registers, imprest surrender vouchers, meeting notices and minutes. Further, delay in Imprests surrender was noted.

In the circumstances, the accuracy and propriety of committee expenses totalling Kshs.8,330,000 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 – Ol Kalou 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 total payments budget of Kshs.219,409,247 against actual payments of Kshs.157,030,382 resulting to an under absorption of Kshs.62,378,865 or 28%, indicating that some activities and budgeted projects may not have been implemented. Further, included in the budget revenue is Kshs.45,689,986 in respect to cash at bank, being funds released by the Board but not spent by the Fund. The statement also reflects funds pending approval of Kshs.166,000 from other receipts. Failure to spend the released funds denied the public equivalent services.

2.0 Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board Templates and The National Treasury Circular. In addition, the progress on follow up of prior year's auditor's recommendations is incomplete and does not include the prior year audit issues raised which remain unresolved.

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. Non-Compliance with Public Sector Accounting Standards Board (PSASB) Requirements

Examination of the financial statements revealed that the statement of receipts and payments, statement of assets and liabilities, and the statement of cashflow were not duly signed by a qualified registered finance officer as the registration membership number was not indicated.

In the circumstances, the presentation of the financial statements for the year under review is not in accordance with the prescribed PSASB format.

2. Project Implementation Status

Review of the project implementation status report revealed the following anomalies.

- i. Eighty-four (84) projects and programmes amounting Kshs.137,088,879 were being undertaken in the year under review. Included in these projects were 31 Projects totalling to Kshs.23,850,800 which had not started in spite of budget approval and allocations;
- ii. Included in the 84 projects are 6 projects amounting to Kshs.7,540,000 whose funds were reallocated to other projects/activities without approval;
- iii. Seven projects amounting to Kshs.6,960,000 are said to be complete or 95% complete and in use. However their completion status could not be confirmed as progress reports, completion certificates and hand over reports were not provided for audit and verification;
- iv. The approved projects progress reports and completion certificates for concluded projects were not provided for audit and

In the circumstances, the public did not get the value for money on the project expenditure of Kshs.137,088,879.

3. Project Inspection

Audit inspection of five (5) projects with a total of amount Kshs.6,004,000 during the month of March 2023 revealed the following anomalies.

No.	Name of Projects	Activity	Amount (Kshs.)	Observations
1	St Joseph's Primary School	Renovations of 12 classrooms	1,972,000	Project complete and put into use. However, no branding and handing over reports have been done
2	Passenga Primary School	Renovations of 9 classrooms to completion	1,160,000	Project complete, and put into use. However, no handed over reports. In addition, the floor has already dilapidated as at the time of audit inspection
3	Simba Senior Secondary School	Construction of 1 classroom to completion	1,508,000	Project complete but no branding has been done
4	Githima Primary School	Completion of kitchen with small store	464,000	Project complete but no branding has been done
5	Kahigu Primary School	Construction of a 6-door toilet	900,000	Project complete but no branding has been done

In the circumstances, the public did not get the value for money on the project expenditure of Kshs.6,004,000.

4. Failure to deduct Withholding Tax and Retention Fees

During the year under review, a total of Kshs.60,212,716 was spent on construction and renovation of buildings in respect to transfer to other government units, security and emergency projects. However, examination of payment vouchers revealed that withholding taxes and retention fees were not deducted from contractors with total contract sum of Kshs.60,212,716.

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

5. Un-approved Over Expenditure

5.1 Emergency Projects

The statement of receipts and payments reflects a total expenditure of Kshs.157,030,382 for the year ended 30 June, 2022. However, review of disbursement payment vouchers and minutes of the NG-CDF Committee provided for audit revealed that projects costing a total of Kshs.20,538,516 were funded as emergency projects for the year under review, which is over and above the Kshs10,970,462 of the approved budget by Kshs.9,568,054, contrary to Section 8 (1) of the National Government Constituencies Development Fund Act, 2015 which states that a portion of the fund, equivalent to five per centum shall

remain unallocated and shall be available for emergencies that may occur within the constituency.

Further, the budget execution by sectors and projects for the year ended 30 June, 2022 reflects a final budget balance of Kshs.9,192,207 against actual expenditure of Kshs.12,620,000 resulting to un-approved over expenditure by Kshs.3,427,793. In addition, the budget execution by sectors and projects reported actual balance of Kshs.12,620,000 was at variance with the committee's minutes balance of Kshs.20,538,516 by Kshs.7,918,516.

5.2 Bursary & Security Projects-Driving schools

The budget execution by sectors and projects for the year ended 30 June, 2022 reflects a final budget balance of Kshs.5,000,000 against actual expenditure of Kshs.8,249,400 resulting to un-approved over expenditure by Kshs.3,249,400.

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

6. Lack of Staff Establishment and Scheme of Service

The statement of receipts and payments reflects an expenditure of Kshs.2,908,606 in respect of compensation of employees. However, examination of personnel records disclosed that the Fund does not have an approved scheme of service for its staff to define job categories by profession, qualifications and experience, career progression and conditions of progression. In the absence of the scheme of service, it was not possible to ascertain how recruitment and promotion of staff is conducted. This was contrary to Section G.4 of the Public Service Commission HR Policies and Procedures Manual, 2015 which provides, inter alia, that Staff Performance Appraisal System (SPAS) is predicated upon the principle of work planning, setting of agreed performance targets, feedback and reporting. It is linked to other human resource systems and processes including staff development, career progression, placement, rewards and sanctions.

In the circumstances, Management was in breach of policies in place.

7. Irregular Procurement of Fuel, Oil and Lubricants

The statement of receipts and payments reflects an expenditure of Kshs.12,620,635 under use of goods and services which includes an amount of Kshs.950,000 in relation to fuel oil and lubricants. However, fuel, oil and lubricants were not included in the procurement plan. Further, detailed order book, work ticket copies and fuel registers were not maintained. Additionally, the fuel supplier statements showing Local Purchase Order numbers against which detail orders were drawing fuel were also not provided for audit. In the circumstance, value for money may not have been realised on the expenditure of Kshs.950,000 on fuel oil and lubricants.

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 matters described in the Basis for Conclusion on Report 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

1. Ineffective Internal Controls of Cash and Cash Equivalents

Review of cash books and other accounting records revealed the following cash and cash equivalents internal control and cash management weakness;

- i. The Management applies a petty cash imprest system to procure and run its office operations. However, there was no evidence of approved cash floats being applied and if there are regular surprise cash counts, Further, the petty cash books and imprest registers among other records were not provided for audit;
- ii. The monthly reconciliations were also not done on a timely basis.
- iii. In some cases, the transaction dates could not be confirmed from the cash book. The cash book has also no evidence of review by the senior officers hence poor internal checks;
- iv. Description of payment column is also not indicated in some cashbooks;
- v. Cheques were written per individual beneficiaries instead of the respective institutions supported by the beneficiaries' schedule. This resulted to tedious unnecessary work of raising numerous cheques, distributions and volumes of transactions hence resources wastage and reconciliation challenges;
- vi. No evidence of reconciled reports sent or forwarded to relevant authorities on a timely basis as required by the law;
- vii. There were no cash book ledgers and, in some cases, single entries were made in the manual cashbooks and also incomplete reversals hence incomplete recording and;

- viii. All cashbooks are manual and are prone to errors, inaccuracies and possible manipulations of amounts and balances brought forwards.

In the circumstances, the effectiveness of the internal controls regarding cash and treasury management could not be confirmed.

2. Inefficient Asset Management

The summary of fixed asset register as disclosed in Annex 4 to the financial statements reflects fixed assets totalling Kshs.54,247,495. However, the Management did not provide an updated detailed fixed asset register to support the above balance. In addition, included is buildings and structures of Kshs.27,451,403, transport equipment of Kshs.22,220,521, ICT Equipment, Software and Other ICT assets of Kshs.1,536,030 and intangible assets Kshs.1,198,000 whose analysis and ownership documents were not provided. Also excluded from the asset register is a motor vehicle registration number GKA 646T of unknown value whose logbook and other ownership documents were also not provided for audit verification.

Further, the following anomalies and shortcomings were also noted in regard to fixed assets management.

- i. There was no evidence of assets counts or inventory and verification for year under review to confirm that all reported assets do exist and were effectively working;
- ii. There was no detailed asset register showing key assets information like date of acquisition, costs, accumulated depreciation, net book values, and no correct assets location/custodian indicated for the assets bought before the financial year under audit and therefore it was not possible to establish fully depreciated assets, specific bonded items and how the same will be written off in the books of accounts;
- iii. It was also noted that most of the assets were not tagged and asset movement's registers not appropriately kept;
- iv. Further, the assets were not insured;
- v. There was no asset valuation report yet some of the assets were over 8 years old while others have outlived their economic value and;
- vi. There was no evidence of disposal even though several bonded items were kept in the stores. Such uneconomically viable assets should be disposed of off to save on storage costs, space and obtain better salvage value before they completely go obsolete.

In the circumstances, the effectiveness of the asset management systems and controls in place could not be confirmed.

3. Lack of a Risk Management Policy and Disaster Recovery Plan

The audit revealed that the Fund did not have in place an approved Risk Management Policy and a Disaster Recovery plan. This is contrary to the provisions of Regulation 165(1)(a) and (b) of the Public Finance Management (National Government) Regulations 2015 which states that the accounting officer shall ensure that the national government entity develops risk management strategies which include fraud prevention mechanism and a system of risk management and internal controls that builds robust business operations.

In the circumstances, the effectiveness of Fund's preparedness against unforeseen eventualities could not be confirmed.

4. Lack of a Bursary Policy

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects Kshs 94,990,634 in respect of transfers to other government units which includes amounts of Kshs.48,056,000 and 22,170,000 as bursaries awarded to beneficiaries in secondary schools and tertiary institutions respectively. However, the Fund does not have a documented bursary policy guideline, procedures and processes to ensure efficient and effective management of the bursary fund contrary to CDF Board circular no. Vol. 1/111 dated 13 September, 2010. It is therefore not clear as to the minimum and maximum amount that can be awarded as bursary to a beneficiary. In addition, it was noted that there was no evidence of vetting of the bursary applicants and it is not clear how the beneficiaries of the bursary were identified.

In the circumstances, the effectiveness of internal control system used to award bursaries could not be confirmed.

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 (Accrual Basis) and for maintaining effective internal controls 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 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 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 scepticism 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

14 June, 2023