

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – SAMBURU EAST 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 control, 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 – Samburu East Constituency set out on pages 1 to 37, which comprise the statement of assets and liabilities as at 30 June, 2022, and the statement of receipts and payments, statement of cash flows and 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 - Samburu East 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracy in Brought Forward Balance

The financial statements submitted for audit review revealed that the Project Management Committee account balances as disclosed in Note 17.4 reflects a total comparative amount of Kshs.353,410 while 2020/2021 audited financial statements reflects Kshs.2,967,837 resulting to unexplained variance of Kshs.2,614,837. In addition, the statement of cashflow refers to the year 2021-2021 instead of 2021-2022.

In the circumstance, the accuracy balances in the financial statements could not be confirmed.

2. Unsupported Expenditure

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects a balance of Kshs.8,337,998 in respect to use of goods and services which includes Kshs.2,500,000 training expenses. Included in this component is an expenditure of Kshs.1,596,000 incurred on monitoring and evaluation. However, no monitoring and evaluation reports were provided for audit review.

In the circumstances, the validity and value for money of the Kshs.1,596,000 expenditure could not be confirmed.

3. Unaccounted for Bursary Funds

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects Kshs.49,588,479 in respect to other grants and other transfers which includes bursaries amounting to Kshs.16,352,325 disbursed to various secondary schools and Kshs.17,477,525 to tertiary institutions all totalling to Kshs.33,829,850 for the benefit of needy students. However, acknowledgement by the beneficiary institutions were not provided for audit review.

In the circumstance, the completeness, and validity of the disbursement of Kshs.33,829,850 could not be confirmed.

4. Unsupported Bank Balances

The financial statements and as disclosed in Note 17.4 reflect Project Management Committees (PMC) accounts balances of Kshs.94,007 and as detailed in Annex 5 to the financial statements. However, the bank reconciliations statements and their related

supporting documents were not provided for audit review contrary to Regulation 90(1) of the Public Finance Management (National Government) Regulations, 2015 which require that Accounting Officers shall ensure bank accounts reconciliations are completed for each bank account held by that Accounting Officer, every month and, submit a bank reconciliation statement not later than date 10 of the subsequent month to the National Treasury with a copy to the Auditor-General.

In the circumstances, the validity and accuracy of the PMC account balances of Kshs.94,007 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 – Samburu East 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 judgement, 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 actual expenditure of Kshs.169,955,950 against an approved budget of Kshs.195,138,118 resulting to an under-expenditure of Kshs.25,182,168 or 12.9% of the budget.

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

2. Unresolved Prior Year Matters

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

3. Project Implementation Status Report

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects transfer to other government units amounting to Kshs.107,239,800 for projects in Primary, Secondary and Tertiary Institutions. However, the Management did not provide the updated project implementation status report (PIS) for audit review.

In the circumstance, it has not been possible to confirm the status of the projects that were planned, budgeted for and implemented during the year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution and 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. Delays in Implementation of Projects

The financial statements and as disclosed in Note 17.3 under other important disclosures reflects unutilized funds amounting to Kshs.25,182,164 which includes Kshs.19,839,924 for transfers to other government entities for undertaking projects in primary, secondary and tertiary institutions for the year under review. However, as at 30 June 2022 the funds were still lying idle in the Samburu East constituency main account. No plausible explanation was given for the delays in disbursing the funds to the beneficiary institutions thereby denying the public the benefits accruing from the use of the funds.

In the circumstances, the value for money in undertaking the projects could not be confirmed.

2. Under-Allocation of Funds for Bursaries

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects a balance of Kshs.49,588,479 in respect to other grants and other transfers which includes Kshs.16,352,325 and Kshs.17,477,525 totalling to Kshs.33,829,850 in respect to bursary allocated to secondary schools and tertiary institutions. The bursary allocation of Kshs.33,829,850 translates to nineteen percent (19%) contrary to Section 21(5) of National Government Constituencies Development Fund regulations 2016, which requires that a constituency committee shall allocate not less than twenty five percent of the funds allocated to a constituency bursaries.

In the circumstance, the Management is in breach of law.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs) 3000 and 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 CONTROL, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015 and 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

Risk Management Policy

The Management had not developed a risk management policy to guide it on risk assessment and formulation of risk mitigation strategies in the year under review. This is contrary to Regulation 165(1)(a)(b) of the Public Finance Management Act (National Government) Regulations, 2015 which requires the Accounting Officer to ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal control that builds robust business operations.

In the circumstances, it has not been possible to confirm whether the internal controls built within the financial and operational systems were functioning as intended.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAI's) 2315 and 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 control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the 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 controls 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 controls 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 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

15 May, 2023