

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - GANZE 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 - Ganze Constituency set out on pages 1 to 45, 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 - Ganze Constituency as at 30 June, 2022, and 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. Inaccuracies in the Financial Statements

Review of financial statements presented for audit revealed the following inaccuracies:

- i. The statement of receipts and payments and Note 5 to the financial statements reflects payments in respect of use of good and services for the comparative year totalling to Kshs.12,060,336. However, the re-computation of the amount results to a total of Kshs.8,134,956 resulting in an unexplained and unreconciled variance of Kshs.3,925,380.
- ii. The summary statement of appropriation reflects original budget payments total of Kshs.137,088,879 while the recomputed amount is Kshs.137,115,879 resulting to a variance of Kshs.27,000.
- iii. The summary statement of appropriation reflects Nil balance in respect of adjustments for cashbook and AIA while the statement of assets and liabilities Fund balance brought forward is Kshs.102,496,920. The variance was not explained.
- iv. The budget execution by sectors and projects reflects total final budget of Kshs.286,145,318 which when recomputed total to Kshs.283,442,318 resulting to a variance of Kshs.2,703,000 attributed to erroneous inclusion of unapproved funds.

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

2. Unexplained Variance in Previous Years' Outstanding Disbursement Amounts

The summary statement of appropriation reflects previous years' outstanding disbursements of Kshs.49,688,879. However, review of records provided for audit including Authority to Incur Expenditure (AIE) revealed that the Fund received Kshs.33,000,000 in 2020/2021 financial year resulting to unexplained variance of Kshs.16,688,879.

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

3. Unsupported Payments for Other Grants and Transfers

The statement of receipts and payments and Note 7 to the financial statements reflects payments in respect of other grants and transfers totalling to Kshs.61,425,451. Review of the records provided in support of the expenditure revealed the following anomalies:

3.1 Missing Registration and Shared Admission Numbers

Included in the payments on other grants and transfers are bursary disbursements in respect of Secondary Schools and Tertiary institutions totalling to Kshs.21,841,000 and Kshs.17,320,000 respectively. Review of the beneficiaries list revealed that the Management approved and issued bursaries amounting to Kshs.671,000 out of which Kshs.171,000 was in respect of Secondary School students and Kshs.500,000 for Tertiary institutions students and whose admission or registration numbers were not indicated in both the bursary application forms and award schedules. In addition, Management approved and awarded bursary amounting to Kshs.475,000 for Secondary School students and Kshs.110,000 for Tertiary institutions students who had similar admissions numbers in the same schools/institutions.

3.2 Irregular Award of Bursaries

Included in payments on other grants and transfers are bursary disbursements in respect of Special Schools totalling to Kshs.1,000,000. Review of records revealed that included in the amount is bursary totalling to Kshs.560,000 awarded to beneficiaries in institutions that did not qualify as special needs schools. Management did not provide evidence in form of disclosure in bursary application forms or minutes of bursary awards to confirm that the beneficiaries had special needs.

In the circumstances, the accuracy, validity and completeness of bursary payments totalling to Kshs.1,816,000 could not be confirmed.

4. Unsupported Payments for Office and General Supplies

The statement of receipts and payments and Note 5 to the financial statements reflects payments in respect of use of good and services totalling to Kshs.7,589,852. Included in this amount is Kshs.639,745 in respect of payments for office and general supplies, out of which Kshs.355,000 was paid on 10 September, 2021 but whose payment voucher and other supporting documents were not provided for audit review.

In the circumstances, the accuracy and propriety of the payments on office and general supplies totalling to Kshs.355,000 could not be confirmed.

5. Accuracy of Cash and Cash Equivalent Balance

The statement of assets and liabilities and Note 10A the financial statements reflect a bank balance of Kshs.11,890,002. Review of the supporting bank reconciliation statement as at 30 June, 2022 revealed unrepresented cheques totalling to Kshs.2,981,871, out of which cheques for Kshs.191,339 were stale. Management did not explain why the stale cheques had not been reversed in the cashbook.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.11,890,002 could not be confirmed.

6. Unexplained Variances and Unutilized Funds in the PMC Bank Accounts

Note 17.4 to the financial statements and as detailed in Annex 5 to the financial statements reflects total PMC bank account balance of Kshs.88,551,332. However, the certificates of bank balances reflect a total of Kshs.111,810,777 resulting in unexplained variance of Kshs.23,259,444. In addition, three (3) PMC bank balances with a total of Kshs.580,756 had a similar balance in the comparative year, indicating no transactions in the last twelve (12) months. However, Management did not explain why the unutilized funds had not been returned to the Fund's main bank account.

In the circumstances, the accuracy of cash and cash equivalents balance could not be confirmed.

7. Long Outstanding Imprests Balance

The statement of assets and liabilities and Note 11 to the financial statements reflects a balance of Kshs.3,129,360 in respect of outstanding imprests. The amount relates to long outstanding imprests issued between 8 June, 2009 and 14 February, 2014 to four (4) former employees of the Fund.

In the circumstances, the recoverability of the outstanding imprests balance of Kshs.3,129,360 and accuracy of the total financial assets balance of Kshs.15,019,360 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 - Ganze 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.

Emphasis of Matter

Budgetary Control and Performance

The summary statement of appropriation reflects final receipts budget and actual amounts on comparable basis of Kshs.186,777,758 and Kshs.174,377,758 respectively, resulting to under-funding of Kshs.12,400,000 or 7% of the budget. Similarly, the Fund spent Kshs.261,855,317 against an approved budget of Kshs.289,274,687, resulting to an under-expenditure of Kshs.27,419,361 or 9% of the budget.

The under-funding and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

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

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. Although Management has indicated as having resolved the prior year audit issues, no evidence was provided to support that status and no reasons were provided for the delay in resolving these prior year audit issues.

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. Abandoned Security Projects

The statement of receipts and payments and Note 7 to the financial statements reflects payments in respect of other grants and other transfers totalling to Kshs.61,425,451. Included in the amount are payments in respect of security projects totalling to Kshs.10,166,897, out of which Kshs.6,666,897 is in respect of construction of two (2) bedsitters and a single-bedroom house, chain-link and concrete fencing/gate installation and purchase of one (1) ten thousand litre water tank, construction of a water tank base and installation of fascia boards, gutters and pipes at Vitengeni Police Station Project. During physical inspection of the project in the month of March, 2023, it was observed that the station comprised a building funded by the Constituency in 2018/2019 financial year and the projects funded in 2021/2022 financial year. However, the police station and the houses had not been put into use, the station building looked neglected/dilapidated and the compound not properly maintained. Management did not explain the failure to use the projects. Further, the ownership document for the land where the police station is erected was not provided for audit.

In the circumstances, value for money totalling to Kshs.6,666,897 on security projects for could not be confirmed.

2. Irregular Award of Contracts

Review of procurement documents for projects implemented by the Fund under transfers to other government units revealed that Management procured and implemented the contracts for four (4) projects at a total cost of Kshs.27,779,315. However, the performance securities in form of unconditional bank guarantees for the contracts were not provided for audit review which exposed public funds to possible losses in case of non-performance by contractors, contrary to Section 142(1) of the Public Procurement and Asset Disposal Act, 2015, which states that subject to the regulations, a successful tenderer shall submit a performance security equivalent to not more than ten per cent of the contract.

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

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 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 Fund's 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 controls 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 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 Management.
- Conclude on the appropriateness of 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 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 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 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 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

12 June, 2023