

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - HOMA BAY TOWN 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 - Homa Bay Town Constituency set out on pages 1 to 30, which comprise the statement of assets and liabilities as at 30 June, 2022, the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts 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 effects of the matter 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 - Homa Bay Town 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

Understatement of Compensation of Employees

The statement of receipts and payments reflects compensation of employees expenditure of Kshs.4,081,273 as further disclosed in Note 4 to the financial statements. However, recomputation of the ledger provided revealed a total Kshs.3,894,957 comprising of basic salaries of Kshs.1,991,959, NSSF contribution by employer of Kshs.102,998 and payment to casuals of Kshs.1,800,000, therefore, resulting in an unexplained variance of Kshs.186,316.

In the circumstances, the accuracy and completeness of the compensation of employees balance of Kshs.4,081,273 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 the National Government Constituencies Development Fund - Homa Bay Town 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.

Emphasis of Matters

1. Budgetary Control and Performance

The summary statement appropriation for the year under review reflects total budgeted receipts of Kshs.208,535,583 and actual receipts of Kshs.182,535,583 resulting to overall under receipts of Kshs.26,000,000 (or 12%).

Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.208,585,583 and Kshs.159,014,483 respectively resulting in an underperformance amounting to Kshs.49,571,100 (or 24%).

The underfunding and under-expenditure affected the planned activities and may have impacted negatively on service delivery to the residents of Homa Bay Town Constituency.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several matters were raised under the Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management was yet to resolve the issues as provided by the Public Sector Accounting Standards Board templates and firmed by The National Treasury's Circulars.

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 sections 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. Engagement of Excess Casual Employees

Included in the compensation of employees expenditure of Kshs.4,081,273 are basic salaries amounting to Kshs.3,983,283 as disclosed in Note 4 to the financial statements. Review of ledger and payment vouchers provided for audit revealed that an amount of Kshs.1,800,000 was paid in respect of casual wages. However, the Management engaged thirty (34) employees on casual terms contrary to the provisions of the NG-CDF circular referenced CDFBOARD/Circulars/Vol.II/166 which requires only five (5) posts to be filled at Constituency level consisting of a Clerical Officer, Accounts Assistant, Clerk of Works, Records Management Officer and a Driver. The excess employees lacked job specifications and there were no Committee minutes that sanctioned their employment.

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

2. Unapproved Change of Project Scope at Wiga Primary School

The statement of receipts and payments reflects transfers to other Government units of Kshs.83,893,098. As disclosed in Note 6 to the financial statements, the amount includes transfers to primary schools of Kshs.65,185,168. Review of records revealed that an amount of Kshs.500,000 was transferred to Wiga Primary School for completion of two (2) classrooms. The scope of works included external plastering, fitting of window panes and painting.

Field inspection of the project on 29 June, 2023 revealed that the project had not been completed and the funds had been diverted to tiling of the floor leaving the project incomplete. Management did not provide an approval of the National Government Constituency Development Fund by the Board authorising reallocation. This is contrary to Section 6(1) of the National Government Constituency Development Fund Act, 2015 which provides that once funds are allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose during the financial year with the approval of the Board.

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

3. Project Implementation Status

Field inspection of projects carried out at the time of audit in the month of June, 2023 revealed several matters regarding implementation of projects as tabulated below:

Name of the Project	Approved Activity	Amount Allocated (Kshs.)	Status
St. Pius Ndiru Secondary School	Construction of a Laboratory Foundation Walling and Roofing of an approximate 60 Students Laboratory building	3,500,000	Project ongoing at procurement stage.
Chiga Secondary School	Completion of 200 student capacity library to enhance student learning. The works comprised roofing, fittings and plastering	2,000,000	Construction works of the project is ongoing and is at roofing level.
Wiobiero Secondary School	Completion of 45 students capacity laboratory. The works comprised fittings, plastering, plumbing works and painting	1,000,000	The project is incomplete and ongoing.
Kuja Mixed Secondary School	Completion of 4 Classrooms comprising of roofing, openings, plastering, electrical works and painting.	1,700,000	The Project is incomplete and in use.
St. Peter Disii Secondary School	Completion of 2 classrooms comprising fitting of windows and doors, plastering, painting and screed application	500,000	Incomplete and not in use, floor not done painting not done.
St. Camillus Ojunge Mixed Sec mixed Secondary School	Completion of 60 student capacity science laboratory including fitting of the windows and doors, plastering, painting, screed application, tiling electrical works	1,511,120	Incomplete, ongoing and not in-use.
St Domimonic Wiga Mixed Secondary School	Construction of 2 Classrooms	1,700,000	Floor not done, windows not fixed, doors not fixed.

Name of the Project	Approved Activity	Amount Allocated (Kshs.)	Status
Komollo Chiefs Office	Construction of Chief's office Consisting of 2 offices, a conference and waiting bay foundation	700,000	Only Foundation and walling done.
Kanyach Kachar Chiefs Office	Construction of Chief's office Consisting of 2 offices, a conference and waiting bay foundation	700,000	Only Foundation and walling done.
Wiga Primary School	Completion of 2 classrooms including external plastering, fitting of window panes painting to completion.	500,000	External Plastering painting and fixing of window panes not done.
Total		13,811,120	

In the circumstances, project costs may escalate and the public may not obtain value for money from the expenditure of Kshs.13,811,120 for the year ended 30 June, 2022.

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 to obtain assurance about whether processes and systems of internal control, risk management and 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 ability of National Government Constituencies Development Fund - Homa Bay Town Constituency to sustain services, disclosing, as applicable, matters related 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 ability of the Fund 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 sustaining 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 National Government Constituencies Development Fund Homa Bay Town Constituency 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

12 September, 2023