

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SAKU 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 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 - Saku Constituency set out on pages 1 to 54, which comprise of the statement of financial assets and liabilities as at 30 June, 2022, and the statement of receipts and payments, statement of cash flows and summary of 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 - Saku 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Use of Goods and Services

1.1 Irregularities in Fuel Expenses

The statement of receipts and payments reflects Kshs.9,832,100 in respect to use of goods and services as disclosed in Note 5 to the financial statements. Included in this amount is a payment of Kshs.1,129,134 made for supply of fuel for the Fund's motor vehicles. However, the following anomalies were observed: -

- i. No procurement file detailing the procurement process (opening, evaluation and award of the contract) was provided for audit.
- ii. The total volume of fuel requisitioned through the detail orders totalled to 1,385 liters while the volume of fuel paid for was 9,684 liters leading to an unexplained variance of 8,299 liters.
- iii. The supporting work tickets provided for audit reflects 4,255 liters of fuel drawn against the 9,684 liters paid for, resulting to an unexplained variance of 5,429 liters.
- iv. Invoices supporting payments were dated between 09 October, 2020 to 19 June, 2021 but the payment was made on 08 March 2022. However, review of the prior year financial statements reflected nil pending bills.
- v. Motor vehicles other than those belonging to the Fund (GKB 531R and GKA 992X) drew fuel amounting to 4,384 litres worth Kshs.496,124.

In the circumstances, the accuracy completeness and propriety of the expenditure of Kshs.1,129,134 for fuel could not be confirmed.

1.2 Unsupported Routine Maintenance and Repairs of Motor Vehicles

The statement of receipts and payments reflects Kshs.9,832,100 in respect to use of goods and services which includes Kshs.617,550 for maintenance and repairs of vehicles as disclosed in Note 5 to the financial statements. However, the payment was not supported by relevant documents including pre and post mechanical inspection reports, identification of the service provider, local service order and work tickets detailing motor vehicle defects to justify the expenditure.

In the circumstances, occurrence, accuracy and completeness of the expenditure of Kshs.617,550 could not be confirmed.

2. Fixed Assets

2.1 Lack of Fixed Assets Register

Annex 4 to the financial statements on summary of fixed assets reflects Kshs.57,543,726 in respect of fixed assets as at 30 June, 2022. However, no fixed assets register was provided for review. Further, the balance for assets acquired during the year was reflected at Annex 4 as Kshs.32,090,346 while Note 8 to the financial statements on acquisition of assets reflects a balance was Kshs.32,696,416 resulting to a variance of Kshs.606,070.

2.2 Lack of Ownership Documents for a Motorcycle

The statement of receipts and payments reflects acquisition of assets amount of Kshs.32,696,416 which, as disclosed in Note 8 to the financial statements, includes an amount of Kshs.606,070 in respect of a motorcycle. However, no documentary evidence (log book) was provided for review to confirm ownership.

In the circumstances, the accuracy, ownership, valuation and completeness of the fixed assets balance of Kshs.57,543,726 could not be confirmed.

3. Other Grants and Transfers

3.1 Unexplained Variance

The statement of receipts and payments reflects other grants and transfers amount of Kshs.70,115,959 which includes Kshs.18,509,070 in respect of bursary to tertiary institutions. However, the ledgers and other supporting schedules for the bursary to tertiary institutions totalled to Kshs.19,446,070 resulting to an unexplained variance of Kshs.937,000.

In the circumstances, accuracy of other grants and transfers of Kshs.70,115,959 could not be confirmed.

3.2 Unacknowledged Bursary Disbursements

The statement of receipts and payments reflects other grants and transfers of Kshs.70,115,959 which includes Kshs.30,770,289 for bursary to secondary schools and Kshs.18,509,070 for bursary to tertiary institutions respectively. Included in the balances were disbursements to needy students amounting to Kshs.43,752,464. However, no acknowledgement receipts or letters by the beneficiary institutions were provided for review.

In the circumstances, it has not been possible to confirm whether the intended beneficiaries received the disbursements.

4. Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents of Kshs.64,297,367 as disclosed in Note 10 to the financial statements. However, the bank reconciliation statement for 30 June, 2022 reflected unrepresented cheques totalling to Kshs.17,835,385 which further included eight (8) stale cheques totalling Kshs.3,448,629. The stale cheques had not been replaced or reversed in the cash book as at 30 June, 2022 thereby understating the cash and cash equivalents balance by the same amount.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.64,297,367 could not be confirmed.

5. Non-Provision of Staff Files and Unsupported Gratuity Payments

The statement of receipts and payments reflects Kshs.5,525,723 in respect of compensation of employees which includes gratuity payments of Kshs.1,975,553 as disclosed in Note 4 to the financial statements. However, personal files for the employees were not provided for review and therefore, existence and legality of engagement of the employees could not be confirmed.

Further, a total of Kshs.1,975,553 was during the year under review paid as gratuity to members of staff whose contracts had ended. However, the payment vouchers were not supported by payment advice, staff bank accounts and there was no evidence in the bank statements that indicated that the funds were paid into the recipients' bank accounts.

In the circumstances, the accuracy of the compensation of employees' balance of Kshs.5,525,723 could not be confirmed.

6. Account Payables

Note 17.1 to the financial statements reflects a pending bill amounting to Kshs.2,507,403 due to Marsabit Toyota Kenya which has remained outstanding for over two years. Despite the Fund having unspent funds as at the closure of each financial year, Management did not explain why the payment for this service has remained outstanding for long. Management did not also provide documents to confirm authenticity of the payable amount.

In the circumstances, the authenticity, accuracy and completeness of the payable amount of Kshs.2,507,403 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 - Saku 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 Fund's summary statement of appropriation for the year ended 30 June, 2022 reflects budgeted payments of Kshs.236,709,894 and actual payments of Kshs.160,323,648 (67.7%) resulting to an under-expenditure of Kshs.76,386,246 or 32.3% of the budget. The underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

2. Prior Year Matters

In the audit report of the previous year, several paragraphs were raised under the report on financial statements, report on lawfulness and effectiveness in use of public resources, and report on effectiveness of internal control, risk management and governance. Although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the relevant Parliamentary Committee has not met to deliberate on the same.

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. Un-Surrendered PMC Bank Account Balances

Annex 5 to the financial statements reflects Project Management Committee (PMC) bank accounts balance of Kshs.1,822,818 which was held by various PMCs bank accounts at the close of the year. This is contrary to Section 12(8) of the National Government Constituency Development Fund Act, 2015 which require that the balances should be returned to the main constituency operations bank account at the close of the year and the same be receipted as other receipts in the cash book.

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

2. Irregular Procurement Process

The Fund through Goro Ruseka Project Management Committee (PMC) procured a contractor for the construction of dormitory and purchase of beds for Goro Ruseka secondary school by request for quotations method of procurement. However, the contract price awarded amounted to Kshs.5,980,740. Under this category the allowed threshold is Kshs.5,000,000. Therefore, use of request for quotations was irregular. No explanation was given to justify why the works were not procured using open tender.

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

3. Transfers to Other Government Units

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects Kshs.42,153,450 in respect to transfer to other Government entities which includes Kshs.18,240,000 disbursed to various institutions for implementation of various projects. However, physical verification of the projects carried out revealed the following anomalies:

3.1 Construction of Two Classroom

A total of Kshs.5,000,000 was transferred to ACK St. Peter's Mixed Day Secondary School for construction of two classrooms and staircase. However, the soffits of suspended ceiling were not fixed despite being charged Kshs.151,200 in the Bills of Quantities and electrical socket outlets and power points costing Kshs.76,500 were not fitted. Further, the payment was not supported by an Engineers estimate for project cost estimation and works completion certificate, tender opening minutes, evaluation minutes, tender award letters and Inspection and Acceptance Committee certificate as required by Regulation 35(6) of the Public Procurement and Asset Disposal Regulations, 2020. Further, the Project handing over reports required under Regulation 15(f) of the National Government Constituency Development Fund Regulations, 2016 were not provided.

3.2 Construction of a Dormitory

A total of Kshs.5,000,000 was transferred to Saku High School for construction of a dormitory. However, the paving slabs around the building were not done despite being charged at Kshs.120,000 in the Bills of Quantities. Further, there was cracks on the floor an indication of poor workmanship. In addition, the payment was also not supported by an Engineers estimate for project cost estimation and works completion certificate, tender opening minutes, evaluation minutes, tender award letters and Inspection and Acceptance Committee certificate as required by Regulation 35(6) of the Public Procurement and Asset Disposal Regulations, 2020. Further, the Project handing over reports required under Regulation 15(f) of the National Government Constituency Development Fund Regulations, 2016 were not provided.:

3.3 Construction of a Chief's Office Block

A total of Kshs.2,500,000 was transferred Drab Gombo Chiefs' Office for construction of an office block. However, physical verification revealed that there were cracks on the floor an indication of poor workmanship.

3.4 Various Construction and Supplies at Songa Mixed Secondary School

The Fund transferred a total of Kshs.4,200,000 to Songa Mixed Secondary School for various constructions and supplies which included construction of one classroom to completion at Kshs.1,500,000, purchase of 50 students' lockers and chairs at Kshs.400,000, purchase of two 10,000 liters plastic water tank at Kshs.240,000, construction of two tank bases at Kshs.80,000, installation of fascia boards and gutters at Kshs.80,000, construction of two (2) room staff quarters block to completion at Kshs.1,400,000 and construction of one 2-door pit latrine block with one door for persons with disability to completion at Kshs.500,000. However, the lockers were not supplied despite having been paid for, one of the tanks supplied was vandalized and one door for the pit latrine was not made accessible for persons with disability.

3.5 Construction of One Classroom

The Fund transferred a total of Kshs.1,540,000 to Songa Primary School for construction of one classroom and supply of 202 metal-frame pupil's desks. However, though the classroom was constructed, it had not been put to use.

In the circumstances, it was not possible to confirm whether value for money was obtained from the expenditure incurred on the projects.

4. Execution and Handover of Projects

Note 7 to the financial statements reflects Kshs.70,115,959 in respect to other grants and transfers which includes Kshs.20,836,600 in respect to construction of various projects as shown in the table below: -

Description	Kshs.
Security Projects	12,196,840
Sports Projects	1,496,000
Environment Projects	500,000
Emergency Projects	6,643,760
Total	20,836,600

However, handover reports, detailing procurement processes, work plans and corresponding list of approved/registered suppliers as provided for in Regulation 15(a) to (f) of the National Government Constituencies Development Fund Regulations, 2016 were not provided for review.

Further, no evidence was provided to support whether the expenditure of Kshs.6,643,760 on emergency projects was reported to the Board within thirty days of the occurrence of the emergency, in the format prescribed by the Board in compliance with

Regulation 20(2) of the National Government Constituency Development Fund Regulations, 2016.

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 comply, 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, 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

Lack of a Risk Management Policy

The Fund has not developed risk management strategies, which include fraud prevention mechanism, risk management system and internal control that builds robust business operations.

In the absence of a risk management policy, the Fund may be exposed to disruptions that may negatively affect the achievement of its goals and objectives.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs) 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 (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 Fund's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or 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 comply 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 control, 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 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 control 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 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 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 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

30 May, 2023