

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – ENDEBESS 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 - Endebess Constituency set out on Pages 1 to 46, 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 the National Government Constituencies Development Fund - Endebess 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Unsupported Other Receipts

The statement of receipts and payments reflects other receipts balance of Kshs.539,500 as disclosed in Note 3 to the financial statements. Management indicated that the funds were received as a donation from the Embassy of Republic of China for purchase of computers. However, there was no documentation to show receipt of the funds as a donation and supporting agreements between the Fund and the donor. Further, evidence of approval by the Cabinet Secretary- National Treasury was also not provided.

In the circumstance, accuracy and regularity of the donation of Kshs. 539,500 could not be ascertained.

2. Accuracy of Cash and Cash Equivalents

The statement of assets and liabilities reflects bank balances of Kshs.3,774,395. However, Note 10 to the financial statements reflects a balance of Kshs.3,670,898 resulting to unreconciled variance of Kshs.103,497.

In the circumstances, the accuracy of the bank balance of Kshs.3,774,395 could not be confirmed.

3. Unsupported Prior year Adjustment

The statement of assets and liabilities reflects prior year adjustment balance of Kshs.103,497 as disclosed in Note 14 to the financial statements. However, the adjustment was not explained or supported by any journal voucher and other supporting documentation.

In the circumstances, the accuracy and completeness of the net financial position of the Fund could not be ascertained.

4. Misstatement of Transfers from the Board

The summary statement of appropriation reflects transfers from the Board actual amount of Kshs.176,816,292. The figure which varies with the total of opening bank balance of Kshs.6,830,910 and the transfers from the Board during the year of Kshs.170,088,879 amounting to Kshs.176,919,789 resulting to unreconciled variance of Kshs.103,497.

In the circumstances, the accuracy of the transfers from the board could not be confirmed.

5. Unsupported Project Management Committee Bank Balances

Annex 5 to the financial statements - Project Management Committee (PMC) bank balances reflects an amount of Kshs.46,192,710 as at 30 June, 2022. However, the bank balances are not supported by cash books, bank reconciliation statements and certificate of bank balances. Further, the balance includes an amount of Kshs.113,597 which is held in dormant bank accounts instead of being returned to the Fund account as required by

Section 12(8) of the National Government Constituencies Development Fund Act, 2015 that all unutilized funds of the Project Management Committee shall be returned to the constituency account.

In addition, Note 17.4 to the financial statements reflects PMC account balances of Kshs.28,754,883 for the year ended 30 June, 2021 which varies with Kshs.16,553,383 reflected in the previous year's audited financial statements by Kshs.12,201,500.

In the circumstance, the accuracy and completeness of the PMC bank balance of Kshs.46,192,710 could not be ascertained.

6. Ownership, Valuation and Existence of Assets

The Annex 4 to the financial statements is a summary of fixed assets amounting to Kshs.32,321,262 as at the financial year ended 30 June, 2022. This amount includes an amount of Kshs.6,253,343 in respect of motor vehicle whose log book was not presented for audit. Further, the assets register contained 11 assets with no cost amount or valuation amount. Management is therefore, in contravention of Section 72(l) of the Public Finance Management Act, 2012 which requires an Accounting Officer for a national government entity to be responsible for the management of the entity's assets and liabilities in a way which ensures that the national Government entity achieves value for money in acquiring, using and disposing of those assets.

In the circumstances, the ownership, valuation and existence of assets 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 - Endebess 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 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

Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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

1.0 Project Implementation

The project implementation status report as at 30 June, 2022 provided revealed that out of the total one hundred and twenty-three (123) projects, ninety (90) projects have been completed, thirty-two (32) projects are ongoing while one (1) project has not started. The following observations were made:

1.1 Construction of Student Hostel

The Fund disbursed an amount of Kshs.5,000,000 for the construction of student hostel at Endebess Technical Training Institute. The project commenced on 6 June, 2021 and was expected to have been completed in a period of 52 weeks by June, 2022. However, audit inspection of the project in the month of March, 2023 revealed that the project had been stopped at approximately 95% completion stage and the contractor was not on site.

In the circumstances, value for money on the expenditure amounting to Kshs. 5,000,000 could not be ascertained.

1.2 Construction of Dormitory at St. Paul Kitum High School

The Fund also disbursed an amount of Kshs.5,000,000 for the Construction of Dormitory at St. Paul Kitum High School. However, audit inspection carried out in the month of March, 2023 confirmed that the project was complete but not in use since there was no provision for waste disposal system.

1.3 Construction of Dormitory at St. Veronoca Kokwo Girls High School

The Fund disbursed a total of Kshs.8,000,000 vide cheques No.10212, 10213 and 10398, for Construction of 72 student capacity dormitory at St. Veronica Kokwo Girls High School. The project commenced on 2 February, 2022 and was estimated to be completed by 18 February, 2023. However, audit inspection of the project in the month of March, 2023 revealed that the project was approximately 95% complete but the contractor not on site.

1.4 Construction of Multi-Purpose Hall at St. Veronoca Kokwo Girls High School

An amount of Kshs.9,500,000 was disbursed during the year for construction of 120-capacity Multi-Purpose Hall at St. Veronoca Kokwo Girls High School. Though the project was to take 52 weeks from 2 February, 2022 to 18 February, 2023, by the time of audit in the month of March, 2023, the project was at approximately 45% completion stage and the contractor had abandoned the site. No reason was provided for the failure to

implement the project as expected and the arrangements the Fund had to have the project completed as envisaged.

1.5 Project Management Committee Records and Reports

The statement of receipts and payments reflects an amount of Kshs.101,325,000 in respect of transfers to other Government units during the year. However, audit review of the project files and records provided revealed that five (5) projects with an expenditure amounting to Kshs.12,550,000 were completed and in use but there were no respective handing over reports as required by Regulation 15 (1)(f) of National Government Constituency Development Fund Regulations, 2016:

Project Name	Approved Activity	Amount (Kshs.)
St. Mary's Nai Girls Secondary School	construction of 72 student capacity dormitory at ksh8,000,000.00 to completion and additional funds for additional works (tiling of laboratory worktops) on construction of 80 student's capacity twin science laboratory at ksh350,000.00	8,350,000
Basale Primary School	Renovation of 3 classrooms flooring and plastering to completion	800,000
Bwala Primary School	Renovation of 4 classrooms flooring, repair of walls and roofing to completion	1,200,000
Nalulingo Primary School	Renovation of 4 classrooms flooring, repair and fitting windows to completion	1,200,000
Nalulingo Secondary School	Additional funds for additional works resulting from variation works (excavation and earth works. Hardcore fill and compacting, murum blinding and sawn formwork) on 80 students' capacity twin science laboratory	1,000,000
Totals		12,550,000

The use of projects that have not been handed over by the contractors and by the Project Management Committees may encourage payment for incomplete works that will lead to wastage and loss of public resources.

In the circumstances, value for money spent on the projects could not be ascertained.

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 procedures performed, I confirm that nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis of 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 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 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 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 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 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 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

18 July, 2023