

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LUANDA 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 - Luanda Constituency set out on pages 1 to 34, 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 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 the National Government Constituencies Development Fund - Luanda 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. Cash and Cash Equivalents

The statement of assets and liabilities and as disclosed in Note 10A reflects bank balance of Kshs.18,983,371. Review of cash book revealed that cheque recording in the cash book were not sequential. Review of the bank reconciliation statement indicated that cheques amounting to Kshs.456,698 remained outstanding for over six (6) months. Management failed to provide explanations as to why the amount had not been reversed in the cashbook.

In the circumstances, the accuracy and completeness of the bank balance could not be confirmed.

2. Compensation of Employees

The statement of receipts and payments reflects compensation of employees Kshs.3,758,402. Records provided for audit review revealed that one employee whose contract expired on 02 January, 2022 was paid up to June, 2022. As such, he was irregularly compensated for six months amounting to Kshs.144,816.

In the circumstances, the propriety of Kshs.144,816 could not be confirmed.

3. Transfer to Other Government Units

The statement of receipts and payments reflects transfers to other government units amount of Kshs.89,226,844.

Included in this amount is Kshs.41,233,433 in respect to transfers to Primary Schools out of which Kshs.14,300,000 were not supported with transfer records.

In the circumstances, the accuracy and propriety of Kshs.14,300,000 could not be confirmed.

4. Other Grants and Transfers

The statement of receipts and payments and as disclosed in Note reflects other grants and transfers Kshs.60,533,774,332,509. Records provided for audit review revealed the following anomalies;

4.1 Bursary (Secondary and Tertiary)-Acknowledgement Receipts

Included in other grants and transfers is Kshs.32,828,000 and Kshs.12,780,000 in respect to Bursary to Secondary Schools and Tertiary Institutions. However, Management failed to provide acknowledgement receipts and bursary returns from the institutions.

4.2 Unsupported Expenditure Other Grants and Transfers

Included in other grants and transfers is Kshs.2,779,989 and Kshs.8,605,352 in respect of emergency and sport projects respectively, out of which Kshs.2,177,500 was not supported with procurement files and payment vouchers.

In the circumstances, the accuracy and completeness of other grants and transfers of Kshs.60,533,774 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 - Luanda 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.

Other Matter

1. Budgetary Control and Performance

The summary statement of appropriation reflects final revenue budget and actual on comparable basis of Kshs.211,130,816 and Kshs.180,784,218 respectively resulting to under-funding of activities by Kshs.30,346,598 or 14% of the budget. Similarly, the Fund expended Kshs.161,800,848 against expenditure budget of Kshs.211,130,817 resulting to under-expenditure of Kshs.49,329,969 or 23% of the budget.

The underfunding and under-expenditure affected planned activities and programs and impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

In the audit report for the previous year several issues were reported under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources. However, the matters raised remained unresolved as at 30 June, 2022.

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 discussed 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. Irregular Emergency Expenditure

The statement of receipts and payments reflects other grants and transfers of Kshs.60,533,774 which, as disclosed in Note 7 to the financial statements, includes emergency projects payments of Kshs.8,605,352. Review of payment vouchers provided indicate that an amount of Kshs.3,809,500 was paid out of the emergency vote contrary to Section 8(3) of the National Constituency Fund Act, 2015 which states that emergency “shall be construed to mean an ‘urgent, unforeseen need for expenditure for which it is in the opinion of the committee that it cannot be delayed until the next financial year without harming the public interest of the constituents.

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

2. Review of Projects

2.1 Incomplete School Project at Esibeye Primary School

Review of records provided for audit review revealed that on 4 February, 2019, the CDF Management entered into a contract agreement with a Contractor through Tender No. LND/NGCDF/07/2018-2019 for the construction of classrooms, library and administration offices at Esibeye Primary School at a contract price of Kshs.20,500,000. The project was estimated to be completed on 3 December, 2019. However, a physical verification of the project during the month of March, 2023, revealed that the building was still incomplete twenty-eight months after the intended completion and the site appeared to have been abandoned, an indication that the project had stalled. No evidence of extension of the completion period was provided for audit review. Additionally, no performance bond was provided for audit review. Expenditure returns and other payment records indicated that a total of Kshs.17,533,303 had been paid to the contractor which include Kshs.8,256,200 in the year under review, representing 85% yet the works were incomplete. No satisfactory explanations were provided for the unsatisfactory state of affairs.

In the circumstances, value for money from the expenditure totalling Kshs.17,533,303 incurred on the stalled project may not have been received.

2.2 Incomplete School Project at Khwiliba Primary School

Review of records provided for review revealed that amount of Kshs.2,800,000 was paid to a Contractor towards storm water control and drainage works at Khwiliba Primary School playground. Physical verification of the project site revealed that the works were incomplete and the contractor was not on site depicting that the works had stalled.

In addition, Management did not provide the following project documents for verification:

- Contract agreement

- Performance bond
- Project implementation status report

In the circumstances, it was not possible to confirm whether the stakeholders got value for money.

2.3 Projects at Ekwanda Secondary School

The statement of financial performance reflects transfer to other government unities of Kshs.89,226,844 as transfer to other Government agencies. This amount includes Kshs.47,993,411 in relation to transfer to Secondary Schools. It was noted that Kshs.4,000,000 was transferred to Ekwanda Secondary School for additional funds for the completion of two storey dormitory with a capacity of 400 students. As at the time of the audit, it was noted that the project was partially completed and partially put into use (Ground and First Floor). The construction of ablution section was not done concurrently with the respective floors as per the architectural drawings. The Ablution section had been done to the foundation level.

In the circumstances, it was not possible to confirm whether the Secondary school got value for money.

2.4 Project at Esiandumba Secondary School

During the audit, it was noted that Kshs.5,000,000 was transferred to Esiandumba Secondary School for the Construction of three storey laboratory. Review of Project Implementation Status Report as at 30 June, 2022 revealed that in the financial year 2017/2018, Kshs.2,000,000 was the approved allocation for the construction of three storey laboratory (excavation, foundation, walling and ground floor slab and walling to the ring beam at an estimated cost of Kshs.26,000,000 with an estimated date of 30 June, 2019 and therefore the project was in progress.

In the financial year 2019/2020, it is indicated that Kshs.2,000,000 was the approved allocation for the construction of three storey Laboratory (walling and ground floor slab and walling to the ring beam at an estimated cost of Kshs.24,000,000 with an estimated date of 30 June, 2020.

In the financial year 2020/2021, it is indicated in the PIS that Kshs.4,000,000 was the approved allocation as additional for the completion of 1st phase of three storey science laboratory and administration block with a capacity of 240 students (walling, 1st floor slab, window and door fitting, plaster and painting at an estimated cost of Kshs.14,000,000 with an estimated completion date of 30 June, 2021.

Audit inspection carried out during the month of March, 2023 revealed the following;

- Architectural drawings indicate 4 floors (Ground floor and three floors up)
- Architectural drawings for beams and columns indicate 3 floors (Ground floor and two floors up)
- Contractor on sight confirmed, the project has three floors.
- No BQ was provided
- No revised architectural drawings of three floors provided

- Walling done for the ground floor to ring beam level
- There is inconsistent regarding the status of the project as highlighted above (In the financial year 2019/2020, the project is indicated complete and in the year 2020/2021 indicated as ongoing at ring beam level.

The budget execution by sectors as presented in the financial statements indicate that Kshs.8,000,000 was allocated in the year ended 30 June, 2022 and actual expenditure amounted to Kshs.6,253,401. However, the actual amount disbursed to the School during the year amounted to Kshs.5,000,000 out of Kshs.2,000,000 relates to previous year disbursements and Kshs.3,000,000 as the actual expenditure for the financial year ended 30 June, 2022, resulting to a variance of Kshs.3,253,401.

In the circumstances, it could not be confirmed when the Project will be completed and whether value for money would be obtained from the payments.

2.5 Project-Mumboha Secondary School

The statement of financial performance reflects transfer to other government units amount of Kshs.89,226,844 as transfer to other Government Agencies. This amount includes Kshs.47,993,411 in relation to transfer to Secondary Schools. It was noted that Kshs.25,001,762 was transferred to Mumboha Secondary School for the construction of two storey building comprising 12 classrooms, 4 laboratories and administration block at a cost of Kshs.56,000,000 as indicated in the Project Implementation Status (PIS) as at 30 June, 2022.

A visit to the school however, revealed that the contractor was not on site yet the project was not fully completed as painting and fixing of rails was not done.

The budget execution by sectors as presented in the financial statements indicate that the school had an opening balance of Kshs.3,109,426 and previous year's outstanding disbursements of Kshs.8,993,013 and therefore a final budget of Kshs.12,102,441 as at 30 June, 2022. The actual expenditure as stated in the budget execution amounted to Kshs.11,925,107. While the actual amount as per the financial statements amounted to Kshs.25,001,762 thereby resulting into a variance of Kshs.13,076,655.

In the circumstances, it could not be confirmed when the Project will be completed and whether value for money would be obtained from the payments.

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 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 controls, 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 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 Fund's 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 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 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 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 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 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

30 June, 2023