

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NYAKACH 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 - Nyakach Constituency set out on page 1 to 44, 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 National Government Constituencies Development Fund - Nyakach 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 the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unexplained Variances between the Amounts in the Statement of Receipts and Payments/Statement of Assets and Liabilities and the Notes to the Financial Statements

The following variances were noted between the amounts in the statement of receipts and payments/statement of assets and liabilities and the notes to the financial statements.

Item	Amount in the Statement of Receipts and Payments/Assets & Liabilities (Kshs.)	Amount in the Notes to the Financial Statements (Kshs.)	Difference (Kshs.)
Use of Goods and Services	14,176,156	14,318,818	(142,662)
Other Grants and Transfers	87,620,925	86,880,925	740,000
Acquisition of Assets	96,599	-	96,599

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

2. Unsupported Project Management Committee (PMC) Bank Account Balances

Note 17.4 and Annex 5 to financial statements reflects PMC Account balance of Kshs.24,356,761. However, the balances were not supported by bank balance confirmation certificates or bank statements.

In the circumstances, the accuracy of the PMC account balances could not be confirmed.

3. Unconfirmed Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.20,847,651 while Note 10A reflects a balance of Kshs.19,047,651 resulting to a variance of Kshs.1,800,000 which was not explained or reconciled. Further, the bank reconciliation statement reflects unpresented cheques amounting to Kshs.21,064,871 out of which two cheques totalling to Kshs.14,778 were over six months old and had not been written back into the cashbook. No explanation has been provided for failure to reverse the entries in the cashbook.

In addition, the bank reconciliation statement includes payments in bank statement but not recorded in cashbook of Kshs.328,473 which relate to bank charges and unsupported understatements in the cashbook of Kshs.30,457 and Kshs.298,016 respectively. No explanation has been provided for not updating the cashbook.

Further, there were receipts in the bank totalling Kshs.22,000 for deposits done on 30 August, 2021, 31 May 2022 and 30 June, 22 which had not been recorded in the cashbook. No explanation has been provided for failure to include the receipts.

There were also receipts in the cashbook totalling Kshs.490,480 which had not been recorded in the bank statements.

In the circumstances, the accuracy of the cash and cash equivalent balance of Kshs.20,847,651 could not be confirmed.

4. Unsupported Other Committee and Training Expenses

The statement of receipts and payments reflects use of goods and services of Kshs.14,176,156 which includes Kshs.3,062,000 and Kshs.1,217,400 in respect to other committee allowances and training expenses. These were cash payments to various facilitators. However, there was no evidence that the facilitators received the funds.

In the circumstances the propriety of the expenditure of Kshs.4,279,400 could not be confirmed.

5. Incomplete Information on Bursaries

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects other grants and transfers Kshs.87,620,925 which includes bursaries to secondary schools, tertiary institutions and special schools of Kshs.35,620,908, Kshs.20,690,450 and Kshs.609,000 totalling to Kshs.56,920,358. Although the bursaries were disbursed as per the summarized schedules provided, full names of the learning institutions, bank details of the learning institution, bursary amount, full name of the student, admission number, type of institution, county in which the learning institution is located were not provided for audit review. Further, review of the analysis established that various private schools benefited from bursary totalling to Kshs.382,000 however, no explanation was obtained from the Management on why bursaries were issued to students in the private schools.

In the circumstances, it was not possible to confirm the occurrence and equitable award of the bursaries to the needy students.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Nyakach 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

Budgetary Control and Performance

The summary statement of appropriation reflects final expenditure budget and actual expenditure on comparable basis of Kshs.210,585,318 and Kshs.188,565,254 respectively resulting to an under-expenditure of Kshs.22,020,064.

The under expenditure may have negatively impacted service delivery to the public.

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. Unauthorized Expenditure

The statement of receipts and payments reflects that Management spent an amount of Kshs.14,176,156 on use of goods and services instead of Kshs.10,470,645 (5%) of Kshs.209,412,905) resulting to unauthorized expenditure of Kshs.3,705,511 contrary to Section 9 of the CDF Act, 2015 which require the Project Management Committee to set aside a sum not exceeding five per centum of the total allocation for the project to cater for the administration expenses of the project.

In the circumstances, Management was in breach of law.

2. Incomplete Projects

The Project Implementation Status (PIS) report provided for audit review as at 30 June, 2022, revealed that 14 No. of project amounting to Kshs.19,000,000 were incomplete.

Review of the year 2022/2023 code list revealed that the above projects have not been budgeted for, to enable completion. However, no explanation has been provided for failure to budget for the projects.

In the circumstances, the projects may not be completed in time resulting to adverse implications to service delivery.

3. Irregular Procurement of Laptop

The statement of assets and liabilities reflects an amount of Kshs.14,176,156 in respect of use of goods and services which includes Kshs.96,599 being the cost incurred to purchase a laptop HP Probook 440G 8 15/8/512/14 serial no.5CD146N022 through imprest instead of competitive bidding which denied the CDF value for money through

competitive bidding. The receipt voucher, inspection certificate and issue voucher were not provided for audit review. Physical verification of the assets revealed that most of the Fund's assets have not been tagged.

Review of the approved budget revealed that the laptop had not been included in the budget. In addition, the Management did not include the laptop in the asset register as required by Regulations 143(1) of the Public Finance Management Regulations, 2015 requires the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

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

4. Failure to Provide the Emergency Reserve Utilization Report

The statement of receipts and payment and as disclosed in Note 7 to the financial statements reflects other grants and other transfers Kshs.86,880,925 .Included in this amount is Kshs.6,450,000 in respect of emergency projects, Records provided for audit review revealed that Management did not report the funded emergencies to the Board as stipulated in Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016 which requires utilization of the emergency reserve to be reported to the Board within thirty days of the occurrence of the emergency, in the format prescribed by the Board.

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

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, 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 effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal 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 Fund's financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and 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 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 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

27 June, 2023