

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - RONGO 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 - Rongo Constituency set out on pages 1 to 36, which comprise of the statement of assets and liabilities as at 30 June, 2022, and the statement 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 National Government Constituencies Development Fund - Rongo 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. Unsupported Routine Maintenance-Vehicles and Other Transport Equipment

The statement of receipts and payments reflects Kshs.8,260,072 in respect to use of goods and services which, as disclosed in Note 5 to the financial statements includes an expenditure on routine maintenance of vehicles and other transport equipment of Kshs.328,086. However, no pre-inspection and post-inspection reports were provided for audit indicating that there were needs for repairs and that the repairs were done to the satisfaction of the users.

In the circumstances, the propriety and value for Kshs.328,086 spent on routine maintenance of vehicles and other transport equipment could not be confirmed.

2. Cash and Cash Equivalents-Unpresented Cheques

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.22,611,225. However, bank reconciliation statement as at 30 June, 2022 reflects payments in the cash book not yet recorded in the bank statement (unpresented cheques) amounting to Kshs.7,365,248, some dating as far back as June, 2021 and majority of them relate to bursaries for school fees to various learning institutions. It is not clear why the cheques remained unpresented given that the beneficiaries were needy students. In addition, no bank statement was provided to confirm when the unpresented cheques were cleared.

In the circumstances, the accuracy and completeness of cash and cash equivalents of Kshs.22,611,225 could not be confirmed.

3. Failure to Maintain an Updated Fixed Assets Register

Disclosed in Annex 4 to the financial statements is a summary of fixed assets register which reflects a balance of Kshs.34,038,784 as at 30 June, 2022. However, review of the fixed asset register and physical verification revealed the following anomalies:

- i. The assets register was not up to date as some assets owned by the Fund, were not included in the register. In addition, the costs/valuation of some of the assets included in the register could have been lower than the amounts indicated.
- ii. All fixed assets owned by the Fund were not tagged.
- iii. Ownership documents in respect of land, motor vehicle- GK A552R and motorcycle- GKA 827 T were not provided for audit verification.
- iv. Motor vehicle-GK A552R had been grounded due to its unserviceability and continued to lose its recoverable value based on the observable physical and mechanical status.

In the circumstances, the valuation, ownership and completeness of the Fund's fixed 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 - Rongo 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.

Emphasis of Matter

Budgetary Control and Performance

The summary statement of appropriation reflects final expenditure budget and actual on comparable basis of Kshs.195,213,742 and Kshs.172,908,488 resulting to an under-expenditure of Kshs.22,305,254 or 11% of the budget.

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

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.

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

1.0 Transfers to Other Government Units

The statement of receipts and payments and as disclosed in Note 6 to the financial statements, reflects transfers to other government units amount of Kshs.94,663,993.

However, the following audit issues were noted:

1.1 Construction of Storey Building at Kanyimach Secondary School

The transfers to other government units amount of Kshs.94,663,993 includes transfers to secondary schools expenditure of Kshs.55,319,875 out which, Kshs.6,000,000 was disbursed to Kanyimach Secondary School for construction of a ground floor slab, installations of ground floor columns and a septic tank for a proposed one storey building, comprising of 8 classrooms, 4 administration offices,3 toilets with one chamber catering for persons with disability and a septic tank. However, audit inspection of the project in the month of March, 2023 revealed that the building had been done up to the ground floor slab but installations of ground floor columns and the septic tank had not been done.

In the circumstances, value for Kshs.6,000,000 spent on the project could not be confirmed.

1.2 Purchase of Laboratory Equipment at Osodo Mixed Secondary School

The transfers to secondary schools' expenditure of Kshs.55,319,875 includes Kshs.2,500,000 spent on purchase of laboratory equipment at Osodo Mixed Secondary School. However, audit inspection in March, 2023 revealed that the School had no laboratory for the equipment.

In the circumstances, value for Kshs.2,500,000 spent on supply of laboratory equipment could not be confirmed.

1.3 Incomplete Construction of Classrooms at Kanga Primary School

The transfers to other government units amount of Kshs.94,663,993 includes transfers to primary schools' amount of Kshs.39,344,118 out of which, Kshs.1,300,000 was disbursed to Kanga Primary School for renovation of 5 classrooms to completion; floor screed, fixing windows, glazing, plastering and rendering, filling gables, fixing fascia boards, painting and decoration at the school. The contract was awarded to a contractor at a contract sum of Kshs.1,299,980. Audit inspection in March, 2023 revealed that the project was not complete as plastering and fixing fascia boards had not been done and the project had not been branded as per the provisions of the corporate identity manual. Further, it was not clear how the certificate of completion was issued on 10 May, 2022 yet some of the works were still outstanding.

In the circumstances, value for Kshs.1,300,000 spent on this project could not be confirmed.

1.4 Incomplete Construction of Classrooms at Kamgundho Primary School

The transfers to primary schools amount of Kshs.39,344,118 also includes Kshs.2,400,000 disbursed to Kamgundho Primary School for the renovation of 8 classrooms to completion; fixing doors and windows, hard core, concrete, floor screed, roof patching, glazing, plastering and rendering, filling gables, fixing fascia board, painting and decoration of the school. The works were awarded to a contractor at a contract sum of Kshs.2,939,900. However, audit inspection in March, 2023 revealed that the roof of 5 classrooms had not been replaced and were in a leaking state thus casting doubt on how the completion certificate was issued on 27 July, 2022.

In the circumstances, value for Kshs.2,939,900 spent on this project could not be confirmed.

1.5 Expenditure on Ineligible Projects

The transfers to other government units amount of Kshs.94,663,993 includes an amount of Kshs.21,711,120 utilized for drilling eight (8) boreholes in primary and secondary schools. However, these works do not fall within the functions of the National Government under the Constitution contrary to Section 24(a) of the National Government Constituencies Development Fund Act, 2015. Audit inspection done in March 2023 revealed that the boreholes had been drilled, however, the following unsatisfactory matters were noted:

Schools	Amount Incurred (Kshs.)	Observation
St. Peters Kuna Mixed Secondary School	2,600,000	The fitting of pipes, solar power and tanks had not yet been done. The project is incomplete and not in use.
Kameji Mixed Secondary School	2,600,000	The fitting of pipes, solar power and tanks had not yet been done. The project is incomplete and not in use.
Lwala Kameji Secondary School	2,600,000	The fitting of pipes, solar power and tanks had not yet been done. The project is incomplete and not in use.
Nyangao Mixed Sec. School	2,331,120	The project was complete
St. Albert Miyare Mixed Secondary School	2,000,000	The fitting of pipes, solar power and tanks had not yet been done. The project is incomplete and not in use.
Nyamaroka Primary School	2,600,000	The fitting of pipes, solar power and tanks had not yet been done. The project is incomplete and not in use.
Kamondi Primary School	2,600,000	The fitting of pipes, solar power and tanks had not yet been done. The project is incomplete and not in use.
Banda Primary School	4,380,000	The residents had not been able to draw water from the borehole for the last one month. No explanation was given on why the borehole was not working.
Total	21,711,120	

In the circumstances, the Management was in breach of the law and value for Kshs.21,711,120 spent on these projects could not be confirmed.

2.0 Other Grants and Transfers

The statement of receipts and payments and as disclosed in Note 7 to the financial statements, reflects other grants and transfers amount of Kshs.65,643,718. However, the following audit issues were noted:

2.1 Use of Emergency Funds for Non-Emergency Activities

The other grants and other transfers amount of Kshs.65,643,718 includes expenditure on emergency projects of Kshs.7,247,328 out of which, Kshs.6,960,128 was utilized on projects which could not be categorized as emergency activities as detailed in the table below:

Institution	Activity	Amount (Kshs.)
Orembe Primary School	Being payment for grading and graveling of access road	2,476,368
Siala Technical Institute	Being payment for grading and drainage works	3,463,760

Rongo DCC's Residence	Renovation of residence to make it habitable.	1,020,000
Total		6,960,128

Further, review of the payment schedules, supporting documents, and audit inspection of the projects carried out in March, 2023 revealed that grading access road and drainage works at Siala Technical Institute was awarded to a contractor at a contract sum of Kshs.3,463,760. However, audit inspection of the project in March 2023 revealed that culvert installation worth Kshs.84,000 as per the bill of quantities had not been done, sections of the road had been washed away due to lack of drainage, and the road had not been labelled as a confirmation that it was done by the Constituency Development Fund and not by other government agencies.

In the circumstances, the Management was in breach of the law and value for Kshs.3,463,760 could not be confirmed.

2.2 Incomplete Environment Projects

Included other grants and other transfers amount of Kshs.65,643,718 is expenditure on environment projects of Ksh.2,742,257 out of which, Ksh.685,444 was spent on four (4) schools for installation of tanks. However, audit inspection carried out in March, 2023 revealed that the tanks were installed but no gutters were installed to make them operational.

In the circumstances, value for Kshs,685,444 spent on these projects could not be confirmed.

2.3 Anomalies in the Management of Bursaries

The statement of receipts and payments reflects an amount of Kshs.65,643,718 in respect to other grants and transfers which, as disclosed in Note 7 to the financial statements, includes bursaries to secondary schools and tertiary institutions of Kshs.21,547,619 and Kshs.25,110,737 respectively, totaling to Kshs.46,658,356. However, review of payment vouchers, schedules and records provided for audit revealed the following anomalies:

- i. The schedule of bursary disbursements amounting to Kshs.2,118,500 was not reflecting beneficiary admission numbers.
- ii. A total of one hundred and fifty-seven (157) beneficiaries received bursary allocations more than once and of varied amounts.

In the circumstances, the regularity of the expenditure of Kshs.46,658,356, fairness and equity in bursary disbursements could not be confirmed.

3.0 Failure to Insure Fixed and Movable Assets

Annex 4 of the summary of fixed assets register reflects assets with a historical cost of Kshs.34,038,784. However, review of the records revealed that the fixed assets were not insured. This was contrary to Section 36(3) of the National Government Constituencies Development Fund Act, 2015 which requires that all fixed and movable assets, including equipment bought under this Act for use by the Constituency Committee shall be the property of the Board and shall be insured in the name of the Board.

In the circumstances, the 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 governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and 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 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 sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations. Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

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

Auditor-General's Responsibilities for the Audit

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

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

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

10 July, 2023