

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SOTIK 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 control 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 overall 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 - Sotik Constituency set out on pages 1 to 49, which comprise 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 National Government Constituencies Development Fund - Sotik 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 Training Expenses

The statement of receipts and payments reflects a balance of Kshs.13,915,907 in respect to use of goods and services. The amount includes training expenses of Kshs.1,282,000 as disclosed in Note 5 to the financial statements. However, the expenditure was not supported with invitation letters, signed attendance list and training needs assessment report. Further, the expenditure includes hire of conference facility expenditure of Kshs.575,000 which was not supported with procurement records such as user requisition, register of suppliers and quotations.

In the circumstances, the accuracy and propriety of training expenses of Kshs.1,282,000 for the year ended 30 June, 2022 could not be confirmed.

2. Unsupported Transfers to Primary Schools

The statement of receipts and payments reflects a balance of Kshs.93,530,000 in respect to transfer to other government entities. The amount includes transfers to Primary Schools amounting to Kshs.45,110,000 as reflected in Note 6 to the financial statements for construction or renovation of classrooms and purchase of desks, and purchase of land of Kshs.41,310,000 and Kshs.2,850,000 respectively. The amount also includes an expenditure of Kshs.950,000 which had no description of the activity or purpose for expenditure. However, the transfers for the construction works and purchase of desks were not supported with procurement records such as bills of quantities from qualified quantity surveyor, tender advertisements, tender evaluation minutes, signed contract, inspection and acceptance committee reports, interim/completion certificates, Project Management Committee (PMC) accounting records such as cashbooks, bank statements and expenditure returns and evidence that the projects were implemented in consultation with relevant Government Departments. Further, the transfers for the purchase of land were not supported with PMC cashbooks, bank statements, expenditure returns, valuation reports and land title deeds.

In addition, the expenditure amount of Kshs.45,110,000 differed with the supporting schedule amount of Kshs.45,210,00 resulting to unexplained variance of Kshs.100,000.

In the circumstances, the accuracy, propriety and completeness of transfers to Primary School of Kshs.45,110,000 for the year ended 30 June, 2022 could not be confirmed.

3. Unsupported Transfers to Secondary Schools

The statement of receipts and payments reflects a balance of Kshs.93,530,000 in respect to transfer to other government entities. The amount includes transfers to Secondary Schools amounting to Kshs.48,420,000 as reflected in Note 6 to the financial statements for construction works and purchase of buses of Kshs.32,320,000 and Kshs.15,312,000 respectively. However, the transfers for the construction works and purchase of buses were not supported with procurement records such as estimated cost, tender

advertisements, tender evaluation minutes, signed contract, inspection and acceptance committee reports, interim/completion certificates for construction works, Project Management Committee (PMC) accounting records such as cashbooks, and expenditure returns and evidence that the projects were implemented in consultation with relevant government departments. Further, the expenditure includes Kshs.788,000 which had no description of the activity or purpose for the expenditure.

In the circumstances, the validity and accuracy of transfers to secondary Schools of Kshs.48,420,000 for the year ended 30 June, 2022 could not be confirmed.

4. Unsupported Project Management Committee (PMC) Account Balances

Other Important Disclosures Note 17.4 reflects Project Management Committee (PMC) account balance totaling to Kshs.24,460,334 for projects implemented during the year under review. However, cash books, confirmation certificates and bank reconciliation statements were not provided for audit. It was also not possible to confirmed whether the bank account balances for completed projects have been surrendered to the main Constituency Fund bank account in compliance with Section 12(8) of the National Government Constituencies Development Fund Act, 2015 which requires all unutilized funds of the Project Management Committee to be returned to the Constituency account.

In the circumstances, the accuracy and completeness of the PMC account balance of Kshs.24,460,334 as at 30 June, 2022 could not be confirmed.

5. Inaccuracy of the Summary of Fixed Asset Register

Annex 4 to the financial statements reflects summary of fixed Asset register balance of Kshs.17,499,975. The balance includes buildings and structures, and transport equipment -Toyota Land Cruiser valued at Kshs.7,500,000 and Kshs.9,450,000. However, the annexure reflects nil value of land and the title deed for the land was not provided for audit verification. The ownership of buildings and structures is therefore doubtful. The ownership of the transport equipment has also not been confirmed in the absence of the vehicle registration logbook. Further, the fixed assets register was not provided for audit verification and the annex does not reflect the opening balances.

In the circumstances, the accuracy, ownership of the fixed assets balance of Kshs.17,499,975 as at 30 June 2022 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Sotik 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 judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, and 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. Unsupported Bursary

Note 7 to the financial statements reflects bursary to Secondary Schools of Kshs.22,144,845 and Tertiary Institutions of Kshs.13,000,000 all totaling to Kshs.35,144,845. However, financial returns acknowledging receipts of the funds and confirming that the amounts have been credited to the beneficiaries' fees account were not provided for audit review. Further, the criteria for vetting the bursary application, vetting committee minutes and names of beneficiaries were not provided. It was therefore not confirmed how the beneficiaries were vetted and recommended for award of bursary. In addition, no documentary evidence was provided to confirm that the beneficiaries were residents of the constituency. The payments were also not supported by the list of successful candidates indicating the student name, course name, admission number and the amount awarded to each student.

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

2. Irregular Sports Projects Expenditure

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.57,871,853. The amount includes sports projects expenditure of Kshs.5,069,630 as reflected in Note 7 to the financial statements. However, the sports projects expenditure exceeds the approved budget of Kshs.2,597,934 resulting to an unapproved expenditure of Kshs.2,471,696. This is contrary to Section 40 of the National Government Constituencies Development Fund Act, 2015 which requires the National Government Constituencies Development Fund Board to ensure that the list of projects forwarded to it by each constituency is, upon approval, funded. Review of documents revealed that the expenditure included bursary committee allowances of Kshs.689,000 and payments totaling to Kshs.2,980,630 of which the purpose of payment was not revealed.

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

3. Irregular Emergency Projects Expenditure

The statement of receipts and payments reflects other grants and transfers totaling to Kshs.57,871,853. The amount includes emergency projects expenditure of Kshs.8,510,000 as reflected in Note 7 to the financial statements. However, the expenditure was not of emergency in nature in accordance with the set criteria in Section 8(3) of the National Government Constituency Development. Further, the expenditure was not reported to the National Government Constituencies Development Fund Board contrary to Regulation 20(2) of the National Government Constituencies Development

Regulations, 2016 which stipulates that the utilization of the emergency reserve shall be reported to the Board within thirty days of the occurrence of the emergency. Further, the expenditure differs with the supporting schedule amount of Kshs.8,110,000 resulting to unexplained variance of Kshs.400,000.

In addition, the emergency projects expenditure payments totaling to Kshs.1,000,000 has not been included in the emergency projects expenditure amount.

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, and 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 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 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 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 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 controls 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 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 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

20 June, 2023