

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - TURBO 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 - Turbo Constituency set out on pages 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 the National Government Constituencies Development Fund - Turbo 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. Inaccuracies in Financial Statements

The following inaccuracies in the financial statements and schedules were noted;

1.1 Wrong Comparative Amounts

The financial statements reflect wrong comparative amounts resulting to an unexplained variances as detailed below:

Item	Comparative Amounts (Kshs.)	Prior Year Audited Amounts (Kshs.)	Variance (Kshs.)
Statement of Cash Flows			
Increase or Decrease in Accounts Payable	1,610,385	0	1,610,385
Net Increase in Cash and Cash Equivalent	19,122,444	13,691,793	5,430,651
Cash and Cash Equivalent at beginning of the Year	37,997,315	23,239,703	14,757,612
Cash and Cash Equivalent at the end of the Year	37,997,315	36,931,496	1,065,819
Note 17.3 - Unutilized Funds			
Compensation of Employees	784,597	1,184,598	(400,001)
Use of Goods	907,707	3,706	904,001
Amount due to Other Government Entities	38,050,000	41,000,000	(2,950,000)
Amount due to Other Grants and Other Transfers	21,203,500	18,841,740	2,361,760
Acquisition of Assets	4,952,978	4,868,738	84,240

1.2 Variance on Transfers from Board

The statement of receipts and payments reflects transfers from Board amount of Kshs.170,777,758 while casting of Note 1 to the financial statements reflects Kshs.185,777,758 resulting to an unexplained or unreconciled variance of Kshs.15,000,000.

1.3 Variance in Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.10,857,899 while the cash book reflects Kshs.10,726,172 resulting to an unexplained variance of Kshs.131,727.

1.4 Variance in Emergency Amount

Annex 3 to the financial statements reflects emergency outstanding balance of Kshs.2,152,707. However, out of emergency funds allocation amount of Kshs.7,192,207 only Kshs.155,000 was utilized resulting to balance of Kshs.7,037,207. The latter balance differs with Annex 3 balance of Kshs.2,152,707 resulting to unexplained or reconciled variance of Kshs.4,884,500.

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

2. Unsupported Payment of Retention Money

The statement of assets and liabilities reflects retention balance of Kshs.239,629 as disclosed in Note 12A to the financial statements. The amount includes retention paid during the year amount of Kshs.610,385. However, the payment was not supported by payment vouchers, schedules and bank statements.

In the circumstances, the accuracy and completeness of retention balance of Kshs.239,629 could not be confirmed.

3. Unconfirmed Project Management Committee Bank Balances

Annex 5 to the financial statements reflects one hundred and forty-six (146) Project Management Committee (PMC) bank account balances of Kshs.16,216,236. However, the respective cash books, bank reconciliation statements, certificate of bank balance and bank statements were not provided for audit.

In the circumstances, the existence, accuracy and completeness of the Project Management Committee bank balances of Kshs.16,216,236 could not be confirmed.

4. Lack of Land Ownership Documents

The statement of receipts and payments reflects transfers to other Government units of Kshs.122,000,000 as disclosed in Note 6 to the financial statements. The amount includes Kshs.1,300,000 incurred on purchase of two (2) parcels which were not supported by land ownership documents including title deeds.

In the circumstances, the ownership of land purchased at Kshs.1,300,000 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 - Turbo 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

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, the Management has not resolved the issues and is contrary to Section 149(2)(l) of the Public Finance Management Act, 2012 which require accounting officers designated for national Government entities to try to resolve any issues resulting from an audit that remain outstanding.

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. Delay in Disbursement of Funds

The statement of receipts and payments reflects transfers from Board amount of Kshs.170,777,758. The amount includes Kshs.49,188,879 or 29% of total receipts budgeted for in 2020/2021 financial year. This is contrary to Section 39(2) of the National Government Constituencies Development Fund Act, 2015 which states that the disbursement of funds to the Constituency Fund account shall be effected at the beginning of the first quarter of each financial year with an initial amount equivalent to twenty-five per centum of the allocation for the constituency and thereafter the Constituency Fund account shall be replenished in three equal instalments at the beginning of the second, third and fourth quarters of the financial year.

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

2. Irregularities in Issuance of Bursaries

The statement of receipts and payments reflects other grants and transfers amount of Kshs.57,511,400 which includes bursaries to secondary schools, tertiary institutions and special schools amounting to Kshs.39,979,400 as disclosed under Note 7 to the financial statements. However, there was no evidence to show that vetting, identification and categorizing of needy students was done by the Bursary Subcommittee That includes area Education Officer or a representative from the Ministry of Education as directed by the Board vide CDF Board circular reference VOL1/111 dated 13 September, 2010. In addition, acknowledgement letters and receipts from the various institutions that received funds to support the bursary payments were not provided for audit review.

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

3. Failure to Prepare Plans and Reports

The statement of receipts and payments reflects transfers to other Government units of Kshs.122,000,000 as disclosed in Note 6 to the financial statements. The amount relates to transfers to primary schools and secondary schools for the construction and purchase of properties. However, approved work plans, procurement plans and implementation reports were not provided for audit. This was contrary to Regulation 25(1) of the National Government Constituencies Development Fund Regulations, 2016 which states that the Officer of the Board seconded to the Constituency, shall prepare a detailed budget, procurement plan and work plan for the year, for the National Government Constituency Development Fund Committee Office, and shall, within the first quarter of a new financial year, present them to the Committee for approval.

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

4. Incomplete Projects

Physical verification in the month of June, 2023 and review of the Project Implementation Schedule and Code List revealed six (6) projects amounting to Kshs.9,500,000 which were incomplete and the contractors were not on site.

In the circumstances, value for money of Kshs.9,500,000 incurred on incomplete projects could not be confirmed.

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

The 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 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.

The 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 control 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 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 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 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

01 August, 2023