

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – DAGORETTI NORTH CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2021

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 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 – Dagoretti North Constituency set out on pages 19

to 46, which comprise of the statement of assets and liabilities as at 30 June, 2021, 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 – Dagoretti North Constituency as at 30 June, 2021, 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. Unconfirmed Cash and Cash Equivalents

The financial statements reflect cash and cash equivalents balance of Kshs.42,014,830 as at 30 June, 2021. Review of the bank reconciliation statements provided for audit revealed long outstanding unpresented cheques (stale cheques) totaling Kshs.55,004. The unpresented cheques were drawn between 31 July, 2019 and 10 June, 2020 as indicated below.

Date	Chq. No	Payee	Amount Kshs
31.07.19	12276	Commissioner of Domestic Taxes	38,285
29.10.19	12481	NSSF	1,600
18.12.19	12492	Commissioner of Domestic Taxes	3,510
18.12.19	12499	NSSF	1,600
10.06.20	14321	Commissioner of Domestic Taxes	10,009
		Total	55,004

The stale cheques, some of which had been outstanding for more than two years had not been reversed in the cash book, thereby understating the cash book balance by the same amount. No explanation was provided for failure to update the cash book.

In the circumstances, the accuracy and completeness of cash and cash equivalent balance of Kshs.42,014,830 reflected in the financial statements could not be confirmed.

2. Understated Use of Goods and Services

The statement of receipts and payments reflects use of goods and services amount of Kshs.10,680,729 as disclosed in Note 5 to the financial statements. However, the amount

differs with the recomputed amount of Kshs.11,261,479, resulting into an unexplained variance of Kshs.580,750. The variance understates the total payments and overstate the surplus by the same amount.

In the circumstances, the accuracy of use of goods and services amount of Kshs.580,750 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 – Dagoretti North 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 that the Fund had budgeted to receive Kshs.222,852,954 from the NGCDF Board, however, the Board remitted an amount of Kshs.171,164,075, resulting in a funding deficit of Kshs.51,688,879 equivalent to 23% of the budget. Similarly, the Fund had a final expenditure budget of Kshs.222,852,954 against an actual expenditure of Kshs.129,149,245, resulting in a budget under-utilization of Kshs.93,703,709 equivalent to 42% of the approved budget amount.

As a result, the Fund did not implement planned and approved projects thereby denying residents of Dagoretti North Constituency the requisite services.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the 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. Under-Expenditure on Bursaries

The statement of receipts and payments and Note 1 to the financial statements reflects transfers from other Government entities of Kshs.154,767,724. Further, Note 7 to the financial statement reflects other grants and other payments of Kshs.99,164,281, which includes bursary disbursements to secondary schools and tertiary institutions of Kshs.5,858,500 representing approximately 4% of the amount received . This is contrary to Regulations 21(5) of the National Government Constituencies Development Fund Regulations, which requires a Constituency Committee to allocate not less than twenty-five percent of the funds allocated to a constituency for bursaries.

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

2. Non-Implementation of Projects

Note 7 to the financial statements reflects other grants and other payments amount of Kshs.16,149,435. The expenditure includes an amount of Kshs.200,000 for Kawangware Chief's Office and Kshs.400,000 for Gatina Chief's Office all totalling to Kshs.600,000 which were not implemented as at 30 June, 2021. Further, an amount of Kshs.3,000,000 disbursed for Kileleswa Police Station for security projects remained unutilized at the end of the financial year.

In addition, an amount of Kshs.800,000 was transferred to Dagoretti Muslim Primary School PMC Account for fixing the school's drainage system. However, audit verification carried out on the project on 1 April, 2022 revealed that, the works had not been procured or commenced.

Further, the construction of a water tower for existing borehole at St. Georges Secondary School whose budget was included in the 2019/2020 financial year, had not been implemented although the funds were transferred to the Project Management Committee Account on 2 October, 2020. No explanation was provided for failure to utilize the funds in the year under review.

In the circumstances, the public may not have derived value for money from the projects.

3. Unutilized Project Management Committee Account Balance

Annex 5 to the financial statements reflects Project Management Committee (PMC) bank accounts balances totaling Kshs.34,529,732 as at 30 June, 2021. The balance includes projects completed in 2019/2020 and earlier years that had balances in a local bank totalling Kshs.317,355 as analysed below. The balances were not transferred to the Constituency Fund Account contrary to 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.

PMC Name	Account No.	Amount
Nairobi Primary School	1470271830574	235,125
Milimani Primary School	1470269814613	60,925
Dagoretti Sub-County Office	1470268910586	2,780
Kenya High School	1470271829992	18,525
	Total	317,355

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, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Weak Fixed Assets Management

Annex 4, the summary of fixed assets register reflects assets with a historical cost of Kshs.3,720,000. However, the assets register listed some computers, printers and other computer accessories without values. Further, some of the assets whose condition was indicated as not usable were not physically verified while some assets were not tagged.

In the circumstances, the assets may be exposed to misuse or loss.

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 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 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 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 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

29 July, 2022