

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - EMBAKASI SOUTH 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 control, 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 - Embakasi South Constituency set out on pages 15 to 46, which comprise the statement of assets and liabilities as at 30 June, 2021, 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 the National Government Constituencies Development Fund - Embakasi South 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

The financial statements presented for audit revealed the following inaccuracies:

- (i) The balances in the statement of receipts and payments have not been aligned to their respective note numbers as disclosed.
- (ii) The balances for the current financial year do not reflect the reporting currency at the top of the column.
- (iii) Note 17.2 on pending staff payables reflects a balance of Kshs.243,063 relating to other staff gratuity. However, annex 2 on page 37 on analysis of pending staff payables reflects a balance of Kshs.467,818 resulting to an unexplained and unreconciled variance of Kshs.224,755.
- (iv) Annex 5 on PMC bank balances as at 30 June, 2021 reflects a balance of Kshs.3,204,798. However, a re-computation indicates Kshs.34,912,451 resulting to a variance of Kshs.31,707,653.
- (v) Comparison of reported PMC balances indicates that Kshs.36,897 was held at Equity Bank which differs with the balance of Kshs.4,921,777 reported in the certificate of bank balance resulting to a variance of Kshs.4,884,880.

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

2. Unsupported Balances

2.1 Bursaries

The statement of receipts and payments reflects other grants and transfers of Kshs.62,044,360 which as disclosed in Note 7 to the financial statements includes Kshs.49,150,517 in respect of bursary to tertiary and secondary institutions. However, the

expenditure returns and payment vouchers provided to support the balance reflects Kshs.39,032,034 resulting to an unexplained variance of Kshs.4,540,449.

In the circumstances, the accuracy and completeness of the bursary to tertiary and secondary institutions of Kshs.49,150,517 reflected in the financial statements could not be confirmed.

2.2 Use of Goods and Services

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects Kshs.4,229,560 in respect of use of goods and services which includes an amount of Kshs.775,000 whose payment vouchers were not provided for audit. Further, an amount of Kshs.713,000 was not captured in the ledger and hence understating the total amount of use of goods and services to the extent of the omission

In the circumstances, the accuracy and completeness of Kshs.4,229,560 in respect of use of goods and services reflected in the financial statements could not be confirmed.

2.3 Cash and Cash Equivalents

The statement of assets and liabilities and Note 10A to the financial statements reflects a balance of Kshs.80,540,784 in respect to bank balances. However, a board of survey of cash report and certificate of balance were not provided for audit.

In the circumstances, the accuracy and existence of cash and cash equivalents balance of Kshs.80,540,784 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 - Embakasi South 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 receipts budget and actual on comparable basis amount of Kshs.261,503,201 and Kshs.194,202,518 respectively, resulting to an underfunding of Kshs.67,300,683 or 26 % of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totaling to Kshs.261,503,201 and Kshs.113,661,735 respectively, resulting to an underperformance of Kshs.147,841,466 or 57 % of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on 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. Expenditure on Transfers to Other Government Units

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects an amount of Kshs.41,704,500 in respect of transfers to other government units. Analysis of the ledger, the bank statements and other payment records revealed that the Fund made payments during the year as analyzed below;

Institution	Opening Balance	Additional Funds (Kshs)	PMC Account Balance (Kshs)	Paid During the Year (Kshs)
Kware Primary	-	8,000,000	5,897,710	2,102,290
Kware Secondary	-	8,000,000	5,887,590	2,112,410
Reuben Secondary	-	7,162,250	-	7,162,250
AEF Reuben Primary	-	1,570,000	447,110	1,122,890
Kwa Njenga Primiray	-	3,570,000	18,848,882	(15,278,882)
Mukuru Community Centre Primary School	-	9,000,000	3,102,760	5,897,240

Reuben Primary school	-	3,570,000	-	3,570,000
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However, Management did not provide the expenditure returns relating to the transactions for verification to determine the nature and purpose of the transfers of Kshs.40,872,250.

In addition, the ledger reflects transfers amounting to Kshs.16,000,000 and Kshs.8,000,000 to Kwa Njenga Primary School and Kwa Njenga Secondary School respectively which differs with payment vouchers provided which indicated that the payments were made to Kware Primary School and Kware Secondary Schools.

In the circumstances, the utilization and value for money for the transfers to other Government units of 40,872,250 could not be confirmed.

2. Irregularities in Bursary Management

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects an amount of Kshs.62,044,360 in respect of other grants and other payments which includes Kshs.49,150,517 relating to bursaries to secondary schools and tertiary institutions.

However, Management did not demonstrate whether there was use of the Education bursary, Mock examinations and Continuous assessment tests committee in identification and vetting of the beneficiaries. Further, the acknowledgement receipts from the schools were not made available for audit.

In the circumstances, the value for money for the amount of Kshs.49,150,517 relating to bursaries could not be confirmed.

3. Direct Procurement of Goods and Services in cash

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects Kshs.4,299,560 in respect of use of goods. However, a review of imprests surrender vouchers of Kshs.840,000 revealed that management used imprests amounting to Kshs.190,500 to procure goods and services (tents, tables, chairs and hospitality) above the minimum allowed threshold contrary to section 107 and second schedule of the Public Procurement and Assets Disposal Act, 2015 which sets the maximum for low value procurement for goods, works and services at Kshs.50,000, Kshs,100,000 and Kshs.50,000 respectively.

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

4. Irregular Procurement of Masks, Thermoguns, and Sanitizers

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects Kshs.4,299,560 in respect of use of goods and services. A review of records revealed an amount of Kshs.551,080 was paid to a firm for supplies and delivery

of masks, thermoguns, hand wash detergent and sanitizers that were procured using direct procurement method. This is contrary to Section 103(2)(a) of the Public Procurement and Asset Disposal Act, 2015 which states that a procuring entity may use direct procurement if the goods, works or services are available only from a particular supplier or contractor, or a particular supplier or contractor has exclusive rights in respect of the goods, works or services, and no reasonable alternative or substitute exists;

Further, no delivery notes, inspection and acceptance report and a distribution list was provided for verification casting doubt on whether the items were delivered and used for the intended purpose.

In the circumstances, the value for money for the amount of Kshs.551,080 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 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 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 the 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 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 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

29 July, 2022