

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - GATUNDU 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 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 - Gatundu South set out on pages 18 to 53, 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 National Government Constituencies Development Fund - Gatundu South as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Inaccuracy in the Financial Statements

Note 17.3 to the financial statements under other important disclosures reflects unutilized funds comparative balance of Kshs.81,182,941 while the prior year financial statements reflected an unutilized funds balance of Kshs.74,798,681 resulting to an unreconciled balance of Kshs.6,384,260.

In the circumstances, the accuracy and completeness of the unutilized funds comparative balance of Kshs.81,182,941 could not be confirmed.

2. Irregular Payment for School Buses

The statement of receipts and payments and the corresponding disclosure Note 6 to the financial statements reflects transfer to other Government unit amounting to Kshs.87,811,679. The amount includes transfers to secondary schools amounting to Kshs.63,811,679 out of which Kshs.21,300,000 was paid to a garage on 17 September, 2020 in respect of purchase of three (3) school buses for Nembu, Gitare and Kagio Secondary Schools. Review of the contract documents revealed that the buses were to be delivered and payments made within thirty (30) days from date of the invoice. However, physical verification carried out on 7 April, 2022 revealed that the buses were yet to be delivered to the respective schools. As a result, Management made payments for undelivered buses. In addition, the minutes of the open forums at which the residents identified the buses as projects were not submitted for audit verification.

In the circumstance, the accuracy and regularity of the expenditure of Kshs.21,300,000 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 - Gatundu South 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 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 totalling to Kshs.218,271,820 and Kshs.183,182,942 respectively, resulting to an underfunding amounting to Kshs.35,088,878 or 16% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.218,271,820 and Kshs.151,065,169 respectively, resulting to an under expenditure of Kshs.67,206,651 or 31% 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. Irregular Re-Allocation of Funds

The statement of receipts and payments and the corresponding disclosure Note 6 to the financial statements reflects transfer to other Government units amounting to Kshs.87,811,679. The amount includes transfers to secondary schools amounting to Kshs.63,811,679 out of which an amount of Kshs.10,000,000 was disbursed for the construction of two (2) dormitories of two hundred (200) students capacity at Handege Secondary School. Physical verification carried out on 7 April, 2022 revealed that the dormitories were not constructed. Although the Fund Account Manager explained that the disbursed funds were used for constructing classrooms in Handege primary school, no approval from the National Government Constituencies Development Fund Board was provided. This is contrary to Section 6(2) of the National Government Constituencies Development Fund Act, 2015 which stipulates that once funds are allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose during the financial year with the approval of the Board.

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

3. Irregular Bursary Award

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.51,079,858 which, as disclosed in Note 7 to the financial statements, includes bursary expenditure totalling to Kshs.26,780,830. Review of supporting documents provided in support of the expenditure revealed there was no Education Bursary, Mock Examinations and Continuous Assessments Tests Committee to invite, analyze and make appropriate recommendations of bursary awards to applicants. In addition, application forms used were not the ones prescribed by circular number CDFB/CEO/board circulars VOL II (021) of 18 June, 2020 and the Fund Management did not maintain a Bursary Application Register containing details of applicants such as names of applicants, amounts applied for and schools admitted to.

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

4. Sports Projects Expenditure

The statement of receipts and payments and the corresponding disclosure Note 7 to the financial statements reflects other grants and transfers amounting to Kshs.51,079,858. The amount includes sports projects expenditure amounting to Kshs.5,830,132 out of which an amount of Kshs.3,150,000 was incurred on the renovation of Gatundu Stadium. However, construction of sports stadium is a devolved function as per the fourth schedule of the Constitution of Kenya, 2010. Management has not provided an explanation for funding a devolved function project.

Further, physical verification carried out on 8 April, 2022 revealed that planting of bougainvillea seedlings along the chain-link fence was not done, part of the fence was not fenced using the chain-link as provided for in the Bill of Quantities and floors that had been renovated on the existing podiums had already chipped off an indication of poor workmanship.

In the circumstances. Management was in breach of the law and value for money may not have been realized for the expenditure of Kshs.3,150,000 incurred on the renovation of the stadium.

5. Irregular Expenditure on Emergency Expenses

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.51,079,858 which, as disclosed in Note 7 to the financial statements, includes emergency expenditure amounting to Kshs.7,719,242. However, the emergency expenditure was not reported to the National Government Constituencies Development Fund Board. This is contrary to Regulation 20(2) of the National Government Constituencies Development Fund 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, in the format prescribed by the Board. The emergency

payments were made in respect of among others Kabiru Primary School project to facilitate construction of one (1) block of eight (8) pit latrines and urinal at Kshs.528,241 which was requested in the 2019/2020 financial year and the expenditure was therefore not an emergency .

Further, review of documents provided for audit revealed that the tender was awarded to a contractor who had not attached a CR12 form to the tender document which was a preliminary requirement. Physical verification carried out on 7 April, 2022 revealed that although the building was complete and in use, the completion certificate was not provided for audit verification.

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

6. Failure to Return Unutilized Project Management Committee Balances

Annex 5 to the financial statements reflects Project Management Committee unutilized fund balances of Kshs.277,398 which were not transferred to the Constituency Fund account. This is contrary to Section 12 (8) of the National Government Constituency Development Fund Act, 2015 which requires that all unutilized funds of the Project Management Committees shall be returned to the Constituency Fund account. Further, Project Management Committee returns and bank statements were not provided for audit.

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

7. Under-Allocation of Bursary Funds

The statement of budget execution by sectors and projects indicates a total allocation of Kshs.25,900,000 relating to bursary and social security. However, allocation is approximately 19% of the total allocation of Kshs.137,088,879. This is contrary to Regulation 21(5) of the National Government Constituencies Development Fund Regulations, 2016 which stipulates that Constituency Committees shall allocate not less than twenty five percent of the funds allocated to a constituency for bursaries. As a result, the management made an under-allocation of Kshs. 8,372,220 to bursary and social security expenditure.

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, 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

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 sustainability of services 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 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 Constituency 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 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