

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - GILGIL 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 - Gilgil Constituency set out on pages 15 to 45, which comprise of the statement of financial assets and liabilities as at 30 June, 2021 and the statement of receipts and payments, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts 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 effects of the matter 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 - Gilgil 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

1.0. Inaccuracy in the Financial Statements

Note 17.2 to the financial statements reflects a nil balance in respect of pending staff payables whereas Annex 2 reflects Kshs.397,520. The difference has not been explained.

In the circumstances, the accuracy of the pending staff payables of Kshs.397,520 could not be confirmed.

2.0. Unsupported Cash and Cash Equivalents

The statement of assets and liabilities reflects bank balance of Kshs.14,122,008 and as disclosed under Note 10A to the financial statements. However, the bank reconciliation statement and cashbook presented in support of the bank account reflect a balance of Kshs.14,314,005 resulting to an unexplained variance of Kshs.191,997.

Further, the bank reconciliation statements reflects payments in bank statement not in cashbook of Kshs.30,430 in respect of bank charges which ought to have been expensed. No explanation has been given for failure by Management to expense and record the transactions.

In the circumstances, the accuracy and completeness of the bank balance of Kshs.14,122,008 as at 30 June, 2021 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 - Gilgil 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 under review.

Other Matter

Budgetary Control and Performance

The summary statement of appropriation for the year ended 30 June, 2021 reflects a final budget of Kshs.155,086,287 against actual receipts of Kshs.112,997,408 on a comparable basis resulting to budget under funding of Kshs.42,088,879 or 27% of the total receipts budget. The underfunding may have negatively affected the implementation of programmes and activities to the residents of Gilgil Constituency.

The statement also reflects a final expenditure budget of Kshs.155,086,287 against actual expenditure of Kshs.98,875,400 on a comparable basis resulting to budget under absorption of Kshs.56,210,887 or 36%.

The under expenditure was attributed to low disbursements of funds from the National Constituencies Development Fund Board and slow pace of project implementation which has resulted to delayed benefits to be derived from the projects by the residents of Gilgil Constituency.

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

1.0 Irregular Expenditure on Access Road

The statement of receipts and payments reflects other payments amount of Kshs.6,400,000 which as disclosed in Note 9 to the financial statements, Includes Kshs.6,000,000 incurred on construction of a road to Muthaiti Primary School including heavy grading, culvert installation, filling of hard-core material and compaction and gravel patching with watering.

However, correspondences with the relevant County Government and Kenya Rural Roads Authority confirming that the road had not been budgeted for or maintained by the two government institutions was not provided for audit verification thereby risking duplication of works in contravention of the Fourth Schedule of the 2010 Constitution of Kenya and Section 24(a) of the National Government Constituencies Development Fund Act, 2015.

2.0 Unsatisfactorily Implemented Projects

The statement of receipts and payments and Note 6 to the financial statements reflects transfers to other government entities amount of Kshs.43,140,000 in respect of project implementation in various primary, secondary and tertiary learning institutions. However, five (5) projects with a total contract cost of Kshs.6,200,000 revealed the following unsatisfactory matters as detailed in the table below:

No	Beneficiary	Details	Type	Cost (Kshs.)	Observations
1	ASTU Kiambogo	Construction of four door pit latrine to completion	Other Grants (Emergency)	500,000	Correspondences with the National Police Service to confirm the institution's approval of the Project was not provided.
2	Cura Primary School	Flashing of a borehole	Transfer to Primary Schools	300,000	The borehole was not functional despite being equipped and flashed by the NGCDF.
3	Kariandusi Secondary School	Construction of two classrooms to completion (Foundation, walling, roofing, plastering, painting, window panes and doors, branding, electrical works, ceiling tiles external finishes and branding).	Transfer to Secondary Schools	2,400,000	The project was completed and commissioned on 9 June 2021. However, site verification carried out in the month of April 2022 revealed that deep cracks that already developed on the walls pointing to possible poor workmanship.
4	Kahuho Secondary School.	Construction a Kitchen (Foundation, walling, roofing, plastering, painting, windows, window panes and doors, branding, electrical works, tiles & external finishes) to completion.	Transfer to Secondary Schools	1,500,000	The project is incomplete but already put into use. Although the contractor is fully paid and not on site, painting works and tiling were not done as specified in the Bill of Quantities (BQ).
5	Mugaa Primary School	Renovation of two classrooms (flooring, plastering, painting, tiles and change roofing) and purchase of 60 desks	Transfer to Primary Schools	1,500,000	The projects were complete and already put into use. However, physical verification observed slight cracks on the interior part of the walls.
Total				6,200,000	

Management has not explained as to why were deficiencies in projects implementation process.

In the circumstances the residents of Gilgil Constituency may not realize value for money from the projects.

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 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 control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Fund ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the cash 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 financial reporting process, reviewing the effectiveness of how the entity 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 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 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 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 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

05 September, 2022

