

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - JUJA 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 - Juja Constituency set out on pages 18 to 49, 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 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 – Juja 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

1.1 Variances in the statement of Assets and Liabilities and Notes to the Financial Statements

The statement of assets and liabilities for the year under review reflects three (3) items that varies with the corresponding Note to the financial statements as shown below

Note Reference	Items	Balance in the Financial Statements Kshs.	Balance in the Notes to the Financial Statements Kshs.	Variance Kshs.
12A	Retention	0	7,408,000	7,408,000
12B	Gratuity	1,279,060	1,907,740	628,680
13	Funds balance brought forward	2,163,912	41,412,322	39,248,410

1.2 Variances Between the Financial Statements and Comparative Balances

The Fund's financial statements reflects eight (8) items that varies with the 2019-2020 comparative balances as shown below.

Description	Financial Statements 2020/2021 Kshs.	Audited Financial Statements 2019/2020 Kshs.	Variance Kshs.
Statement of Receipts and Payments			
Use of Goods and Services	5,751,800	9,039,390	3,287,590

Transfers to Other Government Units	57,178,127	64,547,874	7,369,747
Other Grants and Transfers	17,145,061	9,113,354	8,031,707
Other Payments	2,625,630	0	2,625,630
Statement of Cash flows			
Use of Goods and Services	5,751,800	9,039,390	3,287,590
Transfers to Other Government Units	57,178,127	64,547,874	7,369,747
Other Grants and Transfers	17,145,061	9,113,354	8,031,707
Other Payments	2,625,630	0	2,625,630

The variances were not explained.

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

1.3 Variance between the Statement of Receipts and Payments and the Summary Statement of Appropriation

The summary statement of appropriation reflects total receipts of Kshs.162,826,696. However, the statement of receipts and payments reflects total receipts of Kshs.159,383,724, resulting to an unexplained and unreconciled variance of Kshs.3,442,972.

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

2. Stale Cheques

The statement of assets and liabilities reflects a bank balance of Kshs.41,412,322 held at a local Bank. However, the bank reconciliation statement for the account for the month of June, 2021 reflects unrepresented cheques totalling to Kshs.15,734,172 out of which, cheques totalling Kshs.199,454 were stale. Further, some stale cheques date back to 2018. These cheques had not been reversed in the cash book.

in the circumstances, the accuracy and completeness of the cash and cash equivalent balance of Kshs.41,412,322 could not be confirmed.

3. Unaccounted for Expenditure on Contingency Provisions

The statement of receipts and payments reflects an amount of Kshs.54,441,931 in respect of transfers to other Government units which, as disclosed in Note 6 to the financial statements, includes transfers of primary schools of Kshs.46,941,931. Further, the transfers to primary schools includes an amount of Kshs.280,000 in respect of contingency provisions. However, the expenditure details on the expenditure and supporting documents were not provided for audit review.

In the circumstances, the validity of the expenditure amount of Kshs Kshs.280,000 could not be confirmed.

4. Non Adherence to the Prescribed Format

The financial statements presented for audit do not conform to the Public Sector Accounting Standards Board (PSASB) reporting template and International Public Sector Accounting Standards (IPSAS). The statement of assets and liabilities indicated the accounting period as 2019/2020 and 2019/2018 instead of 2020/2021 and 2019/2020, and amounts in the financial statements were not rounded off.

In the circumstances, the presentation and disclosure of the financial statements was not in accordance with PSASB reporting format.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Juja 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

1. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual receipts on comparable basis of Kshs.209,915,575 and Kshs.162,826,696 respectively, resulting into an under-funding of Kshs.47,088,879 or 22% of the budget. Similarly, the Fund had an expenditure budget of Kshs.209,915,575 and incurred an actual expenditure of Kshs.121,414,374, resulting into an under-expenditure of Kshs.88,501,201 or 42% of the budget.

In the circumstances, the under-funding and under-absorption may have impacted negatively on service delivery to the constituents of Juja.

2. Unresolved Prior Year Matters

In the audit of the previous year, several issues were raised. The Management has not resolved the issues or provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board template and The National Treasury's Circular Ref: AG.4/16/2 Vol.3 (72) dated 30 June, 2021

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. Delayed Implementation of Project

The statement of receipts and payments reflects transfers to other Government units amounting to Kshs.54,441,931 which, as disclosed in Note 6 to the financial statement includes transfers to primary schools of Kshs.46,941,931. The transfers to primary schools, includes an amount of Kshs.1,783,420 for the construction of 10 door ablution block at Ndururumo Primary School. Audit verification in April, 2022 revealed that, the project had been abandoned and the contractor was not on site. Further, project PMC bank account revealed a nil account balance. The Management did not explain the reason for non-delivery of service by the contractors even though full payments were made.

In the circumstances, the public may not have obtained the value for money.

2. Failure to Open Independent Bank Accounts for each Project

Review of other important disclosure statement to the financial statement as at 17.4 and Annex 5 reflects Project Management Committee balances of Kshs.4,493,345 which include three (3) projects in one primary school. However, review of the project documents and bank statement balance revealed that the funds for the three projects were held in one bank account. This is contrary to provisions of Regulation 15(1)(c) of National Government Constituency Development Fund, Regulation, 2016 which states that there shall be appointed a Project Management Committee for each project in a Constituency in accordance with section 36 of the Act, which shall—open and maintain an independent bank account for each project.

In the circumstances, Management was in breach of law.

3. Failure to Submit a Valid Performance Security

Review of the expenditure returns on transfers to other government units of Kshs.54,441,931 revealed that contracts amounting to Kshs.21,661,676 did not have valid performance security. This is contrary to Section 142(1) of the Public Procurement and Asset Disposal Act, 2015, which states that subject to the regulations, a successful tenderer shall submit a performance security equivalent to not more than ten per cent of the contract amount before signing of the contract.

In the circumstances, Management was in breach of law

4. Failure to Report Utilization of Emergency Reserve to the Board

During the year under review, the Fund utilized an amount of Kshs.1,504,565 on emergency projects. However, no documents were provided for audit to confirm that the same was reported to the Board within thirty days of the occurrence as required by Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016.

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.

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 governance.

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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 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 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