

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

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## 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 - Naivasha Constituency set out on pages 16 to 48, which comprise of the statement of financial assets and liabilities as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows and the 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 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 - Naivasha 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 Sector Finance Management Act, 2012.

## **Basis for Qualified Opinion**

### **1. Inaccuracies in the Statement of Receipts and Payments**

The statement of receipts and payments reflects an amount of Kshs.108,198,818 in respect to transfer to other Government units whereas Note 6 to the financial statement reflects an amount of Kshs.106,010,066 resulting to an unexplained variance of Kshs.2,188,752.

Further, the statement of receipts and payments reflects a total of Kshs.9,656,411 in respect of use of goods and services and as disclosed in Note 5 to the financial statements. The amount includes committee expenses of Kshs.2,399,000 which includes Kshs.1,062,000 for training expenses which was erroneously classified as committee expenses. Further, supporting schedules reflected an amount of Kshs.2,940,000 resulting to an unexplained variance of Kshs.541,000.

In addition, included in Note 5 to the financial statements is other committee allowance expenditure of Kshs.4,035,000 while the supporting schedule provided for audit reflected an amount of Kshs.3,594,000 resulting to an unexplained variance of Kshs.441,000.

In the circumstances, the accuracy of the statement of receipts and payments could not be confirmed.

### **2. Unsupported Compensation of Employees**

The statement of receipts and payments reflects compensation of employees' amount of Kshs.3,870,416 and as disclosed in Note 4 to the financial statements. The amount includes Kshs.2,662,788 in respect of basic salaries, however the gross payroll reflected an amount of Kshs.2,572,068 resulting to an unreconciled variance of Kshs.90,720. Further, included in the balance is gratuity payments of Kshs.1,207,628 that have not been supported by the staff names, contract period, rate and amounts paid.

In the circumstances, the accuracy and completeness of compensation of employees' expenditure of Kshs.3,870,416 could not be confirmed.

### **3. Unsupported Other Grants and Payments**

The statement of receipts and payments reflects other grants and transfers amount of Kshs.36,965,363. However, Note 7 to the financial statements reflects Kshs.39,154,115 resulting to an unexplained variance of Kshs.2,188,752. Further, the amount includes

bursary payments to secondary schools and tertiary institutions of Kshs.12,831,000 and Kshs.607,000 respectively, all totalling to Kshs.13,438,000. However, these amounts have not been supported with student details, admission numbers, learning institutions, cheque numbers, amounts awarded and ward of resident.

In the circumstances, the accuracy and completeness of other grants and payments balance of Kshs.15,626,752 could not be confirmed.

#### **4. Unsupported Transfers to Other Government Units**

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects transfers to other Government units of Kshs.108,198,818 relating to funds disbursed to various Project Management Committees. However, actual expenditure returns and acknowledgement letters from the institutions that received the funds were not provided for audit.

In the circumstances, the completeness and accuracy of the transfers to other Government units of Kshs.108,198,818 could not be confirmed.

#### **5. Inaccuracies in Cash and Cash Equivalents**

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.15,064,190. The bank reconciliation statement reflected payments in cashbook not yet recorded in bank statement balance of Kshs.8,749,868 out of which stale cheques totalling to Kshs.1,093,800 had not been reversed in the cash book.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.15,064,190 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 – Naivasha 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 a comparable basis of Kshs.220,444,076 and Kshs.161,462,724 respectively resulting to an under-funding of Kshs.58,981,352 or 27% of the budget. Similarly, the Fund expended

Kshs.158,691,008 against an approved budget of Kshs.220,444,076 resulting to an under-expenditure of Kshs.61,753,068 or 28% 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 Budgeting of Bursary Grants**

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects other grants and transfers expenditure of Kshs.36,965,363. Included in the expenditure is an amount of Kshs.13,438,000 incurred on bursaries to secondary schools and tertiary institutions. However, the bursary payments constituted six percent (6%) of the Fund's total budget of Kshs.220,444,076. This was contrary to Regulation 21(5) of the National Government Constituencies Development Fund Regulations, 2016 which requires bursaries to be allocated not less than twenty-five (25%) of the funds allocated to the Fund.

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

#### **2. Unsupported Project Management Committee Bank Balances**

Note 17.4 to the financial statements reflects Project Management Committee bank balances balance of Kshs.54,052,264. However, the balance has not been supported with cashbooks, bank reconciliation statements, expenditure returns and Projects Implementation Status Reports contrary to Section 10 of the National Government Constituencies Development Fund Act, 2015 which requires project management committees to keep proper books of accounts and make returns to the Constituency committee on how the sum has been used.

In the circumstance, 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 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 controls, 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 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 overall 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 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**

**08 September, 2022**