

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NAKURU TOWN EAST 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

Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Nakuru Town East Constituency set out on pages 20 to 55, which comprise of the statement of financial assets and liabilities as at 30 June, 2021 and the statement 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of National Government Constituencies Development Fund - Nakuru Town East 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 and do not comply with the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Inaccuracies in the Financial Statements

The statement of receipts and payments and statement of cash flows reflects transfers to other Government units amount of Kshs.61,586,000. However, Note 6 to the financial statements reflects a balance of Kshs.61,535,500 resulting to an unexplained variance of Kshs.50,500.

Further, the summary of fixed assets register reflects Nil historical cost opening balance. However, the prior year closing balance as per the audited financial statements reflected a balance of Kshs.22,091,393 resulting to an unexplained variance of Kshs.22,091,393.

In addition, the financial statements reflects comparative balances for three items that differed with prior year balances as detailed below:

Component	Note	Financial Statements (Kshs.)	Prior Year Audited Financial statements (Kshs.)	Variance (Kshs.)
National Hospital Insurance Fund	4	168,522		114,522
Pay As You Earn	4	54,000		54,000
Unutilized Funds	17.3	74,817,724	101,034,871	(26,217,147)

Similarly, the financial statements reflects balances for nine (9) items that are at variance with the supporting schedules as detailed below:

Details	Financial Statements (Kshs.)	Supporting Schedule (Kshs.)	Variance (Kshs.)
Compensation of Employees	2,540,100	2,535,750	(4,350)
Insurance Cost	556,037	359,720	196,317
Emergency Project Grants	10,850,000	10,150,000	700,000
Transfer to Primary Schools	24,285,500	25,136,000	(850,500)
Other Operating Expenses	393,210	0	393,210

Specialized Material	354,088	0	354,088
Other Committee Allowances	375,807	0	375,807
Committee Allowances	8,715,500	1,546,000	7,169,500
Routine Maintenance - Vehicles	195,910	0	195,910

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

2. Unsupported Expenditure on Use of Goods and Services

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects use of goods and services amount of Kshs.15,537,518. Review of records provided for audit indicates bank withdrawals on diverse dates totalling to Kshs.11,257,949 for various expenditure items. However, supporting documents such as the imprest warrants, surrender vouchers and detailed schedules were not provided for audit.

In the circumstances, the regularity, accuracy and completeness of the use of goods and services balance of Kshs.15,537,518 could not be confirmed.

3.0 Other Grants and Other Payments

3.1 Unsupported Bursary Payments

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects other grants and payments amount of Kshs.62,135,953 which includes bursary payments totaling to Kshs.38,092,176. However, bursary payments amounting to Kshs.19,248,277 was paid to student beneficiaries whose names, admission numbers and respective learning institutions were not provided for audit.

In the circumstances, the accuracy and completeness of bursary payments amount of Kshs.19,248,277 could not be confirmed.

3.2 Unsupported Expenditure on Social Security Programmes

Note 7 to the financial statements reflects Social Security programmes expenditure amount of Kshs.2,452,000 in respect of National Hospital Insurance Fund contributions for the vulnerable persons. However, the policy document, vetting committee reports, beneficiary's applications, approved list of beneficiaries and advertisement or notices to the public were not provided for audit.

In the circumstances, the accuracy and completeness of the social security programmes amount of Kshs.2,452,000 could not be confirmed..

3.3 Unaccounted for Security Projects Expenditure

Note 7 to the financial statements reflects security projects expenditure amount of Kshs.5,500,000. However, the expenditure returns, Project Management Committee minutes and bank statements in support of the expenditure were not provided for audit. Further, the expenditure also includes amount of Kshs.1,000,000 reallocated from Nakuru

East Primary School to Nakuru Central Police Station without relevant approvals from the Board. In addition, the expenditure includes an amount of Kshs.1,500,000 incurred on rehabilitation of a borehole in Muguga which is outside the Fund's mandate and is contrary to Section 24(a) of the National Government Constituencies Development Fund Act, 2015, which states that a project under the Act shall only be in respect of works and services falling within the functions of the National Government under the Constitution.

In the circumstances, the regularity, accuracy and completeness of security projects expenditure balance of Kshs.5,500,000 could not be confirmed.

3.4 Unaccounted Sports Projects Expenditure

Note 7 to the financial statements reflects sports projects expenditure of Kshs.2,741,777. However, the expenditure returns, calendar of tournaments and procurement records in support of the expenditure were not provided for audit.

In the circumstances, the regularity, accuracy and completeness of sports projects expenditure balance of Kshs.2,741,777 could not be confirmed.

3. Inaccuracies in Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.20,139,852. However, bank reconciliation statement for the bank account reflect stale cheques totalling to Kshs.323,522 and had not been written back in the cash book or replaced.

In the circumstances, the accuracy and completeness of bank balance of Kshs.20,139,852 could not be confirmed.

4. Unaccounted Project Management Committees Account balances

Note 17.4 to the financial statements reflects Project Management Committee balances of Kshs.4,527,189 as detailed in Annex 5. However, the project status implementation report on the prior year balance of Kshs.5,789,926 was not provided for audit.

In the circumstances, accuracy and completeness of the Project Management Committees bank account balances of Kshs.4,527,189 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 - Nakuru Town East 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 adverse 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 of Matter

Budgetary Control and Performance

The summary statement of appropriation reflects a final receipts budget of Kshs.212,130,750 and actual receipts on a comparable basis of Kshs.167,041,871 resulting to underfunding of Kshs.45,088,879 (or 21%) of the budget. Similarly, the Fund expended Kshs.147,018,019 against an approved budget of Kshs.212,130,750 resulting to under expenditure of Kshs.65,112,731 (or 31%) of the budget.

The underfunding and under performance affected the planned activities and may have impacted negatively on service delivery.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Non-Compliance with Public Sector Accounting Standards Board Template

The table of contents to the financial statements excludes page numbers for annexes and progress on follow up of auditor recommendations and the budget execution by sectors and projects is not paginated. In addition, the progress on follow-up of auditor recommendations at pages 55 is not signed by the Accounting Officer and the issues or observations reported therein do not relate to the prior year's audit report.

In the circumstances, the financial statements are not prepared and presented in the format prescribed by the Public Sector Accounting Standards Board.

2. Irregular Expenditure on Emergency Projects

The statement of receipts and payments reflect grants and other transfers amount of Kshs.62,135,953 which includes an amount of Kshs.10,850,000 incurred on emergency

projects out of which Kshs.3,800,000 spent on three (3) projects for renovation of offices. However, no justification was provided to confirm that the renovations were emergencies.

This is contrary to Section 8(3) of the National Government Constituencies Development Fund Act, 2015 which states that emergency shall be construed to mean an urgent, unforeseen need for which it is in the opinion of the Committee that it cannot be delayed until the next financial year without harming the public interest of the constituents.

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

3. Anomalies in Project Implementation

Twenty-four (24) projects with a funding allocation totalling to Kshs.34,841,500 were sampled for audit inspection in the month of May, 2022. However, project implementation records for projects costing Kshs.18,297,000 were not provided for audit.

Further, the inspection revealed that projects costing a total of Kshs.7,792,000 were not branded and could not be positively identified and attributed to the current year's expenditure. In addition, there were instances of poor workmanship or delayed completion in ten (10) out of the twenty four (24) projects inspected.

In the circumstances, value for money from the project cost amounting to Kshs.34,841,500 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm 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 controls, 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 controls, risk management and 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 its 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 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 controls 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 controls would not necessarily disclose all matters in the internal controls 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 controls 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 controls 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 controls.
- 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 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 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

23 September, 2022