

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NJORO 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 control, 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 - Njoro Constituency set out on pages 15 to 54, 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- Njoro 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Errors in Presentation and Disclosure in the Financial Statement

The financial statements submitted for audit had the following inconsistencies:

- i. The statement of cash flows is not titled.
- ii. In the statement of cash flows, the current year is indicated as 2019/2020 and the comparative year 2018/2019 instead of 2020/2021 and the comparative 2019/2020.

In the circumstances, the presentation and disclosure of the financial statements did not comply with the prescribed format by the Public Sector Accounting Standards Board.

2. Understatement of Sports Projects

The statement of receipts and payments reflects Kshs.51,662,633 in respect of other grants and transfers as detailed in Note 7 to the financial statements. Included in the amount is Kshs.1,373,677 in respect of sports projects which was paid to Njoro Sports Welfare for purchase of sports kits amounting to Kshs.1,969,740. However, the Fund only recognized an expenditure of Kshs.1,373,677 leading to understatement of Kshs.596,063.

In the circumstances, the accuracy and completeness of the other grants and transfers expenditure of Kshs.596,063 could not be confirmed.

3. Unsupported Transfer of Funds to Projects

The statement of receipts and payments reflects an expenditure of Kshs.68,900,000 and Kshs.51,662,633 in respect of transfers to other government units and other grants and transfers respectively. Out of this amount, Kshs.77,342,050 was transferred to various projects as detailed in the table below

No.	Description	Amount Transferred (Kshs.)
1	Transfers to Primary Schools	44,200,000

2	Transfers to Secondary Schools	24,700,000
3	Security Projects	300,000
4	Environment Projects	2,700,000
5	Emergency Projects	5,442,050
	Total	77,342,050

However, review of the approval and disbursement process revealed that the conditions for disbursement of funds to the Project Management Committee bank accounts were not met before the funds were released contrary to Regulation 15 of the National Government Constituencies Development Fund Regulations, 2016. The unfulfilled conditions include: appointment of Project Management Committee (PMC), preparation of the requisite budgets and bills of quantities for approval by the Constituency committee, approval to open PMC bank account and properly prepared project work plan.

In the circumstances, accuracy and completeness of the transfers of Kshs.77,342,050 could not be confirmed.

4. Unsupported Bursaries

The statement of receipts and payments reflects other grants and transfers of Kshs.51,622,633 as disclosed in Note 7 to the financial statements. However, bursary payments amounting to Kshs.28,588,324 were not supported by a list of applicants, approved list of beneficiaries per school, student's name and admission numbers, amounts disbursed, Constituency Development Fund Committee minutes stating the process of identification and selection of the beneficiaries.

In the circumstances, the accuracy, completeness and validity of the other grants and transfers of Kshs.28,588,324 could not be confirmed.

5. Unsupported Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.35,542,250 while the cash book reflects a balance of Kshs.252,000 resulting to unreconciled difference of Ksh.35,290,250. In addition, a board of survey certificate reflected the cash book balance as Kshs.22,542,249 whereas the bank certificate reflects a balance of Kshs.57,636,028 resulting to unreconciled difference of Kshs.35,093,779.

In the circumstances, the accuracy, completeness and existence of the cash and cash equivalents balance of Kshs.35,542,250 could not be confirmed.

6. Land and Office Buildings without Title Documents

The summary of fixed assets register in Annex 4 to the financial statements reflects fixed assets balance of Kshs.25,239,000 as at 30 June, 2021. However, buildings and structures owned by the Fund with a carrying value of Kshs.17,500,000 were excluded in

the balance. Further, a parcel of land on which the building is located is not owned by the National Government Constituencies Development Fund- Njoro Constituency. Further, no trust deed documents or memorandum confirming the ownership arrangement were provided for audit review.

In the circumstances, the accuracy and completeness of fixed assets balance of Kshs.25,239,000 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 - Njoro 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 comparable basis of Kshs.212,081,504 and Kshs.166,992,625 respectively resulting to an underfunding amounting to Kshs.45,088,879 (or 21%) of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totaling Kshs.212,081,504 and Kshs.131,450,376 respectively resulting to an under expenditure amounting to Kshs.80,631,129 (or 38%) 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 matter 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

Absence of Staff Establishment and Scheme of Service

Examination of personnel records, revealed that the Fund did not have in place, an approved scheme of service for its staff which defines job categories by profession, qualifications and experience, career progression and conditions of progression.

In the absence of the scheme of service, it was not possible to ascertain how recruitment and promotion of staff is conducted.

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 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 the 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 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'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 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 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 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

02 September, 2022