

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – RONGAI 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 – Rongai Constituency set out on pages 15 to 62, which comprise 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 National Government Constituencies Development Fund - Rongai 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

Several of the balances reflected in the financial statements were not supported with sufficient appropriate records, as discussed in the following paragraphs:

1. Cash and Cash Equivalents

The statement of financial assets and liabilities reflects cash and cash equivalents balance totalling Kshs.11,865,824. However, review of the bank reconciliation statement for the month of June, 2021 revealed unrepresented cheques totalling Kshs.16,070,067 which included stale cheques totalling Kshs.293,456 that had not been reversed in the cashbook.

In the circumstance, the validity and accuracy of the cash and cash equivalents balance totalling Kshs.11,865,824 could not be confirmed.

2. Fixed Assets Register

Annex 4 to the financial statements denotes the summary of the Fund's fixed assets register and which reflects transport equipment balance of Kshs.7,841,000. However, the asset register was not provided to support the balance.

In the circumstance, the accuracy, existence and completeness of the transport equipment balance totalling Kshs.7,841,000 could not be confirmed.

3. Transfers to Other Government Units

The statement of receipts and payments reflects transfers to other government entities totalling Kshs.99,400,000, as disclosed in Note 6 of the financial statements.

Included in the balance are the transfers to secondary schools' totalling Kshs.26,400,000 and transfers to primary schools totaling Kshs.73,000,000 both of which were not supported with expenditure returns and reports that confirmed that the projects were implemented. In addition, the respective Project Committee bank accounts were not provided for audit.

Also, review of available records indicated that a contract valued at Kshs.2,500,000 for construction of an administration block at Solai Kale Secondary School was awarded to the second lowest tender. No explanation was provided for the anomaly.

Further, there was no evidence that the primary school projects were implemented in consultation with relevant Government Departments.

In the circumstances, the validity, accuracy and propriety of transfers to secondary and primary schools totalling Kshs.26,400,000 and Kshs.73,000,000 respectively could not be confirmed.

4. Other Grants Transfers -Emergency Projects

The statement of receipts and payments includes other grants and transfers totalling Kshs.47,844,834 as disclosed in Note 7 to the financial statements. Included in the balance are payments totalling Kshs.3,450,000 incurred on three (3) projects costing Kshs.2,650,000. However, the nature of the emergency activities funded was not disclosed.

In the circumstances, the occurrence, validity, accuracy and propriety of emergency projects expenditure totalling Kshs.2,650,000 could not be confirmed.

5. Project Management Committee (PMC) Bank Balances

Note 17.4 to the financial statements reflects Project Management Committee (PMC) account balances totalling Kshs.23,709,732 as detailed in Annex 5 of the financial statements. However, the PMC bank account cash books, bank statements, bank reconciliations statements, quarterly reports to the Constituency Committee on the status of the projects and Management committee accounts were not provided for audit verification. In addition, the comparative PMC account balances for the year 2019/2020 have not been disclosed and further, the change from the prior year's closing PMC account balance totalling Kshs.53,532,080 has not been supported.

In addition, the PMC account balance totalling Kshs.23,709,732 shown in Appendix 3 includes Kshs.11,564,910 relating to completed projects that had as at 30 June, 2021 not been returned to the Constituency account contrary to Section 12(8) of the National Government Constituencies Development Fund Act, 2015. The Act stipulates that all unutilized funds of the Project Management Committee shall be returned to the constituency account.

In the circumstances, the accuracy and existence of PMC account balances totalling Kshs.23,709,732 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 – Rongai 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

The audit report for the year ended 30 June, 2021 highlighted several issues relating to the financial statements for the year and on lawfulness and effectiveness in use of public funds. The report on progress in following up on auditor's recommendations appended to the financial statements for the year under review indicates that some of the issues have since been resolved. The actual status of the issues shall be confirmed after they are discussed by Parliament.

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. Bursaries Issued in Excess of Prescribed Threshold

Section 5 of the Bursary Policy provides for maximum financial assistance for the various categories of beneficiaries as follows; Kshs.20,000 for boarding secondary schools and Kshs.30,000 for colleges, tertiary institutions and universities. However, 33 students were awarded bursaries totalling Kshs.1,289,214 that exceeded their respective thresholds.

In the circumstances the Management acted in breach of the law.

2. Unaccounted Bursaries Paid to Driving School

Bursary records indicated that Kshs.3,375,000 was transferred to a driving school for 250 students to pursue various driving courses. However, Management did not provide interim driving licenses to confirm that the students who were sponsored completed their respective courses.

In the absence of appropriate evidence valid and effective use of the bursaries totalling Kshs.3,375,000 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, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Lack of Risk Management Policy

Review of risk management indicated that the Fund did not have a Risk Management Policy in place and had no approved processes and guidelines on how to mitigate operational, financial and other risks.

In the circumstances, the Fund did not comply with Section 165(1)(a) of the Public Finance Management (National Government) Regulations, 2015 which requires the Accounting Officer to establish systems for internal control and risk management that supports robust business operations.

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 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 basis of accounting unless Management is aware of 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 Fund 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 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 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 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

06 September, 2022