

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - STAREHE 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 - Starehe Constituency set out on pages 14 to 44, which comprise of the statement of assets and liabilities as at 30 June, 2021, 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 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 - Starehe 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 Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

1.1 Statement of Receipts and Payments

The statement of receipts and payments reflects comparative amount of Kshs.28,568,336 under acquisition of assets which differs with an amount of Kshs.924,700 reflected under Note 8 to the financial statements and the audited financial statements for the year ended 30 June, 2020, by unexplained variance of Kshs.27,643,636 of receipts and payments.

Further, the statement reflects an amount of Kshs.32,040,664 in respect to acquisition of asset. However, Note 8 to the financial statements in respect to acquisition of assets reflects Nil amount.

1.2 Statement of Assets and Liabilities

The statement of assets and liabilities reflects Nil comparative balances for retention and gratuity. However, the audited financial statements for the year ended 30 June, 2020 reflects balances of Kshs.688,600 and Kshs.303,993 respectively for the two items.

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

2. Unsupported Transfers to Other Government Units

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects an amount of Kshs.65,700,000 in respect of transfers to other Government units. The transfers includes an amount of Kshs.3,600,000 for supply and delivery of 900 branded wooded lockers and 900 wooden branded chairs to six (6) schools vide payment voucher No.28 dated 25 November, 2020. However, no evidence of delivery of the items was provided for audit.

In addition, Racecourse Primary School received total disbursements of Kshs.22,050,000 in the year under review for construction of 1,000 meters perimeter wall, removal of asbestos, reroofing and renovation of three (3) classrooms, repair of walls and floor screeding and painting of ten (10) classrooms. However, physical inspection carried out in the Institution on 7 April, 2022 revealed that, works on repair of

walls and painting was only done in six (6) classrooms and not ten (10) as indicated on the payment records. Further, works on floor screeding were not done in any of the classrooms. No explanation was provided for failure to carry out the works valued at Kshs.3,075,000.

In the circumstances, the accuracy and validity of transfers to other Government units totalling to Kshs.6,675,000 could not be confirmed.

3. Unreconciled Bursary Funding

The statement of receipts and payments reflects other grants and transfers amount of Kshs.32,040,664 as disclosed in Note 7 to the financial statements which includes bursary payments totalling to Kshs.23,347,995. However, analysis provided in support of the bursary payments reflected a total amount of Kshs.21,849,224 resulting to an unreconciled variance of Kshs.1,498,771. Further, the analysis was not categorized into bursary to secondary and tertiary institutions and did not include admission numbers of the benefiting students.

In addition, the summary statement of appropriation reflects that an amount of Kshs.154,981,179 was received from the NG-CDF Board. However, Management spent a total amount of Kshs.23,347,995 or 15% of total receipts on bursary instead of Kshs.38,745,295 or 25% as required by Regulations 21(5) of the National Government Constituency Development Fund Regulations, 2016.

In the circumstances, the accuracy and completeness of other grants and transfers could not be confirmed and the Fund Management was in breach of law.

4. Unsupported Expenditure on Sports Projects

The statement of receipts and payments reflects other grants and transfers amount of Kshs.32,040,664 as disclosed in Note 7 to the financial statements. The transfers includes sports projects expenditure of Kshs.5,093,367 out of which an amount of Kshs.2,912,550 was incurred in purchase of sports equipment. Review of the payment vouchers revealed that although the inspection and acceptance committee signed the issue voucher (S11), the receipt voucher (S13) however, the signed list of beneficiary teams were not provided for audit.

In the circumstances, the validity and completeness of the amount spent on sports uniform and equipment could not be confirmed.

5. Variance in Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.43,176,686 as disclosed in Note 10 to the financial statements. However, the cash book and the bank reconciliation statement reflected a balance of Kshs.45,347,703 resulting to an unexplained variance of Kshs.2,171,017. Further, the bank reconciliation statements presented for audit included stale cheques totalling Kshs.3,304,141. No explanations were provided for failure to reverse the stale cheques.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.43,176,686 could not be confirmed.

6. Unreconciled Project Management Committee Bank Balances

Annex 5 to the financial statements reflects Project Management Committee balance of Kshs.60,887 in respect to Dr. Aggrey Primary School. However, the bank statement and bank certificate reflects a balance of Kshs.50,887 resulting to an unreconciled variance of Kshs.10,000. In addition, reconciliation statements for the bank account were not provided for audit.

Further, the bank certificates for Starehe Main Cooperative Bank Account, three (3) secondary schools and five (5) primary schools were not provided for audit review. Similarly, the bank statements for two (2) secondary schools and one (1) primary school were also not provided for audit review.

In the circumstances, the accuracy and existence of the PMC bank balances totalling to Kshs.38,876,415 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 - Starehe 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.236,333,060 and Kshs.154,981,179 respectively resulting to underfunding of Kshs.81,251,881 or 34% of the budget. Similarly, the Fund spent Kshs.111,804,494 against an approved budget of Kshs.236,333,059, resulting to an under expenditure of Kshs.124,528,565 or 53% of the budget.

In the circumstances, the underfunding and underexpenditure may have affected 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 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. Non-Compliance with the Public Sector Accounting Standards Board Templates

Review of the financial statements presented for audit revealed the following errors;

- i) The statement of cash flows for the year ended 30 June, 2021, other important disclosures and annexes and progress on follow-up of Auditor Recommendations is omitted from the table of contents.
- ii) Section IV on Corporate Social Responsibility Statement/Sustainability Reporting, has omitted information on environmental performance.
- iii) Annex 5 to the financial statements on PMC Bank Balances omits a brought forward balance of Kshs.632,608 which constitute of Kshs.614,782 for Dr. Aggrey Primary School and Kshs.17,826 for Pangani Police Station.

Consequently, the financial statements for the year ended 30 June, 2021 did not comply with the Public Sector Accounting Standards Board Reporting Templates.

2. Implementation of Projects not in the Approved Projects Code List

Review of the financial statements revealed that the Fund undertook projects in both primary and secondary schools. However, projects amounting to Kshs.3,400,000 were implemented but were not part of the projects approved and scheduled for implementation as per the approved project code list for financial year 2020/2021. Failure to submit the projects to the Board for approval and funds allocation may result in implementation of the projects that are not a priority to the public.

The Fund Management is 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, except for the matter 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 Approved Information Communication Technology Policy and Strategic Committee

Review of the Fund's Information Communication Technology (ICT) environment revealed that the Fund did not have an approved ICT Policy, an ICT Strategic Committee, a Data Security Management Policy or an approved Back Up Policy. Further, a review of the Fund's staff records revealed there was no Officer-In-Charge of ICT. In the circumstances, the effectiveness of the Fund's ICT controls could not be confirmed.

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 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 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 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

19 August, 2022