

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KAMUKUNJI CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2022

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 the 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

The accompanying financial statements of National Government Constituencies Development Fund - Kamukunji Constituency set out on pages 1 to 40, which comprise of the statement of assets and liabilities as at 30 June, 2022, statement of receipts and payments, statement of cash flows and the summary statement of appropriation for the year ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by FH Consulting LLP, auditors appointed under Section 23 of the Public Audit Act, 2015. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

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 - Kamukunji Constituency as at 30 June, 2022, 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 Transfers to Other Government Entities

The statement of receipts and payments, the ledger balances and Note 6 to the financial statements reflect an amount of Kshs.121,445,990 in respect of transfers to other Government units which differs with the project payments from bank statements and payment vouchers amount of Kshs.128,466,513, resulting in an unreconciled and unexplained variance of Kshs.7,020,523.

1.2 Committee Expenditure

The statement of receipts and payments and Note 5 to the financial statements reflects a total amount of Kshs.5,202,649 in respect of use of goods and services which includes committee allowances amounting to Kshs.1,212,000 which differs with the payment vouchers total amount of Kshs.1,497,000 resulting to an unreconciled and unexplained variance of Kshs.285,000.

1.3 Incorrect Opening Balances

Annex 5 to the financial statements on Project Management Committee bank balances reflects comparative balances totalling to Kshs.1,168,731 while the 2020/2021 audited financial statements reflects closing balances amounting to Kshs.1,226,645 resulting to an unreconciled and unexplained variance of Kshs.57,914.

1.4 Inaccuracies in Summary Statement of Appropriation

The summary statement of appropriation reflects transfers from NGCDF Board total amount of Kshs.184,260,022 while the statement of receipts and payments and Note 1 to the financial statements reflect a total amount of Kshs.181,777,758. The resulting variance of Kshs.2,482,264 was not explained or supported.

1.5 Inaccuracies in Budget Execution by Sectors and Projects

The budget execution by sectors and projects reflects analysis of primary schools and secondary schools' projects amounting to Kshs.20,400,000 and Kshs.70,184,632 which vary with the actual amounts of Kshs.31,663,800 and Kshs.75,782,190 respectively as per Note 6 to the financial statements. The resulting total variance of Kshs.16,861,358

was not explained or supported. Further, analysis of the sports projects has not been included in the statement.

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

2. Unsupported Expenditure

The statement of receipts and payments and Note 5 to the financial statements reflects an amount of Kshs.5,202,649 on use of goods and services out of which an expenditure of Kshs.788,000 relates to other committee expenses. Review of records revealed that an amount of Kshs.300,000 was incurred on Monitoring and Evaluation (M&E). Although photographic evidence was provided as proof of monitoring and evaluation activities, there were no documented monitoring and evaluation reports. Further, review of the payment vouchers revealed that the CDFC committee made sitting allowance claims which were not supported with minutes of the meetings.

In the circumstances, the accuracy and completeness of other committee expenses amounting to Kshs.788,000 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 - Kamukunji Constituency Management in accordance with ISSAI 130 on the Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audit 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.

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. Failure to Constitute a Bursary Committee

The statement of receipts and payments and the corresponding Note 7 to the financial statements reflects a total expenditure of Kshs.47,287,896 paid as bursaries to secondary schools and tertiary institutions. However, Management did not establish a subcommittee of education bursary, mock examinations and continuous assessment tests whose core mandate is vetting of applicants contrary the provisions of circular No.NG-CDFB/CEO/BOARD CIRCULARS VOL II (021) of 18 June, 2020. An examination of a sample of the application forms revealed no evidence of vetting by the education bursary, mock examinations and continuous assessment tests committee. Further, the chairman or the secretary of the vetting committee did not sign the application form as proof of approval or rejection of the application.

In addition, minutes of the vetting committee and the details of the successful applicants was not provided for audit.

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

2. Poor Implementation of Projects

Review of records revealed that the Management awarded the construction of 150 Meters storm water drainage and 1620SQM paving slabs around 16 classrooms at Heshima Primary School to a local contractor at a contract sum of Kshs.2,412,800 on 16 October, 2021. However, physical inspection of the project carried out at the school on 28 July, 2023 revealed that whereas works on paving slabs had been completed, no works had commenced on the drainage system. At the time of the inspection, the contractor had already left the site while an amount of Kshs.2,370,500 representing 98% of the contract sum had been paid.

In the circumstances, the value for money on the amount of Kshs.2,370,500 incurred on the project could not be confirmed.

3. Irregular Branding of Projects

Physical inspection of various projects implemented by the Fund Management carried out on 28 July, 2023 revealed that projects implemented at Eastleigh Airport Primary School, Our Lady of Mercy Primary School, Our Lady of Mercy Girls Secondary School and Zawadi Primary School were branded with the name of the area Member of Parliament contrary to Section 25(3) of the National Government Constituencies Development Fund Act, 2015.

In the circumstances, 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 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 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 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 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 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 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 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 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 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 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 August, 2023