

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NJORO 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 overall 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 22 to 68, which comprise of the statement of assets and liabilities as at 30 June, 2022, 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- Njoro 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. Unsupported Transfers to Other Government Units

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects transfer to other government units amount of Kshs.79,050,000 comprised of Kshs.43,050,000 and Kshs.36,000,000 for transfers to primary and secondary schools respectively relating to construction and renovation works of classrooms and laboratories, and purchase of school buses. However, the construction and renovation works were not supported with procurement records including bills of quantities, tender advertisements, tender evaluation minutes, signed contract, inspection and acceptance committee reports, interim and completion certificates. Further, Project Management Committee (PMC) accounting records such as cashbooks, bank statements and expenditure returns and evidence that the projects were implemented in consultation with relevant Government Departments and bus logbooks were not provided for audit. In addition, contractors for works in the schools' projects were awarded tenders without National Construction Authority (NCA) registration certificates, tax compliance certificates and three years audited financial statements and the project activity was not reflected in the supporting documents availed for audit.

In the circumstances, the accuracy and propriety of transfers to other Government units of Kshs.79,050,000 could not be confirmed.

2. Unsupported Bursaries

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects other grants and other transfers amount of Kshs.119,453,190. This amount includes bursary to secondary schools of Kshs.19,993,214, tertiary institutions of Kshs.57,825,400 and special schools of Kshs.459,576 all totalling to Kshs.78,278,190. However, acknowledgement receipts of the funds were not provided for audit. Further, the criteria for vetting the bursary application, vetting committee minutes, long lists and successful beneficiaries were not provided for audit.

In the circumstances, the accuracy and propriety of bursary expenditure of Kshs.78,278,190 could not be confirmed.

3. Unsupported Security Projects Expenditure

The statement of receipts and expenditure reflects other grants and other transfers amounting to Kshs.119,453,190. The amount includes security projects expenditure of Kshs.22,200,000 as reflected in Note 7 to the financial statements. The expenditure was incurred on construction and equipping of police stations. However, supporting documents including signed contracts, inspection and acceptance committee reports, interim and completion certificates, cashbooks, bank statements and authority to open project bank account were not provided for audit.

In the circumstances, the accuracy and propriety of security projects expenditure of Kshs.22,200,000 could not be confirmed.

4. Unsupported Sports Projects Expenditure

The statement of receipts and expenditure reflects other grants and other transfers amounting to Kshs.119,43,190. The amount includes sports projects expenditure of Kshs.4,000,000 as reflected in Note 7 to the financial statements. The expenditure was incurred to organize and purchase sports equipment and materials for the constituency sports tournament. However, supporting documents including user requisitions, request for quotations forms, tender evaluation minutes, signed contract, inspection and acceptance committee reports, delivery notes and stores records and Project Management Committee (PMC) expenditure returns were not provided for audit. Further, no documentary evidence was provided to support the execution of the constituency tournament and whether one hundred and seven (107) Jerseys, ninety (90) soccer balls, six (6) volley balls, twelve (12) track suits, seven (7) football nets and six (6) volleyball nets were procured at a cost of Kshs.1,900,860.

In the circumstances, the validity, accuracy and propriety of sports projects expenditure Kshs.4,000,000 could not be confirmed.

5. Unconfirmed Project Management Committee (PMC) Account Balances

Note 17.4 to the financial statements reflects Project Management Committee (PMC) account balance of Kshs.76,190,071 relating to one hundred and forty-seven (147) projects implemented during the year under review. However, cash books and bank confirmation certificates were not provided for audit. Further, the Project Management Committee (PMC) bank account balances for projects implemented have not been disclosed. This is contrary to Section 12(8) of the National Government Constituencies Development Fund Act, 2015 which requires all unutilized funds of the Project Management Committee to be returned to the Constituency account.

In the circumstances, the accuracy and completeness and validity of the PMC account balance of Kshs.76,190,071 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.

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. Unsupported Emergency Project Expenditure

The statement of receipts and payments reflects other grants and transfers totalling to Kshs.119,453,190. The amount includes emergency projects expenditure of Kshs.12,675,000 as reflected in Note 7 to the financial statements. However, the expenditure was incurred on construction of toilets which was not of emergency in nature and not reported to the National Government Constituencies Development Fund Board. This is contrary to Regulation 20(2) of the National Government Constituencies Development Regulations, 2016 which stipulates that the utilization of the emergency reserve shall be reported to the Board within thirty days of the occurrence of the emergency.

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

2. Projects Implementation Status

Review of the projects implementation status report provided for audit revealed that one hundred forty-one (141) projects worth Kshs.160,280,000 were budgeted to be implemented during the year under review. However, only eighty-seven (87) projects worth Kshs.40,400,000 were completed, forty-two (42) projects worth Kshs.56,050,000 were on going and twelve (12) projects worth Kshs.63,830,000 had not started as at 30 June, 2022.

In the circumstances, value for money for the ongoing and not started projects was not achieved.

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 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 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 entity 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 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 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 the 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

10 July, 2023