

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LIMURU 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

I have audited the accompanying financial statements of National Government Constituency Development Fund - Limuru Constituency set out on pages 1 to 38, which comprise 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 Constituency Development Fund-Limuru 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 Public Finance Management Act, 2012 and National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Inaccuracy in Cash and Cash Equivalents

The statement of assets and liabilities and Note 10A to the financial statements reflect cash and cash equivalents balance of Kshs.6,341,099 while the bank reconciliation statements reflect a balance of Kshs.6,153,690, resulting to a variance of Kshs.187,409 which was not explained. In addition, the bank reconciliation statement reflects stale unrepresented cheques of Kshs.22,500 while payments in the bank statement not in cash book amounted to Kshs.72,520. The failure to update the cash book was not explained.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.6,341,099 could not be confirmed.

2. Unsupported Fixed Assets

Annex 4 to the financial statements reflect summary of fixed assets register balance of Kshs.18,389,817. Included in this balance is a motor vehicle GK A 602Y reported to have been acquired on 19 October, 2011 at a cost of Kshs.3,800,000, whose log book indicates that it is owned by Limuru District Treasury. In addition, the cost of building (CDF Office block) Kshs.9,997,542 was not supported with ownership documents.

In the circumstances, the accuracy of the summary of fixed assets could not be confirmed.

3. Irregular Payments on Motor Vehicle

The statement of receipts and payments and Note 5 to the financial statements reflect payments totaling to Kshs.12,642,627 in respect of use of goods and services. Review of payments and other records revealed that included in the use of goods and services payments is Kshs.350,672 on motor vehicle expenses out of which Kshs.31,162 related to insurance while Kshs.319,510 was related to routine maintenance. However, Management does not own any motor vehicle.

In the circumstances, the propriety of kshs.350,672 incurred on motor vehicle expenses could not be confirmed.

4. Unsupported Bursaries

The statement of receipts and payment and Note 7 to the financial statements reflects Kshs.99,037,357 in respect of other grants and other transfers. Included in this amount is

bursaries totalling to Kshs.924,000 paid to special schools whose payment vouchers and other records were not submitted for audit review. Further, evidence that the beneficiaries from the special schools applied for the bursaries, documents showing acknowledgment of receipt of the funds and confirmation by the beneficiaries, were not provided for audit review.

In the circumstances, the validity of the bursaries totalling to Kshs.924,000 could not be confirmed.

5. Unsupported Payments on Emergency Projects

Included in the payments on other grants and transfers is Kshs.7,700,000 incurred under the emergency vote allocated for the year under review. However, review of the approved project code list for 2021/2022 revealed that the emergency projects had an allocation of Kshs.7,192,206, resulting to over expenditure of Kshs.507,794. In addition, there was no evidence that Limuru NG-CDF had reported any of the emergency expenditure to the Board, using the prescribed format. Further, Management disbursed Kshs.500,000 through cheque No.7318 for proposed tiling of a police station, to station PMC Account. Review of documents provided revealed that the project was approved by the NG-CDF committee as per the minutes dated 12 November, 2021 for funding under emergency reserve. However, there was no formal request for the project to be funded as an emergency. Further, no documents were provided in relation to procurement of the works, inspection and acceptance reports, completion certificates and progress reports by Management. Therefore, it was not possible to confirm whether the works were actually done as required.

In the circumstances, validity of the payment could not be confirmed.

6. Unsurported Unutilized Funds

The financial statements in Note 17.3 reflects unutilized funds Kshs.96,841,100 while Annex 3 to the financial statements reflects Nil balance of unutilized funds resulting to a variance of Kshs.96,841,100 which was not explained or reconciled.

In the circumstances, the accuracy of unutilized funds Kshs.96,841,100 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 - Limuru 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 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.

Other Matter

1. Budgetary Control and Performance

The summary statement of appropriation reflects final budget and actual on comparable basis of Kshs.282,712,258 and Kshs.192,212,238 respectively resulting to under-funding of activities by Kshs.90,500,000 (or 32%) of the budget. Similarly, the Fund expended Kshs.185,871,189 against expenditure budget of Kshs.282,712,239 resulting to under-expenditure of Kshs.96,841,100 (or 34%) of the budget.

The underfunding and under-expenditure affected planned activities and programs and impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2022. Management has not provided reasons for the delay in resolving the prior year audit issues.

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. Other Grants and Transfers

The statement of receipts and payments and Note 7 to the financial statements indicate that total payments in respect of other grants and transfers were Kshs.99,037,357. Review of payment and other records revealed the following:

1.1. Irregularities in Award of Bursaries

Included in the payments under other grants and transfers is Kshs.75,722,342 relating to bursaries disbursed to various secondary, tertiary and special schools. However, it was not possible to confirm whether the bursaries were awarded according to the set laws and procedures, due to the anomalies listed below;

- a) There was no evidence that NG-CDF Committee approved the processing and issuing of the bursaries to various schools and institutions amounting to Kshs.75,722,342.

- b) There was no evidence of formation of the education bursary, mock examinations and continuous assessment tests committee whose core mandate is vetting of applicants.
- c) There was no evidence of advertisement to the residents on availability of the fund.
- c) There was no evidence that, a list of applicants indicating recommendations, details of the successful and unsuccessful applicants, including the amounts awarded by the vetting committees, was issued to the NG-CDF Committee and.
- d) An examination of a sample of the application forms revealed that all of the forms had no evidence of vetting and the chairman or the secretary of the vetting committee did not sign the application form as prove of approval or rejection of the application. Further, it was not possible to confirm the amount awarded to the successful applicants were awarded since the details were not indicated on the application form.
- e) Examination of sampled payment vouchers valued at Kshs.32,851,992, revealed that beneficiaries were awarded bursaries varying from Kshs.3,000 to Kshs.81,000. However, the criteria used in determining the amounts to award each applicant was not provided for verification. Further, various beneficiaries were awarded bursaries more than once. No explanation or minutes approving more than one award was provided for audit.
- f) The application forms used were outdated and did not conform to the template issued by the NG-CDF Board via circular CDFB/CEO/BOARD CIRCULARS VOL II (021) dated 18 June, 2020.
- g) Further, it was observed that Management spent Kshs.75,722,342 in Bursaries which accounted for 47% of the total allocation during the year contrary to section 48 of the National Government Constituency Development Fund Act, 2015 which provided that such projects shall not be allocated more than thirty-five per centum of the total funds allocated for the constituency in any financial year. .

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 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 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 sustainability of services 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 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 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 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 Constituency 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 or 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

30 June, 2023