

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

Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Naivasha Constituency set out on pages 1 to 38, 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, because of significance of the matters discussed in the basis for adverse opinion section of my report, the financial statements do not present fairly, the financial

position of the National Government Constituencies Development Fund - Naivasha 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 do not comply with the National Government Constituencies Development Fund Act, 2015 and Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Inaccuracy of Transfers from National Government Constituencies Development Fund (CDF) Board

The statement of receipts and payments reflects transfers from CDF Board balance of Kshs.183,777,758 which differs with the summary statement of appropriation balance of Kshs.198,841,948 resulting to an unreconciled variance of Kshs.15,064,190.

In the circumstances, the accuracy and completeness of transfers from CDF Board amounting to Kshs.183,777,758 could not be confirmed.

2. Unsupported Use of Goods and Services Expenditure

The statement of receipts and payments reflects use of goods and services of Kshs.11,032,735 which, as disclosed in Note 5 to the financial statements includes committee expenses balance of Kshs.2,305,000 and committee allowances of Kshs.5,513,000 all totalling to Kshs.7,818,000. However, the schedule indicating the committee members paid and expenditure returns were not provided for audit.

In the circumstances, the accuracy and completeness of use of goods and services expenditure of Kshs.7,818,000 could not be confirmed.

3. Unsupported Transfers to Other Government Units

The statement of receipts and payments reflects transfers to other Government units of Kshs.73,307,106 as disclosed in Note 6 to the financial statements. However, the Project Management Committee bank statements, expenditure returns and project implementation status report in support of the amount were not provided for audit. Further, transfer of an amount of Kshs.1,600,000 to Shemoi primary school is omitted from the amount.

In the circumstances, the accuracy and completeness of transfers to other Government units of Kshs.73,307,106 could not be confirmed.

4. Unsupported Bursary Payments

The statement of receipts and payments reflects other grants and transfers balance of Kshs.76,289,000 as disclosed in Note 7 to the financial statements. The amount includes bursary to secondary schools amounting to Kshs.46,928,763 which differs with the amount of Kshs.26,289,763 disclosed in the schedule resulting to an unexplained variance of Kshs.20,639,000. Further, the amount of Kshs.46,928,763 also includes unrepresented cheques amounting to Kshs.19,472,513 whose subsequent payments were not supported by bank statements. In addition, the amount includes bursary to tertiary

institutions balance of Kshs.17,360,237 which is not supported by a schedule showing student name, admission number, name of institution, amount of bursary awarded and cheque number.

In the circumstances, the accuracy, completeness and regularity of bursary payments of Kshs.64,289,000 could not be confirmed.

5. Unsupported Cash and Cash Equivalents Balance

The statement of assets and liabilities reflects bank balance of Kshs.24,896,279. However, the bank reconciliation statement reflects unpresented cheques balance of Kshs.40,380,485 out of which cheques amounting to Kshs.1,058,000 were stale and had not been reversed in the cashbook. Further, the bank reconciliation statement reflects receipts in bank statements not yet recorded in cashbook of Kshs.5,000 dating back to 25 November, 2017.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.1,063,000 could not be confirmed.

6. Unsupported Project Committee Bank Balances

Note 17.4 to the financial statements reflects Project Management Committee (PMC) bank balances of Kshs.32,780,810 out of which Kshs.18,392,834 was supported with bank statements leaving an unsupported balance of Kshs.14,387,976. Further, the balance brought forward of Kshs.50,628,304 has not been supported by project implementation status report.

In the circumstances, the accuracy and completeness of the Project Management Committee (PMC) bank balances of Kshs.32,780,810 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 – Naivasha 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 adverse 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 on in the year under review.

Other Matter

Budgetary Control and Performance

The summary statement of appropriation reflects a final receipts budget of Kshs.198,841,948 against actual expenditure of Kshs.173,945,669 resulting to under expenditure of Kshs.24,896,279 or 12.5% of the budget.

The underfunding affected the planned activities and may have impacted negatively on 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, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that, public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Non-Submission of the Emergency Reserves Utilization Reports to the Board

Included in other grants and transfers of Kshs.76,289,000 is Kshs.4,500,000 incurred on emergency projects. However, no evidence was provided for audit to confirm that the Fund filed reports on the utilization of the emergency reserves to the NG-CDF Board within thirty (30) days as stipulated in the Regulation 20 (2) of the National Government Constituencies Development Fund Regulations, 2016.

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

2. Project Implementation Status

Review of sampled projects with a budget of Kshs.80,558,039 and funding allocations of Kshs.57,558,039 revealed that the projects were either ongoing and under procurement while others are pending and had not started.

In the circumstances, value for money has not been achieved and the public have not benefited from these projects.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion sections of my report, based

on the audit procedures performed, I confirm 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 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 controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the 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 Fund 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 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 noncompliance. 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 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

17 July, 2023