

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – RUIRU 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 Constituencies Development Fund – Ruiru Constituency set out on pages 1 to 34, which comprise of the statement of assets and liabilities as at 30 June, 2022, and the statement of receipts and payments, statement of cash flow 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 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 the National Government Constituencies Development Fund – Ruiru 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. Unreconciled Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.31,214,794 as disclosed in Note 10A to the financial statements. Review of the bank reconciliation statement revealed payments in cash book not recorded in bank statement in form of unrepresented cheques amounting to Kshs.17,280,849 out of which an amount of Kshs.6,100 related to stale cheques which had not been reversed in the cash book as at 30 June, 2022. No explanation was provided as to whether the unrepresented cheques which related to bursary payments had cleared as at the time of audit.

Further, review of the bank reconciliation statement revealed payments in bank statement not recorded in the cash book of Kshs.27,982. However, no details were provided as to what the balances related to and why the balances had not been captured in the cash book.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.31,214,794 could not be confirmed.

2. Unconfirmed Project Management Committee Balances

Other Important Disclosure as disclosed in Note 17.4 and Annex 5 to the financial statements reflects Project Management Committee unutilized fund balances of Kshs.26,983,613 which includes twenty-six (26) Project Management Committee (PMC) accounts balances as at 30 June, 2022. However, certificates of bank balances and cash books were not provided for audit review.

In the circumstances, the accuracy and completeness of the Project Management Committee balance of Kshs.26,983,613 could not be confirmed.

3. Unsupported Emergency Expenditure

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.95,314,911 which includes emergency expenditure amounting to Kshs.9,190,000. Included in the expenditure is an amount of Kshs.2,800,000 spent on purchase of desks to various schools. However, request for quotation documents,

tender opening and evaluation minutes, professional opinion and inspection and acceptance minutes were not provided for audit. Further, audit verification carried out in the month of March, 2023 in the two (2) primary schools for delivery of desks worth Kshs.1,300,000 revealed that delivery notes and counter receipt vouchers were not provided for audit hence the desks delivered could not be confirmed.

In the circumstances, the regularity and completeness of the emergency expenditure of Kshs.2,800,000 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 – Ruiru 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 totalling Kshs.220,628,403 and Kshs.209,628,403 respectively resulting to an under funding of Kshs.11,000,000 or 5% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling Kshs.220,628,403 and Kshs.178,413,609 respectively resulting to an under expenditure of Kshs.42,214,794.00 or 19% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Ruiru Constituency.

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 Return Unutilized Project Management Committee Balances

Annex 5 to the financial statements reflects Project Management Committee unutilized fund balances of Kshs.26,983,613 as at 30 June, 2022 which were not transferred to the Constituency Fund account. This is contrary to Section 12 (8) of the National Government Constituency Development Fund Act, 2015 which requires that all unutilized funds of the Project Management Committees shall be returned to the Constituency Fund account.

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

2. Failure to Report on Use of Emergency Funds

The statement of receipts and payments and Note 7 to the financial statements reflects other grants and transfers amounting to Kshs.95,314,911 which includes emergency expenditure of Kshs.9,190,000. However, Management did not provide documentary evidence indicating that the emergency expenditure was reported to the Board using the prescribed format. This is contrary to Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016 which provides that the utilization of emergency reserve shall be reported to the Board within 30 days of the occurrence of emergency in the format prescribed by the Board.

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

3. Irregularities in Transfers to Other Government Units

The statement of receipts and payments reflects transfer to other Government units amounting to Kshs.67,036,897 as disclosed in Note 6 to the financial statements which includes transfers to primary schools amounting to Kshs.45,750,000. Review of the records provided and audit verification carried out in the month of March, 2023 revealed the following anomalies;

3.1 Construction of Two Classrooms

The Fund disbursed a total of Kshs.4,000,000 to the Project Management Committee (PMC) for a local primary school for construction of two (2) classrooms. Review of documents provided for audit revealed that the works were procured through request for quotations and awarded at a contract sum of Kshs.3,797,030. However, the request for quotation did not specify when the quotations shall be submitted contrary to Section 106(1) of the Public Procurement and Asset Disposal Act, 2015. Further, two of the invited bidders were not in the prequalified list of suppliers which is contrary to Section 106(2) of the Public Procurement and Asset Disposal Act, 2015 which states that the Accounting Officer shall give request to such persons as are registered by the procuring entity.

3.2 Irregular Maintenance and Improvement of Access Road

The Fund disbursed a total of Kshs.3,000,000 to the Project Management Committee (PMC) for a local primary school for maintenance and improvement of access road. However, "No Objection Letter" issued by Rural Roads Authority to the Fund Account Manager on 4 July, 2021 stated that the maintenance and improvement of the access road was a National Government function under Kenya Roads Authority, Kiambu region. Management did not provide explanation for funding a road project which is contrary to Section 3 of the NGCDF Act, 2015.

Further, review of documents provided for audit revealed that works were procured through request for quotations and awarded at a contract sum of Kshs.2,845,944. However, request for quotation documents did not specify when the quotations were issued and date for submission contrary to Section 106(1) of the Public Procurement and Asset Disposal Act, 2015. Further, four (4) of the invited bidders were not in the prequalified list of suppliers which is contrary to Section 106(2) of the Public Procurement and Asset Disposal Act, 2015 which states that the Accounting Officer shall give request to such persons as are registered by the procuring entity.

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

4. Non-Compliance with Bursary Application and Awarding Guidelines

The statement of receipts and payments and Note 7 to the financial statements reflects other grants and transfers amounting to Kshs.95,314,911 which includes bursaries to secondary schools and tertiary institutions totalling to Kshs.58,510,300. However, review of bursary records provided for audit revealed that the application forms had not been vetted and the awarded amounts to the successful applicants were not indicated on the forms. This is contrary to circular CDFB/CEO/BOARD CIRCULARS VOL II (021) dated 16 June, 2020. Further, Management did not provide Bursary policy which sets the criteria of awarding the bursaries.

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

5. Failure to Maintain Project Management Committee Records and Reports

Review of five (5) sampled project returns for projects undertaken during the year under review revealed that there were no appointment letters for the project management committees. Further, records showing that the project management committees carried out project closure and handover upon completion of the projects and prepared hand over reports to a constituency committee were not provided for audit. This is contrary to Regulation 15(1) of the National Government Constituencies Development Fund Regulations, 2016 which states that there shall be appointed a project management committee for each project in a Constituency which shall undertake project closure, labelling and handover upon completion.

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 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 control, 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 and 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 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 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 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 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 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

26 June, 2023