

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - GILGIL CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Gilgil Constituency set out on pages 13 to 42, which comprise the statement of assets and liabilities as at 30 June, 2020, statement of receipts and payments, statement of cash flows and the summary statement of appropriation-recurrent and development combined 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 effects 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 - Gilgil Constituency as at 30 June, 2020, 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. Unreconciled Cash and Cash Equivalents

The statement of assets and liabilities reflects bank balances of Kshs.17,997,408 as disclosed in Note 10A to the financial statements. Review of the bank reconciliation statement reflects payments in cash book not recorded in bank statement in form of un-presented cheques amounting to Kshs.6,285,584 out of which an amount of Kshs.146,000 related to stale cheques which had not been reversed in the cash book as at 30 June, 2020. In addition, the bank reconciliation included payments in bank not in cashbook of Kshs.37,761, that were bank charges which were not part of the reconciling items. The Management did not explain why the stale cheques had not been reversed and bank charges had not been captured in the cashbook and expensed in the year under review.

In the circumstances, the accuracy and completeness of the bank balances of Kshs.17,997,408 could not be confirmed.

2. Unsupported Other Committee Expenses and Committee Allowances

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.6,804,937 that includes other committee expenses amounting to Kshs.2,515,400 and committee allowances of Kshs.1,689,600 as disclosed in Note 5 to the financial statements. However, amounts totaling Kshs.1,194,600 was paid as committee allowances to non-committee members for which the purpose of payment was not disclosed. The schedules were not supported by details of names of persons paid, number of meetings attended, rate of payment, cheque number and amounts. In addition, an amount of Kshs.577,000 was paid as other committee expenses for public participation which was not supported by verifiable documentation.

In the circumstances, the accuracy and completeness of other committee expenses and committee allowances amounting to Kshs.1,771,600 could not be confirmed.

3. Other Grants and Transfers

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.46,754,728 as disclosed in Note 7 to the financial statements. However, the following issues were noted;

3.1 Unsupported Bursary to Secondary Schools

The other grants and transfers amounting to Kshs.46,754,728 includes bursary to secondary schools of Kshs.14,979,554. However, bursary totaling Kshs.4,924,028 issued to secondary schools was not supported by admission numbers for one-hundred and forty-six (146) students.

In the circumstances, the validity and regularity of bursary disbursements to secondary schools amounting to Kshs.4,928,028 could not be confirmed.

3.2 Unsupported Bursary to Tertiary Institutions

The other grants and transfers amounting to Kshs.46,754,728 includes bursary to tertiary institutions of Kshs.8,068,000. The Fund paid an amount of Kshs.3,976,000 for one hundred and forty-two (142) students to a private institution. However, the funding was not supported by beneficiary student admission and national identification numbers.

In the circumstances, the validity and regularity of bursary disbursements to tertiary institutions amounting to Kshs.3,976,000 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 - Gilgil 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-recurrent and development combined reflects final receipts budget and actual on comparable basis totalling to Kshs.144,331,729 and Kshs.137,867,724 respectively, resulting to an underfunding amounting to Kshs.6,464,005 or 4% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.144,331,729 and Kshs.126,334,321 respectively, resulting to under expenditure of Kshs.17,997,408 or 12% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Gilgil 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. Errors on Presentation and Disclosures in the Financial Statements

The annual report and financial statements prepared and presented for audit had the following presentation and disclosure errors;

- i. The page numbers of annexes in the table of contents are not correctly done on page 1 as follows; Analysis of pending accounts payable is in page 34 and not 36, analysis of pending staff payables is in page 35 and not page 37, unutilized fund is in page 36 and not 38, summary of fixed asset register is in page 37 and not 39 and PMC bank balances is in page 38 and not page 40.
- ii. The significant accounting policies on page 24 reflects the word sec which is not in full narration.
- iii. The progress on follow up of auditors' recommendations is not signed by the Accounting Officer.

- iv. The statement of cash flows reflects nil balance for net cash flow from investing activities, however a casting error was noted due to acquisition of assets figure of Kshs.423,624 resulting to correct net cash flow from investing activities of negative Kshs.423,624.

Consequently, the annual report and financial statements as prepared and presented are not in the format prescribed by the Public Sector Accounting Standards Board.

2. Project Implementation

2.1 Unimplemented Projects

According to the project implementation status report as at 30 June, 2020, two (2) projects with a total budget of Kshs.180,000 were not implemented during the period under review.

Although the Kapkures primary school funds are still in the project management committee bank account as evidenced in Annex 5 number 57 of the financial statements, the funds of Karunga police post was not reflected in the project management committee bank account. These projects had not been started by the time of audit in the month of February, 2021. In addition, according to the response dated 8 March, 2021, the amount disbursed in respect of Karunga police post is indicated as Kshs.120,000 when only an amount of Kshs.60,000 was budgeted for. Delayed implementation of projects denies residents intended benefits.

2.2 Irregularities on Verified Projects

During the year under review, forty-one (41) projects which received an allocation of Kshs.51,630,000 for financial year under review were verified in the month of February, 2021. Eleven (11) projects which received a total of Kshs.20,300,000 had anomalies as detailed below;

- i. Poor workmanship.
- ii. Some works which were factored in the bill of quantities were not done yet the funds are fully utilized.
- iii. Documents have not been provided to justify whether the funds were utilized for the intended purpose.
- iv. Incomplete projects.

The observations cast doubt on the project supervision undertaken and value for money utilized in the project. Consequently, value for money may not be realized from the incomplete projects.

3.0 Over Expenditure on Emergency Projects

The other grants and transfers amounting to Kshs.46,754,728 includes emergency projects amounting to Kshs.7,239,345 as disclosed in Note 7 to the financial statements. Included in the emergency expenditure is an amount of Kshs.2,500,000 that relates to expenditure for construction of a four (4) door toilet in five (5) schools. The original bill of

quantities amounted to Kshs.504,200 for each school. However, the schools exceeded the amount resulting to an over expenditure of Kshs.600,000.

In the circumstances, the regularity of emergency expenditure of Kshs.600,000 for the year could not be confirmed.

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, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Lack of a Risk Management Policy

During the year under review, the Fund did not have a risk management policy in place and therefore had no approved processes and guidelines for mitigation of operational, legal and financial risks.

In the absence of a risk management policy, the Fund lacked a blue print for identifying, preventing and mitigating against risks and was not in compliance with Section 165(1) of the Public Finance Management (National Government) Regulations, 2015.

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 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 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 abolish 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 Fund 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 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 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

11 February, 2022