

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NAIVASHA 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 - Naivasha Constituency set out on pages 12 to 51, which comprise the statement of assets and liabilities as at 30 June, 2020, and 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 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 - Naivasha 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1.0 Inaccuracies in the Financial Statements

The financial statements prepared and presented for audit had the following inconsistencies:

- i. The summary statement of appropriation - recurrent and developments combined reflects final receipts budget utilization difference amount of Kshs.74,699,295 that differs with the re-casted balance of Kshs.69,367,724 resulting to a variance of Kshs.5,331,571 that has not been reconciled.
- ii. The statement of receipts and payments and as disclosed in Note 1 to the financial statements reflects transfers from other government entities amounting to Kshs.132,140,876 whereas the summary statement of appropriation reflects actual receipts on comparable basis of Kshs.137,472,447 resulting to a variance of Kshs.5,331,571 that has not been explained.
- iii. Note 1 to the financial statements reflects transfers from other government entities comparative balance of Kshs.108,784,483 that is at variance with the re-casted amount of Kshs.95,784,483 resulting to a difference of Kshs.13,000,000 that has not been reconciled.

Consequently, the accuracy and completeness of the above balances included in the financial statements for the year ended 30 June, 2020 could not be confirmed.

2.0 Unsupported Expenditures

2.1 Use of Goods and Services

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services balance of Kshs.7,828,412. Included in the amount is Kshs.1,360,000 which was not supported.

Consequently, the accuracy and completeness of use of goods and services balance of Kshs.1,360,000 could not be confirmed.

2.2 Committee Allowances

The statement of receipts and payments reflects use of goods and services balance of Kshs.7,828,412 of which Kshs.5,724,000 was incurred on committee allowances and expenses. However, the amount was not supported by way of names of committee members who received the allowances, allowance rates and dates of meeting. Further, the balance includes Kshs.944,200 paid to ungazetted persons. This is in breach of Section 43(4) of the National Government Constituencies Development Fund Act, 2015 that requires names of selected constituency committee members to be submitted to National Assembly for approval before appointment and gazettelement by the Board.

Consequently, the accuracy, completeness and validity of the committee allowances amounting to Kshs.5,724,000 could not be confirmed.

2.3 Bursary Payments

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers balance of Kshs.51,887,751. Included in this amount is Kshs.17,716,934 and Kshs.6,860,000 is in respect to payment of bursaries to students in secondary schools and tertiary institutions, respectively. However, included in Kshs.17,716,934 is an amount of Kshs.5,370,934 paid in respect of full and partial scholarships without an approved policy framework from the Board. Further, bursary amounting to Kshs.6,267,102 granted to nine hundred and seventy two (972) students was not supported by way of admission numbers or letters.

Consequently, it was not possible to confirm whether bursary payments amounting to Kshs.11,638,036 were issued to deserving recipients.

3.0 Unreconciled Cash and Cash Equivalents

The statement of financial assets and liabilities reflects bank balances of Kshs.12,292,474. The bank reconciliation statement reflects payments in cash book not in bank statement in form of un-presented cheques amounting to Kshs.6,345,738. However, the amount includes stale cheques totalling to Kshs.1,100,000 which had not been reversed in the cash book as at 30 June, 2020.

In addition, the bank reconciliation statement reflects payments in bank not in cash book of Kshs.1,440 relating to bank charges which ought to have been expensed. Further, the reconciliation includes receipt in bank not recorded in cash book of Kshs.5,001. The Management has not explained why the stale cheques were not reserved and why bank charges and receipt in bank were not recorded in cash book.

Consequently, the accuracy and completeness of cash and cash equivalents balance of Kshs.12,292,474 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 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

1.0 Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.206,940,171 and Kshs.132,140,876, respectively, resulting to an under-funding of Kshs.74,799,295 or 36% of the budget. Similarly, the Fund expended Kshs.125,279,973 against an approved budget of Kshs.206,840,170 resulting to an under-expenditure of Kshs.81,560,197 or 39% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

2.0 Project Implementation Status

Review of the project implementation status report as of 30 June, 2020 revealed that sixty six (66) projects with an allocation of Kshs.141,569,409 were at different implementation statuses. The report revealed three (3) ongoing projects with an allocation of Kshs.14,250,000 and projects amounting Kshs.58,400,000 were incomplete due the to slow tendering processes and delays in receipt of funds from the Board.

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

1.0 Lack of Project Implementation Status Report

Note 17.4 Project Management Committee (PMC) bank account balances disclosed a balance amounting to Kshs.31,552,601. However, thirty-six (36) projects which were on going, were not supported by project implementation status report. Further, as previously reported, fifty-seven (57) projects with an allocation of Kshs.82,025,863 brought forward from 2018/2019 were also not supported by a project implementation report or project completion certificates during the year under review. This is contrary to Section 8(2) (h) of the National Government Constituencies Development Fund Regulations, 2015, that requires the chairperson of a constituency committee to coordinate the compilation of project status reports every six months.

Consequently, the Management is in breach of the law.

2.0 Unlabeled Projects

Physical verification of projects undertaken in the year under review revealed that four (4) projects amounting to Kshs.7,800,000 and which were complete, were not labeled contrary to Regulation 15(1)(f) of the National Government Constituencies Development Fund Regulations, 2016 which states that the Project Management Committee shall undertake project closure, labelling and handover upon completion.

In the circumstances, the Project Management Committees were in breach of the Regulations.

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 section 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

Maintenance of a Fixed Assets Register

As previously reported, Annex 4 summary of fixed assets register discloses historical cost balance of fixed assets of Kshs.12,047,091. However, the Management has not provided a detailed fixed asset register in support of the balance. This is contrary to provisions of

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Section 139(1)(b) of the Public Finance Management (National Government) Regulations, 2015 that requires an Accounting Officer to ensure that proper control systems exist for assets and that of their movement and conditions in order to be tracked.

Consequently, it has not been possible to confirm whether Management has in place mechanisms for effective management of the fixed assets to safeguard them against pilferage.

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 overall 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 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 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 overall 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 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