

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - ELDAMA RAVINE 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 control, risk management and overall 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 - Eldama Ravine Constituency set out on pages 1 to 43, 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 Constituencies Development

Fund- Eldama Ravine 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Unutilized Fund Balance

Note 17.3 to the financial statements reflects unutilized fund balance of Kshs.32,204,344. However, the amount includes funds pending approval of Kshs.25,000,000 which were not supported or explained. Further, the comparative figure of Kshs.55,644,487 differs with the total of opening balance and outstanding disbursements of Kshs.19,858,216 and Kshs.21,341,569 respectively, totalling to Kshs.41,199,785 reflected in the summary statement of appropriation resulting to unexplained and unreconciled variance of Kshs.14,444,702.

In the circumstance, the accuracy and completeness of unutilized fund balance of Kshs.32,204,345 could not be confirmed.

2. Project Management Committee's (PMC) Account Balances

Note 17.4 to the financial statements reflects Kshs.37,881,012 in respect of Project Management Committee (PMC) account balances for projects implemented during the year under review. The balances relates to the PMC bank statements' balances instead of cashbook balances. However, cash books, bank balance confirmation certificates and bank reconciliation statements were not provided for audit. Further, the balances did not include Project Management Committee (PMC) bank account balances for projects implemented since inception of the Fund.

In the circumstances, the accuracy and completeness of Project Management Committee (PMC) bank balances amount of Kshs.37,881,012 could not be confirmed.

3. Unsupported Transfer to Other Government Units

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects transfer to other government units amounting to Kshs.90,265,000 which includes transfers to primary and secondary schools amounting to Kshs.34,595,000 and Kshs.55,670,000 respectively. However, the Project Management Committee (PMC) expenditure returns and evidence that the projects were implemented in consultation with relevant Government Departments were not provided for audit.

In the circumstances, the accuracy and completeness of transfers to other government units amounting to Kshs.90,265,000 could not be confirmed.

4. Unsupported Other Grants and Transfers

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects other grants and transfers amounting to Kshs.45,821,961 which

includes bursary to secondary schools amounts of Kshs.19,758,200, tertiary institutions - Kshs.12,654,700, and special schools - Kshs.1,825,000 all totalling to Kshs.34,237,900. However, the financial returns acknowledging receipts of the funds and confirming that the amounts have been credited to the beneficiaries' fees account were not provided for audit. In addition, the Bursary Sub Committee minutes on vetting and recommendations of beneficiaries were also not provided. Further, one hundred and ninety-seven (197) students were awarded bursary totalling to Kshs.2,027,000 without having admission numbers to various schools.

In the circumstances, the accuracy and completeness of bursary amounting to Kshs.34,237,900 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- Eldama Ravine 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.

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. Irregular Sports Projects Expenditure

Review of expenditure records revealed that the Fund had an expenditure of Kshs.1,400,000 for sports projects which was incurred by Project Management Committee (PMC) on the purchase of sports items. However, the expenditure was not supported with work plans and requisite budgets from PMC showing how they intended to utilize the funds. In addition, the procurement of the sports items was not included in the approved annual procurement plan. This is contrary to Regulation 15 (4) (b) of the National Government Constituencies Development Regulations, 2016 which states that Project Management Committee shall prepare work plans showing how it intends to utilize

the funds given to it for implementing the project, which shall be approved by a Constituency Committee before the funds are released. Further, the expenditure was not supported with procurement records such as user requisitions, quotations, tender evaluation minutes, signed contract, inspection and acceptance committee reports, Project Management Committee (PMC) expenditure returns and evidence that the projects were implemented in consultation with relevant Government Departments.

Further, the criteria for identifying the beneficiaries and list of beneficiaries were not provided for audit.

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

2. Irregular Emergency Projects Expenditure

Review of expenditure records revealed that the Fund had an expenditure of Kshs.8,140,000 for emergency projects. However, no documents in support of the emergency expenditure were provided for audit. In addition, the expenditure had not been reported to the Board. This is contrary to Regulation 20(2) of the National Government Constituencies Development Regulations, 2016 which states that the utilization of the emergency reserve shall be reported to the Board within thirty days of the occurrence of the emergency, in the format prescribed by the Board.

Further, the emergency project expenditure of Kshs.8,140,000 is 5.9% of the total approved budget of Kshs.137,088,879 for the year under review. This is contrary to Section 8(1) of the National Government Constituencies Development Fund Act ,2015 which provides that an equivalent to five per centum of the Fund shall remain unallocated and shall be available for emergencies that may occur within the Constituency.

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

3. Failure to Maintain a Memorandum Cash Book

Review of cashbook revealed that cash withdrawals amounting to Kshs.5,146,850 were made from the bank. However, the memorandum cash book, petty cash book and payment vouchers were not provided for audit. In addition, the Constituency Committee approval of the withdrawals was also not provided. This is contrary to Regulation 91(14) of the Public Finance Management (National Government) Regulation ,2015 which states that the holder of a standing imprest shall keep a memorandum cash book to record all receipts and payments and the balance on hand shall agree with the cash balance recorded in the cash book, and in the absence of any receipts, the actual cash balances plus the expenses paid shall equal at all times the fixed level of the imprest for which the imprest holder is personally responsible.

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

4. Failure to Return Unutilized Funds

The Fund management did not provide evidence to confirm that the unutilized funds for completed projects were surrendered to the main Constituency Fund bank account. This is contrary to Section 12(8) of the National Government Constituencies Development

Fund Act, 2015 which requires all unutilized funds of the Project Management Committee to be returned to the Constituency account.

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 controls, 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 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 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 controls 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

19 June, 2023