

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - GATUNDU NORTH 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 - Gatundu North Constituency set out on pages 1 to 42, which comprise of the statement of assets and liabilities as at 30 June, 2022, and the summary statement of appropriation, statement of cash flows and statement of comparison of budget and actual amounts 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 - Gatundu North 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. Inaccuracies in the Financial Statements

Review of the financial statements revealed the following anomalies:

- i. The statement of assets and liabilities reflects a balance in respect of gratuity of Kshs.977,835 relating to prior year, while the prior year audited reports and financial statement reflects Nil balance on gratuity, resulting to unexplained variance of Kshs.977,835.
- ii. The summary statement of appropriation reflects total payments of Kshs.27,958,972 which when recalculated amount to Kshs.21,158,972.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

2. Unsupported Payments on Use of Goods and Services

The statement of receipts and payments and Note 5 to the financial statements reflect payments totalling to Kshs.8,638,635 in respect of Use of Goods and Services. Included in these payments is Kshs.2,727,165 whose supporting documents were not provided for audit.

In the circumstances, the accuracy and completeness of use of goods and services expenditure amount of Kshs.2,727,165 could not be confirmed.

3. Unsupported Cash and Cash Equivalents

The statement of assets and liabilities and Note 10A to the financial statements reflect bank balance of Kshs.29,090,437. However, the balance was not supported by a board of survey report and the Management did not provide explanation for the omission. Review of the bank reconciliation statements revealed unrepresented cheques amounting to Kshs.4,541,677 out of which, cheques amounting to Kshs.789,884 were stale and had not been reversed in the cash book. In addition, receipts in the bank statements not in the cash book amounted to Kshs.1,000,000. The failure to update the cash book was not explained.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.29,090,437 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 - Gatundu North 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 audit 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.

Emphasis of Matter

Unconfirmed Project Management Committee Balances

Annex 5 to the Financial Statements reflects Project Management Committee unutilized fund balance of Kshs.14,622,616, which includes fifty (50) Project Management Committee (PMC) accounts balances of which forty-nine (49) were held at Equity Bank and one (1) was held at Kenya Commercial Bank (KCB). However, the certificates of bank balances, cash books and bank reconciliation statements for the PMC accounts were not provided for audit.

My opinion is not qualified in respect of this matter.

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. Unconfirmed Reporting on Emergency Payments

The statement of receipts and payments and Note 7 to the financial statements reflect other grants and transfers amounting to Kshs.58,370,402, which includes payments in respect of emergency projects totalling to Kshs.8,277,400. However, no documentary evidence was provided indicating that the Management had reported the emergency expenditure to the Board using the prescribed format and within thirty days. This was contrary to Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016 which states that utilization of the emergency reserves shall be reported to the Board within thirty (30) days of the occurrence of the emergency in the format prescribed by the Board.

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

2. Transfers to Other Government Units

The statement of receipts and payments and Note 6 to the financial statements reflect transfer to other Government units amounting to Kshs.113,128,592. Review of records provided for audit revealed the following anomalies;

2.1 Irregular Procurement of Computer Tables and Chairs

Included in the payments on transfers to other Government entities is a payment of Kshs.1,000,000 in respect of purchase of computer desks and chairs for Mangu Resources Centre and Ngorongo Social Hall. However, several unsatisfactory matters were observed as indicated below:

- a) Management did not maintain a procurement file for the two (2) projects.
- b) PMC records and documentations were not provided for audit review.
- c) No requisition for the items was attached to the payment vouchers.
- d) The payment vouchers did not indicate the number of computer desks and chairs which were paid for.
- e) The local purchase orders (LPOs), delivery notes and invoices were not provided for audit review.

In the absence of the accounting documents referred to above, it was not possible to confirm the legality on the Kshs.1,000,000, incurred on purchase of computer desks and chairs and value for money on this expenditure could not be confirmed.

2.2 Irregular Procurement of Renovation and Construction Works

Included in the payments on transfers to other Government entities were payments totalling to Kshs.2,950,000 in respect of renovation works for six (6) classrooms at Kshs.2,400,000 and construction of ablution block at Kshs.550,000 at St. Francis Primary School. The tenders were awarded to two (2) local contractors. Review of records revealed anomalies, as listed below;

- a) The contract did not state the project duration.
- b) Management did not issue regret letters to the unsuccessful bidders as required by the Public Procurement and Asset Disposal Act, 2015.
- c) Procurement records for the construction of ablution block were not provided for audit review.

In the circumstances, it was not possible to confirm the regularity and authenticity of the payments made. Further, the 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 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 so as 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 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 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 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 controls.

- Evaluate the appropriateness of accounting policies used and 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 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

10 July, 2023