

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - ENDEBESS CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2021

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## 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 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 (NG-CDF) - Endebess Constituency set out on pages 10 to 42 which comprise the statement of assets and liabilities as at 30 June, 2021, and the statement of receipts and payments, 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 - Endebess Constituency as at 30 June, 2021, 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**

Several balances reflected in the financial statements were not supported with sufficient appropriate records, as discussed in the following paragraphs:

#### **1. Transfers from NG-CDF Board**

The statement of receipts and payments reflects transfers from National Government Constituencies Development Fund Board totalling Kshs.162,267,724 whereas the summary statement of appropriation reflects actual receipts totalling Kshs.168,715,116 resulting in an unreconciled variance of Kshs.6,447,392.

Consequently, the accuracy and completeness of the transfers from the National Government Constituencies Development Fund Board totalling Kshs.162,267,724 reflected in the statement of receipts and payments could not be confirmed.

#### **2. Compensation of Employees**

The statement of receipts and payments reflects Compensation of employees expenditure totalling Kshs.2,999,366 whereas the respective supporting schedules reflect expenditure totalling Kshs.2,995,363 in respect to the item resulting in an unexplained variance of Kshs.4,003.

Consequently, the accuracy of the compensation of employees expenditure totalling Kshs.2,999,366 reflected in the financial statements could not be confirmed.

#### **3. Other Grants and Transfers**

The statement of receipts and payments reflects other grants and transfers totalling Kshs.51,938,550, as shown in Note 7 to the financial statements. The balance includes Kshs.22,997,000 and Kshs.11,580,000 being bursaries to secondary schools and tertiary institutions respectively. However, the supporting schedules reflected bursaries totalling Kshs.20,628,000 for secondary schools and Kshs.13,949,000 for tertiary institutions. The identical difference of Kshs.2,369,000 in secondary school, tertiary institution bursaries reflected in the two sets of records was not explained.

In view of the discrepancy, the accuracy of the other grants and transfers balance totalling Kshs.51,938,550 could not be confirmed.

#### **4. Cash and Cash Equivalents**

The statement of assets and liabilities reflects a cash and cash equivalents balance totalling Kshs.6,830,910 as at 30 June, 2021 which, as shown in Note 10A to the financial statements, represents the Fund's bank balance held in a local bank. However, the bank reconciliation statement for the month of June, 2021 includes

payments in cash book not in bank statements amounting to Kshs.29,078,299 whose details, including dates of clearance, were not provided for audit review. Therefore, it was not possible to confirm the authenticity of the payments totalling to Kshs.29,078,299 and whether the cash and cash equivalents balance totalling Kshs.6,830,910 was fairly stated as at 30 June, 2021.

In view of these anomalies, the accuracy and completeness of the cash and cash equivalents balance totalling Kshs.6,830,910 could not be confirmed.

## **5. Fixed Assets**

The summary of fixed assets register in Annex 4 to the financial statements reflects an assets balance totalling Kshs.31,171,262 at the beginning of the financial year and additions during the year totalling Kshs.850,000 resulting in a closing balance of Kshs.32,021,262 as at 30 June, 2021. However, the main assets register did not include the additions made in the year under review. Further, the register did not reflect the cost values of eight (8) computers owned by the Fund. In addition, forty-one (41) items of furniture and fittings reflected in the register did not have identification numbers.

Consequently, the accuracy and fair valuation of the assets balance of totalling Kshs.32,021,262 as at 30 June, 2021 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Endebess 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. Budgetary Control and Performance**

The summary statement of appropriation indicates that during the year under review, the Fund had a final approved revenue budget of Kshs.212,913,278 but realized receipts totalling Kshs.168,724,399 or about 79% of the budget. No explanation was provided for the under-funding of the budget by Kshs.44,188,879. Further, out of the actual receipts totalling Kshs.168,724,399, the Fund utilized Kshs.160,947,910 resulting in under-expenditure of Kshs.7,776,489. No explanation was provided for the failure to utilize these funds.

As a result, some of the projects planned to serve the residents of Endebess Constituency may not have been implemented.

### **2. Prior Year Issues**

The audit report for the financial year ended 30 June, 2021 highlighted several issues relating to the financial statements presented for audit and lawfulness and effectiveness in use of public resources. The report on progress made in following up on auditor's recommendations indicates that the matters had not been resolved as at 30 June, 2021. No explanation was provided for the delay in resolving the issues.

## 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. Irregularities in School Construction Contract**

Examination of procurement records indicated that a tender to build a four-door pit latrine was awarded at a contract sum of Kshs.195,000 against lower bids of Kshs.193,000 and Kshs.187,040. No explanation was provided why the highest, and not the lowest, bidder was awarded the contract.

Further, several tender documents such as the acceptance letter, notification of award, signed tender evaluation minutes and project handing over report were not provided for audit. In addition, verification of the works in April, 2022 established that the latrines built were of two-door instead of the four-door design prescribed in the Bills of Quantities.

In the circumstances, the contract was executed irregularly and as a result, it was not possible to confirm if the fund obtained value for money on the expenditure.

#### **2. Unexplained Purchase of Land for School**

Records on the Constituency Committee indicated that in October, 2020, the Committee allocated Kshs.2,000,000 for purchase of four (4) acres of land for Matumbei Secondary School. However, an audit inspection and examination of documents provided for audit indicated that only 2.604 acres of land were purchased at Kshs.1,750,000. No explanation was provided for the scaling down of the project.

Further, the requisition or proposal for the purchase from the Project Management Committee, the valuation report for the land, and certificates on ownership of the land were not provided for audit.

In the circumstances, it was not possible to confirm the propriety of the expenditure and the value of the land bought at Kshs.1,750,000.

### **3. Project Implementation Status**

The Project Implementation Status (PIS) report as at 30 June, 2021 indicated that the Fund had planned to implement forty-eight (48) projects with a total budget of Kshs.112, 605,241. However, as at 30 June 2021, twenty-four (24) projects valued at Kshs.14,007,000 had been completed, whereas twenty-two (22) projects valued at Kshs.91,098,241 were on-going and two (2) valued at Kshs.7,500,000 had not been launched.

As a result, the services that the ongoing and unexecuted projects were to provide to the residents of Endebess Constituency were not realized.

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 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 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 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 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 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 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**

**09 September, 2022**