

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - IGEMBE CENTRAL 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 - Igembe Central Constituency set out on pages 14 to 45, which comprise of the statement of assets and liabilities as at 30 June, 2021 and the statement of receipts and payments, statement of cash flows and the 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 the National Government Constituencies Development Fund - Igembe Central 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**

### **1. Unsupported Cash and Cash Equivalents**

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.11,560,577 as disclosed in Note 10A to the financial statements. However, the certificate of bank balance was not provided for audit.

In the circumstances, the accuracy of the balance of Kshs.11,560,577 for cash and cash equivalents could not be confirmed.

### **2. Unsupported Office and General Supplies and Services**

The statement of receipts and payments as disclosed in Note 5 to the financial statements reflects an amount of Kshs.9,190,043 relating to use of goods and services, which includes an amount of Kshs.438,582 relating to office and general supplies and services. However, procurement documents indicating how the supplier was identified were not provided for audit.

In the circumstances, the accuracy of the office and general supplies and services of amount of Kshs.438,582 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 - Igembe Central 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 comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.215,244,902 and Kshs.170,156,023 respectively resulting to an underfunding of Kshs.Kshs.45,088,879 or 21% of the budget. Similarly, the Fund

expended Kshs.158,595,445 against an approved budget of Kshs.215,244,902, resulting into an under expenditure of Kshs.56,649,456 or 26% of the budget.

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

## **2. Unresolved Prior Year Matters**

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements. However, Management has not resolved the issues nor disclosed all the prior year matters as provided for by the Public Sector Accounting Standards Board templates

### **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. Non Compliance with Public Sector Accounting Standards Template**

The financial statements contained the following errors:

- i. Pages 15, 16, 17, 20, 21, 22 and 23 appears twice in the financial statements which is misleading.
- ii. Pages number 16 and 24 are blank.

In the circumstances, the Fund's financial statements are not prepared in accordance with the financial reporting guidelines issued by the Public Sector Accounting Standards Board templates.

##### **2. Payment of Avoidable Penalties**

The statement of receipts and payments reflects compensation of employees amount of Kshs.3,228,903 as disclosed in Note 4 to the financial statements. This amount includes an expenditure of Kshs.134,150 which is inclusive of an amount of Kshs.75,000 in relation to penalties charged for late remittance of deductions. No explanation was provided for the late payment of the statutory deductions.

In the circumstances, the penalty charged could be avoidable and is not a proper charge of public funds and Management is in breach of law.

### **3. Budget Under Allocation of Bursary**

The statement of receipts and payments reflects other grants and transfers amount of Kshs.52,743,712 under other grants and transfers as disclosed in Note 7 to the financial statements. The transfers includes amounts of Kshs.15,027,723 and Kshs.18,232,433 relating to bursaries disbursed to secondary schools and tertiary institutions respectively . However, the Constituency had received an amount of Kshs.169,048,541 from the National Government Constituencies Development Fund but allocated Kshs.33,260,156 for the bursary which translates to 20% of the funds allocated to the Constituency. This is contrary to Regulation 21(5) of the National Government Constituencies Development Fund Regulations, 2016 which provides that a Constituency Committee shall allocate not less than twenty-five percent (25%) of the funds allocated to a Constituency for bursaries.

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

### **4. Irregularities in Procurement Process**

The statement of receipts and payments reflects transfers to other government entities amount of Kshs.86,506,825 as disclosed in Note 6 to the financial statements. The transfers include an amount of Kshs.37,328,548 relating to transfers to secondary schools, which in turn includes an amount of Kshs.6,650,000 transferred to six (6) secondary schools. However, a review of the procurement documents provided for audit review revealed the following anomalies:

- i. The tenders for the six projects were opened two (2) days after the closing date contrary to the provision of Section 78(3) of the Public Procurement and Asset Disposal Act, 2015, which provides that immediately after the deadline for submitting tenders, the tender opening committee shall open all tenders received before that deadline.
- ii. The tenders for the six projects were evaluated by the same team involved in the tender opening contrary to the Section 78(1)(b) of the Public Procurement and Asset Disposal Act 2015 which provides that at least one of the members of the Tender Opening Committee shall not be directly involved in the processing or evaluation of the tenders.

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 so as to obtain assurance about whether effective processes and systems of internal controls, 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 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 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 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 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 controls 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 controls 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 controls.

- 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 controls 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**

**06 September, 2022**