

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - IGEMBE NORTH 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 North Constituency set out on pages 14 to 46, 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 National Government Constituencies Development Fund - Igembe North 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. Variances Between the Summary Statement of Appropriation and Budget Execution by Sectors and Projects**

The Fund's summary statement of appropriation reflects balances in respect to six (6) items which vary with the balances in the budget execution by Sectors and Projects as detailed below:

<b>Items</b>	<b>Summary Statement of Appropriation (Kshs.)</b>	<b>Budget Execution by Sector and Projects (Kshs.)</b>	<b>Variance (Kshs.)</b>
<b>Final Budget</b>			
Use of Goods	10,808,227	11,399,363	(591,136)
Transfer to Other Government Units	112,129,219	130,212,290	(18,083,071)
Other Grants and Other Transfers	77,814,508	61,009,637	16,804,871
Acquisition of Assets	902,649	533,313	369,336
<b>Actual Amounts</b>			
Transfer to Other Government Units	96,883,880	97,083,880	-200,000
Other Grants and Other Transfers	54,251,178	55,419,513	-1,168,335

In the circumstances, the accuracy of the summary statement of appropriation could not be confirmed.

#### **2. Inaccuracies in Cash and Cash Equivalents**

The statement of assets and liabilities reflects a balance of Kshs.5,544,726 in respect to cash and cash equivalents. However, review of the bank reconciliation statement provided for audit revealed unrepresented cheques totalling Kshs.29,795,502. Further, the unrepresented cheques included stale cheques totalling Kshs.369,798 that had not been reversed in the cash book.

In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.5,544,726 could not be confirmed.

#### **3. Unsupported Acquisition of Assets**

The statement of receipts and payments and as disclosed in Note 8 to the financial statements reflects Kshs.902,649 relating to acquisition of assets. Included in this amount is Kshs.533,313 relating to purchase of a motor cycle whose log book was not provided for audit.

In the circumstances, the accuracy of the balance Kshs.533,313 for acquisition of assets and ownership of the motor cycle could not be confirmed.

#### **4. Errors in Presentation of the Financial Statements**

The financial statements contains inconsistencies in page numbering. Page numbers 15 to 17 and page numbers 20 to 24 appear twice, while one of the repeated pages is 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.

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 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 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**

#### **Budgetary Control and Performance**

The summary statement of appropriation reflects final receipts budget and actual on comparable basis of Kshs.211,281,105 and Kshs.171,592,226 respectively resulting to an under-funding of Kshs.39,688,879 or 19% of the budget. Similarly, the Fund expended Kshs.166,047,500 against an approved budget of Kshs.211,281,105 resulting to an under expenditure of Kshs.45,233,606 or 21% of the budget. In addition, out of the Kshs.171,592,226 actual funds available only Kshs.166,047,500 was utilized leaving a cash balance of Kshs.5,544,726.

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

### **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 Committee Allowances**

The statement of receipts and payments reflects an amount of Kshs.7,065,063 with respect to use of goods and services. As disclosed in Note 5 to the financial statements the amount includes Kshs.4,435,825 in respect to Committee allowances. Review of documents provided for audit revealed that an amount of Kshs.1,478,000 was paid as meeting allowances to Constituency Committee Members. However, review of the Constituency Committee minutes revealed that the Committee held 36 sittings which is contrary to Section 43(11) of the National Government Constituencies Development Fund Act, 2015. The section requires the committee to hold a maximum of twenty-four (24) meetings in the same financial year, including sub-committee meetings.

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

### **2. Inadequate Bursary Allocation**

The statement of receipts and payments reflects an amount of Kshs.54,251,178 with respect to other grants and transfers. As disclosed in Note 7 to the financial statements this balance includes bursaries of Kshs.17,727,645 and Kshs.15,269,215 disbursed to secondary schools and tertiary institutions respectively totalling to Kshs.32,996,860. However, the Constituency had received Kshs.167,267,724 but only allocated Kshs.32,996,860 for the bursary or 20% of the funds allocated. This is contrary to Regulation 21(5) of the National Government Constituencies Development Fund Regulations, 2016 which provides that a constituency committee shall allocate for bursaries not less than twenty-five percent (25%) of the funds allocated to a Constituency.

In the circumstances, Management was in breach of regulations.

### **3. Ineligible Expenditure on Compensation of Employee**

The statement of receipts and payments reflects an amount of Kshs.6,944,730 with respect to compensation of employees which, as disclosed in Note 4 to the financial statements includes an amount of Kshs.405,060 as employer contribution to national social security schemes. Examination of documents revealed that this amount included Kshs.236,940 paid for penalties charged for late remittance of deductions between the July, 2013 to March, 2021. However, approval from the Board to incur this particular expenditure and reasons for the late remittance were not provided.

In the circumstances, the regularity of the expenditure of Kshs.236,940 could not be confirmed.

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 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 misstatements, 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 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 misstatements, 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 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 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 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**

**19 September, 2022**