

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KIRINYAGA 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 - Kirinyaga Central Constituency set out on pages 18 to 53, 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 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 - Kirinyaga 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

## **Basis for Qualified Opinion**

### **1.0 Transfers to Other Government Units**

The statement of receipts and payments reflects transfers to other government units balance of Kshs.94,886,015 and as disclosed in Note 6 to the financial statements. However, the amount includes provisions for contingencies of Kshs.2,240,000 and projects supervision of Kshs.1,420,000 for which expenditure returns, attendance register, PMC Minutes and detailed signed payment schedules were not provided for audit verification. This was contrary to Regulation 99(3) of the Public Finance Management (National Governments) Regulations, 2015 which requires every entry in the accounts to be supported by a voucher or other approved documents containing the full details, clear narrations and particulars of the item or items to which it relates.

In the circumstances, the accuracy and completeness of the reported amount of Kshs.94,886,015 on transfers to other government units could not be confirmed.

### **2.0 Inaccuracies in the Summary Statement of Appropriation**

The summary statement of appropriation reflects transfers from NG-CDF Board final budget amount of Kshs.206,456,603 which differs with the computed amount of Kshs.209,662,736, resulting to a variance of Kshs.3,206,133 which has not been explained or reconciled.

In the circumstances, the accuracy of the summary statement of appropriation 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 - Kirinyaga Central Constituency Management in accordance with ISSAI 130 on 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**

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

The summary statement of appropriation reflects budgeted receipts of Kshs.210,088,736 actual receipts of Kshs.161,793,724, resulting to underfunding of Kshs.45,088,879 or 23% of budget. Similarly, the total payments budget amounted to Kshs.210,088,737 against actual payments of Kshs.162,102,453, resulting to under absorption of Kshs.47,986,284 or 23% of budget.

The underfunding and under-expenditure constrained the execution of planned activities and delivery of services to the residents of Kirinyaga Central Constituency.

### **2.0 Project Implementation Status**

The Management did not provide the latest approved project implementation status report. However, review of the budget performance in the chairperson's report indicates that thirty-three (33) projects with estimated total cost of Kshs.56,050,811 were being implemented in the year under review. However, included in these projects are education bursaries, youth and sports and secondary schools projects whose funds utilization were below 50% of the estimated cost.

In the circumstances, the residents of Kirinyaga Central Constituency did not benefit from the planned projects that were never completed.

### **3.0 Unresolved Prior Year Matters**

Various prior year audit issues are indicated in the progress on follow up of auditor's recommendations section of the financial statements as resolved. However, no evidence of resolving the prior year's issues was provided for audit.

## **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 on 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**

#### **1.0 Lack of Constituency Oversight Committee**

During the year under ended 30 June, 2021, the Fund had no Constituency Oversight Committee in place which would convene public forums for purposes of mobilizing and sensitizing the public on matters related to the Fund. This was contrary to Section 53(1) of the National Government Constituencies Development Fund Act, 2015 which requires a Constituency Oversight Committee to be appointed for every National Government Constituency Development Fund.

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

## **2.0 Other Grants and Transfers**

The statement of receipts and payments reflects other grants and transfers of Kshs.36,003,801 and as disclosed in Note 7 to the financial statements. However, the following unsatisfactory matters were noted:

### **2.1 Mutitu Assistant County Commissioner's Office**

The amount includes implementation of security projects costing Kshs.9,680,881 out of which, Kshs.4,000,000 was incurred on construction to completion of seven (7) rooms and three (3) washrooms at Mutitu Assistant County Commissioner's office.

However, audit inspection on April, 2022 revealed that, the project was complete but not in use.

### **2.2 Ngomongo Administration Police Camp**

The security projects amount of Kshs.9,680,881 also includes Kshs.850,000 spent on the repair, electrical, installation and flooring of nine (9) Administration Police unit huts and ground levelling with hard core and marram fill, drainage works, chain link fence repair and four (4) units latrine repair. However, audit inspection on April, 2022 revealed that, the project was complete but not in use.

In the circumstances, value for money on the expenditure of Kshs.4,850,000 for the security projects may not have been realized.

## **3.0 Transfers to Other Government Units**

The statement of receipts and payments reflects transfers to other government units amount of Kshs.94,886,015 and as disclosed in Note 6 to the financial statements. However, the following unsatisfactory matters were noted:

### **3.1 Stalled Project- Gathuthuma Secondary School**

The amount includes transfers of Kshs.8,330,000 to secondary schools out of which Kshs.7,625,429 was incurred in the construction of a storey laboratory block at a contract sum of Kshs.7,963,569 at Gathuthuma secondary school. However, an audit inspection in the month of April, 2022 revealed that, rainwater harvesting/drainage was not fixed while a re-location of staff ablution block at a cost of Kshs.120,000 was not done. Laboratory benches costing Kshs.600,000 had not been delivered, yet the contactor was not on site.

### **3.2 Construction of Kirinyaga Central Technical Training Institute**

The amount also includes Kshs.2,000,000 transferred to a tertiary institution for the construction of one workshop, three lecture rooms and an office space. However, an audit inspection in April, 2022 revealed that, the amount was reallocated the construction of two (2) storey buildings comprising twin workshop, classrooms and offices which was co-funded with the Ministry of Education, under the State Department of Vocational and Technical Training under mentorship of Nyeri National Polytechnic at a cost of Kshs.58,8993,684.

However, the reallocation was not approved by the Board, contrary to Section 6(2) of the National Government Constituencies Development Fund Act, 2015 which provides that once funds are allocated for a particular project, they shall remain allocated for that project and may only be reallocated for any other purpose during the financial year with the approval of the Board.

In the circumstances, Management was in breach of the law and value for money on the expenditure of Kshs.8,330,000 secondary schools' projects may not have been realized.

### **3.3 Renovation Works for Primary Schools**

Further, the amount includes transfers to primary schools amount of Kshs.84,556,015 which includes Kshs.83,356,015 incurred on renovation works for primary schools. However, pre and post inspection reports confirming the scope of works and repairs carried out respectively were not provided for audit. Further, no expenditure records were maintained on a monthly basis, contrary to Section 38 of the National Government Constituencies Development Fund Act, 2015 which requires the officer of the Board in every constituency to compile and maintain a record showing all receipts disbursements and actual expenditures on a monthly basis of every project and sub project.

In the circumstances, value for money on the expenditure of Kshs.83,356,015 for the primary schools' projects may not have been realized.

### **4.0 Asset Management**

Annex 4 – summary of fixed asset register - to the financial statements reflects total fixed assets balance of Kshs.53,427,864. However, the Management did not provide an updated and detailed fixed asset register to support the balance. Further, no evidence of stock count or inventory verification was provided to confirm that all reported assets existed and were effectively working. In addition, the assets were not tagged and the asset movement's registers were not appropriately kept.

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 comply, 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, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my

report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **Un-Updated Vote Book**

The Fund used the manual vote book systems to record financial transactions in the year ended 30 June, 2021. However, the vote book provided for audit was not updated or maintained in a systematic manner to allow for easy access to accurate financial data.

In the circumstances, the reliability of the Fund's vote book could not be confirmed.

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 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 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 follow 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 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 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 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**

**29 July, 2022**