

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LARI 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 - Lari Constituency set out on pages 22 to 41, 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 a 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 effects of the matter 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 - Lari 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 National Government Constituencies Development Fund Act, 2015.

## **Basis for Qualified Opinion**

### **1.0 Inaccuracies in Presentation and Disclosure in the Financial Statements**

Review of the report and financial statements for the year ended 30 June, 2021 revealed the following inaccuracies: -

- i. Note 5 to the financial statements reflects comparative figure of Kshs.20,000 in respect of the use of goods and services instead of Kshs.5,000 in the prior year audited financial statements.
- ii. Note 7 to the financial statements reflects Nil comparative figure instead of Kshs.7,198,241 in the prior year audited financial statements.
- iii. The summary of the fixed assets register was not included as an annexure in the financial statements.

As a result, the financial statements as presented are inconsistent with the template by the Public Sector Accounting Standards Board on partial implementation of the standards.

### **2.0 Inaccuracies in Cash and Cash Equivalents**

The statement of assets and liabilities reflects a bank balance of Kshs.67,913,616 as disclosed in Note 10A to the Financial Statements. This was at variance with the bank reconciliation statement for the month of June, 2021 which reflected a bank balance of Kshs.62,478,286 resulting in an unexplained and unreconciled variance of Kshs.5,435,330. Further, review of the bank reconciliation statements for the year ended 30 June, 2021 revealed stale cheques amounting to Kshs.855,566 which relate to unbanked bursary cheques and statutory deductions that are accruing interests and penalties on the entity.

In addition, Review of bank reconciliations provided for audit revealed that the Accounting Officer ensured bank reconciliations basis were prepared on a monthly. However, the copies of the bank reconciliations prepared were not submitted to the Auditor-General in compliance with the requirements of Regulation 90 of the Public Finance Management (National Government) Regulations, 2015.

As a result, the accuracy and completeness of cash and cash equivalents balance Kshs.67,913,616 could not be confirmed.

### **3.0 Unsupported Procurement of Desktop Computers and Computer Accessories**

The statement of receipts and payments reflects an amount of Kshs.2,320,000 in respect of Other payments incurred in the procurement of forty (40) desktop computers and the accessories for the ICT Hubs. However, Management did not provide the prequalified list

of suppliers, tender opening, and evaluation minutes for audit. It was, therefore, not possible to confirm whether procurement procedures were followed.

As result, the accuracy, completeness, and validity of Kshs.2,320,000 in respect of Other payments incurred in the procurement of forty (40) desktop computers and the accessories for the ICT Hubs could not be confirmed.

#### **4.0 Irregular Payment of Gratuity to Contractual Staff**

The statement of receipts and payments reflects Kshs.2,805,117 in respect of compensation of employees. Included in this amount and as disclosed in Note 4 to the financial statements is Kshs.1,222,197 as gratuity to contracted staff. However, Staff contracts for the period were not provided for audit verification.

As a result, the accuracy and validity of the payment of Kshs.1,222,197 as gratuity to contracted staff 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 - Lari Constituency Management in accordance with ISSAI 130 on the 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.

### **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**

##### **1.0 Under-allocation of Bursary Funds**

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.42,915,208 as disclosed in Note 7 to the financial statements. Included in this amount are bursary disbursements to secondary and tertiary institutions of Kshs.18,956,500 and Kshs.18,464,000, respectively. However, review of the total receipts from NGCDF Board revealed transfers of Kshs.161,367,724 against an allocation

of Kshs.37,420,500 towards bursaries which was 23.19% of the total receipts. This was contrary to Regulation 21(5) of the NGCDF Regulations, 2016 a Constituency Committee shall allocate not less than twenty five percent of the funds allocated to a constituency for bursaries.

As result, Management was in breach of the law.

## **2.0 Irregular Recruitment of Staff**

The Fund placed advertisement for recruitment during the year under review. The advertisement on the recruitment file was unstamped and gave the applicants only 5 days to submit their applications. The advertisement of file indicated the vacant position and the responsibilities but it did not show qualifications requirements. The advertisement was not officially made either on the Funds websites, noticeboard or in any other open place. Further, discussion with the Management revealed that the advertisement was internal staff only. However, the applications were received from both internal and external applicants and among the staff appointed, one was from an external source. This contrary to Section B 4(1) of the Public Service Commission Human Resource Policies 2016 which stipulates that Ministries/State Departments will advertise all vacant posts in a manner that reaches the widest pool of potential applicants and allow for at least twenty-one (21) days before closing the advert.

Review of the interview process revealed lack of individual ranking or rating scale and individual score sheets by the panelists.

In addition, review of the payroll records indicated that in September, 2020, there was a new staff captured in the payroll who was missing in the December's Payroll. Management did not provide explanations on how the staff was recruited and how the staff exited a month later. The personal file for the staff was not provided for verification.

In the circumstances, the legality and validity of the recruitment is in doubt.

## **3.0 Lack of Updated Fixed Assets Register**

The Fund did not maintain an updated fixed asset register. Physical verification showed that some assets which were bought back in 2007 were fully depreciated. Also, the verification revealed that a number of fixed assets including printers, desktops, UPS and Furniture were in poor condition. Further, some assets were not disclosed in the fixed assets register. This was contrary to Regulation 139(1) of the Public Finance Management (National Government) Regulations, 2015 which provides that the Accounting Officer of a national government entity shall take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse; movement and conditions of assets can be tracked; and stock levels are at an optimum and economical level.

In the circumstances, Management was in breach of 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 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 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 sustainability of services 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 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 noncompliance. 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**

**29 July, 2022**