

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

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) - Lugari Constituency set out on pages 15 to 51, 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 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 - Lugari 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. Lack of an Updated Fixed Assets Register

Annex 1 to the financial statements on summary of fixed assets reflects a balance of Kshs.30,652,375 as total value of assets. However, the assets register of the Fund was not updated to reflect details relating to: date of purchase, supplier, cost, location, serial number, unique identification number, accumulated depreciation and net book value.

In the circumstances, the accuracy and completeness of Kshs.30,652,375 for the total assets balance could not be confirmed.

2. Inaccuracies in Compensation of Employees

The statement of receipts and payments and as disclosed in Note 4 to the financial statements reflects compensation of employees amounting to Kshs.2,225,191. However, the supporting schedules provided for audit reflected a total of Kshs.1,752,584 resulting to an unexplained variance of Kshs.472,607.

In the circumstances, the accuracy and completeness of Kshs.2,225,191 for compensation of employees could not be confirmed.

3. Inaccuracies in Other Grants and Transfers

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects other grant and transfers amounting to Kshs.31,214,508 which includes payments of Kshs.1,793,953 and Kshs.4,267,700 in respect of bursary disbursements to secondary schools and tertiary institutions respectively. However, Management did not provide a list of all applicants, successful applicants and unsuccessful applicants.

Further, the transfers includes an amount of Kshs.4,536,000 in respect of social security programmes. The amount was remitted to National Hospital Insurance Fund (NHIF) to cover seven hundred and fifty-seven (757) vulnerable households in the Constituency for twelve (12) months. However, supporting schedules reflected an amount of Kshs.2,874,000 paid for four hundred and seventy-nine (479) households resulting to an unexplained variance of Kshs.1,662,000 In addition, no documentary evidence was provided to indicate how the households were identified.

In the circumstances, the accuracy and completeness of the above balances could not be confirmed.

4. Inaccuracies in the Statement of Receipts and Payments

The statement of receipts and payments reflects balances which differed with the balances in the supporting schedules as indicated below:

Item	Sub-Item	Financial Statements (Kshs)	Supporting Schedules/ Ledger (Kshs)	Variance (Kshs)
Use of Goods and Services	Water and Sewerage	24,900	7,500	17,400
	Printing, Advertising and Information Supplies and Services	534,395	108,925	425,470
	Training Expenses	2,584,000	2,120,200	463,800
	Domestic Travel	318,800	340,535	(21,735)
	Office and General Supplies and Services	360,910	636,980	(276,070)
	Committee Allowances	5,002,590	5,734,655	(732,065)
Transfers to Other Government	Transfer to Secondary Schools	19,659,675	19,470,675	189,000
Other Grants and Transfers	Bursary - Tertiary	4,267,700	2,427,700	1,840,000
Other Payments	CDF Office Landscaping	683,238	647,200	36,038

In the circumstances, the accuracy of the statement of receipts and payments could not be confirmed.

5. Unsupported Project Management Committee (PMC) Account Balances

As disclosed in Note 17.4 and Annex 4 to the financial statements are Project Management Committee (PMC) bank account balances amounting to Kshs.4,618,828. However, four bank accounts reflected an amount of Kshs.182,767 while the certificates of bank balances reflected an amount of Kshs.692,043 resulting to an unexplained variance of Kshs.509,276.

In the circumstances, the PMC bank balances could not be confirmed.

6. Undelivered Water Tank and Plastic Water Gutters

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects transfers to other Government entities amounting to Kshs.64,056,477. The expenditure includes an amount of Kshs.19,659,675 being transfers to secondary schools out of which an amount of Kshs.363,479 was disbursed to a secondary school for purchase of two (2) 5,000 litre water tanks and thirty (30) pieces of plastic water gutters. However, physical verification revealed that the tanks and gutters were not delivered.

In the circumstances, the regularity of Kshs.363,479 disbursed to a secondary school could not be confirmed.

7. Lack of Ownership Documents and Encroached Land

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects transfers to other Government units amounting to Kshs.64,056,477 which includes Kshs.9,007,286, being transfers to tertiary institutions. The transfers includes an amount of Kshs.3,200,000 disbursed to a College for purchase of a 3 - acre piece of land. However, ownership documents and the title deed for the parcel of land were not provided for audit. Further, physical verification revealed that the parcel of land had been encroached by a private developer.

In the circumstances, the ownership of the land 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 - Lugari 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 reflects approved final receipts budget actual on a comparable basis of Kshs.171,356,825 and Kshs.126,267,946 respectively, resulting to an under-funding of Kshs.45,088,879 or 26% of the budget. Similarly, the Fund expended Kshs.109,634,962 against an approved budget of Kshs.171,356,825 resulting to an under-expenditure of Kshs.61,721,863 or 36% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

2. Projects Implementation Status

During the year under review, the Board approved a budget of Kshs.86,533,984 to implement a total of eighty-four (84) projects. However, analysis of the status report revealed that seventy-six (76) projects with a budget of Kshs.71,583,984 were

implemented while eight (8) projects with a budget of Kshs.14,950,000 or 17% of the budgeted projects were not implemented.

The underperformance in project implementation affected the planned activities and may have impacted negatively on service delivery to the citizens.

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 matter 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 used lawfully and in an effective way.

Basis for Conclusion

Irregular Procurement of Fuel, Oil and Lubricants

Review of expenditure records revealed that an amount of Kshs.920,000 was spent on fuel, oil and lubricants. However, the Fund procured the fuel from two local suppliers without valid contractual agreements. This is contrary to of Section 135(4) of the Public Procurement and Asset Disposal Act, 2015, which provides that no contract is formed between the person submitting the successful tender and the accounting officer of a procuring entity until a written contract is signed by the parties.

In addition, Management did not provide procurement documents including evidence of tender bids, invitation, evaluation, award, notification and acceptance.

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 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 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 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 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 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 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

27 September, 2022