

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LUNGA LUNGA 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 - Lunga Lunga Constituency set out on pages 13 to 45, which comprise the statement of assets and liabilities as at 30 June, 2021, and the statement of receipts and payments 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 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 - Lunga Lunga 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. Unconfirmed Balances**

The following balances reflected in the financial statements were not supported with sufficient appropriate records:

#### **1.1 Comparative Balances**

Several prior year balances reflected in the financial statements for the year under review differ with the respective account balances in the audited statements for the year ended 30 June, 2020:

##### **1.1.1 Other Grants and Transfers**

The statement of receipts and payments reflects comparative (2019/2020 financial year) other grants and transfers totalling Kshs.58,725,154. However, the respective disclosure Note 7 to the financial statements reflects Kshs.58,728,154, resulting to an unexplained variance of Kshs.3,000. Further, Note 7 reflects comparative sports projects expenditure balance of Kshs.134,580 instead of Kshs.1,349,580 reflected in the 2019/20 financial year statements.

##### **1.1.2 Bank Balance**

The statement of assets and liabilities reflects a comparative year bank balance of Kshs.66,038,460 against Kshs.65,840,338 reflected in the audited financial statements for the 2019/2020 financial year. Management indicated that the variance of Kshs.198,122 between the two balances resulted from cancelled and reversed cheques for the previous year that caused the year's bank balance to be restated in the current year's financial statements. However, no disclosure Note was included in the financial statements to explain the restatement of the balance.

### **1.1.3 Fund Balance**

The statement of assets and liabilities reflects a comparative year (2019/2020) fund balance brought forward totalling Kshs.6,403,025 as at 1 July, 2019 against Kshs.6,204,905 reflected in the audited financial statements for the prior year, resulting to a variance of Kshs.198,120 which was not explained.

In view of these discrepancies, the accuracy and fair statement of the cited comparative year balances reflected in the financial statements could not be confirmed.

### **1.2 Transfers to Other Government Units**

The statement of receipts and payments reflects transfers to other Government units totalling Kshs.67,302,642 whereas the corresponding Note 6 to the financial statements reflects Kshs.64,007,922, resulting to an unexplained variance of Kshs.3,294,720.

In the circumstances, the accuracy and completeness of the transfers to other Government units balance totalling Kshs.67,302,642 could not be confirmed.

### **1.3 Use of Goods and Services**

The statement of receipts and payments reflects expenditure on use of goods and services totalling Kshs.10,609,172 as detailed in Note 5 to the financial statements. The balance includes payments totalling Kshs.1,378,000 and Kshs.2,475,765 denoted as other committee expenses and committee allowances respectively. However, the amounts were not supported with committee meeting attendance registers.

In the circumstance, the propriety, completeness and accuracy of the other Committee expenses and Committee allowances totalling Kshs.3,853,765 could not be confirmed.

## **2. Omission of Statement of Cash flow**

The set of financial statements presented for audit did not include the statement of cash flow. As a result, the financial statements do not conform to the requirements of the International Public Sector Accounting Standards (Cash Basis) and the reporting format prescribed 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 - Lunga Lunga 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 totalling Kshs.208,127,339 and Kshs.158,938,460 respectively, resulting to a shortfall of revenue totalling Kshs.49,188,879 or 24% of the budget. Similarly, the Fund expended Kshs.130,124,847 against an approved budget of Kshs.208,127,339, resulting to an under-expenditure of Kshs.78,002,492 or 37% of the budget.

Management attributed the under-expenditure to the revenue shortfall.

## **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 the 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**

#### **Unsatisfactory Implementation of Projects**

Audit inspection of six (6) projects costed at Kshs.22,533,898 in aggregate revealed several unsatisfactory issues on their implementation. The anomalies included low quality works, works executed contrary to specifications in Bills of Quantities and unexplained variation of project costs, as explained in the Appendix to this report.

In the circumstances, the Fund did not obtain value for money expenditure totalling Kshs.22,533,898 spent on the six projects.

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 Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and overall Governance 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**

### **Failure to Update Fixed Assets Register**

Review of the Fund's fixed assets register and verification of the assets revealed that the assets were not tagged or serialized. In addition, the register did not indicate key information on the buildings built by the Fund. The undisclosed information included designated owners and use, size of land, ownership status of the land - whether Freehold or Leasehold.

In view of these omissions, it was not possible to confirm the categories and safe custody of the Fund's fixed assets.

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 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 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 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 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 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 overall 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 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 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 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 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 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 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**

**23 September, 2022**

## Appendix

### Unsatisfactory Implementation of Projects

No.	Project Name	Details of Project	Cost of Project (Kshs.)	Audit Observations
1	Kiwegu Primary School	(Renovations of five (5) classrooms)  Reroofing, replacement of windows, doors and repainting.	2,999,101	<ul style="list-style-type: none"> <li>• A door and a window were loosely fitted.</li> <li>• All the windows were not fitted with stoppers.</li> <li>• Putty on ten windows had peeled off.</li> </ul>
2	Perani Secondary School	Construction of Perani Secondary Twin Laboratory	8,656,848	<ul style="list-style-type: none"> <li>• The project cost was varied by Kshs.1,585,940 to Kshs.10,242,788.</li> </ul>
3	Mwashetani High School	Construction of Laboratory	2,742,949	<ul style="list-style-type: none"> <li>• Tiles on work tops had fallen off.</li> </ul>
4	Mwalewa Primary School	Construction of two new classrooms, two-door pit latrine, and procurement of twenty desks.	3,650,000.00	<ul style="list-style-type: none"> <li>• Visible cracks on the floor and wall.</li> <li>• Verandah floor worn out.</li> <li>• Visible cracks in pit latrines.</li> <li>• The contractor was supposed to build one four-door toilet but instead did only one-two door toilet.</li> <li>• The desks could not be traced.</li> </ul>
5	Jego Primary School	Construction of two (2 No.) classrooms, one (1 No.) two-door pit latrine and purchase of eighty (80 No.) desks	3,135,000	<ul style="list-style-type: none"> <li>• Putty and window panes had come off.</li> <li>• The floor tiles were already broken.</li> <li>• Skirting tiles laid in the verandah had fallen off.</li> <li>• Visible cracks on walls and veranda floors.</li> <li>• The toilet was not labelled to confirm ownership by the NG-CDF - Lungalunga Constituency.</li> </ul>
6	Mwangulu Chief's Office	Construction of Mwangulu Chief's Office	5,000,000	<ul style="list-style-type: none"> <li>• The tiles were missing.</li> <li>• The electrical works were paid for yet they were not in the Bills of Quantities.</li> </ul>
<b>Total</b>				<b>22,533,898</b>



