

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES FUND - NANDI HILLS 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 the National Government Constituencies Development Fund - Nandi Hills Constituency set out on pages 16 to 59, which comprise of the statement of assets and liabilities as at 30 June, 2021, statement of receipts and payments, statement of cash flows and summary statement of appropriation, Budget Execution by Sectors and Projects 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 - Nandi Hills Constituency as at , 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**

### **1.0 Unsupported Cash and Cash Equivalents**

The statement of assets and liabilities reflects a cash and cash equivalents balance of Kshs.54,552,584 as disclosed in Note 10A to the financial statements. However, examination of the cashbook revealed a closing balance of Kshs.54,046,962, resulting in an unexplained variance of Kshs.505,622.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.54,552,584 could not be confirmed.

### **2.0 Unsupported Insurance Costs**

The statement of receipts and payments reflects use of goods and services figure of kshs.11,651,915 as disclosed in Note 11 to the financial statements. Included in this figure were insurance costs of kshs.301,180. Examination of financial records revealed that an amount of Kshs.255,000 related to comprehensive insurance cover for three school buses belonging to Olessos Day Secondary School, Kaptien Secondary School and Sirwa Day Secondary school. However, insurance policies for the vehicles were not provided for verification.

In the circumstances, the accuracy and completeness of the insurance expense of Kshs.255,000 could not be confirmed.

### **3.0 Inaccuracies in the Project Management Committee (PMC) Balances**

Note 17.4 of the financial statements and Annex 5 reflects Project Management Committee (PMC) balances of Kshs.25,770,590 held in 91 Bank accounts. However, the cashbooks, bank reconciliations, bank statements and certificate of bank balance supporting the PMC balances were not provided for audit review. Further, the note reflects an opening balance of Kshs.12,354,227 while the balance as per the audited financial statements was Kshs.935,316 resulting in unexplained variance of Kshs.11,418,911.

In the circumstances, the accuracy and completeness of the Project Management Committee (PMC) balances amount of Kshs.25,770,590 could not be confirmed.

#### 4.0 Inaccuracies in Deposit and Retention Balance

The statement of assets and liabilities and Note 12A to the financial statements reflects nil opening balance for deposits and retentions. However, the audited financial statements for the 2019/2020 financial year reflects a closing deposits and retentions account balance of Kshs.652,261 resulting in unexplained variance of Kshs.652,261. In the circumstances, the accuracy and completeness of the nil Deposits and Retentions Account balance could not be confirmed.

In the circumstances, the accuracy and completeness of insurance expenses of Kshs.255,000 could not be confirmed.

#### 5.0 Inaccuracies in the Summary of Fixed Assets Register

Annex 4 to the financial statement reflects a summary of fixed assets owned by the Fund valued at Kshs.7,683,924 .However, an examination of the asset register maintained revealed an assets balance of Kshs.6,237,636 resulting to unexplained variance of Kshs.1,446,288. In addition, the assets register was not updated since most assets shown in the asset register do not include the historical cost as required. Further, assets as detailed in the table below were received from NGCDF Board but there were no documentations to support the transfer.

Description	Asset No	Serial No	Acquisition Date	Amount (Kshs.)
HP Laser jet pro 400 M0Ld Printer	CDF/153/007	PHHGD12892	20/04/2014	Not Indicated
HP5590 SCANNER WITH ACCESSORIES	CDF/153/011	CN2BPVH03T	13/03/2014	Not Indicated
UPS APC 650VA	CDF/153/012	313304X12252	13/03/2014	Not Indicated
Scanner HP 5590 with Accessories	CDF/153/030	CN2BPVHO3T	13/02/2014	Not Indicated

In the circumstances, the accuracy and completeness of the total assets balance of Kshs.7,683,924, 2021 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 - Nandi Hills Constituency 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**

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

The summary statement of appropriation reflects a final receipts budget and actual receipts on comparable basis of Kshs.213,099,988 and Kshs.168,011,108 respectively resulting to underfunding of Kshs.45,088,879 or 21%.

Further, the statement also reflects a final expenditure budget and actual expenditure incurred on comparable basis of Kshs.213,099,988 and Kshs.113,964,146 respectively resulting to an overall budget underutilization of Kshs.99,135,841 or 46%.

The underfunding and under absorption of funds affected the planned activities and may have impacted negatively on service delivery to the public.

### **2.0 Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised. However, the Management had not resolved the issues nor explained failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

### **3.0 Project Implementation Status**

The project status report for the year ended provided for audit review indicates that the fund had an approved budget of Kshs.213,099,988 to finance one hundred and thirty-seven (137) projects out of which Kshs.99,202,676 was disbursed to eighty-two (82) projects with a total budget of Kshs.140,777,228, resulting in underfunding of Kshs.41,574,552. In addition, forty-one (41) projects with a total budget of Kshs.51,534,002 were not funded during the year.

In the circumstances, lack of funding for approved projects indicates that planned programmes/activities were not implemented thus not achieving the intended objective of improving service delivery to the residents of Nandi Hills Constituency.

### **4.0 Project Verification**

During the year under review, ten (10) projects with disbursements of Kshs.45,815,789 were physically verified during the audit in May 2022. Five (5) projects with funding of Kshs.25,815,789 were found to be complete, while five (5) projects with funding of Kshs.20,000,000 are delayed or stalled. Further ownership of land purchased for Kapchumba Primary School for Kshs 1,500,000 for expansion could not be ascertained as the land title deeds were not provided for audit verification.

In the circumstances, delay in fund disbursement and non-implementation of approved projects denies residents of Nandi Hills Constituency benefits that would have accrued from the approved projects.

## 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 Delay in Disbursements of Funds

The statement of receipts and payments reflects transfers from National Government Constituencies Development Fund Board amount of Ksh.161,367,724. The amount includes Kshs.69,367,724 or 43% of total receipts which were late disbursements for the year 2019/2020. In addition, during 2020/2021 financial year, the Fund received Kshs.92,000,000 out of the original budgeted funds of Kshs.137,088,879 or approximately 67% of budgeted funds resulting to budget underfunding of Kshs.45,088,879 or approximately 33% of the budgeted funds.

In the circumstances, the delays in fund disbursements results in delayed implementation of approved programmes which further denies the residents of Nandi Hills Constituency the services and benefits accruing from completed projects.

#### 2.0 Failure to Comply with NGCDF Board Circular

The statement of receipts and payments reflects other grants and transfers amount of Kshs.17,908,906 which includes bursary to Tertiary Institutions amount of Kshs.4,670,000 as disclosed in Note 7 to the financial statements. Examination of expenditure records relating to the bursary payments to tertiary school revealed that a payment of Kshs.2,191,200 was made to a driving school for training of motor cycle riders. However, minutes of the bursary subcommittee indicating how the beneficiaries were identified and confirming two co-opted members one from the area education office seconded by the Ministry of Education as required by Constituency Development Fund circular reference No. Voll 1/111 dated 13 September, 2010, were not provided for audit. In addition, documentary evidence of the trainees having received their driving/ rider's licenses upon successful training was not provided for audit verification.

In the circumstances, Management was in breach of the CDF Board circular.

### **3.0 Failure to Vet Bursary Applicants**

The statement of receipts and payments reflects other grants and payments amount of Kshs. 17,908,906 which includes bursary to tertiary Institutions amounting to Kshs 4,670,000. However, there was no evidence provided to confirm that the bursary applicants were vetted as required by Regulation 21(2) of the National Government Constituencies Development Fund Regulations, 2016 which states that a Constituency Committee shall vet all applicants for bursary consideration in accordance with guidelines issued by the Board.

Further, examination of a sample of bursary application forms revealed that there was no evidence of vetting by the NG-CDF Bursary Committee, the chairman or the secretary of the vetting committee did not sign the application form as prove of approval or rejection, recommendation on the application or official rubber stamp as evidence of vetting. Further, the minutes of the vetting committee and the details of the successful applicants were not provided.

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

### **4.0 Failure to Comply with Law on Emergency Expenditure.**

The statement of receipts and payments and Note 7 to the financial statements reflects other grants and other payments amount of Kshs.17,908,906, which includes emergency projects payments amounting to Kshs.6,092,216. However, an examination of records provided for audit revealed expenditure amounting to Kshs.2,392,206 could not be classified as emergency expenses contrary to Section 8(3) of the National Government Constituencies Development Act, No.30 of 2015, which stipulates that emergency shall be construed to mean an urgent unforeseen need for expenditure for which it is the opinion of the committee that it cannot be delegated until the next financial year without harming the public interest of the constituents’.

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 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 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 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 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 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 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 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**

**05 September, 2022**