

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NORTH HARR 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 - North Harr Constituency set out on pages 15 to 50, 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 the National Government Constituencies Development Fund - North Horr 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**

### **1.0 Use of Goods and Services**

#### **1.1 Unsupported Fuel Expenditure**

The statement of receipts and payments and Note 5 to the financial statements reflects an amount of Kshs.9,981,572 relating to use of goods and services which includes Kshs.912,000 relating to fuel, oil and lubricants. However, supporting documents including user requisitions, detail orders and the evaluation of bids submitted by the bidders were not provided for review contrary to Regulation 104 (1) of the Public Finance Management (National Government) Regulations, 2015 which states that all receipts and payments vouchers of public money shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

In the circumstances, the accuracy and value for money on the amount of Kshs.912,000 incurred on fuel expenditure could not be confirmed.

#### **1.2 Irregularities in Payments of Routine Maintenance and Repair of Motor Vehicles**

The statement of receipts and payments and Note 5 to the financial statements reflects Kshs.9,981,572 relating to use of goods and services which includes Kshs.1,322,120 relating to routine maintenance of vehicles and other transport equipment, which further includes Kshs.760,120 paid to a firm for servicing of two (2) vehicles. However, the mechanical inspection reports provided were issued between 06 June, 2019 to 15 December, 2019 while the quotations issued to suppliers were dated 06 July, 2021 casting doubts on whether the post inspection reports were issued before the quotations.

Further, delivery notes and invoices supporting the payments were dated between 25 June, 2019 to 5 December, 2019 while the payment was made on 20 August, 2020. However, review of the prior year financial statements revealed there was no such disclosure among the pending payables.

In the circumstances, the accuracy and value for money for the amount of Kshs.760,120 incurred on routine maintenance and repair of motor vehicles could not be confirmed.

## **2.0 Cash and Cash Equivalents**

The statement of assets and liabilities and Note 10A to the financial statements reflects an amount of Kshs.15,451,947 relating to cash and cash equivalents. However, the respective bank reconciliation statement reflects unrepresented cheques totalling Kshs.24,394,980 which includes stale cheques totalling Kshs.541,257 which were not replaced or reversed in the cash book.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.15,451,947 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 - North Horr 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**

#### **1.0 Budget and Budgetary Control**

During the year, the Fund received a total of Kshs.168,033,985 from the Board against a budget of Kshs.213,122,865 resulting in a shortfall in disbursements by Kshs.45,088,879 representing 21% of the budget. Further, out of the actual receipts of Kshs.168,033,985, the Fund incurred a total expenditure of Kshs.152,582,038 resulting in an under expenditure of Kshs.60,540,826 or 28% of the budget.

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

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

Various prior year audit issues remained unresolved. The unresolved prior year issues were not disclosed in the progress on follow up on auditors' recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

# 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 Irregularities in Implementation of Security Projects**

The statement of receipts and payments and Note 7 to the financial statements reflects an amount of Kshs.60,245,057 relating to other grants and transfers, which includes Kshs.9,500,000 relating to security projects which further includes an amount of Kshs.3,500,000 paid to a firm for opening of Segel-Chira Tone Road. Review of the project documents and physical verification done in March, 2022 revealed that the bill of quantities, inspection and acceptance certificate, engineers cost estimates and work plan for year 2020-2021 by Kenya Rural Roads Authority - Marsabit Regional Office which formed part of the basis of payment provided for removal of mass boulder and machine-based act (site clearance) at a cost of Kshs.425,000. However, there was no indication of mass boulder removal or site clearance taking into consideration that similar works were done in the year 2019-2020 and the road has been in use.

In the circumstances, the value for money for the expenditure of Kshs.425,000 on security projects could not be confirmed.

### **2.0 Transfers to Other Government Entities**

#### **2.1 Contract Agreements Not Provided**

Review of records revealed that the Management entered into contract with various contractors for the implementation of Primary Schools projects costing Kshs.20,262,174. However, contract agreement between the contractors and the Management were not provided for audit review contrary to Section 135 (3) of Public Procurement and Asset Disposal Act, 2015 which states that written contract shall be entered into within the period specified in the notification but not before fourteen days have elapsed following the giving of that notification.

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

#### **2.2 Unsupported Transfer to Secondary Schools**

Review of records revealed that the Management paid a total of Kshs.1,000,000 to a firm in procuring of science laboratory equipment for Kalacha Girls Secondary School. However, the firm was not among shortlisted suppliers in the list of prequalified suppliers. Further, the inspection and acceptance certificate confirming the quantities and the condition of the supplied equipment's was not provided for review and the school did not maintain store records indicating how the equipments were received and taken on charge.

In the circumstances, value for money on Kshs.1,000,000 incurred in the procurement of the laboratory equipment could not be confirmed.

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 controls, 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 the Management is aware of the intentions 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 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 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 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 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**