

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – SAMBURU EAST 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 – Samburu East Constituency set out on pages 15 to 48, 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 the 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 - Samburu East 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

## **Basis for Qualified Opinion**

### **1. Unsupported Emergency Projects Expenditure**

The statement of receipts and payments reflects other grants and transfers of Kshs.48,099,187 and as disclosed in Note 7 to the financial statements, which includes emergency projects expenditure of Kshs.8,010,448 out of which Kshs.2,150,000 was disbursed to Samburu East Drought and Peace Project. However, expenditure returns were not provided to account for the monies disbursed.

In the circumstances, the regularity, completeness and accuracy of the emergency projects expenditure of Kshs.2,150,000 could not be confirmed.

### **2. Unsupported Sports Expenditure**

The statement of receipts and payments reflects other grants and other transfers expenditure of Kshs.48,099,187 and as disclosed in Note 7 to the financial statements, which includes Kshs.2,401,377 which was transferred to a sports association whose registration details were not provided. Further, no other supporting documents were provided to account for the funds.

In the circumstances, the regularity, completeness and accuracy of sports expenditure of Kshs.2,401,377 could not be confirmed.

### **3. Land without Title Documents**

Annex 4 to the financial statements reflects fixed assets balance of Kshs.6,366,973. However, land and office buildings owned by the entity were excluded in this balance and ownership documents for the parcel of the land were not provided for audit review. Further, fixed asset register was not maintained contrary to Regulation 143(1) of the Public Finance Management (National Governments) Regulations, 2015 which requires that the accounting officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

In the circumstances, the accuracy and completeness of fixed assets balance of Kshs.6,366,973 could not be confirmed. In addition, the Management was in breach of the law.

#### **4. Unsupported Training Expenditure**

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.8,543,694 and as disclosed in Note 5 to the financial statements, which includes training expenses of Kshs.2,500,000, out of which Kshs.435,000 was incurred on Constituency Development Fund Committee members capacity building seminar in Naivasha from 26 October, 2020 to 10 November, 2020. However, the expenditure was not supported by attendance register, training program and evidence of travel.

In the circumstances, the occurrence, accuracy and completeness of training expenses of Kshs.435,000 could not be confirmed.

#### **5. Unsupported Committee Expenses**

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.8,543,694 and as disclosed in Note 5 to the financial statements, which includes committee expenses of Kshs.3,500,000, out of which an expenditure of Kshs.222,000 was not supported by committee minutes.

In the circumstances, the occurrence, accuracy and completeness of committee expenses of Kshs.222,000 could not be confirmed.

#### **6. Unsupported Bursary Disbursement**

The statement of receipts and payments reflects other grants and other transfers expenditure of Kshs.48,099,187 and as disclosed in Note 7 to the financial statements, which includes Kshs.18,135,186 bursary to tertiary institutions, out of which Kshs.700,000 was disbursed to Samburu East Advocacy for Social Change to facilitate training on HIV/AIDS Awareness. However, supporting documents such as proposed budget, list of trainees and training program were not provided for audit review.

In the circumstances, the accuracy and completeness of the above expenditure of Kshs.700,000 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 - Samburu East 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 final receipts budget and actual on comparable basis of Kshs.213,364,587 and Kshs.168,275,708 respectively resulting to under-funding of Kshs.45,088,879 or 21% of the budget. Further, the Fund expended Kshs.155,315,348 against an approved budget of Kshs.213,364,587 resulting to an under-expenditure of Kshs.58,049,239 or 27% of the budget.

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

### **2. Prior Year Unresolved Issues**

In the report of the previous year, several issues were raised under report on the financial statements and report on lawfulness and effectiveness in use of public resources. However, review of the progress on follow up of Auditor's recommendations showed that the Management had not resolved the issues.

## **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. Stalled Projects**

The statement of receipts and payments reflects transfers to other government units of Kshs.66,017,487, which includes Kshs.3,500,000 disbursed to Seiya Boys Secondary School and Wamba Mixed Secondary School for fencing and water piping projects respectively. However, the implementation of the two projects had stalled and no explanation was given as to why the projects were not completed.

As a result, the value for money and regularity of the Kshs.3,500,000 incurred on the two projects could not be confirmed.

## **2. Unutilized Project**

The statement of receipts and payments reflects Kshs.48,099,187 in respect to other grants and transfers, out of which Kshs.1,400,000 was disbursed to Project Management Committee for Lpus Leluai Police Post construction. However, physical verification of the project in May, 2022 revealed that the project had been completed but had not been put to use.

As a result, the value for money on the Kshs.1,400,000 incurred on the project could not be confirmed.

## **3. Lack of Documented Policy on Bursary Awards**

The Fund did not have a documented bursary policy guideline, procedures and processes to ensure efficient and effective management of the bursary fund. It was noted that the bursary sub-committee was deciding the amounts to award during their meetings from time to time whereby majority of secondary school and tertiary institution beneficiaries had an equal minimum amount of Kshs.5,000 and Kshs.10,000 respectively.

In the circumstances, it was not possible to confirm how the total amount of Kshs.34,787,362 awarded as bursaries were determined.

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.

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 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 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 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 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 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 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 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**

**02 September, 2022**