

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - SIGOR 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 - Sigor Constituency set out on pages 1 to 47, 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 - Sigor 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

## **Basis for Qualified Opinion**

### **1.0 Inaccuracies in the Statement of Receipts and Payments**

The statement of receipts and payments and Notes to the financial statements reflect compensation of employees amount of Kshs.4,002,037, transfers to Secondary Schools of Kshs.24,547,354, security projects Kshs.22,700,000 and Nil amount of environmental projects. However, these amounts differ with the expenditure totals reflected in the supporting schedules of Kshs.3,400,000, Kshs.22,000,000, Kshs.20,100,000 and Kshs.1,200,000 respectively.

Further, statement of receipts and payments reflects expenditure on compensation of employees of Kshs.4,002,037, use of goods and services of Kshs.9,615,811, transfer to other Government units of Kshs.57,998,354 and other grants and transfer of Kshs.90,794,048. However, the expenditures are at variance with Note 4 on compensation of employees of Kshs.3,745,465, Note 5 on use of goods and services of Kshs.9,606,411, Note 6 on transfers to other Government units of Kshs.58,598,354 and Note 7 on other grants and transfers of Kshs.90,460,018 respectively. The variances have not been explained and reconciled.

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

### **2.0 Bank Balance-Unpresented Cheques**

The statement of assets and liabilities reflects a bank balance of Kshs.6,172,887. Review of bank reconciliation statement reflects payments in cashbook not in bank statement totalling to Kshs.37,576,965 which include unpresented cheques totalling Kshs.1,871,544 that were stale and had not been reversed in the cash book.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.6,172,887 could not be confirmed.

### **3.0 Unsupported Expenditure on Compensation of Employees**

The statement of receipts and payments reflects compensation of employees amount of Kshs.4,002,037 as disclosed in Note 4 to the financial statements. However, the amount reflected in Note 4 is Kshs.3,745,456 resulting to a variance of Kshs.256,572. Further, re-computation of the supporting payment vouchers provided amount to Kshs.3,638,209 resulting to a variance of Kshs.363,828.

In the circumstances, the accuracy and completeness of the compensation of employees amount of Kshs.4,002,037 could not be confirmed.

#### **4.0 Unsupported Project Management Committee Bank Balances**

Note 17.4 to the financial statements reflects Project Management Committee Bank Balances as analyzed in Annex 5 to the financial statement reflects Project Management Committee (PMC) bank balances of Kshs.712,676 held in eighteen (18) bank accounts. However, bank statements, bank confirmation certificate, bank reconciliation statements and cashbooks were not provided for audit. Further, a total of Kshs.90,460,373 was disbursed to fifty-nine (59) projects, an indication that forty-one (41) Project Management Committee bank balances have not been disclosed. No explanation has been made for the partial disclosure of these bank balances.

In the circumstances, the accuracy and completeness of the Project Management Committee bank balances of Kshs.712,676 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 - Sigor 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 Budgetary Control and Performance**

The summary statement of appropriation reflects a final budget and actual receipts on comparable basis of Kshs.212,775,585 and Kshs.167,686,706 respectively, resulting to an underfunding of Kshs.45,088,879 or 21% of the budget. Similarly, the Fund spent Kshs.162,410,250 against an approved budget of Kshs.212,775,585 resulting to an under-expenditure of Kshs.50,365,335 or 24% of the budget.

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

##### **2.0 Project Verification and Implementation Status**

Twenty-four (24) projects verified in the month of May, 2022 received funds totalling Kshs.36,227,354. However, twenty-one (21) projects totalling Kshs.34,500,000 whose contract sum has been fully paid are incomplete. Further, review of records reflects that

one-hundred and seven (107) projects were budgeted for implementation. However, forty-six (46) were ongoing, thirty-three (33) are complete and twenty-eight (28) were awaiting disbursement of funds.

In the circumstances, the service delivery and value for Money may not be achieved from these projects.

### **3.0 Unresolved Prior Year Audit Matters**

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

## **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 Other Grants and Transfers**

##### **1.1 Bursary - Secondary Schools**

The statement of receipts and payments reflects other grants and transfers of Kshs.90,460,018 as disclosed in Note 7 to the financial statements. The amount includes Kshs.48,647,145 in respect to bursary for secondary schools. However, bursaries totalling Kshs.5,734,000 were received and acknowledged by beneficiary institutions leaving a balance of Kshs.42,913,145 not acknowledged. This is contrary to Regulation 15(e) of the National Government Constituencies Development Fund Regulations, 2016 which require project management committees to account for funds to a Constituency Committee and Section 38 of the National Government Constituencies Development Fund Act, 2015 requires the officer of the Board in every constituency to maintain record of receipts, disbursements and actual expenditures on a monthly basis in respect of every project and table the same to the Constituency Committee. Further, Kshs.260,000 was paid to ward bursary committee. However, appointment letters, composition, criteria for selection, number of meetings held, minutes and approved expenditure for this committee were not provided.

##### **1.2 Bursary - Tertiary Institutions**

The statement of receipts and payment reflects other grants and transfers of Kshs.90,460,018 as disclosed in Note 7 to the financial statements. The amount includes bursary disbursements to tertiary institutions amount of Kshs.7,792,500. However, the

criteria for identification of beneficiaries as an orphan, self-sponsored without parents or guardians, social or economic disadvantage, list of all applicants and awarded, the bursary committee minutes and attendance register were not provided for audit. Further, examination of application forms, revealed that copies of original national and student identity cards, and fee structures were not provided.

In the circumstances, bursaries may have been awarded to undeserving students.

## **2.0 Compensation of Employees**

### **2.1 Lack of Staff Appraisal**

Review of personal files revealed that the Fund did not carry out and document staff appraisal as provided for in Human Resource Policy and Procedures for Public Service. Therefore, it was not possible to confirm how the Fund appraised individual against set performance targets.

In the circumstances, employees may not deliver in accordance with the set targets and objectives.

### **2.2 Irregular Recruitment of Employee**

Review of payroll data revealed that an accountant was engaged under contractual terms without approved budgetary provision and staff establishment. Personal file and records to confirm declaration and advertisement of vacancy, interview score sheets, personal file, committee minutes and attendance register for the approval of vacancies were not provided to confirm need for the employee.

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

## **3.0 Lack of Technical Expertise in Project Implementation**

The Fund did not engage a clerk of works or a technical expert to assist in the implementation of projects totalling Kshs.90,065,718 This is contrary to Section 45(1) of the National Government Constituencies Development Fund Act, 2015 which provides that the Constituency Committee may engage such staff as may be necessary for execution of its functions including persons with knowledge in information and communications technology, construction and basic accounting.

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

## **4.0 Transfers to Other Government Entities**

The statement of receipts and payments reflects transfers to other Government units of Kshs.57,998,354 as disclosed in Note 6 to the financial statement which includes transfers to primary schools of Kshs.34,051,000. However, the following observations were made.

#### **4.1 Kokwositet Primary School**

The approved code list reflects that the school was allocated Kshs.1,400,000 for construction of a dormitory. However, work plans, procurement plan, and budget proposals showing how the funds were utilized were not provided. This contrary to Section 11(d) of the National Government Constituencies Development Fund Regulations, 2016 which states that constituency committee shall ensure project proposals submitted to the Board include detailed budget proposals, procurement plans and work plans. Further, the project file comprising project management committee, implementation and reports, minutes of meetings, accounts of funds to the Constituencies committee and handovers was not provided for audit contrary to Regulation 15(1) of National Government Constituencies Development Fund Regulations, 2016.

#### **4.2 Arpollo Primary School**

The approved code list reflects that the school was allocated Kshs.1,000,000 for renovation of eight (8) classrooms. Physical verification conducted in the month of May, 2022 revealed that only four (4) classrooms were renovated. The project file containing bank statements, approved bill of quantities, work inspection certificates from the clerk of works, advertisement of the tender and structural drawings was not provided for audit. Further, tender opening committee minutes were not signed and quotations from the other contractors were not provided for audit.

In the circumstances, value for Money for expenditure on transfer to Primary Schools 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. 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 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 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 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 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 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 the 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 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**

**14 September, 2022**