

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - AINABKOI CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2022

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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 the 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 - Ainabkoi Constituency set out on pages 1 to 39, which comprise of the statement of assets and liabilities as at 30 June, 2022, 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 - Ainabkoi Constituency as at 30 June, 2022, 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. Unsupported Committee Expenses**

The statement of receipts and payments reflects use of goods and services amount of Kshs.14,885,850 as disclosed in Note 5 to the financial statements. Included in this amount is Kshs.10,402,610 in respect to other committee expenses and allowances. However, the approved budget for committee expenses was Kshs.4,900,000 resulting to an over expenditure of Kshs.5,502,610, which was not approved by the National Government Constituencies Development Fund board. Further, the authority for safari imprest, signed attendance list, minutes of meetings and purpose of the meetings were not attached on some payment vouchers.

In the circumstances, the validity, accuracy and completeness of the committee expenses balance of Kshs.10,402,610 for the year ended 30 June, 2022 could not be confirmed.

### **2. Unreconciled Fuel Records**

The use of goods and services amount of Kshs.14,885,850 also includes Kshs.1,000,000 incurred on fuel, oil & lubricants. Records provided for audit revealed that the Fund Account Manager pays for fuel in bulk to be consumed at a pump price as and when needed. However, no suppliers' statements/invoices, work tickets and fuel register were provided in support of the amount.

In the circumstance, the validity and accuracy of fuel expenditure of Kshs.1,000,000 for the year ended 30 June, 2022 could not be confirmed.

### **3. Cash and Cash Equivalents**

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.19,576,304. However, the bank reconciliation statement for the month of June, 2022 revealed payments in bank statement not recorded in cash book amount of Kshs.124,214, which related to bank charges which ought to have been recorded in cash book and expensed. Further, there were multiple instances where details of the payee were not recorded in the cashbook. In addition, there was no evidence that the Accounting Officer of the Fund submitted the monthly bank reconciliation statements to The National Treasury with a copy to the Auditor-General for each of the months during the financial year under review.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.19,576,304 as at 30 June, 2022 could not be confirmed.

#### **4. Unsupported Project Management Committee (PMC) Account Balances**

Note 17.4 and Annex 5 to the financial statements reflects Project Management Committee (PMC) account balances of Kshs.23,305,517 held in fifty two (52) bank accounts. However, Management did not provide cashbooks, bank statements, bank reconciliation statements and certificates of bank balances to support the balances. Further, there was no evidence that Management submitted the monthly bank reconciliation statements of any of the fifty-two (52) PMC bank accounts to The National Treasury with a copy to the Auditor-General for each of the months during the financial year. In addition, the movement schedule for prior year comparative balances of Kshs.12,833,591 and expenditure returns were also not provided for audit.

In the circumstances, the accuracy, completeness and existence of the Project Management Committee bank balances of Kshs.23,305,517 as at 30 June,2022 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 - Ainabkoi 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 amount of Kshs.212,522,938 and Kshs.201,334,059 respectively, resulting to an under-funding of Kshs.11,188,879 or 5.2% of the budget. Similarly, the Fund expended Kshs.181,757,755 against an approved budget of Kshs.212,522,938 resulting to an under expenditure of Kshs.30,765,183 or 14.5% of the budget.

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

##### **2. Unresolved Prior Year 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 and The National Treasury and Planning Circular reference No. AG.4/16/3 Vol.II (66) dated 6 July, 2022.

In the circumstances, Management did not comply with the requirements of the reporting template.

## 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. Anomalies in Transfers to Other Government Units

The statement of receipts and payments reflects transfers to other government units amount of Kshs.94,139,767 comprising of transfers to primary school Kshs.32,051,747, secondary schools' Kshs.59,400,000 and tertiary institutions Kshs.2,688,020 as disclosed in Note 6 to the financial statements. Although the amounts were transferred to thirty (30) primary schools, eighteen (18) secondary schools and one (1) tertiary institution for construction projects, no approved work plans, procurement plans and expenditure returns and reports from the educational institutions were provided for audit. In addition, the completion date for each project was not specified.

In the circumstances, there is a risk of loss of funds through irregular procurement of goods and services or non-implementation of projects as per approved plan.

#### 2. Irregular Procurement of Secondary School Buses

The statement of receipts and payments reflects transfer to other government units amount of Kshs.94,139,767 out of which Kshs.59,400,000 was in respects to transfers to secondary. Included in Kshs.59,400,000 is Kshs.21,600,000 incurred in procurement of buses for AIC Kiluka Mixed Secondary School, Ainabkoi Secondary School and Kapsoya Secondary School whose procurement records namely tender advertisement, tender opening, evaluation and award minutes were not provided for audit. Further, there was no documentary evidence to show that the three schools requested for the buses. In addition, Kshs.59,400,000 also includes Kshs.32,400,000 incurred on the supply and delivery of six school 29 seater buses. However, the procurement records - the Supply and delivery of school buses were not provided for audit. Further, the value of buses of Kshs.32,400,00 exceeded the request of quotation procurement method limit of Kshs,3,000,000 in respect of goods as set out in the second schedule of the Public Procurement and Asset Disposal Regulations, 2020.

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

#### 3. Delayed Projects

During the year under review, four projects with a budget of Kshs.14,500,000 subjected to audit verification in March 2023 remained incomplete and the contractors' were not on site as detailed below:

Financial Year	Project Name	Approved Activity	Estimated Cost (Kshs)	Amount Allocated (Kshs)	Completion %	Remarks
2013-2014	Kipkorgot Multipurpose Hall	Construction of a multipurpose hall	1,000,000	1,000,000	45%	Incomplete, Contractor not on site
2017-2018	Kipkorgot Multipurpose Hall	Construction of a multipurpose hall	2,000,000	2,000,000	45%	Incomplete, Contractor not on site
2017-2018	Ainabkoi KMTC	Construction of ultra morden tuition block currently at first floor	8,000,000	4,000,000	55%	Incomplete, Contractor not on site
2020-2021	Kaptagat Chief's Office	Completion of office block comprising of reception, 2 offices and a	3,500,000	3,500,000	20%	Incomplete, Contractor not on site

In the circumstances, the residents of Ainabkoi Constituency have not gotten value for money spent on the projects.

#### 4. Stalled Project

The Fund Management awarded tender No. NG-CDF AINAB/20/2019-2020 for the construction of a storey building at Munyaka Primary School comprising of administration block and 5 classrooms at a contract sum of Kshs.23,560,060 to a local contractor with effect from 11 March, 2021 with a completion period of 20 weeks. However, the payments schedule, certified certificates, performance bond and contract were not provided for audit. In addition, no funds were budgeted or spent on the project during the year under review. Physical verification on 10 March, 2023 revealed that the project was still incomplete and stalled.

In the circumstances value for money may not be obtained from the project's implementation.

#### 5. Construction of Administration Block at Kongasis Primary School

The statement of receipts and payments reflects transfer to other government units amount of Kshs.94,139,767 out of which Kshs.1,500,000 is in respect of construction of administration office block at Kongasis Primary School. The contract was awarded to a local company at a cost of Kshs.3,799,995 vide tender number AINAB/NG-CDF/017/2021/2022. The works were to commence on 6 July, 2022 and completed within four weeks. Audit inspection carried out on 9 March, 2023 revealed that the contractor was not on site and the project had stalled.

In the circumstance, value for money may not be realized.

## **6. Award of Bursaries**

The statement of receipts and payments reflects other grants and transfers of Kshs.68,753,199 which includes bursary payment of Kshs.31,986,804 and Kshs.19,811,130 for secondary schools and tertiary institutions respectively, all totalling Kshs.51,797,934 as disclosed in Note 7 to the financial statements. However, analysis of the acknowledgement letters from schools revealed that only Kshs.5,271,002 was supported while the balance of Kshs.46,526,932 remained unacknowledged. Further, there was no evidence to show that the sub-committee formed included two co-opted members, one who must be an education officer or an officer seconded from Ministry of Education.

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

## **7. NHIF Payment**

The statement of receipts and payment reflects other grants and transfers balance of Kshs.68,753,199 as disclosed in Note 7 to the financial statements. Included in this amount is Kshs.1,350,000 paid to NHIF vide PV No 221 as contributions to vulnerable people in the constituency. However, the NG-CDF had approved a payment of Kshs.6,000,000. Management has not explained why only Kshs.1,350,000 was paid, Kshs.1,986,691 re-allocated to bursaries without approval of the CDF board and the balance of Kshs.2,463,309 still held in the bank as unutilized funds.

In the circumstances, the propriety of the contributions to NHIF in respect of vulnerable people could not be confirmed.

## **8. Environment Projects**

The statement of receipts and payment reflects other grants and transfers amount of Kshs.68,753,199 as disclosed in Note 7 to the financial statements. Included in this amount is Kshs.1,950,000 in respect to environment projects. During the year under review, thirty (30) water tanks were purchased under the environment project and distributed to various schools in the constituency. However, it was not clear as to how the supplier was identified as tender evaluation minutes were not provided for review.

In the circumstances, Management was in breach of 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, except for the matter described in the Basis for conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **High Personnel Turnover**

During the year under review, it was noted that Ainabkoi NGCDF had three (3) Fund Account Managers. The first Fund Account Manager joined in July, 2021 and left in January, 2022. Later, the second Fund Account Manager joined in February, 2022 and left in April, 2022. In the financial year ended 30 June, 2022 there was a third Fund Account Manager who was in acting capacity and at the time of audit in March, 2023 there was a fourth Fund Account Manager. Based on this high rate of turnover, the needs of the people of Ainabkoi may not be met and the auditor's recommendations may not be implemented accordingly due to lack of institutional memory.

The high turnover of Fund Account Managers causes delays in transfer of funds and implementation of key projects hence denies residents of Ainabkoi Constituency benefits accruing from the approved and completed projects.

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 overall 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 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 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 control 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 control.
- 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 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**

**09 June, 2023**