

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - CHEPALUNGU 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

### **Adverse Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Chepalungu Constituency set out on pages 1 to 46, 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 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, because of significance of the matters discussed in the basis for adverse opinion section of my report, the financial statements do not present fairly, the financial position of National Government Constituencies Development Fund - Chepalungu 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 do not comply with the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

## **Basis for Adverse Opinion**

### **1. Inaccuracies in the Financial Statements**

Review of the financial statements revealed the following inaccuracies:

- 1.1 The statement of receipts and payments reflects expenditure on compensation of employees of Kshs.3,198,034 as disclosed in Note 4 to the financial statements. However, the payroll for the period reflect an amount of Kshs.3,602,924 resulting in unreconciled variance of Kshs.404,890.
- 1.2 The summary statement of appropriation reflects total adjustments of Kshs.51,088,879 while other important disclosures 17.3 to the financial statements reflect Kshs.55,617,857 resulting to unreconciled variance of Kshs.4,528,978.
- 1.3 Note 17.3 to the financial statements on other important disclosures reflects amounts due to other grants and other transfers of Kshs.17,068,119 while computation in Annex 3 reflects Kshs.14,692,241 resulting to unreconciled variance of Kshs.2,375,878.

In the circumstances, the accuracy and completeness of balances reflected in the financial statements could not be confirmed.

### **2. Cash and Cash Equivalent Balance**

The statement of assets and liabilities reflects bank balance of Kshs.7,364,731 as disclosed in Note 10A to the financial statements. Review of the bank reconciliation statement for June, 2022 revealed that the Fund held un-presented cheques amounting to Kshs.4,668,513 out of which Kshs.4,653,513 or 99.7% were stale cheques and not reversed in the cashbook. Further, the statement reflected payments in bank statement not in cash book of Kshs.193,691 in respect to bank charges which have not been disclosed in the financial statements.

In the circumstances, the completeness and accuracy of cash and cash equivalent balance could not be confirmed.

### **3. Unsupported Expenditure on Transfer to Other Government Units**

The statement of receipts and payments reflects expenditure on transfers to other government units of Kshs.119,715,000 as disclosed in Note 6 to the financial statements. The amount includes transfers to Primary Schools of Kshs.47,160,000 out of which

Kshs.41,220,000 was for construction works and transfers to Secondary Schools amounting to Kshs.32,555,000 out of which Kshs.29,615,000 was for construction works. However, the transfers for the construction works were not supported with procurement records such as bill of quantities, tender advertisements, tender evaluation minutes, signed contract, inspection and acceptance committee reports, interim/completion certificates, National Construction Authority (NCA) registration certificates, tax compliance certificates and three year audited financial statements. In addition, Project Management Committee (PMC) accounting records such as cashbooks, bank balance confirmation certificates, expenditure returns and evidence that the projects were implemented in consultation with relevant Government Departments were not provided for audit.

In the circumstances, the accuracy and propriety of transfers to other government units could not be confirmed.

#### **4. Unsupported Expenditure on Bursary**

The statement of receipts and payments reflects expenditure on other grants and transfers of Kshs.45,294,891 as disclosed in Note 7 to the financial statements. The amount includes bursary to secondary schools of Kshs.24,452,187 and tertiary institutions of Kshs.15,346,926 all totalling to Kshs.39,799,113. However, only expenditure on bursary of Kshs.17,663,617 was supported with schedules and acknowledgement receipts, leaving expenditure on bursary of Kshs.22,135,496 as unsupported. Further, the Bursary Sub Committee had not been constituted and it is not clear how the beneficiaries were vetted and recommended for bursary awards.

In the circumstances, the accuracy and completeness of expenditure on bursary to secondary schools and tertiary institutions of could not be confirmed.

#### **5. Unsupported Project Management Committee's Account Balances**

Note 17.4 to the financial statements on Other Important Disclosures reflects Project Management Committee (PMC) account balance of Kshs.7,082 (2021 – Kshs.235,463) a decrease by Kshs.228,381. However, cashbooks, bank statements and bank balance confirmation certificates were not provided for audit. Further, bank account balances for projects since inception of the Fund have not been disclosed and Management has not explained whether the bank accounts for completed projects were closed and bank balances surrendered to the main Constituency Fund bank account in compliance with Section 12(8) of the National Government Constituencies Development Fund Act, 2015 which requires all unutilized funds of the Project Management Committee to be returned to the Constituency account.

In the circumstances, the accuracy and completeness of the PMC account balance of Kshs.7,082 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 - Chepalungu 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 adverse 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. I have determined that there are no key audit matters to report in the year under review.

### **Other Matter**

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

The summary statement of appropriation reflects total budgeted receipts of Kshs.198,706,535 and actual on comparable basis of Kshs.178,917,656 resulting to budget underfunding of Kshs.19,788,879 or 10% of the budget. Similarly, the Fund spent Kshs.171,552,925 against the budget of Kshs.195,706,535 resulting to an under expenditure of Kshs.27,153,610 or 14% of the budget. In addition, there were no explanations to by way of notes for the underutilization below 90% as required by the International Public Sector Accounting Standards Board reporting template.

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

## **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, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Budget Imbalance**

The summary statement of appropriation reflects budgeted receipts of Kshs.198,706,535 and expenditure budget of Kshs.195,706,535 resulting to a variance of Kshs.3,000,000. This is contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulation, 2015 which states that unless provided otherwise in the Act,

these Regulations or any other guidelines developed in furtherance of the Act or these Regulations, budget shall be balanced.

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

## **2. Expenditure on Tertiary Institutions**

The statement of receipts and payments reflects expenditure on transfers to other government units of Kshs.119,715,000 as disclosed in Note 6 to the financial statements. The amount includes transfers to Tertiary Institutions of Kshs.40,000,000 for the construction of Siongiroi Kenya Medical Training College (KTMC) Campus at Siongiroi Health Centre, a County Government Hospital. However, there was no Memorandum of Understanding between the Fund and the County Government. This was contrary to Article 187(1) of The Constitution of Kenya, 2010 which states that a function or power of government at one level may be transferred to a government at the other level by agreement between the governments. Further, the bill of quantities, tender advertisements, tender evaluation minutes, signed contract, inspection and acceptance committee reports, interim/completion certificates, National Construction Authority (NCA) registration certificates, tax compliance certificates and three year audited financial statements were not provided for audit. In addition, Project Management Committee (PMC) accounting records such as cashbooks, bank balance confirmation certificates, expenditure returns and evidence that the projects were implemented in consultation with relevant Government Departments were not provided for audit.

In the circumstances, Management was in breach of the law and value for money on expenditure on tertiary institutions could not be confirmed.

## **3. Expenditure on Emergency Projects**

The statement of receipts and payments reflects other grants and transfers expenditure of Kshs.45,294,891 as disclosed in Note 7 to the financial statements. The amount includes emergency projects expenditure of Kshs.2,754,000. However, the supporting schedules omitted details of location, the nature of emergency and there was no evidence of reporting to the National Government Constituencies Development Fund Board. This was contrary to Regulation 20(2) of the National Government Constituencies Development Regulations, 2016 which states that the utilization of the emergency reserve shall be reported to the Board within thirty days of the occurrence of the emergency.

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

## **4. Delayed Project Implementation**

Review of the project implementation status reports from financial year 2013/2014 to 2021/2022 indicates nine hundred and sixty-two (962) projects had been budgeted for implementation as a cost of Kshs.643,822,726 were funded to the tune of Kshs.643,822,726. Eight hundred and seventy one (871) projects with a budget of Kshs.513,686,358 were completed; seventy (70) projects with budget of Kshs.94,199,813 were on-going and twenty-one (21) projects with a budget of Kshs.35,822,726 which had

not started. Management has not explained the reasons for the delay in implementing projects.

In the circumstances, value for money for the ongoing and projects not started 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, I confirm 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 continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the basis of accounting unless Management is aware of 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 Fund 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 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 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 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**

**18 July, 2023**