

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - IGEMBE SOUTH 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 overall 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 - Igembe South Constituency set out on pages 1 to 41, 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 - Igembe South 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. Presentation of Financial Statements**

Review of the financial statements for the year revealed that the National Sub-County Accountant did not indicate his Institute of Certified Public Accountants of Kenya (ICPAK) membership number in the financial statements contrary to the Public Sector Accounting Standard Board (PSASB) requirements.

In the circumstances, the presentation of the financial statements is not in accordance with the prescribed PSASB format.

### **2. Inaccurate Unutilized Funds Comparative Balance**

Other Disclosures Note 17.3 to the financial statements reflects unutilized funds comparative balance amounting to Kshs.60,143,168. The amount differs with the previous years 2020/2021 audited financial statements balance of Kshs.45,400,000 resulting to a variance of Kshs.14,743,168. However, prior year adjustment voucher have not been provided for audit verification.

In the circumstances, the accuracy of the unutilized funds comparative balance amounting to Kshs.60,143,168 could not be confirmed.

### **3. Unsupported Bursary Disbursements**

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.80,013,014. The amount includes bursaries of Kshs.45,127,460 disbursed to secondary schools, Kshs.9,755,600 disbursed to tertiary institutions and Kshs.46,400 for special schools all totalling to Kshs.54,929,460 as disclosed in Note 7 to the financial statements . However, the bursaries were not supported with vetting committee minutes and approved criteria for the selection and award of bursaries to the beneficiaries. Further, the Management provided a list of successful applicants totalling to Kshs.52,916,354 resulting to unreconciled variance of Kshs.2,013,106.

In the circumstances, the accuracy and completeness of bursary disbursements amounting to Kshs. 54,929,460 could not be confirmed.

### **4. Unconfirmed Cash and Cash Equivalents**

The statement of assets and liabilities reflects cash and cash equivalents amounting to Kshs.5,768,891. Review of the bank reconciliation statement revealed unrepresented cheques amounting to Kshs.55,351,571. However, the dates when the unrepresented cheques were cleared in the bank have not been provided for audit verification.

In the circumstances, the accuracy of the cash and cash equivalents amounting to Kshs.5,768,891 could not be confirmed.

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

Other Disclosures Note 17.4 to the financial statements reflects Project Management Committee (PMC) account balances amounting to Kshs.22,279,391. The amount is in respect of unspent project funds by various Project Management Committees. However, cashbooks and bank reconciliation statements in support of the balances were not provided for audit review.

In the circumstances, the accuracy and existence of the Project Management Committee (PMC) account balances amounting to Kshs.22,279,391 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 - Igembe South 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.

## **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 Transfers to Other Government Units**

The statement of receipts and payments reflects transfers to other government units amounting to Kshs.99,856,313 as further disclosed in Note 6 to the financial statements. Review of the supporting documents and physical verification of projects revealed the following anomalies:

### **1.1 Stalled Construction of Classroom at Kathambi Primary School**

Note 6 to the financial statements reflects transfers to primary schools amounting to Kshs.23,094,013. The amount includes Kshs.600,000 transferred to Kathambi Primary School for construction of a classroom. However, physical verification done in March, 2022 established that the classroom had stalled despite the money having been transferred to the Project Management Committee (PMC) bank account resulting in delayed benefits that would have accrued from the project.

In the circumstances, the value for money for the expenditure could not be confirmed.

### **1.2 Construction of Administration Block at Antubuchui Secondary School**

Note 6 to the financial statements reflects transfers to secondary schools amounting to Kshs.26,762,300. The amount includes Kshs.3,000,000 transferred to at Antubuchui Secondary School for the construction of an administration block. However, physical verification revealed poor workmanship as the ceiling was leaking and visible wall cracks were noted. Further, the contractor was not on site.

In the circumstances, the value for money for the expenditure could not be confirmed.

### **1.3 Unsupported Expenditure on Multipurpose Hall at Kenya Medical Training College**

Note 6 to the financial statements reflects transfers to tertiary institutions amounting to Kshs.50,000,000. The amount includes Kshs.15,000,000 transferred to Kenya Medical Training College (KMTC) Maua for the construction of a multipurpose hall. However, review of supporting documents and physical verification done in March, 2023 revealed the following anomalies:

- a) The contract for the construction of the hall was signed on July 6, 2022 did not detail the conditions of the contract, intended commencement date, program of works, defects liability period and determination of retention money.
- b) The works were to be completed within twelve (12) weeks. However, physical verification revealed that the project was still at the structural level and the contractor was not on site.
- c) The project was allocated Kshs.15,000,000. However, Ksh.13,272,138 was paid to the contractor. The balance of Ksh.1,727,862 has not been accounted for.

- d) Engineers estimate, expenditure returns on how the administration costs were utilized and a work plan on how the Project Management Committee (PMC) intended to utilize the funds before disbursement of the funds was not provided for audit review.

Further, the PMC did not open a separate bank account for the construction of a multipurpose hall project .This is contrary to Regulation 16(1) of the National Government Constituencies Development Fund Regulations, 2016 which requires the Project Management Committees to open a separate bank account for the funds. Similarly, Project Management Committee did not open a separate bank account for Kshs.10,000,000 transferred to the College for the construction of a road .

In the circumstances, the value for money was not achieved and the Management was in breach of the National Government Constituencies Development Fund Act, 2015

## **2.0 Other Grants and Other Transfers**

### **2.1 Delay in Implementation of Projects - Social Security Programmes**

Note 7 to the financial statements reflects nil social security programmes. However, the budget execution by sector and projects reflects allocation Kshs.1,500,000 for social security programmes. The funds were meant for national health cover to vulnerable families within the constituency. However, as at the time of the audit in March 2023, the project had not commenced. Further, the chairperson's report indicates that they had identified 50 beneficiaries from each electoral ward. However, during the time of the audit, the vulnerable families had not been covered.

In the circumstance, value for money was not achieved.

### **2.2 Emergency Projects**

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.80,013,014. The amount includes emergency projects expenditure of Kshs.7,100,000 as disclosed in Note 7 to the financial statements. However, the expenditure was not reported to the Board ,30 days after the expenditure was incurred. This is contrary to Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016 which requires that the utilization of the emergency reserve shall be reported to the Board within thirty days of the occurrence of the emergency.

In addition, review of the supporting documents and physical verification of emergency projects revealed the following anomalies:

#### **2.2.1 Construction of 10 Door Pit Latrines at Ugoti Primary School**

The Management spent Kshs.620,000 on the construction of a ten (10) door pit latrine at Ugoti Primary School. However, the following anomalies were observed during the physical verification;

- a) Gapping of urinal floor with the wall as a result of poor hacking.
- b) Only one UPVC breather was fixed resulting to a non-hygienic environment at the school compound.
- c) PMC bank statements were not provided for audit review.

### **2.2.2 Emergency Construction of 10 Door Pit Latrines at Itumi Primary School**

The Management spent Kshs.1,620,000 on the construction of 10 door pit latrines at Itumi Primary School. However, the following anomalies were observed during the physical verification;

- a) The expenditure was incurred three years after the letter dated 24 September, 2019 from the Department of Health informing the school to construct toilets within 21 days.
- b) The project was still not in use as at time of project verification.
- c) A letter requesting the Fund to prioritize construction of the toilets was not provided for audit .

### **2.2.3 Construction of One Classroom and Delivery of 40 Desks at Itumbi Primary School**

The Management spent Kshs.1,200,000 on the construction of one classroom and delivery of 40 desks at Itumbi Primary School. However, Physical verification revealed that the classroom had not been labelled. This is contrary to Regulation 11(1)(cc) of the National Government Constituencies Development Fund Regulations, 2016 which requires the Constituency Committee to ensure projects are labelled in accordance with the guidelines issued by the Board;

### **2.2.4 Construction of One Classroom and Delivery of 40 Desks at Auki Primary School**

The Management spent Kshs.1,200,000 on the construction of one classroom and delivery of 40 desks at Auki Primary School. However, physical verification revealed the following;

- a) The classroom floor were poorly done with cracks seen all over and may need to be redone by the contractor.
- b) The classroom was not in use during the time of audit verification.

In the circumstances, the value for money was not achieved on and the Management was in breach of the National Government Constituencies Development Fund Act, 2015

### **2.3 Other Grants - Judiciary**

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.80,013,014. The amount includes other projects – Judiciary amounting to Kshs.1,500,000 as disclosed in Note 7 to the financial statements . Review of the documents revealed that the project was approved in the 2020/2021 financial year for the construction of two (2) ablution blocks of 5 doors pit latrines to completion at Maua law courts. However, the project activity has been revised twice with the final approved activity being the purchase and fabrication to user specifications of two 40 feet containers vide a letter from the Board dated 8 November, 2022. Physical verification carried out in March, 2023 revealed that the container had not been purchased. The money for the project is in the project bank statements. No explanation has been provided for not implementing the project. This is contrary to Regulation 83(2)(c) of the Public Finance Management (National Government) Regulations, 2015 which stipulate that sound cash management includes avoiding accumulation of idle balance.

In the circumstances, failure to implement the project may have denied the public benefits that would have been derived from the planned project.

### **3. Failure to Insure Fixed Assets**

Annex 4 to the financial statements reflects Kshs.30,981,702 in respect of historical costs of assets . However, the fixed assets were not insured. This is contrary to Section 36(3) of the National Government Constituencies Development Fund Act, 2015 which stipulates that all fixed and movable assets, including equipment bought under this Act for use by the Constituency Committee, shall be the property of the Board and shall be insured in the name of the Board.

In the circumstances, the Fund Management was in breach of the National Government Constituencies Development Fund Act, 2015.

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 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 misstatements, 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 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 misstatements, 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 controls 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 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 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 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 June, 2023**