

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KIMININI 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 Overall 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 - Kiminini Constituency set out on Pages 1 to 40, which comprise of the statement of assets and liabilities as at 30 June, 2022, statement of receipts and payments, statement of cash flows and the summary statement of appropriation for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the National Government Constituencies Development Fund - Kiminini Constituency as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with the 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. Inaccuracies in Financial Statements**

#### **1.1 Variances Between Opening Balances and Previous Audited Financial Statements**

Comparison of financial statements balances and audited financial statements for the year ended 30 June, 2021 revealed variances as indicated below;

<b>Component</b>	<b>Balance as per Financial Statements (Kshs)</b>	<b>Balance as per Audited Statements 2020/2021 (Kshs)</b>	<b>Variance (Kshs)</b>
Use of Goods and Services	3,146,269	6,740,821	(3,594,552)
Transfers to Other Government Units	6,740,821	122,007,027	(115,266,206)
Other Grants and Transfers	122,007,027	8,934,906	113,072,121
Acquisition of Assets	8,934,906	328,190	8,606,716
<b>Total</b>	<b>140,829,023</b>	<b>138,010,944</b>	<b>2,818,079</b>

#### **1.2 Variances Between Financial Statements and Supporting Schedules Balances**

Comparison of financial statement and supporting schedule balances revealed variances as summarized below;

<b>Other Grants and Payments</b>	<b>Balance as per Financial Statements (Kshs)</b>	<b>Balance as per Supporting Schedule (Kshs)</b>	<b>Variance (Kshs)</b>
Bursary - Secondary Schools	36,747,000	25,510,000	11,237,000
Bursary - Tertiary Institutions	14,940,000	25,913,000	10,973,000
Basic Salary	2,235,135	2,188,585	46,550
<b>Total</b>	<b>53,922,135</b>	<b>53,611,585</b>	<b>22,256,550</b>

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

## **2. Accuracy of Cash and Cash Equivalent**

The statement of assets and liabilities reflects bank balance of Kshs.55,384,174 as disclosed in Note 10A to the financial statements. However, the bank reconciliation statement for June, 2022 reflects unpresented cheques amounting to Kshs.8,249,240 for which no supporting schedule was provided to confirm accuracy and subsequent clearance of the cheques.

In the circumstances, the accuracy and completeness of bank balance of Kshs.55,384,174 could not be confirmed.

## **3. Unsupported Project Management Committee (PMC) Bank Balances**

Other important disclosures Note 17.4 reflects Project Management Committee (PMC) bank balances totalling to Kshs.20,548,523 held in ninety-six (96) various commercial banks as disclosed in Annex 5 to the financial statements. However, cash books, bank reconciliation statements, certificates of bank balances and bank statements for the ninety-six (96) bank accounts were not availed for audit review.

In the circumstances, accuracy and existence of project management committee bank balances amounting to Kshs.20,548,523 could not be confirmed.

## **4. Summary of Fixed Assets**

Annex 4 to the financial statements - summary of fixed assets register reflects cumulative historical asset amount of Kshs.14,387,676 which comprises of; land Kshs.8,201,591, building and structures- Kshs.4,981,000, office equipment, furniture and fittings - Kshs.402,385, and ICT equipment, software and other assets - Kshs.802,700.

However, the Fund's fixed assets register reflects cumulative historical asset amount of Kshs.5,628,614 resulting to unexplained variance of Kshs.8,759,062. Further, evidence of land ownership in form of land title deed was not provided for audit.

In the circumstances, the completeness and accuracy of the Fund's fixed assets historical cost amount of Kshs.14,387,676 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 - Kiminini 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 indicates that the Fund had a final revenue budget amount of Kshs.233,362,462 against actual funding of Kshs.221,273,623 resulting in under-funding of Kshs.12,088,839 or 5% of the budget. The Fund then utilized a total of Kshs.165,889,448 resulting in overall under-absorption of Kshs.67,473,014 or 29 % of the budget. No explanation was provided for the significant under-absorption of the budget as required by the Public Sector Accounting Standards Board reporting guidelines.

The effect of budget under-funding and under-utilization is that planned programmes and projects may not have been implemented .

### **2. Unresolved Prior Year Matters**

The Management has not addressed audit issues in 2020/2021 financial year report contrary to Section 149(2)(l) of the Public Finance Management Act, 2012 which require accounting officers designated for National Government Entities to try to resolve any issues resulting from an audit that remain outstanding.

## **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. Under Funding and Delay in Disbursement of Funds**

The statement of receipts and payments reflects transfers from National Government Constituencies Development Fund Board amount of Kshs.170,088,879 . However, the amount of Kshs.170,088,879 includes Kshs.33,000,000 or 19% of total receipts budgeted for 2020/2021 financial year. Further, the fund had not received 2020/2021 arrears of Kshs.12,088,839 contrary to Section 39(2) of the National Government Constituencies Development Fund Act, 2015 which states that the disbursement of funds to the

Constituency Fund account shall be effected at the beginning of the first quarter of each financial year with an initial amount equivalent to twenty-five per centum of the allocation for the constituency and thereafter the Constituency Fund account shall be replenished in three equal instalments at the beginning of the second, third and fourth quarters of the financial year and Section 40(1) which stipulates that the Board shall ensure that the list of projects forwarded to it by each constituency is, upon approval, funded in accordance with the Act.

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

## **2. Award of Education Bursary**

The statement of receipts and payments reflects other grants and transfers amount of Kshs.62,930,270 which includes of bursary disbursements to secondary schools of Kshs.36,747,000 and to tertiary institutions of Kshs.14,940,000 as disclosed in Note 7 to the financial statements. During the year, students were awarded bursary amounts ranging from Kshs.3,000 to Kshs.150,000 by the bursary subcommittee.

However, the bursary subcommittee awarded bursaries without a formal criterion to guide the process of awarding bursaries fairly and in a consistent manner.

In circumstances, it was not possible to ascertain that bursaries were awarded fairly for the benefit of deserving students.

## **3. Project Implementation**

### **3.1 Project Implementation Status**

The Fund's Project Implementation Status (PIS) report indicates that the Fund implemented fifty-six ( 56) projects with a total allocation of Kshs.137,376,209 during the financial year 2021/2022. Projects completed were forty-seven (47) with a total disbursement of Kshs.120,204,574 while three (3) projects with disbursement of Kshs.8,771,635 were still ongoing and six (6) projects with allocation of Kshs.8,400,000 had not started.

### **3.2 Project Verification**

Six (6) projects with funding allocation of Kshs.9,600,000 were verified during the month of March 2023 and observed that there were instances of poor workmanship, incomplete projects and delays in project implementation .

In the circumstances the value for money incurred on the projects could not be confirmed.

### **3.3 Project Management Records and Reports**

Review of project files and documentation in respect of fifteen (15) projects with funds allocation of Kshs.31,232,739 revealed instances of poor record keeping and documentation as the projects lacked important records such as project funding details,

project requisitions, minutes appointing project management committee members, project work plans, Project management Committees (PMC) bank statements, project expenditure schedules and returns, monitoring and evaluation reports, site minutes and notes, handover reports from Project Management Committees (PMCs). This was contrary to Regulation 15(1)(b) of the National Government Constituency Development Fund Regulations, 2016 that states, there shall be appointed a project management committee for each project in a Constituency in accordance with Section 36 of the Act which shall maintain proper records of all minutes, accounting documents and other records in relation to projects being implemented.

In the circumstances, the Fund Management was in breach of the 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, 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 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 controls 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 controls, 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 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 overall 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 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 controls 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 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**

**17 July, 2023**