

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KITUI RURAL 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, gazetted 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 Control, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

## REPORT ON THE FINANCIAL STATEMENTS

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Kitui Rural Constituency set out on pages 1 to 53, which comprise the statement of assets and liabilities as at 30 June, 2022 and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts 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 National Government Constituencies Development Fund - Kitui Rural 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 National Government Constituencies Development Fund Act, 2015.

## **Basis for Qualified Opinion**

### **1. Inaccuracy in Compensation of Employees**

The statement of receipts and payments and as disclosed in Note 4 to the financial statements reflects a balance of Kshs.3,957,202 in respect to compensation of employees which includes transport allowance of Kshs.1,672,684. However, review of records in support of transport allowance revealed that the expenditure was irregularly charged to employee compensation instead of use of goods and services.

In the circumstances, the accuracy of the compensation of employee balance of Kshs.3,957,202 for the year ended 30 June, 2022 could not be confirmed.

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

Note 17.4 and Annex 5 to the financial statements reflects PMC bank account balances totalling to Kshs.29,638,981 for ninety-one (91) accounts. However, Annex 5 to the financial statements reflected Nil closing balances for eighty-five (85) out of ninety-one (91) PMC bank accounts which had balances totalling to Kshs.40,795,684 at the beginning of the year. In addition, certificates of balances for PMC bank accounts with nil closing balances were not provided for audit.

In the circumstances, the accuracy and completeness of PMC bank account balances of Kshs.29,638,981 as at 30 June, 2022 could not be confirmed.

### **3. Wrongly Charged Expenditure in Other Grants and Transfers**

The statement of receipts and payments and as disclosed under Note 7 to the financial statements reflects other grants and transfers totalling to Kshs.89,706,017 which includes bursary to Secondary schools and Tertiary institutions of Kshs.47,305,168 and Kshs.27,908,674 respectively. However, review of supporting documents revealed that payments totalling Kshs.1,688,500 was charged to wrong project account under Bursary. In addition, the expenditure included use of goods and services totalling to Kshs.910,000 wrongly classified as bursary disbursements.

In the circumstances, accuracy of other grants and transfers amount of Kshs.89,706,017 for the year ended 30 June, 2022 could not be confirmed.

#### **4. Unsupported Sports Expenditure**

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects other grants and transfers amount of Kshs.89,706,017 which includes sports activities expenditure of Kshs.3,400,000 which further includes imprest surrender amount of Kshs.1,871,000. However, review of the supporting documents revealed that some acknowledgement receipts did not have official school stamp, dates and reference numbers and the purpose of payments in some receipts was indicated as tuition which is not related to the sports activities.

In the circumstances, the accuracy of sports expenditure amount of Kshs.1,871,000 for the year ended 30 June, 2022 could not be confirmed.

#### **5. Unsupported Fuel Expenditure**

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects Kshs.14,069,184 in respect to use of goods and services which includes fuel, oil and lubricants expenditure of Kshs.600,000. However, supporting documentation including supplier statements and fuel register were not provided for audit review.

In the circumstances, the completeness and accuracy of fuel, oil and lubricants amount of Kshs.14,069,184 could not be confirmed.

#### **6. Unsupported Transfers to Other Government Units**

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects transfer to other government units of Kshs.78,150,000, which includes transfers to primary and secondary schools of Kshs.58,700,000 and Kshs.19,450,000 respectively. However, the transfers were not adequately supported with approved bills of quantities and work plans.

In the circumstances, the accuracy and completeness Kshs.78,150,00 incurred on transfer to other government units 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 – Kitui Rural 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 judgement, 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**

### **Unresolved Prior Year Matter**

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. The Management has however, not resolved the issues or given any explanation for failure to adhere to the provisions of the template prescribed by the Public Sector Accounting Standards Board.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, and 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. Projects Implementation Status**

##### **1.1 Matulani Primary School**

The Fund Management awarded a contract for construction of 80 student capacity dormitory to completion at a contract sum of Kshs.1,800,000. However, physical verification of the project done on 9 March, 2023 revealed that the project was completed in January, 2023 but had not been used and there were visible cracks on the walls and floor.

##### **1.2 Kyunduani Primary School**

The Fund Management awarded a contract for construction of one (1) classroom to completion at a contract sum of Kshs.1,000,000. However, physical verification of the project done on 9 March, 2023 revealed that the project was complete but had not been use and the project was not commissioned.

##### **1.3 Masaani Mixed Secondary School**

The Fund Management awarded a contract for construction of one hundred and fifty (150) capacity girl's dormitory to completion at a contract sum of Kshs.2,500,000. However, physical verification of the project done on 9 March, 2023 revealed that the project was completed but had not been used, there were visible cracks on the walls and floor and the door frame in one of the bathroom doors detached from the wall.

In the circumstances, the value for money invested in the projects could not be confirmed.

## **2. Irregular Bursary Disbursements**

Review of the subcommittee expenditure documents revealed that Kshs.89,706,017 was issued as bursary to secondary schools and tertiary Institutions. However Vetting Committee minutes showing award and rejection of applications were not provided for audit to confirm whether bursary applicants were vetted. This is contrary to Regulation 21(3) of the National Government Constituencies Development Fund Regulations, 2016 which stipulates that a Constituency Committee shall vet all persons proposed to receive support in accordance with guidelines issued by the Board. In addition, schedule of bursary disbursements totalling Kshs.993,000 did not include student admission numbers. Further, students classes or year in respective institutions of learning were also not indicated in bursary schedules.

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

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs) 3000 and 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, and based on the audit procedures performed, except for the matter(s) described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance/Qualified Opinion] section of my report, 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**

##### **Lack of a Risk Management Policy and Disaster Recovery Plan**

During the year under audit Management did not have a risk management policy, strategies, and risk register to mitigate against risk. This is in contravention of Section 165 of the Public Finance Management (National Government) Regulations 2015 which states that the Accounting Officer shall ensure that the National Government entity develops risk management strategies, which include fraud prevention mechanism and system of risk management and internal control that builds robust business operations.

In the circumstances, existence of an effective risk management measures could not be confirmed.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs) 2315 and 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 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 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 entity 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 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 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**

**04 July, 2023**