

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – KURESOI 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 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 - Kuresoi South Constituency set out on pages 1 to 49, which comprise the statement of assets and liabilities as at 30 June, 2022 and the statement of receipt 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 National Government Constituencies Development Fund - Kuresoi 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

## **Basis for Qualified Opinion**

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

The annual report and financial statements presented for audit had the following inaccuracies:

The statements of receipts and payments reflects a balance of Kshs.11,192,365 in respect of prior year use of goods and services balance while the corresponding Note 5 to the financial statement reflects a balance of Kshs.8,685,655, resulting to unreconciled variance of Kshs.2,506,710.

In the circumstances, the accuracy and completeness of the use of goods and services balance could not be confirmed.

### **2. Overstatement of Compensation of Employees**

The statement of receipts and payments reflects compensation of employees balance of Kshs.3,305,688 out of which Kshs.753,456 is in respect of gratuity payments to employees. However, the amount is a monthly provision for gratuity at the rate of Kshs.62,788, which has not been paid to the employees during the year under review. Given that the financial statements were prepared under the cash basis of accounting, the expenditure on gratuity of Kshs.753,456 was not incurred.

In the circumstances, the accuracy of compensation of employees' balance of Kshs.753,456 could not be confirmed.

### **3. Unsupported Use of Goods and Services**

The statement of receipts and payments reflects use of goods and services amounting to Kshs.8,118,672 as detailed in Note 5 to the financial statements. Out of the amount, Kshs.5,388,500 were not supported by expenditure returns as detailed:

<b>Expenditure Item</b>	<b>Amount (Kshs)</b>	<b>Missing Information</b>
Training	600,000	List of persons trained and nature of training
Other Committee Expenses	2,039,500	Nature of payments/expenses
Committee Expenses	2,749,000	List of persons paid, rate per sitting and date
<b>Total</b>	<b>5,388,500</b>	

In the circumstances, the accuracy and completeness of the expenditure of Kshs.5,388,500 could not be confirmed.

#### **4. Unsupported Bursary Payments**

The statement of receipts and payments reflects other grants and transfers balance of Kshs.44,870,885. The amount includes bursary to secondary schools of Kshs.18,615,105 and tertiary institutions of Kshs.11,024,003 all totalling to Kshs.29,639,108. However, the vetting reports, list of beneficiaries showing name of student, admission number, learning institution, cheque number and amount awarded per student were not provided for audit.

In the circumstances, the propriety, accuracy and completeness of bursary payments of Kshs.29,639,108 could not be confirmed.

#### **5. Cash and Cash Equivalent**

The statement of assets and liabilities reflects bank balance of Kshs.8,034,393. However, the bank reconciliation statement reflects payments in cash book not in bank statement (unpresented cheques) of Kshs.3,716,885.65 out of which Kshs.997,523.65 are stale cheques that have not been reversed in the cash book.

In the circumstances, the accuracy and completeness of the bank balance of Kshs.997,523.65 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 – Kuresoi 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 other key audit matters to report in the year under review.

#### **Other Matter**

#### **Budget Analysis and Performance**

The summary statement of appropriation reflects final receipts budget and actual receipts on comparable basis of Kshs.201,666,898 and Kshs.176,248,019 respectively resulting into an under-funding of Kshs.25,418,879 or 13% of the budget. Similarly, the Fund spent Kshs.168,213,626 against an approved budget of Kshs.201,666,899 resulting to under-expenditure of Kshs.33,453,273 or 17% of the budget.

The under-funding and under-expenditure might have impacted negatively on service delivery to the residents of Kuresoi South Constituency.

# 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. Non-Recovery of Statutory Deductions from Employees Emoluments**

The statement of receipts and payments reflects compensation of employees of Kshs.3,305,688. The amount includes National Hospital Insurance Fund (NHIF) and National Social Security Fund (NSSF) employer contributions of Kshs.78,600 and Kshs.43,200 all totaling to Kshs.121,800. However, there was no evidence of employee contributions and payments to the Government agencies as required by Section 16(1) of the National Hospital Insurance Fund Act, 2012 and Regulation 6(1) of the NSSF (Member Contributions) Regulations, 2014.

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

### **2. Non-compliance with the Bursary Minimum Allocation Requirement**

The statement of receipts and payments reflects other grants and transfers of Kshs.44,780,885. Included in the amount is bursary to Secondary Schools of Kshs.18,615,105 and tertiary institutions of Kshs.11,024,003 all totalling to Kshs.29,639,108. The bursary allocation is 18.84% of the total receipts of Kshs.157,358,879 which contravenes Section 21(5) of the National Government Constituencies Development Fund Act, 2016, which states that the constituency committee shall allocate not less than twenty five percent of the funds allocated to a constituency.

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

### **3. Project Verification**

Note 6 to the financial statements reflects transfer to other Government entities amounting to Kshs.111,718,381 for the implementation of projects in primary schools and secondary schools. Physical verification of a sample of thirteen (13) projects valued at Kshs.13,800,000 revealed that projects were complete and in use but there were cases of poor workmanship such as defects of cracking floors, poor plastering on the walls, door installed had caved in and was not painted, toilets were not installed, leaking ceiling board, cracking floors amongst others.

In the circumstances, value for money may not be realised where the quality of work is not satisfactory.

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 effect of the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance 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

#### 1. Summary of Fixed Asset Register

The summary of fixed assets register reflects assets balance of Kshs.13,405,037 as detailed at Annex 4 to the financial statements. Out of the balance, the following assets of value of Kshs.7,062,010 were missing supporting documentation:

Asset	Value (Kshs)	Missing document
Land	1,000,000	Title deed
Buildings and structures	3,062,010	Valuation certificate
Transport equipment (Toyota Land Cruiser Registration No. GK 541 T)	3,000,000	Certificate of registration/log book
<b>Total</b>	<b>7,062,010</b>	

In the circumstances, the internal controls of the fixed assets of balance of Kshs.7,062,010 could not be confirmed.

#### 2. Lack of a Strategic Plan

The Fund did not have a strategic plan in place to provide guidance on the broader objectives that are to be achieved by the Fund and the responsibilities as required by law. There was no evidence that the management intends to develop the plan.

In the circumstances, the projects/activities of the Constituency may not be implemented in a coherent manner due to lack of a formal guidance.

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 governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability 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 intention to terminate the Fund or to cease its 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 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**

**10 July, 2023**