

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NAKURU TOWN WEST 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 - Nakuru Town West Constituency set out on pages 1 to 35, 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, because of the 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 - Nakuru Town West 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 of the laws of Kenya.

## Basis for Adverse Opinion

### 1. Variances between the Financial Statements and Ledgers Balances

The financial statements presented for audit had variances of Kshs.1,005,098 between the components shown below and the supporting ledger balances.

S/No.	Details	Note to the Financial Statements	Financial Statements Amount	Ledger Amount	Variance
			Kshs.	Kshs.	Kshs.
1	NG-CDF Basic Staff Salaries	4	2,130,060	2,113,368	16,692
2	House Allowance	4	292,802	290,312	2,490
3	Transport Allowance	4	275,389	273,819	1,570
4	Other Personal Allowances	4	295,748	293,000	2,748
5	Gratuity to Contractual Employees	4	792,098	0	792,098
6	Other Grants and Other Transfers Bursary	6	63,915,400	63,725,900	189,500
	<b>Total</b>		<b>67,701,497</b>	<b>66,696,399</b>	<b>1,005,098</b>

In the circumstances, the accuracy and validity of the financial statement balances could not be confirmed.

### 2. Unsupported Training Expenses

The statement of receipts and payments reflects use of goods and services totalling to Kshs.8,199,855. The amount includes training expenses amounting to Kshs.1,500,000 as disclosed in Note 5 to the financial statements. However, the training expenses relates to allowances paid to participants who attended various trainings which were not supported with the list of participants, need assessment, appointment/invitation letter, training programmes, signed attendance register and justification for the allowance.

In the circumstances, the accuracy and completeness of the training expenditure of Kshs.1,500,000 as at 30 June, 2022 could not be confirmed.

### **3. Unsupported Office and General Supplies and Services**

The statement of receipts and payments reflects use of goods and services amounting to Kshs.8,199,855. The amount includes office and general supplies and services expenditure of Kshs.2,230,055 as disclosed in Note 5 to the financial statements. However, the office and general supplies and services expenditure was not supported with delivery notes/ counter receipt vouchers, issue vouchers and stores ledger were not provided for audit verification.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.2,230,055 for office general supplies and services for the year ended 30 June, 2022 could not be confirmed.

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

The statement of receipts and payments reflects transfer to other government units amounting to Kshs.62,831,010 as disclosed in Note 6 to the financial statements. However, the tender advertisement, list of prequalified suppliers, inspection and acceptance reports, joint measurements and interim/ completion certificates issued by the inspection and acceptance committee, Project Management Committee (PMC) accounting records including cashbooks, bank statements and expenditure return and evidence that the projects were implemented in consultation with relevant the Government Departments were not provided for audit.

In the circumstances, the accuracy and completeness of the transfer to other Government entities balance of Kshs.62,831,010 for the year ending 30 June, 2022 could not be confirmed

### **5. Unsupported Bursary Awards**

The statement of receipts and payments reflects other grants and transfers totalling to Kshs.100,390,638. The amount includes bursary to Secondary Schools amounting to Kshs.63,414,900, and to Tertiary Institutions amounting to Kshs.500,500 all totalling to Kshs.63,915,400 as disclosed in Note 7 to the financial statements. However, financial returns acknowledging receipts of the funds and confirming that the amounts have been credited to the beneficiaries' fees account were not provided for audit verification. Further, the criteria for vetting the bursary application, vetting committee minutes and names of beneficiaries were not provided for audit verification.

In the circumstances, the validity and transfer of the transfer to other Government entities balance of Kshs.63,915,400 for the year ending 30 June, 2022 could not be confirmed.

### **6. Unsupported Security Projects Expenditure**

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.100,390,638. The amount includes security projects expenditure of Kshs.21,056,895 as disclosed in Note 7 to the financial statements. However, the tender advertisement, list of prequalified suppliers, inspection and acceptance reports, joint measurements and interim/ completion certificates issued by the inspection and acceptance committee, Project Management Committee (PMC) accounting records

including cashbooks, bank statements and expenditure return and evidence that the projects were implemented in consultation with relevant Government Departments were not provided for audit verification. Further, the security projects expenditure included provisional sums of Kshs.1,410,000 which had not been accounted for by the Fund.

In the circumstance, the accuracy and completeness of the security project expenditure of Kshs.21,056,638 for the year ending 30 June, 2022 could not be confirmed.

## 7. Unsupported Sports Projects Expenditure

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.100,390,638. The amount includes environment projects expenditure of Kshs.2,741,778 as disclosed in Note 7 to the financial statements which was incurred on the purchase of sports equipment for self-help groups which was not supported. Further, no explanation was provided for purchasing sport equipment for self-help groups which do not fall under sporting activities. The criteria for identifying the beneficiaries was also not provided for audit verification.

In the circumstances, the validity and accuracy of the environment projects expenditure of Kshs.2,741,778 could not be confirmed.

## 8. Unsupported Environment Expenditure

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.100,390,638. The amount includes environment projects expenditure of Kshs.5,483,555 as disclosed in Note 7 to the financial statements. However, the tender advertisement, list of prequalified suppliers, inspection and acceptance reports, joint measurements and interim/ completion certificates issued by the inspection and acceptance committee, Project Management Committee (PMC) accounting records including cashbooks, bank statements and expenditure return and evidence that the projects were implemented in consultation with relevant Government Departments were not provided for audit verification. Further, the environment projects expenditure included provisional sums totalling to Kshs.725,000 which were not accounted for.

In the circumstances, the accuracy and completeness of the environmental expenditure amounting to Kshs.5,483,555 for the year ending 30 June, 2022 could not be confirmed.

## 9. Unsupported Emergency Expenditure

Included in other grants and transfers figure of Kshs.100,390,638 reflected in the statement of receipts and payments is emergency expenditure of Kshs.7,193,010 as shown below and as disclosed in Note 7 to the financial statements:

	<b>Project</b>	<b>Payee</b>	<b>Project Activity</b>	<b>Date</b>	<b>Payment Voucher Number</b>	<b>Cheque Number</b>	<b>Amount (Kshs.)</b>
1	Emergency	Ingobor Primary School	Renovation of 8 classrooms-roofing, Plastering, fixing windows & panes	11-01-22	49	12032	3,600,000
2	Primary School Projects	Muslim Primary School	Re-roofing and renovation of four 4 classrooms	21-03-22	65	12110	1,996,870

3	Primary School Projects	Muslim Primary School	Construction of 10 door Boys Toilet Block	21-03-22	67	12112	1,596,140
			<b>Total</b>				<b>7,193,010</b>

However, the expenditure was not supported. Further, the amount includes Kshs.3,600,000 incurred on the renovation of 8 classrooms at Ingobor Primary School which was not supported with, inspection and acceptance reports, joint measurements and interim/ completion certificates issued by the inspection and acceptance committee, and expenditure returns were not provided for audit verification.

In the circumstance, the validity and accuracy of the emergency expenditure of Kshs.7,193,010 for the year ended 30 June, 2022 could not be confirmed.

### **10. Unsupported Cash and Cash Equivalents**

The statement of assets and liabilities reflects cash and cash equivalents amounting to Kshs.1,957,139 as disclosed in Note 10A to the financial statements. However, review of bank reconciliation revealed that there were payments in bank statement and not in cashbook amounting to Kshs.165,053 which are not supported. Further, the payments of Kshs.165,053 have not been allocated to the vote heads.

In the circumstance, the accuracy and completeness of the cash and cash equivalent balance of Kshs.1,957,139 as at 30 June, 2022 could not be confirmed.

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

The financial statements under Other important disclosures Note 17.4 reflects PMC account balances amounting to Kshs.5,791,277 as further disclosed in Annex 5 to the financial statements. However, PMC bank account cash books, bank statements, bank reconciliations statements, certificate of bank balances and quarterly reports of the Constituency Committee on the status of the project were not provided for audit verification. Further, Annex 5 to the financial statements reflects The PMC account with balances totalling to Kshs.5,541,899 for completed projects which have not been transferred back to the constituency account.

In the circumstance the validity and accuracy of the PMC Bank balances amount of Kshs.5,791,277 could not be confirmed.

### **12. Unsupported Fixed Assets Balances**

The financial statements reflects fixed assets balance of Kshs.2,696,979 as at 30 June, 2022, as per Annex 4. However, the amount differs with the asset register figure of Kshs.2,542,479 resulting in unreconciled and unexplained variance of Kshs.154,500. Further, police report on stolen assets valued at Kshs.408,639 was not provided for audit verification.

In the circumstances, the validity, accuracy, existence and completeness of the fixed assets balance of Kshs.2,542,479 as at 30 June, 2022 could not be confirmed.

### **13. Inaccuracies in The Financial Statements**

The summary statement of appropriation reflects final receipts budget and actual on comparable basis of Kshs.197,242,346 and Kshs.197,242,346 respectively, indicating a 100% funding. However, the actual receipts on a comparable basis was Kshs.182,177,758 resulting to an unexplained and unreconciled variance of Kshs.15,064,588.

In the circumstances, the validity and accuracy of the summary statement of appropriation amounts 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 - Nakuru Town West 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. There were no key audit matters to report in the year under review.

#### **Other Matter**

#### **Implementation of Prior Year Auditor's Recommendation**

The previous year's audit issues remain unresolved as at 30 June, 2022. Management has not provided reasons for the delay in resolving the prior audit issues. Further, the unresolved prior year issues were not disclosed under the progress on follow up of auditor's recommendation section of the financial statements as required 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, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

#### **Basis for Conclusion**

#### **Project Verification**

During the audit twenty-three (23) projects were verified out of which eleven (11) projects with a total budget of Kshs.28,141,778 had the following anomalies;

	<b>Expenditure Item</b>	<b>Payee</b>	<b>Amount (Kshs.)</b>	<b>Project details</b>	<b>Findings</b>
1	Security	Deputy County Commissioner Headquarters	5,000,000	Purchase of office chairs at DCC'S office.	Furniture estimated at a cost Kshs.1,704,918 was not delivered though paid for.
2	Environment	Deputy Subcounty Headquarters	1,250,000	Purchase and installation of 3 10,000ltrs water tank. Construction of 6 hand wash points for Kshs. 300,000, purchase and installation of water pump Kshs.50,000.	The water tanks were all installed. However, 4 hand wash points were not constructed at a cost of Kshs.200,000.
3	Environment	Deputy Sub-County Headquarters	1,491,778	Construction of 10 doors female, 1 door PWD and male septic toilet block with urinal.	Construction of 10 door toilets was complete and in use. However, 1 door for PWD is not customized for people with disability.
4	Transfer to other Government Entities	Ingobor Primary School	3,600,000	Renovation of 8 classrooms-roofing, Plastering, fixing windows & panes.	The Classrooms is in place and in use. However, there was no ceiling board at a cost of Kshs.336,000.
5	Transfer to other Government Entities	Mogoon Primary School	2,400,000	Construction of two classrooms to completion, Labelling& purchases 80 desks& chairs.	The two classrooms are in place and in use. However, classrooms ceiling was not done Kshs.336,000 and 20 lockers and desks costing Kshs.75,000 were not delivered.
6	Transfer to other Government Entities	Ingobor Primary School	2,400,000	Construction of 2 classrooms to completion, labeling and furnishing with 80 lockers.	The two classrooms are constructed and in use. However, the classrooms ceiling was not done at a cost of Kshs.336,000 and 20 lockers and desks costing Kshs.75,000 were not delivered.
7	Transfer to other Government Entities	Lalwet Primary School	2,400,000	Construction of 2 classrooms to completion, labeling and furnishing with 80 lockers.	The classrooms ceiling was not done, at a cost of Kshs.336,000 and 20 lockers and desks costing Kshs.75,000 were not delivered.
8	Transfer to other Government Entities	Tumaini House Secondary	2,400,000	Construction of 2 classrooms to completion, labeling and furnishing with 80 lockers.	The audit did not identify any work done by the NGCDF since the existing class was labeled MOE 2023. The Lockers and Desks in store were also not labeled.
9	Transfer to other Government Entities	Eileen Ngochoch Primary School	2,400,000	Construction of 2 classrooms, labeling and furnishing with 80 lockers.	The two classrooms are constructed and in use, however the ceiling was not done at a cost of Kshs.336,000 and 20 lockers and desks costing Kshs.75,000 were not delivered.
10	Transfer to other Government Entities	Mwariki Primary School	2,400,000	Construction of 2 classrooms to completion, labeling and furnishing with 80 lockers.	The two classrooms are in place and in use, however the ceiling was not done at a cost of Kshs.336,000 and 20 lockers and desks costing Kshs.75,000 were not delivered.

	<b>Expenditure Item</b>	<b>Payee</b>	<b>Amount (Kshs.)</b>	<b>Project details</b>	<b>Findings</b>
11	Transfer to other Government Entities	Kibowen Komen Primary School	2,400,000	Construction of 2 classrooms to completion, labeling and furnishing with 80 lockers.	The two classrooms are in place and in use, however the ceiling was not done at a cost of Kshs.336,000 and 20 lockers and desks costing Kshs.75,000 were not delivered.
	<b>Total</b>		<b>28,141,778</b>		

In the circumstance, the value for money on the Kshs.28,141,778 spent on the eleven projects 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and 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 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 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 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 control 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 Fund's 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 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 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**

**22 September, 2023**