

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - BALAMBALA 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 which considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations which 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 – Balambala 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 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 – Balambala 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. Unsupported Bursaries Disbursements**

The statement of receipts and payments reflects other grants and transfers balance of Kshs.79,537,845 as disclosed in Note 5 to the financial statements. Included in the amount is Kshs.22,336,230 and Kshs.24,622,850 all totalling to Kshs.46,959,080 disbursed to various secondary schools and tertiary institutions respectively as bursary to needy students. However, review of the expenditure documents revealed that the expenditure was not supported by notice to the public on the bursary issuance, records on establishment of vetting committees and bursary application register and students' fees statement from the institutions that received the bursaries.

In the circumstance, the accuracy and validity of bursary disbursements of Kshs.46,959,080 for the year ended 30 June, 2022 could not be confirmed.

### **2. Doubtful Bank Balance in Chase Bank (Under Receivership)**

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.111,080,721 as at 30 June, 2022 as disclosed in Note 8 to the financial statements. Included in this balance, is an amount of Kshs.3,707,087 in an account at Chase Bank (Under Receivership).

In the circumstances, the recoverability and thus accuracy of bank balance of Kshs.3,707,087 as at 30 June, 2022 could not be confirmed.

### **3. Lack of Ownership Documents, Valuation and Incomplete Disclosure of Assets**

Annex 4 of the financial statements reflects summary of fixed assets register with a balance of Kshs.24,331,899 as at 30 June, 2022. However, the fixed assets register maintained did not include building and structures constructed at a cost of Kshs.13,800,000. In addition, the Management did not provide ownership documents including title deed or letter of allotment for the land on which the building and structures were constructed.

Further, the Management did not provide evidence to confirm that assets whose value may have significantly changed over time were revalued.

In the circumstances, the accuracy and completeness of the fixed assets balance of Kshs.24,331,899 as at 30 June, 2022 could not be confirmed. In addition, the valuation status of the assets 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

*Report of the Auditor-General on the National Government Constituencies Development Fund – Balambala Constituency for the year ended 30 June, 2022*

Development Fund – Balambala 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 which, 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 reflects final receipts budget and actual on comparable basis of Kshs.341,489,141 and Kshs.340,489,142 respectively resulting to underfunding of Kshs.999,999 or 0.3% of the approved budget. Similarly, the total actual expenditure during the year was Kshs.229,408,421 against actual receipts of Kshs.340,489,142 resulting to an under expenditure of Kshs.111,080,721 or 33% of the total receipts during the year.

The underfunding and under absorption may have negatively impacted on service delivery to the residents of Balambala Constituency.

#### **2. Project Implementation Status**

Review of the project implementation status report indicated that the Management planned to implement one hundred and ten (110) projects at a total cost of Kshs.312,426,391 during the year under review. However, seventy-three (73) projects with a total cost of Kshs.213,784,310 were completed, thirty-four (34) projects with a budget of Kshs.91,834,564 were on-going while three (3) projects with a budget of Kshs.6,807,517 had not started as at 30 June, 2022.

Failure to implement or complete projects in time may have impacted negatively on service delivery to Balambala Constituents.

#### **3. Unresolved Prior Year Matters**

Various prior year issues remained unresolved as at 30 June, 2022. Management did not provide reasons for the delay in resolving the prior year audit issues.

## **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. Unutilized Primary School Projects**

The statement of receipts and payments reflects transfers to other government units of Kshs.120,641,896 which includes payments of Kshs.47,910,000 in respect of transfer to primary schools as disclosed Note 4 to the financial statements. Included in this expenditure is the amount of Kshs.5,000,000 disbursed to Leheley Primary School and Golicha Primary School for construction of two classrooms and four door toilet block in each of the two schools. However, field inspection conducted on 10 March, 2023 established that the projects were not in use and there were no teachers or students in the schools more than eight (8) months after completion of the projects.

In the circumstances, the propriety and value for money for the expenditure of Kshs.5,000,000 on construction of the classrooms and toilet block for the year ended 30 June, 2022 could not be confirmed.

### **2. Late Submission of National Social Security Fund Deductions**

The statement of receipts and payments reflects compensation of employees' expenditure of Kshs.2,530,205 as disclosed in Note 2 to the financial statements. Included in the expenditure is Kshs.197,040 in respect of social security benefit. However, review of records revealed that National Social Security Fund deductions amounting to Kshs.86,400 were not remitted within the statutory timelines attracting penalties. This was contrary to Section 27(1) of the National Social Security Fund Act, 2013 which states that, If any contributions for which a contributing employer is required to pay to the Fund is not paid within one month after the end of the month in which the last day of the contribution period to which it falls, a sum equal to five per cent of the amount of that contribution shall be added to the contribution for each month or part of a month that the amount due remains unpaid.

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

### **3. Failure to Report Expenditure from Emergency Reserve to the Board**

The statement of receipts and payments reflects other grants and transfers balance of Kshs.79,537,845 as disclosed in Note 5 to the financial statements. Included in the amount is Kshs.7,392,000 incurred from the emergency reserve. However, the Management did not report to the National Constituencies Development Board the utilization of the emergency funds within 30 days as required by Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016 which provides that the utilization of the emergency reserve shall be reported to the Board within thirty days of the occurrence of the emergency, in the format prescribed by the Board.

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

### **4. Failure to Return Bank Balances for Completed Projects**

Annex 5 of the financial statements reflects thirty-four (34) Project Management Committees (PMC) with bank balance of Kshs.3,891,710 as at 30 June, 2022. However,

the balance was not supported by respective bank balance certificates and bank statements. Further, the Management did not provide an explanation for the failure to return the unutilized funds to the constituency account as required by Section 12(8) of National Government Constituencies Development Fund Act, 2015 that states that all unutilized funds of the Project Management Committee shall be returned to the constituency account.

In the circumstances, the 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 which 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 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 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 Fund's financial reporting process, reviewing the effectiveness of how the 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 which 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 control 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 which 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**

**19 May, 2023**