

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - CHERANGANY 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 - Cherangany Constituency set out on pages 1 to 84, 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 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 - Cherangany 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. Inaccuracies in Financial Statements**

The financial statements presented for audit had the following inaccuracies;

- 1.1 Note 5 to the financial statements reflects operating expenses of Kshs.1,478,500 while the supporting ledger reflects Kshs.1,769,000 resulting to an unexplained variance of Kshs.290,500;
- 1.2 The statement of receipts and payments reflects total payments of Kshs.245,235,208 while casting revealed Kshs.244,235,208 resulting to an unexplained variance of Kshs.1,000,000.
- 1.3 Annex 4 to the financial statements on summary of fixed assets reflects a balance of Kshs.22,477,738 while the assets register reflects Kshs.20,337,358 resulting to an unexplained variance of Kshs.2,140,380.

In the circumstances, the accuracy and completeness of the above amounts included in the financial statements could not be confirmed.

### **2. Lack of Land Ownership Documents**

Note 6 to financial statements reflects transfers to primary schools of Kshs.67,500,000 out of which Kshs.1,200,000 was a payment to purchase land for a primary school. However, at the time of this audit land ownership document had not been received by the school without explanations. In addition, Annex 4 to the financial statements on summary of fixed assets reflects land balance of Kshs.3,500,000 whose title deed was not provided for audit.

In the circumstances, the ownership of land balance of Kshs.4,700,000 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 - Cherangany 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 reflects final budgeted payments of Kshs.307,289,245 and actual on comparable basis of Kshs.244,235,208 resulting to an under-expenditure of Kshs.63,064,037 or 21% of budget.

The under expenditure affected implementation of planned activities and delivery of services to the public.

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

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management has not resolved the issues.

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

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in the 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. Project Implementation Status**

During the year under review, two hundred and forty-four (244) projects were earmarked for implementation. However, the Project Implementation Status Report indicated only one hundred and five (105) were completed and in use, twelve (12) ongoing, ninety-four (94) not started while thirty-three (33) had no status indicated. This was contrary to Regulation 11(1)(j) of the National Government Constituencies Development Fund Regulations, 2016 which states that the functions of a Constituency Committee shall be to ensure that all projects receive adequate funding and are completed within three years.

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

#### **2. Delayed Disbursements of Project Funds**

The statement of assets and liabilities reflects bank balance of Kshs.63,054,037 as disclosed in Note 10A to the financial statements. The balance includes Kshs.39,394,240 for fifty-five (55) projects whose funds had not been disbursed to the respective project management committee accounts as at the time of audit in March, 2023.

In the circumstances, value for money on Kshs.39,394,2340 earmarked for fifty-five (55) projects could not be confirmed.

### **3. Failure to Hand-Over Projects**

Review of the project files and analysis of the Project Implementation Status Report revealed that projects amounting to Kshs.12,662,300 were completed and in use but with no hand-over reports indicating successful completion among other details. This was contrary to Regulation 15 (1)(f) of National Government Constituency Development Fund Regulations, 2016 which states that there shall be appointed a project management committee for each project in a Constituency in accordance with Section 36 of the Act which shall undertake project closure, labelling and handover upon completion.

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

### **4. Delayed Completion of Multipurpose Hall**

Note 6 to the financial statements reflects transfers to secondary schools of Kshs.78,549,200 out of which Kshs.2,200,000 was disbursement for construction of a multipurpose hall at St. Pauls Kiriita Secondary School. However, and as previously reported, this project was incomplete and audit inspection in March, 2023 revealed that it was at the lintel level.

In the circumstances, value for money on expenditure incurred on the construction of multipurpose hall at St. Pauls Kiriita Secondary School could not be confirmed.

### **5. Failure to Dispose Unserviceable Assets**

Annex 4 to the financial statements on summary of fixed assets reflects a balance of Kshs.22,477,738. The balance includes transport equipment of Kshs.10,713,000 out of which Kshs.3,712,250 relates to an unserviceable motor vehicle whose disposal process had not commenced. This was contrary to Section 72(1)(b) of the Public Finance Management Act, 2012 which states that the accounting officer for a national government entity shall be responsible for the management of the entity's assets and liabilities in a way which ensures that the national government entity achieves value for money in acquiring, using, and disposing of those assets.

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

### **6. Failure to Maintain Imprest Register**

During the year under review, Management did not maintain an imprest register. This was contrary to Regulation 93(4) of Public Finance management (National Government) Regulations, 2015 which states that before issuing temporary imprests under paragraph

(2), the Accounting Officer shall ensure that the applicant has been recorded in the imprest register including the amount applied for.

In the circumstance, Management was in breach of 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 procedures performed, I confirm that nothing has come to my attention to cause me to believe 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 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 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 comply 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 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 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 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**

**06 June, 2023**