

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KISAUNI 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 - Kisauni Constituency as set out on pages 1 to 27, which comprise of the statement of assets and liabilities as at 30 June, 2022, 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 effects of the matter 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 - Kisauni Constituency as at 30 June, 2022, and its financial performance and 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**

#### **Variations Between the Financial Statements and Ledger**

The statement of receipts and payments reflects Kshs.6,956,155 and Kshs.3,797,281 in respect of other receipts and compensation of employees respectively. However, the supporting general ledger balances for the two categories reflects Kshs.8,649,028 and Kshs.3,714,748 resulting in unexplained and unreconciled variations of Kshs.1,692,873 and Kshs.82,500 respectively.

In the circumstances, the accuracy and completeness of other receipts and compensation of employees amounts of and Kshs.6,956,155 and Kshs.3,139,870 respectively for the year ended 30 June, 2022 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Kisauni 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.

### **Emphasis of Matter**

#### **Budgetary Control and Performance**

The summary statement of appropriation reflects final receipts budget and actual on a comparable basis of Kshs.241,255,591 and Kshs.229,166,712 respectively, resulting in an under-funding of Kshs.12,088,879 (or 5%) of the budget. Similarly, the Fund expended Kshs.183,442,349 against an approved budget of Kshs.241,255,590, resulting in an under-expenditure of Kshs.57,813,349 (or 24%) of the budget.

The under-funding and under-performance affected the planned activities and may have impacted negatively on service delivery to the public.

### **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. I have determined that there are no key audit matters to communicate in my report.

## **Other Matter**

### **Unresolved Prior Year Matters**

In the audit report of the previous year, a matter was raised under the report on Lawfulness and Effectiveness in Use of Public Resources. However, Management had not resolved nor disclosed the status of the prior year matter as prescribed in the reporting requirements set by the Public Sector Accounting Standards Board. Management has not provided satisfactory explanation for the delay in resolving the issue.

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

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects transfers to other Government units of Kshs.107,507,780. Physical verification of projects and review of expenditure documents for the transferred amount revealed the following anomalies in respect of four (4) projects implemented at a cost of Kshs.66,532,295.

##### **1.1 Stalled Administration Block and Classrooms**

A contract for construction of administration block and a three-classroom building at Mwembelegeza Primary School was awarded on 8 March, 2022 to a local contractor at a sum of Kshs12,724,715, out of which a total of Kshs.11,500,000 was disbursed during the year under review. The contract provided for an execution period of twenty (20) weeks without specifying the commencement date. As at the time of project inspection on 10 March, 2023, two classrooms and the administration offices were indicated to be incomplete, estimated to be 70% and 50% completion levels respectively. However, the contractor was not on site.

In addition, Management indicated that the two classrooms were being constructed on top of another adjacent building, a claim which could not be confirmed during the audit. Further, there were existing unutilized classrooms, an indication that there might have been no need for the project.

In the circumstances, the value for money incurred in respect of the project could not be confirmed.

## **1.2 Lack of Ownership Documents for School Construction Land**

Review of the project file revealed that Management purchased land for construction of Barani Primary School at a cost of Kshs.31,905,000. However, the ownership documents for the land were not provided for audit review. During audit inspection of 10 March, 2023, it was observed that the land was not fenced to protect it against encroachment.

In the circumstances, the validity of expenditure of Kshs.31,905,000 on purchase of land could not be confirmed

## **1.3 Incomplete Laboratory Building and Furniture Project**

Review of project records for construction of a laboratory building and purchase of furniture for Mwembelegeza Secondary School revealed that Management awarded the contract on 30 April, 2022 at a cost of Kshs8,802,000 with a commencement date of 8 May, 2022 and expected completion date of August, 2022. Physical inspection of the project on carried out in March, 2023 revealed that the project was incomplete as wrought hardwood, iron monger, store shelving and pin boards all costing Kshs.221,350 and balcony railings costing Kshs.289,650 had not been done. Further, prime costs for electrical installation, mechanical works and contingencies, all costing Kshs.850,000 were not supported with the actual measured works or activities performed.

In the circumstances, the value for money incurred in respect of the project could not be confirmed.

## **1.4 Incomplete Classrooms and Supply of Lockers and Chairs Project**

Review of project records for construction of two classrooms and purchase of school lockers and chairs at Mtopanga Secondary School revealed that Management awarded the contract on 9 March, 2022 at a cost of Kshs.5,100,000 with a commencement date of 16 March, 2022 and an expected completion date of 30 June, 2022. Site inspection of the project in March, 2023 revealed that the construction work was incomplete as the precast paving slabs costing Kshs.16,800 were not done with only the screed surface done. Further, four (4) fluorescent luminaire fittings and two (2) fluorescent bulkhead luminaire costing Kshs.11,000 and six (6) ceiling fans costing Kshs.24,000 were not installed. Additionally, expenditure of Kshs.250,000 for contingencies was not supported with actual activities undertaken.

In the circumstances, value for money incurred on the project 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, 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 such 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 ability of the Fund 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 describes 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 the 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 transaction 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 overall 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 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 controls, 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 or 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 Management.
- Conclude on the appropriateness of 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 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 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 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**

**30 June, 2023**