

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NDHIWA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2022

---

## 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 - Ndhiwa Constituency set out on pages 17 to 43, which comprise the statement of assets and liabilities as at 30 June, 2022, and 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 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 - Ndhiwa Constituency as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with

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

International Public Sector Accounting Standards (Cash Basis) and comply with the National Government Constituencies Development Fund Act, 2015 and Public Finance Management Act, 2012.

## **Basis for Qualified Opinion**

### **1. Variances in Comparative Balances in Statement of Cash Flows**

The statement of cash flows reflects comparative amounts which differ with corresponding amounts reflected in the audited financial statements for the previous year, resulting in unexplained variances as follows:

<b>Item</b>	<b>Comparative Amount in 2021/2022 (Kshs.)</b>	<b>Amount in 2020/2021 Audited (Kshs.)</b>	<b>Variance (Kshs.)</b>
Compensation of Employees	5,704,397	5,550,085	154,312
Use of Goods and Services	7,358,872	7,513,184	(154,312)
Transfers to Other Government Entities	78,934,894	91,694,894	(12,760,000)
Other Grants and Transfers	75,387,299	61,582,199	13,805,100
Other Payments	1,200,000	2,885,000	(1,685,,000)

In the circumstances, the accuracy of the comparative amounts reflected in the in the statement of cash flows for the year ended 30 June, 2022 could not be confirmed.

### **2. Unsupported Expenditure on Use of Goods and Services**

The statement of receipts and payments reflects use of goods and services balance of Kshs.8,788,237 as disclosed in Note 5 to the financial statements. However, the supporting schedules for the expenditure reflects Kshs.10,457,676, resulting in an unexplained and unreconciled variance of Kshs.1,669,439. Further, the amount includes domestic travel and subsistence and training expenses amounting to Kshs.1,407,417 and Kshs.1,584,070 respectively, whose payment vouchers were not provided for audit review.

In the circumstances, the accuracy and completeness of the use of goods and services expenditure of Kshs.8,788,237 could not be confirmed.

### **3. Stale Cheques in Bank Reconciliation Statements**

The statement of assets and liabilities reflects bank balance of Kshs.3,938,650 as at 30 June, 2022. However, the bank reconciliation statement provided for audit reflected unrepresented cheques totalling Kshs.25,343,182 which included stale cheques totalling to Kshs.1,714,603. The cheques had exceeded the statutory validity period of six (6) months making them unpayable, and therefore, ought to have been reversed in the cash book. In addition, the reconciliation statement includes payments in bank statement not recorded in cash book of Kshs.61,131 which dated back to 31 March, 2019. This was contrary to Section 90(1) of Public Finance Management (National Government) Regulations, 2015, which requires Accounting Officers to ensure that any discrepancies noted during bank reconciliation exercise are investigated immediately and appropriate action taken, including updating the relevant cash books.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.3,938,650 as at 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 the National Government Constituencies Development Fund – Ndhiwa 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 statement summary statement of appropriation reflects receipts budget of Kshs.184,859,255 and actual on comparable basis of Kshs.172,277,758, resulting in underfunding of Kshs.12,581,497 or 7% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.185,540,754 and Kshs.169,020,607 respectively resulting in an under-expenditure of Ksh.16,520,147 or 9% of the budget.

In addition, the receipts budget of Kshs.184,859,255 and expenditure budget of Kshs.185,540,754 results in a variance of Kshs.681,499, signifying an unbalanced budget, contrary to Regulation 33(c) of the Public Finance Management (National Government) Regulations, 2015, which requires the budget to be balanced

The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the residents of Ndhiwa constituency.

## **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.

## **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 matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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**

### **Failure to Involve Project Management Committees in Project Implementation**

Review of project records revealed no evidence that Management involved project management committees in the implementation of projects. This was contrary to the provisions of Section 36(1) of the National Government Constituencies Development Act, 2015 which states that projects under this Act shall be implemented by the project management committee appointed in accordance with the regulations made under Section 57, with the assistance of the relevant department of Government and all

payments through cheques or otherwise shall be processed and effected in accordance with government regulations for the time being in force”.

In the circumstances, value for money from the expenditure on projects for the year ended 30 June, 2022 could not be confirmed, and 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 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 processes and systems of internal control, risk management and 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 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 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 controls 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 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 scepticism 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 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**

**12 July, 2023**