

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LIKUYANI CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Likuyani Constituency set out on pages 1 to 27, which comprise of the statement of assets and liabilities as at 30 June, 2019, statement of receipts and payments, statement of cash flows and the summary statement of appropriation - recurrent and development combined 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 - Likuyani Constituency as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and comply with the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Inaccuracy in Receipts**

As disclosed in Note 1 to the financial statements, the statement of receipts and payments reflects transfers from NGCDF Board totalling to Kshs.122,139,311. The balance differs on comparable basis with the balance of Kshs.122,620,186 reflected in the summary statement of appropriation. This resulted in an unreconciled variance of Kshs.480,875.

Consequently, the accuracy, completeness and validity of transfers from NGCDF Board totalling to Kshs.122,139,311 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

#### **2. Unsupported Expenditure for Strategic Plan**

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects use of goods and services balance totalling to Kshs.12,437,337. The balance includes an amount of Kshs.3,499,550 paid to a firm for the preparation of 2018-2023 Strategic Plan as per the contract signed on 10 September, 2018. However, there was no evidence that the Strategic Plan was launched and implemented. Further, delivery note and Inspection and Acceptance Committee report were not provided.

Consequently, the accuracy, completeness and validity of the Strategic Plan payment amounting to Kshs.3,499,550 for the year ended 30 June, 2019 could not be confirmed.

### **3. Unsupported Bursaries**

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects other grants and transfers totalling to Kshs.40,879,680. The balance includes bursaries amounting to Kshs.24,660,500. However, the Management did not provide supporting documents such as; student application forms and minutes of the Vetting Committee.

Further, there was no evidence of existence of the Bursary Sub-committee in accordance with the NGCDF Board guidelines contained in Circulars/Vol.1/111 of 13 September, 2010 which requires that a Sub-committee of the Constituency Development Committee should be formed to manage the bursary scheme.

Consequently, the accuracy, completeness and validity of the bursaries amounting to Kshs.24,660,500 for the year ended 30 June, 2019 could not be confirmed.

### **4. Inaccuracy in Cash and Cash Equivalents**

As disclosed in Note 8 to the financial statements, the statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.26,452,733. The bank reconciliation statement for the month of June, 2019 showed unrepresented cheques totalling to Kshs.8,553,494 out of which cheques amounting to Kshs.246,585 related to the period between 30 June, 2018 and 01 December, 2018 and were therefore, stale. However, the cheques had not been reversed in the cash book.

Consequently, the accuracy, completeness and validity of the cash and cash equivalents balance of Kshs.26,452,733 reflected in the statement of assets and liabilities as at 30 June, 2019 could not be confirmed.

### **5. Unsupported Committee Bank Balance**

Note 13 to the financial statements reflects Project Management Committee (PMC) account balance totalling to Kshs.11,439,052 outstanding on twenty-eight (28) PMC accounts. However, supporting cash books and certificate of bank balances were not provided.

Consequently, the accuracy, completeness and validity of the PMC account balance of Kshs.11,439,052 as at 30 June, 2019 could not be confirmed.

### **6. Inaccuracy in Unutilized Funds**

Note 13 to the financial statement reflects unutilised funds totalling to Kshs.26,457,162. However, the correct casting amounts to Kshs.26,707,296 resulting to an unreconciled variance of Kshs.250,134.

Consequently, the accuracy, completeness and validity of unutilised funds of Kshs.26,457,162 as at 30 June, 2019 could not be confirmed.

## **7. Inaccuracy in Summary Statement of Appropriation**

The summary statement of appropriation - recurrent and development combined reflects total budget and actual on comparable basis of Kshs.153,254,255 and Kshs.126,551,387 respectively. However, the statement of budget execution by programmes and sub-programmes reflects total budget and actual on comparable basis of Kshs.152,967,995 and Kshs.126,546,959 respectively. The anomaly was not corrected.

Consequently, the accuracy, completeness and validity of the summary statement of appropriation - recurrent and development combined for the year ended 30 June, 2019 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 - Likuyani 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 - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.126,657,186 and Kshs.126,657,186 respectively. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.153,254,255 and Kshs.126,551,387 respectively, resulting to an under expenditure of Kshs.26,452,733 or 17% of the budget.

The underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

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

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

## **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. Delay in Project Implementation**

The Project Implementation Status Report as at 30 June, 2019, showed that the Fund had planned to implement seven hundred and eighty-nine (789) projects from 2013/2014 to 2018/2019 at a total cost of Kshs.496,257,383 and which were at various levels of implementation. Out of the ninety-six (96) Projects that were to be implemented during 2018/19 financial year, only fifty-five (55) projects amounting to Kshs.71,574,834 were completed while forty-one (41) projects amounting to Kshs.12,150,000 were ongoing.

Further, twenty-four (24) projects totalling to Kshs.21,971,282 relating to 2017/2018 financial year and earlier were indicated as ongoing and no reason was provided for the delay in their implementation.

In the circumstances, I am unable to confirm whether the public will obtain value for money for the delayed projects.

### **2. Unsatisfactory Construction of Deputy County Commissioner's Residence**

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects other grants and transfers balance totalling to Kshs.40,879,680. Included in the balance is a security project amount of Kshs.2,489,180 which was paid to a local firm for construction of the Deputy County Commissioner's residence at a contract sum of Kshs.2,971,174. However, physical verification in July, 2020 revealed the following;

- (i) The contractor had installed nine (9) flash doors instead of fourteen (14) mahogany doors as per the bill of quantities (BQs).
- (ii) The windows installed were fifteen (15) instead of twenty-two (22) as per the BQs.
- (iii) There was no evidence of land ownership for the land on which the house was constructed.
- (iv) Further, there was no evidence that the relevant Departments of Government including Public Works and Lands were involved and there were no Engineer's estimates. This is contrary to Regulation 15(a) of the National Government Constituencies Development Fund Regulations, 2016 which requires that a Project Management Committee for each Project in a Constituency should implement Projects in consultation with the relevant Departments of Government.

Consequently, I am unable to confirm the validity and value for money for the amount of Kshs.2,489,180 incurred on the project.

### **3. Unsupported Identification of National Hospital Insurance Fund Beneficiaries**

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects other grants and transfers balance of Kshs.40,879,680. The balance includes an amount of Kshs.3,420,000 which was disbursed to National Hospital Insurance Fund (NHIF) for local beneficiaries. However, there was no evidence on how the beneficiaries were identified and evidence that the relevant Government Departments were consulted as required by Regulation 21(4) of the National Government Constituencies Development Fund Regulations, 2016.

The Management therefore breached 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 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 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 financial reporting process, reviewing the effectiveness of how the Fund 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 overall 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 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 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 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 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 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**

**02 November, 2021**