

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KILOME CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Kilome Constituency set out on pages 9 to 44, which comprise the statement of assets and liabilities as at 30 June, 2020, 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 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 - Kilome Constituency as at 30 June, 2020, 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1.0 Bank Balances**

The statement of assets and liabilities reflects Kshs.26,939,375 in respect of bank balances as disclosed in Note 10A to the financial statements. A review of the bank reconciliation statements provided in its support revealed that there were unrepresented cheques totalling Kshs.8,049,464 of which cheques worth Kshs.300,500 were stale as at 30 June, 2020. No explanation was provided for failure to write back the stale cheques into the cashbook.

Consequently, bank balance of Kshs.26,939,375 is understated by Kshs.300,500 in stale cheques.

#### **2.0 Unsupported Bursary Awards**

The statement of receipts and payments reflect a balance of Kshs.35,508,421 for other grants and transfers as disclosed in Note 7 to the financial statements. Included in the expenditure is the amounts of Kshs.12,933,093, Kshs.7,336,700 and Kshs.209,030 in

respect to bursaries for secondary schools, tertiary institutions and special schools respectively all totalling Kshs.20,478,823. The following anomalies were noted:

- i. Bursaries disbursement totaling Kshs.1,531,136 were not adequately supported.
- ii. Details of all the persons who applied for bursaries, successful applicants, amounts awarded to each beneficiary and their respective institutions were not provided for audit verification.
- iii. Management did not present for audit the approved criteria for awarding of bursaries. In addition, review of committee minutes dated 1 April, 2019 revealed that the Committee unanimously agreed that University and College students were to be awarded bursaries of Kshs.6,000 and Kshs.3,000 per student respectively. However, examination of payment vouchers revealed that these guidelines were not followed in the awards.

In view of the foregoing, it has not been possible to ascertain the accuracy, completeness and validity of bursaries payment for the year amounting to Kshs.20,478,823 and whether awards were to needy and deserving applicants determined in an open and transparent process.

### **3.0 Errors in the Statement of Appropriation**

The summary statement of appropriation: recurrent and development combined as at 30 June, 2020 reflects a figure of Kshs.62,156,708 as the budget utilization difference in receipts instead of Kshs.70,636,257 derived on re-computation as the difference between final receipts budget of Kshs.187,646,315 and actual receipts on comparable basis of Kshs.117,010,058 resulting in unexplained difference of Kshs.8,479,549.

Consequently, the summary statement of appropriation does not reflect the accurate and correct position on budget utilization for the year ended 30 June, 2020.

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

### **Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.187,646,315 and Kshs.117,010,058 respectively resulting to an under funding of Kshs.70,636,257 or 38% of the budget.

Similarly, the actual expenditure reflects a balance of Kshs.98,550,232 against an approved budget of Kshs.196,125,863 resulting to an under-expenditure of Kshs.97,575,631 or 50% of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the Citizens.

## 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

#### 1.0 Project Implementation Status

Scrutiny of project implementation status revealed that during the year, Kshs.129,669,482 was allocated for implementation of seventy-six (76) projects out of which sixty-five (65) projects worth Kshs.74,707,804 were completed while the remaining eleven (11) projects with combined allocations of Kshs.54,961,678 were still on-going. No satisfactory explanation was provided for the delay in implementation of the projects.

#### 2.0 Irregularities in Projects Procurement

A review of the procurement documents for projects implemented by Projects Management Committees (PMC) revealed the following anomalies:

Project	Activities	Amount (Kshs.)	Observations
Muua Police Post	Construction of police camp	1,500,000	-Contractor quoted Kshs.1,310,040 as per evaluation minute dated 23 July, 2020, but was awarded at a contract sum of Kshs.2,000,000. In addition, it was noted that the Contractor was paid a total of Kshs.1,800,000. -Completion certificate was not provided for audit.
Kiimakiu Chief Camp	Construction of chief's office to completion	1500,000	-Contractor quoted Kshs.1,279,710 as per

Project	Activities	Amount (Kshs.)	Observations
			evaluation minute dated 23/07/2020 but was awarded at Kshs.1,500,000. -The contract between PMC and the Contractor was not signed.
Kilome Environment SHG	Construction of Kwa Muvai and Kwa Susu Gabions	2,000,000	-This awarded at a contract sum of Kshs.2,000,000 as per notification letter dated 03 February, 2020. However, the contractor was paid an amount of Kshs.2,500,000 thus an overpayment.

In the circumstances, value for money for the expenditure on projects worth Kshs.5,000,000 for the year ended 30 June, 2020 could not be confirmed.

### 3.0 Failure to Report Emergency Projects

The statement of receipts and payments reflects a balance of Kshs.35,508,421 for other grants and transfers and as disclosed in Note 7 to the financial statements which includes Kshs.2,884,890 for emergency projects. However, Fund Management did not provide evidence to show that the emergency projects were reported to the Board as required under Section 20(2) of the National Government Constituencies Development Fund (Regulations), 2016.

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 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, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Overall Governance section of my report, 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

#### Lack of a Risk Management Policy, Disaster Recovery/Business Continuity Plan

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An audit review revealed that the Fund did not have in place an approved risk management policy and a disaster recovery and business continuity plan and therefore lacks a blue print for identifying, preventing and mitigating against fraud and operational risks to ensure that operations are not interrupted in case of a disaster.

In the circumstances, the Fund is in breach of the provisions of Section 165 (a) and (b) of the Public Finance Management (National Government) Regulations, 2015.

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 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 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 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 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**

**09 February, 2022**