

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KINANGOP 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 - Kinangop Constituency set out on pages 14 to 40, which comprise the statement of assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and 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 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 - Kinangop 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. Irregular Committee Allowance**

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.9,023,891 as disclosed in Note 5 to the financial statements which includes committee allowance amounting to Kshs.1,268,000. However, the committee held thirty-one (31) meetings contrary to National Government Constituencies Development Act, 2015 Section 43(11) which states that Constituency Committee shall meet at least six times in a year but the committee shall not hold more than twenty-four (24) meetings. In addition, a payment of Kshs.135,000 was made to a non-committee member.

Consequently, the regularity of committee allowance amounting to Kshs.1,268,000 could not be confirmed.

## **2. Anomalies in Bursary Disbursements to Secondary Schools**

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.49,609,172 as disclosed in Note 7 to the financial statements which includes bursary to secondary schools totaling Kshs.23,145,907. However, analysis of the bursary transferred to secondary schools showed double payments totaling to Kshs.259,200 to 30 students in the same institutions bearing the same registration numbers but different names. In addition, there were payments made to 6 students totaling to Kshs.34,000 whose admission numbers were missing.

Consequently, the accuracy and completeness of the bursary disbursements to secondary schools amounting to Kshs.23,145,907 could not be confirmed.

## **3. Stale Cheques**

The statement of assets and liabilities reflects bank balances of Kshs.1,909,103 as disclosed in Note 10A to the financial statements. However, the bank reconciliation statement as at that date reflects payments in the cashbook not in bank statements of Kshs.6,187,918 which include stale cheques amounting to Kshs.92,626. No reason has been given for failure to reverse the cheques in the cashbook.

Consequently, the accuracy and completeness of the bank balances of Kshs.1,909,103 as at 30 June, 2020 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 - Kinangop 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 summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis totalling to Kshs.190,486,202 and Kshs.121,118,478 respectively, resulting to an underfunding amounting to Kshs.69,367,724 or 36% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.190,486,202 and

Kshs.119,209,375 respectively, resulting to an underperformance amounting to Kshs.71,276,827 or 37% of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on the delivery of services to the residents of Kinangop Constituency.

## 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. Irregular Purchase of a School Bus**

The statement of receipts and payments reflects transfer to other government units amounting to Kshs.57,210,654 as disclosed in Note 6 to the financial statements which includes an amount of Kshs.16,460,000 for transfers to secondary Schools out of which an amount of Kshs.7,200,000 was remitted to Heni Secondary School for the purchase of a 52 - seater school bus. However, physical verification carried out in the month of March, 2021 showed that the bus that was purchased was a 46-seater. Further, it was observed that despite the bus having a lower sitting capacity, the purchase price did not reduce.

Consequently, the residents of Kinangop constituency may not have received value for the money spent on the purchase of the school bus.

#### **2. Project Implemented without Board Approval**

The statement of receipts and payments reflects transfer to other government units of Kshs.57,210,654 as disclosed in Note 6 to the financial statements which includes an amount of Kshs.16,460,000 for transfers to Secondary Schools out of which Kshs.1,000,000 was remitted to Kageraini Secondary School for the construction of an administration block. However, physical verification carried out in March, 2021 showed that the activity was changed to construction of a laboratory. No evidence has been provided to show whether the approval for the change was sought and obtained from the Board in accordance with Section 6(2) of the NG-CDF Act, 2015 which states that once funds are allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose during the financial year with the approval of the Board. Consequently, the Project Management Committee acted in breach of the law.

### **3. Unapproved Hospitality Supplies and Services Expenditure**

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.9,023,891 as disclosed in Note 5 to the financial statements which includes hospitality supplies and services amounting to Kshs.535,592. The amount was spent on purchasing lunch for office staff while at work. However, the relevant authority from the Board, giving approval to provide lunch for staff during normal office hours was not provided for audit.

Consequently, the regularity of hospitality supplies and services amounting to Kshs.535,592 could not be confirmed.

### **4. Error on the Annual Report and Financial Statements**

Note 17.3 to the financial statements in other important disclosures reflects comparative unutilized funds amounting to Kshs.45,404,201 which differs with the corresponding unutilized funds balance of Kshs.42,404,201 shown under Annex 3 to the financial statements. The variance of Kshs.3,000,000 has not been explained.

Consequently, the accuracy and completeness of the comparative unutilized funds balance of Kshs.45,404,201 could not be confirmed.

### **5. Projects**

#### **5.1 Unimplemented Projects**

The project status report indicated that a total of Kshs.125,004,629 was allocated for 87 projects during the financial year ended 30 June, 2020. Review of the project implementation status report showed that 58 projects with an allocation of Kshs.58,720,654 were completed, 12 projects with an allocation of Kshs.48,183,975 were ongoing and 17 projects which had been allocated an amount of Kshs.18,100,000 had not started.

The 17 projects which had not started were awaiting funds from the National Government Constituency Development Fund Board.

Consequently, the delay in implementation of projects may impact negatively on delivery services to the residents of Kinangop Constituency.

#### **5.2 Irregularities on Verified Projects**

During the year under review, four (4) projects with a total allocation of Kshs.2,000,000 were visited for verification in the month of February, 2021. Physical verification showed that although the projects were complete, one project was not in use, two of the verified projects were not labelled and there was an element of poor workmanship in one of the projects.

Consequently, value for money may not have been realized from the complete and not in use and poorly done projects.

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, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

#### **Lack of Risk Management Policy**

The Fund does not have a risk management policy that guides on assessment and evaluation of risk and to develop the strategies to mitigate them. This is contrary to clause Regulation 165(1) of the Public Finance Management Act (National Government) Regulations, 2015 which require the Accounting Officer to ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism; and a system of risk management and internal control that builds robust business operations. Consequently, the service delivery may be adversely affected by avoidable risks.

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 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.

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 abolish 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Fund's 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 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 the Fund 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 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**

**08 February, 2022**