

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

---

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Lamu East Constituency set out on pages 24 to 40, which comprise the statement of financial assets and liabilities as at 30 June, 2020, 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 National Government Constituencies Development Fund – Lamu East Constituency as at 30 June, 2020 and 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.

### **Basis for Qualified Opinion**

#### **1. Unacknowledged Grants and Transfers**

The statement of receipts and payments reflects Kshs.66,167,757 in respect of other grants and transfers. As disclosed in Note 5 to the financial statements, the expenditure includes Kshs.23,457,427 and Kshs.16,441,516 dispersed to secondary schools and tertiary institutions respectively as bursaries to needy students. Review of the expenditure and other supporting documents revealed that bursary disbursements amounting to Kshs.13,671,022 were not acknowledged with official receipts or acknowledgment letters from the institutions they were disbursed to, making it difficult to confirm whether the intended needy students benefited from the bursary disbursements.

Further, disbursements amounting to Kshs.2,700,000 made to Lamu East Constituency Bursary Fund Committee to facilitate purchase of school uniforms for needy students were not supported with the list of beneficiaries.

In the circumstances, the accuracy and validity of expenditure amounting to Kshs.16,371,022 on other grants and transfers during the year under review could not be confirmed.

## **2.0 Use of Goods and Services**

### **2.1 Unsupported Committee & Other Committee Expenses**

Note 3 to the financial statements reflect expenditure on use of goods and services amounting to Kshs.9,363,652. The expenditure includes Kshs.2,431,800 and Kshs.1,600,000 in respect of committee expenses and other committee allowances respectively. Examination of payment vouchers and other supporting documents for the amount revealed payments totalling to Kshs.1,800,000 which were not supported with temporary work tickets for the hired motor vehicles during a monitoring and evaluation exercise, and public participation forums.

Consequently, the validity of expenditure amounting to Kshs.1,800,000 during the year under review 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 – Lamu East 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 other 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 expenditure budget and actual on comparable basis totalling to Kshs.197,099,462 and Kshs.129,516,492 respectively, resulting in underperformance amounting to Kshs.67,582,970 or 34% of the budget.

The under expenditure affected the planned activities and may have impacted negatively on service delivery to the residents of Lamu East Constituency.

#### **2. Project Implementation**

The project implementation status report for National Government Constituency Development Fund - Lamu East Constituencies shows that the Fund had budgeted to implement twenty-seven (27) projects with a total cost of Kshs.87,354,630 comprising one (1) emergency project, one (1) sports projects, five (5) environmental projects, four (4) primary Schools projects, four (4) secondary school projects, ten (10) Security projects and two (2) Lamu East Constituency offices. However, according to the status report, the Fund had completed one (1) secondary school project and two (2) Lamu East

Constituency offices, making a total of three (3) completed projects during the year under review. The remaining twenty-four (24) projects with a total budget of Kshs.73,098,241 were ongoing as detailed below:

<b>Project Category</b>	<b>Project Cost (Kshs.)</b>	<b>Current Status</b>	<b>Total No. of Projects Per Category</b>
Emergency	7,198,241.38	On going	1
Sports	2,500,000.00	On going	1
Environment	2,500,000.00	On going	5
Education: Primary Schools	10,632,800	On going	4
Education: Secondary Schools	6,300,000	Complete	1
	10,767,200	On going	3
Security	39,500,000	On going	10
Lamu East NGCDF Office	7,956,388.76	Complete	2
<b>Total</b>	<b>87,354,630.14</b>		<b>27</b>

The slow implementation of the projects may have denied the constituents of Lamu East the much-desired development and negatively affected the service delivery to the constituents.

## 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. Lack of Manual Assets Register

Annex 2 to the financial statements reflects a summary of fixed assets of the Fund, valued at Kshs.20,841,943 as at 30 June, 2020. However, Management did not maintain a manual fixed asset register but instead maintained a soft copy of the same, which lacked access and data security and control features, making it prone to manipulation. This was contrary to Regulation 139(2) of the Public Finance Management (National Government) Regulations, 2015.

Further the asset register included obsolete and non-serviceable items such as laptops, photocopier machines and scanners which have been held at the Fund for long periods of time. No efforts had been made to have the items disposed-off as required by the Public Procurement and Asset Disposal Act, 2015. In addition, the land where Lamu East Constituency Fund headquarters are currently situated, had not been valued and

disclosed. Similarly, ownership documents for two boats owned by the Fund were not provided for audit review.

In the circumstances, the accuracy and completeness of the summary of fixed assets balance could not be ascertained.

## **2. Lack of Constituency Oversight Committee**

During the year under review, Management did not appoint a Constituency Oversight Committee as required in Section 53(1) of the National Government Constituencies Development Fund Act, 2015. The Act provides that there shall be a Constituency Oversight Committee for the projects undertaken under this Act. Further subsection (3) states that the Constituency Member of National Assembly shall, in consultation with the Constituency Oversight Committee at least twice in every financial year, and upon giving notice of at least fourteen days, convene public forums for purposes of; (a) mobilization and sensitization, and; (b) soliciting views, opinions and proposals from the public regarding to the fund.

In the absence of the Oversight committee, the above requirements of the law were not adhered to during the financial year under review. In the circumstances, the Fund 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 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, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain 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 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 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 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**

**08 March, 2022**