

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LIKONI 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 - Likoni Constituency set out on pages 18 to 52, which comprise of 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 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 - Likoni 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 Public Finance Management Act 2012 and the National Government Constituencies Development Fund Act, 2015.

### Basis for Qualified Opinion

#### 1.0 Undisclosed Asset in Summary of Fixed Assets Register

Annex 4 to the financial statements reflects Kshs.21,505,986 in respect to summary of fixed assets register balance as at 30 June, 2020. However, the detailed fixed assets register provided for audit included Kshs.3,957,085 in respect to land acquired on 14 June, 2014. However, the land asset was not disclosed in the summary of fixed assets and ownership documents and valuation to confirm the value indicated in the detailed fixed assets register were not provided for audit review.

Further, audit review of the detailed fixed assets register revealed assets with historical cost of Kshs.4,208,398 which were not in use by the Fund as detailed below:

Asset Name	Asset Number	Purchase Date	Cost (Kshs.)
Steel filing cabinet 4 drawer	NG-CDFLKN/05/F0020	21.12.2005	40,000
Orient wall fan	NG-CDF LKN/05/E0041	25.05.2005	8,000
Orient wall fan	NG-CDF LKN/05/E0042	25.05.2005	8,000
Sony TV 24" inch	NG-CDF/LKN/05/M002	20.05.2014	80,000
DSC Sony digital camera	NG-CDF/LKN/05/M001	20.05.2014	40,000

<b>Asset Name</b>	<b>Asset Number</b>	<b>Purchase Date</b>	<b>Cost (Kshs.)</b>
Red velvet woolen carpet	NG-CDF/LKN/05/M9	20.05.2014	40,000
Executive curtains	NG-CDF/LKN/05/F00100	20.05.2014	9,000
Steel cabinet with glass at boardroom	NG-CDF/LKN/05/F0039	20.08.2014	20,000
Steel cabinet with glass at boardroom	NG-CDF/LKN/05/F0040	20.08.2014	20,000
Vacuum cleaner	NG-CDF/LKN/05/E0016	20.06.2015	20,410
Paper Shredder	NG-CDF/LKN/05/E0015	25.05.2016	20,105
Generator	NG-CDF/LKN/E0019	25.05.2016	120,000
Scanner jet P550	NG-CDF/LKN/05/M0033	20.10.2016	20,000
29 Seater Nissan diesel bus of 4167cc	GKA 111T	12.02.2009	3,762,883
	<b>Total</b>		<b>4,208,398</b>

The assets were, therefore, idle and depreciating with no benefits being accrued to the residents of Likoni Constituency.

Under the circumstance, the accuracy and completeness fixed assets with a historic cost of Kshs.21,505,986 as at 30 June, 2020 could not be confirmed.

## **2.0 Unconfirmed Projects Management Committee Bank Balances**

Annex 5 to the financial statements reflects thirty (30) projects management committee bank accounts with a total balance of Kshs.15,711,146 as at 30 June, 2020. Audit review of the bank balances and the projects status as at 30 June, 2020 revealed the following unsatisfactory matters:

- i. Sixteen (16) projects management committee bank accounts with a total balance of Kshs.112,072 were in respect to completed projects as at 30 June, 2020. However, the unutilized funds had not been returned to the National Government Constituencies Development Fund - Likoni Constituency's bank account, contrary to Section 12(8) of the National Government Constituencies Development Fund Act, 2015 which states that 'all unutilized funds of the project management committee shall be returned to the constituency account'.
- ii. Fourteen (14) projects management committee bank accounts with a total balance of Kshs.2,488,761 were in respect of retentions as at 30 June, 2020. However, the Fund Management did not provide a retentions ledger for audit review to support the balances.
- iii. Ten (10) projects management committee bank accounts with a total balance of Kshs.13,110,311 were in respect to ongoing projects as at 30 June, 2020. However, the projects implementation status report provided for audit only disclosed four (4) ongoing projects with total disbursement of Kshs.514,751, resulting to a variance of Kshs.12,595,560 which has not been explained nor reconciled

Under the circumstances, the accuracy and completeness of projects management bank accounts balance of Kshs.15,711,146 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 - Likoni 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 reflects final receipts budget and actual on comparable basis of Kshs.195,029,927 and Kshs.125,162,203 respectively resulting to an under-funding of Kshs.69,867,724 or 35.8% of the budget. Similarly, the Fund expended Kshs.120,370,848 against an approved budget of Kshs.195,029,927 resulting to an under-expenditure of Kshs.74,659,079 or 38.3% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Likoni Constituency.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the 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 Overpayment of Committee Allowances**

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects Kshs.6,969,953 in respect to use of goods and services which included Kshs.3,733,000 in respect of committee allowance. However, records provided for audit review indicated that the National Government Constituencies Development Fund (NGCDF) committee and sub-committees held a total of twenty-nine (29) meetings during the financial year under review. This is contrary to Section 43 (11) of the National Government Constituencies Development Fund Act, 2015 which provides that the Constituency Committee shall meet at least six times in a year but the committee shall not hold more than twenty-four meetings in the same financial year, including sub-committee meetings. This resulted in payment of committee allowance amounting to Kshs.205,000 which were not justified nor explained.

Consequently, the Fund Management is in breach of the law and the propriety and lawfulness of the Kshs.205,000 in respect to committee allowance for the year ended 30 June, 2020 could not be confirmed.

### **2.0 Unconfirmed Emergency Projects Expenditure**

As disclosed under Note 7 to the financial statements, the statement of receipts and payments reflects Kshs.52,483,397 in respect to other grants and other payments which included Kshs.7,495,284 in respect to emergency projects expenditure which further includes Kshs.1,380,370 transferred to Mishi Mboko Primary School PMC account for the completion of an eight-door toilet. However, the same project had been budgeted for during 2017/2018 financial year but Management did not provide details of how the funds were to be utilized.

Further, the emergency projects expenditure includes Kshs.340,000 transferred to Timwabani Chief's Office Project Management Committee (PMC) for the construction of a three-door toilet. However, evidence of requisition for the project from the PMC, Timwabani Chief or the residents of the Constituency was not provided for audit review.

In addition, the Fund Management did not provide evidence that these projects funded to the tune of Kshs.1,720,370 from emergency projects budget qualified as per Section 8 (3) of the National Constituency Development Act, 2015 which defines emergency as, 'an urgent, unforeseen need for expenditure for which it is in the opinion of the committee that it cannot be delayed until the next financial year without harming the public interest of the constituents'.

Consequently, the propriety, validity and lawfulness of emergency projects expenditure of Kshs.1,720,370 for the year ended 30 June, 2020 could not be confirmed.

### 3.0 Construction of New Schools – Mishi Mboko Primary and Secondary Schools

The statement of receipts and payments for the year ended 30 June, 2020 reflects transfers to other Government Units of Kshs.55,002,001, out of which Kshs.10,995,311 was transferred to Mishi Mboko Primary and Secondary Schools. Records provided for audit review indicated that the projects were identified through public participation. However, as previously reported, the Fund Management did not avail ownership documents for the land on which the schools were being built. This is contrary to Section 25(3) of the National Government Constituencies Development Fund Act, 2015 which provides that 'Funds provided under this Act shall not be used for the purpose of supporting political bodies or political activities or for supporting religious bodies or religious activities'. Further, Section 22 of the Act, provides that 'all projects to be financed by the Constituencies Development Fund should be community-based in order to ensure that the prospective benefits are availed to a widespread cross-section of the inhabitants of a particular area'.

Consequently, the National Government Constituency Development Fund - Likoni Constituency is in breach of the Law.

### 4.0 Delay in Implementation of Funded and Utilization of Completed Projects

The Fund's projects implementation status report as at 30 June, 2020 availed for audit review showed cumulative disbursements of Kshs.29,937,346 for seventeen (17) projects, out of the budgeted expenditure of Kshs.83,716,033. Audit review of the projects implementation status revealed that the projects were at various stages of completion as detailed below:

<b>Project Status</b>	<b>Count</b>	<b>Budgeted Cost (Kshs)</b>	<b>Disbursement (Kshs)</b>
Complete and in use	8	16,819,639	16,819,639
Complete but not in use	4	12,602,956	12,602,956
On-going	4	53,286,438	514,751
Not Started	1	1,000,000	0
<b>Total</b>	<b>17</b>	<b>83,716,033</b>	<b>29,937,346</b>

From the foregoing, delayed disbursement of funds resulted in non-implementation of five (5) projects with an approved budget of Kshs.54,286,438.

Failure to implement projects as planned may have negatively impacted on realization of the objectives for which the funds were appropriated.

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 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 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 Fund's 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 Fund's 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 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 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**