

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LIKUYANI CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2022

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## PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the Fund has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the Fund.

An unmodified opinion does not necessarily mean that the Fund has complied with all relevant laws and regulations and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012, and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

## 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 44, which comprise of the statement of assets and liabilities as at 30 June, 2022, and the statement of receipts and payments, statement of cash flows and the summary statement of appropriation 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 - Likuyani Constituency as at 30 June, 2022, 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. Unsupported Cash and Cash Equivalents**

The statement of assets and liabilities reflects a balance of Kshs.23,427,312 in respect of cash and cash equivalents which, as shown in Note 10 to the financial statements, represents the Fund's bank balances held in two commercial banks. However, a bank reconciliation statement for one of the accounts with a balance of Kshs.22,896,102 reflects unpresented cheques of Kshs.4,719,303 out of which cheques totalling Kshs.1,216,811 had become stale as at 30 June, 2022.

Further, the Fund maintained a deposit account in a commercial bank with a balance of Kshs.531,210 as at 30 June, 2022 which was opened in 2015. However, authority to open and operate the account was not provided for audit review. In addition, cash books, bank statements, bank reconciliation statements and certificates of bank balance for the account were not provided for audit review.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.23,427,312 as at 30 June, 2022 could not be confirmed.

### **2. Unsupported Project Management Committee (PMC) Bank Account Balances**

Note 17.4 to the financial statements reflects Project Management Committee (PMC) bank account balances of Kshs.6,197,286 which, as disclosed in Annex 5, represents balances held by Project Management Committees in one hundred and twenty-one (121) bank accounts. However, the balances were not supported by bank reconciliation statements, cash books and certificates of bank balance.

In the circumstances, the accuracy and completeness of the PMC bank account balances totalling Kshs.6,197,286 could not be confirmed.

### **3. Unsupported Social Security Programmes (NHIF)**

The statement of receipts and payments reflects Kshs.69,443,014 in respect of other grants and transfers which, as disclosed in Note 7 to the financial statements, includes Kshs.3,000,000 paid under the NHIF Health Insurance Subsidy Programme (HISP). However, the payment was not supported by evidence of criteria of identification of target groups of orphans and vulnerable children (O.V.C), poor older persons and persons living with disabilities (PLWDs); the list of applicants; appointment of the vetting committee; the vetting criteria adopted; the report of the vetting exercise; and approval of the payment by the Fund Committee.

In the circumstances, the propriety of the expenditure of Kshs.3,000,000 on social security programmes could not be confirmed.

#### **4. Unsupported Bursaries to Tertiary Institutions**

The statement of receipts and payments reflects Kshs.69,443,014 as other grants and transfers which, as disclosed in Note 7 to the financial statements, includes Kshs.31,572,200 being bursary disbursements to tertiary institutions. However, a list of all applicants, successful and unsuccessful applicants were not provided for audit review. Further, payment vouchers together with respective supporting documentation for bursary payments of Kshs.11,762,000 were not provided for audit review.

The Fund also made bursary payments totalling Kshs.380,000 in respect of nineteen (19) students whose school admission or registration numbers were not indicated. In addition, acknowledgements by the respective learning institutions, individual student fees receipt and updated student fees statements were not provided for audit review.

In the circumstances, the propriety of the expenditure of Kshs.31,572,200 could not be confirmed.

#### **5. Unsupported Bursaries to Secondary Schools**

The statement of receipts and payments reflects other grants and transfers amounting to Kshs.69,443,014 as disclosed in Note 7 to the financial statements. The amount includes bursaries of Kshs.16,920,000 paid to various secondary schools, out of which, bursaries amounting to Kshs.1,500,000 paid to ten (10) secondary schools were not supported by acknowledgment documents.

In the circumstances, the propriety of the expenditure of Kshs.1,500,000 could not be confirmed.

#### **6. Undisclosed Prior Year Adjustment**

The statement of cash flows reflects Kshs.234,609 as prior year adjustment which, as disclosed in Note 14 to the financial statements, relates to a bank account balance held in a local bank. However, Management did not disclose this amount in the statement of assets and liabilities as at 30 June, 2022.

In the circumstances, the accuracy and completeness of the prior year adjustment balance of Kshs.234,609 could not be confirmed.

#### **7. Purchase of Land at Mapera Secondary School**

The statement of receipts and payments reflects transfers to other Government units of Kshs.89,705,200 as disclosed in Note 6 to the financial statements. The amount includes Kshs.54,821,800 being transfers to secondary schools out of which an amount of Kshs.1,800,000 was disbursed to Mapera secondary school for purchase of one-acre parcel of land. However, the title deed for the land was not provided for audit verification. Further, procurement records, official search for the land and valuation report were not provided for review.

In the circumstances, propriety of the expenditure of Kshs.1,800,000 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 reflects actual expenditure of Kshs.172,291,059 against approved budget of Kshs.195,187,161 respectively resulting to under- absorption of Kshs.22,896,102 or 12% of the budget.

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

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

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management has not resolved the issues or given any explanation for the failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

## **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. Construction of Classrooms at Kilimani Primary School**

The statement of receipts and payments reflects transfers to other Government units amount of Kshs.89,705,200 which, as disclosed in Note 6 to the financial statements, includes Kshs.34,883,400 being transfers to primary schools. The amount of

Kshs.34,883,400 includes Kshs.1,600,000 disbursed to Kilimani Primary School for construction of seven (7) classrooms.

The contract was awarded to a local construction company at a contract sum of Kshs.1,619,192. However, procurement records such as tender opening minutes, tender evaluation report, regret letters, professional opinion, letter of award of contract and signed contract were not provided for audit review. This is contrary to Section 151(2)(a) of the Public Procurement and Asset Disposal Act, 2015 which requires a project implementation team to be responsible for monitoring the performance of the contractor, to ensure that all delivery or performance obligations are met or appropriate action taken by the procuring entity in the event of obligations not being met.

In the circumstances, Management was in breach of the law.

## **2. Payment of Emergency Funds**

The statement of receipts and payments reflects expenditure on other grants and transfers amount of Kshs.69,443,014 which, as disclosed in Note 7 to the financial statements, includes an expenditure of Kshs.7,535,000 on emergency projects. Included in this amount is Kshs.2,250,000 paid to twelve (12) primary schools for construction projects. However, no documentary evidence was provided to indicate that the above projects were of emergency nature contrary to Section 8(3) of the National Government Constituencies Development Fund Act, 2015, which states that emergency shall be construed to mean an urgent, unforeseen need for expenditure for which it is in the opinion of the committee that it can not be delayed until the next financial year without harming the public interest of the constituents.

In the circumstances, Management was in breach of the law.

## **3. Failure to Provide Fixed Assets Register**

Annex 4 to the financial statements reflects summary of fixed assets register with a total cost of Kshs.20,204,095 being the value of the assets owned by the Fund. However, Management did not provide the assets register for audit verification.

In the circumstances, the accuracy and completeness of the fixed assets balance of Kshs.20,204,095 could not be confirmed.

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 controls, 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 controls 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to terminate the Fund or to cease its 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 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 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 controls 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 controls 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 controls 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 time period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal controls 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 judgment 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 controls.
- 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 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 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 controls 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**

**10 July, 2023**