

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - LURAMBI 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 Control, Risk Management and Governance which considers how the entity 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 entity.

An unmodified opinion does not necessarily mean that an entity 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 the National Government Constituencies Development Fund - Lurambi Constituency set out on pages 1 to 39 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 the National Government Constituencies Development Fund - Lurambi 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. Inaccuracy of Comparative Balances**

#### **1.1. Unutilized Funds**

Note 17.3 to the financial statements reflects a comparative balance in respect of unutilized funds of Kshs.75,467,204. However, Annex 3 reflects a corresponding balance of Kshs.56,556,603 on the same item resulting to variance of Kshs.18,910,601 between the two records that has not been explained or reconciled.

Further, recast of the balances in Annex 3 reflects a balance of Kshs.67,843,051 and not the recorded amount of Kshs.56,556,603 resulting to unreconciled and unexplained variance of Kshs.11,286,448.

In addition, the balance of Kshs.56,556,603 reflected in Annex 3 to the financial statements excludes balances totalling Kshs.16,576,405 relating to fifteen (15) primary schools, two (2) chiefs' offices, one (1) social hall, a market and a social security entity which were reflected in the audited financial statements for the year ended 30 June, 2021.

#### **1.2. Project Management Committee (PMC) Account Balances**

Note 17.4 to the financial statements reflects a comparative Project Management Committee balance of Kshs.5,705,427 while Note 13 to the audited financial statements for 2020/2021 reflects a corresponding balance of Kshs.5,646,558. The variance of Kshs.58,869 has not been explained or reconciled. Further, Annex 5 to the financial statements reflects a comparative Project Management Committee balance of Kshs.5,705,427. However, the balance excludes Kshs.838 relating to a Secondary school that was reflected in the audited financial statements for the year ended 30 June, 2021.

In the circumstances, the accuracy and completeness of the unutilized funds of Kshs.75,467,204 and Project Management Committee comparative balance of Kshs.5,705,427 could not be confirmed.

### **2. Inaccuracy of Use of Goods and Services Expenditure**

The statement of receipts and payments reflects a balance of Kshs.6,924,848 in respect of use of goods and services which, as disclosed in Note 5 to the financial statements, includes Kshs.1,495,252 relating to other committee expenses. However, the supporting schedules/ledger reflects a balance of Kshs.1,245,200 on the same expenditure item resulting to unexplained and unreconciled variance Kshs.250,252.

In the circumstances, the accuracy and completeness of the other committee expenses of Kshs.1,495,252 could not be confirmed.

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

Note 17.4 to the financial statements reflects a balance of Kshs.2,238,619 relating to Project Management Committee balances which, as disclosed in Annex 5, represents bank account balances for forty-two (42) Project Management Committees. However, bank statements and certificates of bank balance for the forty-two (42) bank accounts were not provided for audit review.

In the circumstances, the accuracy and completeness of the PMC bank account balances of Kshs.2,238,619 could not be confirmed.

### **4. Unsupported Retention Money**

The statement of assets and liabilities reflects retention money balance of Kshs.2,406,065 as disclosed in Note 12A to the financial statements. However, no documents detailing the specific contractors and related projects were provided to support the reported balance.

In the circumstances the accuracy and completeness of retention money balance of Kshs.2,406,065 could not be confirmed.

### **5. Inaccuracy of Cash and Cash Equivalents**

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.13,560,240 as disclosed in Note 10A to the financial statements. However, the bank reconciliation statement for the month of June, 2022 reflects stale cheques amounting to Kshs.416,373 that had not been reversed in the cash book. The bank reconciliation statement also revealed outstanding bank charges dated 30 November, 2021 amounting to Kshs.11,760 which had not been entered in the cash book as at 30 June, 2022. No satisfactory explanation was provided on the failure to update the cashbook with the bank charges.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.13,560,240 could not be confirmed.

### **6. Unsupported Receipts**

The statement of receipts and payments reflects an amount of Kshs.649,155 in respect of other receipts which, as disclosed in Note 3 to the financial statements, includes Kshs.12,000 relating to sale of tender documents. However, no documentation to show the respective tenders, bidders and dates was provided to support the amount of Kshs.12,000.

In the circumstances, the accuracy and completeness of other receipts amount of Kshs.12,000 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 Constituency Development Fund - Lurambi 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 income budget and actual on comparable basis of Kshs.217,570,268 and Kshs.200,281,389 respectively, resulting to under-funding of Kshs.17,288,879 or 8% of the budget. Similarly, the statement reflects actual expenditure of Kshs.189,127,214 against approved expenditure of Kshs.217,570,268 resulting to under-performance of Kshs.28,443,054 or 13% of the budget.

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

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

In the report for the previous year, several paragraphs were raised under Report on the Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, although Management has indicated in the progress on follow up of the Auditor's recommendation section of the financial statements that the issues have been resolved, it has not been explained how the issues were resolved as required by the Public Sector Accounting Standards Board reporting template.

### **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 matter 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**

##### **Delayed Construction of NG-CDF Office Building**

The statement of receipts and payments reflects acquisition of assets amount of Kshs.14,540,673 which, as disclosed in Note 8 to the financial statements, relates to

construction of buildings. The expenditure was incurred during the year in relation to the on-going construction of Lurambi Constituency offices.

The contract for this project was awarded to a local construction company in 2008/2009 financial year for construction of a six (6) storey office building at a contract sum of Kshs.155,953,860 for an unspecified contract period. However, the project stalled between 2012 and 2017. As at the time of stalling, the project had reached second floor and the contractor had been paid a sum of Kshs.52,464,576.

Between 2017 and 2020, there were negotiations between the NG-CDF Board and the County Government of Kakamega with a view to requesting the County Government to take over the project and, in exchange, finance development projects worth Kshs.52,464,576. However, the negotiations did not succeed.

The NG-CDF Board decided to terminate the contract and scale down the project by completing the building structure with roofing and completing the second floor first, and then first floor for occupation. The works were tendered afresh and a new contractor awarded the contract at a contract sum of Kshs.28,937,726. As at 30 June, 2022, only ground floor had been completed for occupation. At the time of audit, a total of Kshs.81,402,302 had been injected into the project.

From the foregoing, the Fund did not obtain value for money from the project.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (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 CONTROL, 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 control, risk management and overall governance were not effective.

### **Basis for Conclusion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (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 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 intentions 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 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 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 control 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**

**19 June, 2023**