

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - TIGANIA WEST 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 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 National Government Constituencies Development Fund - Tigania West Constituency set out on pages 1 to 53, 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 - Tigania West 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

## **Basis for Qualification**

### **1. Unsupported Routine Maintenance of Other Assets Expenditure**

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.10,563,997 as disclosed in Note 5 to the financial statements. The amount includes routine maintenance-other assets expenditure of Kshs.703,229 out of which Kshs.162,750 was not supported with payment vouchers and supporting documents.

In the circumstances, the accuracy and completeness of routine maintenance-other assets expenditure of Kshs.162,750 could not be confirmed.

### **2. Other Grants and Transfers**

The statement of receipts and payments reflects other grants and transfers amount of Kshs.76,322,993 as disclosed in Note 7 to the financial statements. However, the following unsatisfactory matters were noted;

#### **2.1. Unacknowledged Bursary Expenditure**

Other grants and transfers expenditure includes bursaries of Kshs.50,712,100 out of which only Kshs.49,151,616 or 97% were acknowledged by the beneficiary institutions resulting to variance of Kshs.1,560,484 or 4% which was not acknowledged.

#### **2.2. Unsupported Environment Projects Expenditure**

Includes in other grants and transfers expenditure is environment projects of Kshs.2,741,777 out of which Kshs.971,000 was for supply, delivery, planting and nurturing of one thousand (1,000) tree seedlings which was not supported by payment vouchers, full list of beneficiaries and report on viability and quality of the tree seedlings.

#### **2.3. Unsupported Sports Projects Expenditure**

Other grants and transfers include sports projects expenditure of Kshs.5,483,554 out of which Kshs.2,515,117 was incurred on constituency sports tournament. However, there was no evidence of invitations of teams to the tournaments, details of persons officiating, signed attendance registers, approval of rates used to pay the officials and the teams' allowances and the number of days.

In the circumstances, the accuracy and completeness of other grants and transfers expenditure of Kshs.5,046,631 could not be confirmed.

### **3. Unsupported Project Management Account Balances**

Note 17.4 and Annex 5 to the financial statements reflects project management committee bank accounts balance of Kshs.53,208,281 held in one hundred and twenty-three (123) bank accounts. However, the respective cash books and bank reconciliation statements to support the balances were not provided for audit verification.

In the circumstance, the accuracy and completeness of project management committee account balances of Kshs.53,208,281 could not be confirmed.

### **4. Variance on Unutilized Fund Balance**

Note 17.3 to the financial statements reflects unutilized funds comparative balance of Kshs.45,898,053. However, the 2020/2021 financial statements reflect Kshs.45,811,394 resulting to an unreconciled nor explained variance of Kshs.86,659.

In the circumstance, the accuracy and completeness of the unutilized fund balance of Kshs.45,898,053 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 - Tigania West 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 in the year under review.

### **Other Matter**

#### **1. Budgetary Control and Performance**

The summary statement of appropriation reflects final expenditure budget of Kshs.182,986,932 and actual expenditure Kshs.172,238,947 resulting to an under expenditure of Kshs.10,747,985 or 6 % of the budget.

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

#### **2. Unresolved Prior Year Matter**

In the audit report of the previous year, several issues were raised under the Report on Financial Statements which have not been resolved contrary to Section 68 (2) (I) of Public Finance Management Act, 2012 which require Accounting Officers designated for

National Government entities to take appropriate measures to resolve any issues arising from audit which may remain outstanding.

## 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 Bursary Committee Minutes**

Note 7 to the financial statements reflects bursary to secondary schools, tertiary institutions and special schools of Kshs.50,712,100. However, the expenditure was not supported with bursary committee minutes on vetting and categorization of students. This was contrary to CDF Board Circular Ref: CDF BOARD CIRCULAR/VOL1/III dated 13 September, 2010 on guidelines for disbursement of constituency development fund bursaries which state that bursary committee shall issue bursary applications, vet, identify and categorize needy students using established criteria, decide on awards in accordance with guidelines, verify bursary cheques, compile reports, keep proper records and list beneficiaries in identified notice boards.

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

#### **2. Unaccounted Sports Items**

Note 7 to the financial statements reflects sports projects expenditure of Kshs.5,483,554 out of which Kshs.2,741,777 was for supply of multi colored personal uniforms, leather tops and hard-wearing plastic sole football boots to seventy-four (74) teams in the Constituency. However, the store ledger provided for audit does not indicate persons issued with sports equipment. This was contrary to Section 162 (1) of the Public Procurement and Asset Disposal Act, 2015 which states that an accounting officer of a procuring entity shall ensure that all inventory, stores and assets purchased are received, but shall not be used until taken on charge and as a basis for ensuring that all procured items are properly accounted for and put in proper use as intended by the procuring entity.

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

#### **3. Failure to Report Utilization of Emergency Reserve**

Note 7 to the financial statements reflects emergency projects expenditure of Kshs.1,750,000 for six (6) projects which was not reported to the Board. This was contrary to Regulation 20(2) of the National Government Constituencies Development Fund

Regulations, 2016 which states that the utilization of the emergency reserve shall be reported to the Board within thirty days of the occurrence of the emergency, in the format prescribed by the Board.

In the circumstances, Management 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, 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 overall governance were not effective.

### **Basis for Conclusion**

#### **Lack of a Disaster Recovery Plan**

During the year under review, Management had not put in place a disaster recovery plan/ business continuity plan. In the absence disaster recovery and business continuity plan, the Fund lacks a blue print for identifying, preventing and mitigating against risks and disasters to ensure that its operations are not interrupted in case of unforeseen events.

In the circumstances, the effectiveness of risk management could not be confirmed.

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 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 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 comply 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 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 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 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 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**

**14 June, 2023**