

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - ISEMBE NORTH 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

### **Adverse Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Igembe North Constituency set out on pages 1 to 46, which comprise the statement of assets and liabilities as at 30 June, 2022 and the statement of receipts and payments, statement of cash flows and 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of National Government Constituencies Development Fund - Igembe

North 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 do not comply with the Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

## **Basis for Adverse Opinion**

### **1. Inaccuracies in the Financial Statements**

Review of the financial statements for the year ended 30 June, 2022 reveals the following anomalies;

- i. The summary statement of appropriation shows adjustments totalling Kshs.45,433,623 while the unutilized opening balance is Kshs.45,233,605 resulting to unreconciled variance of Kshs.200,018.
- ii. The appendix on progress on Auditor's recommendations is not included in the financial statements.

In the circumstances, the accuracy of the financial statements, could not be confirmed and the Management has not complied with public sector accounting standards template.

### **2. Inaccurate Cash and Cash Equivalents**

The statement of assets and liabilities and as disclosed in Note 10A to the financial statements reflects a balance of Kshs.725,546 in respect to cash and cash equivalents as at 30 June, 2022. The bank reconciliation statements however reflect unrepresented cheques totalling to Kshs.10,263,348, which includes stale cheques totalling to Kshs.1,067,712. The stale cheques had not been replaced or reversed in the cashbook as at 30 June, 2022 thereby understating the cash and cash equivalents balance by the same amount.

In addition, the bank reconciliation statement reflects Kshs.392,011 in respect to payments in bank statement not yet recorded in the cashbook and receipts in cash book not yet recorded in the bank statement of Kshs.243,941 thereby overstating the cash and cash equivalents by Kshs.635,952.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.725,546 as at 30 June, 2022 could not be confirmed.

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

Note 17.4 and Annex 5 to the financial statements reflects Kshs.2,963,600 in respect to project Management Committee (PMC) bank balances held by various institutions. The cashbooks and bank reconciliation statements were however not provided for audit review contrary to Sections 100 and 90(1) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, the accuracy and completeness of the PMC bank balances of Kshs.2,963,600 as at 30 June, 2022 could not be confirmed.

### **4. Unsupported Expenditure**

- i) The statement of receipts and payments and reflects use of goods and services amount of Kshs.12,618,342 which includes Kshs.3,615,692 in respect to routine

maintenance of vehicles and other transport equipment as disclosed in Note 5 to the financial statements. The amount includes Kshs.637,181 paid to a service provider. The expenditure was however, not supported with pre-inspection reports on assessment of the scope of repair and maintenance, post inspection reports, job cards to confirm the repair were done satisfactorily and approvals for the repairs by the assigned officer from the Ministry of Transport. Further, it has not been explained how the service provider was identified as the sole supplier for the motor vehicle repairs.

In the circumstance, the accuracy, propriety and value for money for the expenditure of Kshs.637,181 could not be confirmed.

- ii) The statement of receipts and payments reflects use of goods and services amount of Kshs.12,618,342, which includes Kshs.3,615,692 in respect to routine maintenance of vehicles and other transport equipment, as disclosed in Note 5 to the financial statements. The amount includes Ksh.2,910,015, being expenditure on fuel. The expenditure was however, not supported with a fuel register, invoices and reconciliations between the amounts charged by the service station and amounts in the detail orders. Further, the contract for fuel did not detail the price of fuel, list of vehicles to be fueled at the service station and the duration of the contract.

In the circumstances, the accuracy and propriety of the expenditure of Kshs.2,910,015 could not be confirmed.

- iii) The statement of receipts and payments reflects an amount of Kshs.12,618,342 in respect to use of goods and services which includes Kshs.219,524 in respect to insurance costs, as disclosed in Note 5 to the financial statements. The procurement plan, advertisement, procurement process and contract with the insurance company detailing the policy were however, not provided and disclosed for audit review.

In the circumstances, the accuracy and propriety of the expenditure of Kshs.219,524 could not be confirmed.

## **5. Transfer to Other Government Units**

The statement of receipts and payments reflects an amount of Kshs.124,123,304 in respect to transfer to other Government units which includes Kshs.69,818,347 and Kshs.54,304,957 in respect to transfers to primary schools and secondary schools respectively as disclosed in Note 6 to the financial statements. Physical verification of sampled projects carried out in March, 2023 revealed the following anomalies;

- i) An amount of Kshs.4,000,000 was transferred to Nthagarine Primary School Project Management Committee. Physical verification however, revealed the following issues.
- The Fund bought land for Kshs.2,000,000 for the school which was private and no evidence was provided to confirm the school has since been registered as a public entity.
  - Land ownership documents were not provided for audit review.
  - Land valuation report to confirm value of the land before purchase was not provided.

- The Fund constructed a classroom at a cost of Kshs.2,000,000 for the private school.
- The classroom has not been labelled.

This is contrary to Section 24 of the National Government Constituencies Development Fund Act, 2015 and Section 15(1)(f) of the National Government Constituencies Development Fund Regulations, 2016 which requires funds to be expended on property with legal documents.

In the circumstances, the propriety and value for money for the expenditure of Kshs.4,000,0000 could not be confirmed. In addition, the Fund was in breach of the law.

- ii)** An amount of Kshs.1,000,000 was transferred to MCK – Meeria Primary School Project Management Committee. Physical verification however, revealed the following issues.

- The committee purchased of land for Kshs.1,000,000 but the ownership documents were not provided for audit review.
- Land valuation report to confirm value of the land before purchase was not provided.

In the circumstances, the accuracy and value for money for the expenditure of Kshs.1,000,0000 could not be confirmed.

- iii)** An amount of Kshs.1,801,575 was transferred to Kiromwathi Primary School Project Management Committee for the completion of administration block of 60 staff capacity. Physical verification revealed poor workmanship including cracks on walls, verandah and floor, painting poorly done, falling ceiling, loose window panes and fixing of chip board doors instead of metallic and flush doors specified in the bill of quantities.

In the circumstances, the value for money for the expenditure of Kshs.1,801,575 was not obtained.

- iv)** An amount of Kshs.1,501,575 was transferred to Kiromwathi Primary School Project Management Committee for the completion of administration block of 60 staff capacity. The work included flooring, plastering and painting. Physical verification however, revealed cracks on the floor and wall, poorly done plastering work, gapping of verandah with the wall and ceiling falling.

In the circumstances, the value for money for the expenditure of Kshs.1,501,575 could not be confirmed.

- v)** An amount of Kshs.2,301,575 was transferred to Kiromwathi Primary School Project Management Committee for the completion of administration block of 60 staff capacity. The work included re-roofing, fixing of windows, doors and ceiling and electricity supply. Physical verification however, revealed poor workmanship with visible cracks on the floor and wall. The electricity work was also not done.

In the circumstances, the value for money for the expenditure of Kshs.2,301,575 could not be confirmed.

- vi) The Project Management Committee of Miune Secondary School spent Kshs.1,000,000 on construction of one (1) classroom to completion. Physical verification however, revealed visible cracks on walls and floor and poorly fitted window panes. The painting on the blackboard was poorly done, making it ever wet and could not be used.

In the circumstances, the value for money for the expenditure of Kshs.1,000,000 could not be confirmed.

- vii) The Mbayo Secondary School Project Management Committee awarded a contract of Ksh.1,887,666 for the completion of Laboratory. The scope of work included the supply of 50 stools at a cost of Kshs.200,000. Physical verification however, revealed that the stools were not supplied.

In the circumstances, the value for money for the expenditure of Kshs.200,000 could not be confirmed.

- viii) The Project Management Committee of Nkamathi Secondary School spent Kshs.3,001,575 for completion of administration block at the school. The issues indicated below were however, noted.

- Electrical works for Kshs.180,000 was not done.
- Details of the expenditure of Ksh.100,000, contingencies amount in the bills of quantity were not provided.
- Tender evaluation minutes and criteria for tender evaluation were not provided.
- Contract agreement had not been signed by the contractor.
- Certificate of completion was not provided.

In the circumstances, the value for money for the expenditure of Kshs.3,001,575 could not be confirmed.

## **6. Irregular Payments for Laboratory Stools**

The statement of receipts and payments reflects an amount of Kshs.124,123,304 in respect to transfer to other Government units which includes Kshs.54,304,957, being transfers to secondary schools. The transfer to secondary schools includes Kshs.1,887,866 allocated for completion of laboratory of 70 student's capacity at Lukununu Secondary School. The contract included purchase of 9 benches and concrete worktops and 50 stools at Kshs.757,666, electrical works, gas works and plumbing at Ksh.1,130,000. A further Kshs.200,000 was paid to the PMC vide cheque number 5379 to purchase 50 laboratory stools. The amount was however, not budgeted for and was not in the approved code list.

In addition, physical verification revealed that only 50 stools were delivered to the school and the additional 50 stools costing Kshs.200,000 were not delivered.

In the circumstances, the propriety of the expenditure of Kshs.200,000 could not be confirmed.

## **7. Unsupported Expenditure on Sports Projects**

The statement of receipts and payments reflects other grants and transfers amount of Kshs.41,779,772, which includes Kshs.2,741,778 in respect to sports projects, as disclosed in Note 7 to the financial statements. The expenditure was however, not supported with the pertinent details including:

- The various sports events undertaken
- The location of the events
- The dates the tournaments took place
- The advertisements and invitations to the sports events
- The list of the teams that participated
- The stakeholder mapping report detailing how the stakeholders were identified and their respective correspondences from the Board
- The back to office monitoring and evaluation reports on the sports events detailing the impact the event made to the local community
- The overall budget for the tournaments.

In the circumstances, the validity and value for money for the expenditure of Kshs.2,741,778 could not be confirmed.

## **8. Unsupported Bursaries Amount**

The statement of receipts and payments reflects other grants and transfers amount of Kshs.41,779,772, which includes bursaries of Kshs.18,669,500 and Kshs.11,672,500 disbursed to secondary schools and tertiary institutions respectively as disclosed in Note 7 to the financial statements and both totalling to Kshs.30,342,000. Out of the amount, bursaries amounting to Kshs.24,550,500 were not supported with vetting committee minutes and criteria used for award. Application forms for 6,552 applicants were also not provided for audit verification, while an amount of Kshs.7,471,500 was not supported with payment vouchers. Further, bursaries awarded to tertiary institutions totalling Kshs.11,672,500 were not acknowledged by the recipient institutions.

In addition, the financial statements reflects bursaries awarded to secondary schools and tertiary institutions totalling to Kshs.30,342,000 while the supporting schedule reflects an amount of Kshs.20,242,000 resulting to unexplained and unreconciled variance of Kshs.10,100,000.

In the circumstances, the accuracy and propriety of the expenditure of Kshs.30,342,00 could not be confirmed.

## **9. Variance Between Summary of Fixed Assets Register and Fixed Assets Register**

Annex 4 to the financial statements reflects a balance of Kshs.42,358,919 in respect to summary of fixed assets. The fixed assets register however, reflects a balance of Kshs.37,048,752 resulting to a variance of Kshs.5,310,167.

In the circumstances, the accuracy and completeness of the summary of fixed assets balance of Kshs.42,358,919 could not be confirmed.

## **10. Lack of Motor Vehicles Ownership Documents**

Annex 4 to the financial statements reflects a balance of Kshs.42,358,919 in respect to summary of fixed assets, which includes transport equipment balance of Kshs.11,877,577. The transport equipment were however, not supported with ownership documents. Further, Land Rover Defender (GKA 735U) was grounded for an unknown period and there was no evidence of planned disposal.

In the circumstances, the accuracy and completeness of the summary of fixed assets balance of Ksh.42,358,919 could not be confirmed. Further, the ownership of the transport equipment valued at Kshs.11,877,577 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 - Igembe North 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 adverse 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**

### **Unresolved Prior Year Audit Matters**

In the audit report of the previous year, several issues were raised but, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of Section 31(1)(a) of Public Audit Act, 2015 which states that within three months after Parliament or the County Assembly has debated and considered the final report of the Auditor General and made recommendations, a state organ or a public entity that had been audited shall, as a preliminary step, submit a report on how it has addressed the recommendations and findings of the previous year's audit.

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

### **Conclusion**

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis of Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

## **Basis for Conclusion**

### **1. Failure to Allocate Prescribed Bursary Threshold**

The statement of receipts and payments reflects an amount of Kshs.41,779,772 in respect to other grants and transfers which includes bursaries of Kshs.18,669,500 and Kshs.11,672,500 disbursed to secondary schools and tertiary institutions respectively as disclosed in Note 7 to the financial statements. The total bursary allocation is therefore Kshs.30,342,000 or 17% of the total allocation of Kshs.176,977,758. This is contrary to Regulation 21(5) of the National Government Constituencies Development Fund Regulations, 2016 which provides that a constituency committee shall allocate for bursaries not less than twenty-five percent (25%) of the funds allocated to a Constituency.

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

### **2. Unsupported Emergency Projects Expenditure**

The statement of receipts and payments reflects other grants and transfers amount of Kshs.41,779,772, which includes Kshs.6,695,994 in respect to emergency projects as disclosed in Note 7 to the financial statements. The project management files were however, not provided for audit review. Further, there was no evidence that a report on emergency expenditure was submitted to the Board, 30 days after the expenditure was incurred. This is contrary to Regulation 20 (2) of the National Government Constituencies Development Fund Regulations, 2016 which require that the utilization of the emergency reserve shall be reported to the Board within thirty (30) days of the occurrence.

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

### **3. Irregular Sports Projects Expenditure**

The statement of receipts and payments reflects other grants and transfers amount of Kshs.41,779,772 which includes Kshs.2,741,778 for sports projects as disclosed in Note 7 to the financial statements. Review of the sports file revealed that the Management Committee withdrew Kshs.2,423,000 from the sports account and used Ksh.600,000 to pay master of ceremony, entertainers, provision of media services and public mobilization; Ksh.500,000 to carter for breakfast and lunch expenses for 80 guests and Ksh.1,323,000 for cash rewards to the best team, best player, most improved team, most disciplined team among others contrary to Section 25(8) of the National Government Constituencies Development Fund Act, 2015 which states that sport activities shall be considered as development projects but shall exclude cash awards.

In the circumstances, the 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and 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 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 misstatements, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall 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 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 misstatements, 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 controls 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 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**

**17 July, 2023**