

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MASINGA 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 the National Government Constituencies Development Fund - Masinga 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 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 - Masinga Constituency as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with the 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 Qualified Opinion**

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

The statement of receipts and payments reflects transfers from National Government Constituency Development Fund Board of Kshs.199,437,298. However, the corresponding Note 1 to the financial statements shows Kshs.186,477,758 resulting to unreconciled and unexplained variance of Kshs.12,959,540.

In the circumstances, the accuracy and completeness of the transfers from the National Board of Kshs.199,437,298 could not be confirmed.

### **2. Inaccurate Disclosure of Bank Balances**

The statement of assets and liabilities and as disclosed in Note 10A to the financial statements reflects bank balances of Kshs.9,213,082. However, review of the bank reconciliation statements revealed the following anomalies:

- i. Payments in cash book not in the bank statements amounted to Kshs.7,844,462, out of which Kshs.1,808,526.63 were stale cheques, some dating back to 20 January, 2020. No explanation was provided for failure by the beneficiaries to present the cheques for payment and why the stale cheques had not been written back in the cashbook.
- ii. Receipts which were in bank statements and not recorded in cash book amounted to Kshs.10,465. No explanation was given for failure to update the cash book to include these receipts.
- iii. Payments which were in bank statements but not recorded in the cash book amounted to Kshs.69,300. No explanation was provided for the failure to update the cash book to include these payments.

In the circumstances, the accuracy and completeness of the bank balances balance of Kshs.9,213,082 could not be confirmed.

### **3. Unsupported Sports Expenditure**

The statement of receipt and payments and as disclosed in Note 7 to the financial statements reflects other grants and transfers amounting to Kshs.77,663,150. Included in the expenditure is an amount of Kshs.3,808,200 incurred on supply and delivery of sports items and uniforms. However, there was an omission of payment voucher No. 232 dated 12 April, 2022 amounting to Kshs.1,200,000 from the support schedules. Further, procurement documents such as advertisements, regret letters, notification of award, acceptance of award and signed contract agreement were missing from the project files.

In the circumstances, the accuracy, completeness and validity of the sports expenditure of Kshs.3,808,200 could not be confirmed.

#### **4. Errors in Presentation of the Financial Statements**

Review of the financial statements indicated errors as detailed here below:

- i. Page ii to the financial statements on table of contents should have been blank.
- ii. Presentation of the Notes to the financial statements from page 25 to 38 does not conform to the requirements of the financial statements reporting template for 2021/2022.
- iii. Annex six (6) on progress on follow up of auditor recommendations on page 44 is blank and this is misleading since Management has not given any progress on various prior year audit issues raised.

In the circumstances, the financial statements were not prepared in accordance with the recommended financial reporting template as prescribed by the Public Sector Accounting Standards Board.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Masinga 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**

##### **Lack of Value for Money on Incomplete Projects**

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects transfers to other government units of Kshs.94,981,074. Included in the expenditure are four (4) projects with a total allocation of Kshs.6,400,000 which had some anomalies as in Appendix 1.

In the circumstances, the value for money on the incomplete projects could not be confirmed.

#### **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. Failure to Comply with the Ethnic Diversity Rule**

Review of the Fund's staff establishment revealed that it had a total of seven (7) employees, all from the dominant ethnic community in the County. This is contrary to the provisions of Section 7(1) and (2) of the National Cohesion and Integration Act 2008 which states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff, and that no public establishment shall have more than one third of its staff from the same ethnic community.

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

### **2. Un-surrendered Project Management Committee (PMC) Closing Balances**

Annex 5 to the financial statements reflects a balance Kshs.36,520,032 in respect of funds held by various Project Management Committees. However, the amount includes Kshs.250,858 relating to balances held by various Project Management Committee accounts after the projects were completed but the same was not surrendered to the Fund main bank account contrary to Section 12(8) of the National Government Constituencies Development Fund Act, 2015 which requires all unutilized funds of the Project Management Committee to be returned to the Constituency account.

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

### **3. Irregular Procurement of Insurance Costs**

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects use of goods and services expenditure amounting to Kshs.8,575,358.

Included in this amount is Kshs.299,341 relating to insurance costs. This amount was paid to an insurance agency for provision of insurance for the Fund vehicle registration number GKB 176W. However, a review of the tender evaluation report showed that the insurance agency as well as the other two bidders for the tender were non-responsive in the preliminary evaluation report. In addition, this is contrary to Section 4(3) of the Insurance Third Party Risks Act, 2012, that exempts Government owned vehicles from insurance except for those displaying private plates.

In the circumstances, the Fund 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**

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## **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters 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**

### **1. Lack of Risk Management Policy and Disaster Recovery Plan**

Review of records provided for audit revealed that the Fund operated without a risk management policy and thus had no framework for management of risks. In addition, the Fund did not have disaster recovery or business continuity plan. In the absence of a disaster recovery or business continuity plan, the company lacks a blueprint for identifying, preventing and mitigating disasters and ensuring that its operations are not interrupted. Further, there are no mechanisms in place to recover lost data in case of a disaster.

In circumstances the existence of an effective risk management system could not be confirmed.

### **2. Non-Updating of Fixed Assets Register**

Annex 4 to the financial statements reflects fixed assets valued at Kshs.37,127,396. Examination of schedules for motor vehicle disposals provided showed that the Fund disposed vehicle registration number GKA 224U at Kshs.525,600. However, the sale was not included in the disposal's column of the summary of fixed assets register.

In the circumstances, the summary of fixed assets register is incomplete and the accuracy of the value of the fixed assets of Kshs.525,600 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 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 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

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amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the 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 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 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**



## Appendix 1

### Projects Anomalies

S/No.	Project Name	Activity	Amount (Kshs.)	Remarks
1	Kwakalunde Primary School	Renovation of 6 (six) Classrooms-Roofing, Plastering, Flooring, Painting, Construction of Veranda, Adding new windows and Doors	1,500,000	No work done except roofing
2	Kyeeteni Sec. School	Completion of 80 capacity girl's dormitory by fixing doors, windows, plastering, flooring, tilling and painting	2,850,000	No drainage was done in the ablution section. Drainage holes were placed in an area where it does not serve the purpose
3	Wamboo Sec. School	Completion of 80 capacity dormitory by fixing doors, windows, plastering flooring, tilling and painting	2,800,000	Electrical system was disconnected while doing completion works but has never been reconnected.
4	Musingini Pri. School	Construction of 4 door pit latrine (Emergency)	750,000	Pit latrine doors do not close due to poor workmanship and the wall adjacent to the latrine cracked.
		<b>Total</b>	<b>6,400,000</b>	