

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – URIRI 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 - Uiri Constituency set out on pages 1 to 38, which comprise of the statement of assets and liabilities as at 30 June, 2022, and the statement of receipt 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 effects of the matter 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 - Uriri Constituency as at 30 June, 2022 and 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**

### **Summary of Fixed Assets Register**

Annex 4 to the financial statements summary of fixed assets register reflects opening balance of Kshs.21,036,163, while the audited financial statements for the previous year reflects historical cost carried forward balance of Kshs.17,220,445, resulting to an unreconciled variance of Kshs.3,815,718. In addition, the balance carried forward as at 30 June, 2022 of Kshs.21,036,163 includes land costing Kshs.200,000 which was purchased in the year 2010 and whose title deed had not been obtained as at the time of audit in April, 2023.

In the circumstances, the accuracy of the fixed assets balance of Kshs.21,036,163 and the ownership of the parcel of land costing Kshs.200,000 could not be confirmed.

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

## **Emphasis of Matter**

### **Budgetary Control and Performance**

The summary statement of appropriation reflects final payments budget and actual on comparable basis amounts of Kshs.197,407,707 and Kshs.169,554,622 respectively, resulting to under-expenditure of Kshs.27,853,085 or 14% of the budget.

The under-expenditure adversely affected planned activities and service delivery to the residents of Uriri Constituency.

## **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.

## **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 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**

### **1.0 Employment of Excess Staff**

The statement of receipts and payments reflects compensation of employees' expenditure of Kshs.4,950,324. Analysis of the payroll revealed that the Fund had a total of twenty (20) employees contrary to National Government Constituencies Development Fund Board Circular Ref. No. CDF Board/ Circular/ Vol 166 dated 24 June, 2013 which directed the Funds not to employ more than five (5) employees in the Constituency offices.

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

### **2.0 Avoidable Payments of Penalty Obligations**

The statement of receipts and payments reflects use of goods and services amount of Kshs.6,510,376 which, as disclosed in Note 5 to the financial statements, includes utilities, supplies and services amount of Kshs.809,182. This amount in turn includes Kshs.111,949 which was paid to National Social Security Fund (NSSF) as penalty obligations which accrued from 1 July, 2016 to 1 March, 2022. The penalties could have been avoided and the amount utilized on other Fund activities.

In the circumstances, no value was realized from Kshs.111,949 spent on penalty obligations.

### **3.0 Anomalies in Project Implementations**

The statement of receipts and payments reflects transfers to other Government units amount of Kshs.79,604,000 which, as disclosed in Note 6 to the financial statements includes transfers to primary and secondary schools of Kshs.38,800,000 and Kshs.40,804,000 respectively. However, the following anomalies were noted in the implementation of projects:

#### **3.1 Construction of Classroom at Cyprian Ojwang Omolo Primary School**

Included in transfers to primary schools' amount of Kshs.38,800,000 is Kshs.1,000,000 which was disbursed to Cyprian Ojwang Omolo Primary School for the construction of one (1) classroom to completion. However, physical verification conducted in March, 2023 revealed that the project was complete and in use, but the floor had worn out which was an indication of poor workmanship.

In the circumstances, value for Kshs.1,000,000 spent on this project could not be confirmed.

#### **3.2 Construction of Classrooms at Milimani Primary School**

Included in transfers to primary schools' amount of Kshs.38,800,000 is Kshs.2,000,000 which was disbursed to Milimani Primary School for the construction of two(2) classrooms to completion. However, physical verification conducted in March, 2022 revealed that the

project was in use but there were cracks on the floor and some window panes had already been vandalized.

In the circumstances, value for Kshs.2,000,000 spent on this project could not be confirmed.

### **3.3 Construction of Classroom at God Jaoko Primary School**

Included in transfers to primary schools' amount of Kshs.38,800,000 is Kshs.1,000,000 which was disbursed to God Jaoko Primary School for the construction of one (1) classroom to completion. However, physical verification conducted in March, 2023 revealed that the project was complete and in use but the floor was already worn out which was an indication of poor workmanship.

In the circumstances, value for Kshs.1,000,000 spent on this project could not be confirmed.

### **3.4 Completion of Classrooms at Ongenga Primary School**

Included in transfers to primary schools' amount of Kshs.38,800,000 is Kshs.2,400,000 which was disbursed to Ongenga Primary School for the completion of seven (7) classrooms contrary to the approved project as per the code list which reflected completion of eight (8) classrooms by plastering, painting, flooring, fixing of windows and doors. In addition, physical verification conducted in March, 2023 revealed that the project was complete and in use but the floor was already worn out which was an indication of poor workmanship.

In the circumstances, the propriety and value for Kshs.2,400,000 spent on this project could not be confirmed.

### **3.5 Construction of Classroom at Nyamange Primary School**

Included in transfers to primary schools' amount of Kshs.38,800,000 is Kshs.1,000,000 which was disbursed to Nyamange Primary School for the construction of one (1) classroom to completion. However, physical verification conducted in March, 2023 revealed that the project was complete and in use but the floor was already worn out which was an indication of poor workmanship.

In the circumstances, value for Kshs.1,000,000 spent on this project could not be confirmed.

### **3.6 Construction of Classroom at Kambogo Primary School**

Included in transfers to primary schools' amount of Kshs.38,800,000 is Kshs.800,000 which was disbursed to Kambogo Primary School for the construction of one (1) classroom to completion. However, physical verification conducted in March, 2023 revealed that the project was complete and in use but the floor was already worn out which was an indication of poor workmanship.

In the circumstances, value for Kshs.800,000 spent on this project could not be confirmed.

### **3.7 Construction of Classrooms at Kolwal Primary School**

Included in transfers to primary schools' amount of Kshs.38,800,000 is Kshs.1,000,000 which was disbursed to Kolwal Primary School for the construction of two (2) classrooms contrary to the approved project in the code list of face lifting of four (4) classrooms. However, the Board's approval for the reallocation of funds from the face lifting of four (4) classrooms to construction of two (2) classrooms was not provided for audit review. This was contrary to the provisions of Section 6(2) of the National Government Constituencies Development Fund Act, 2015 which provides that once funds are allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose during the financial year with the approval of the Board. In addition, physical verification conducted in March, 2023 revealed that the project was complete but not in use.

In the circumstances, the regularity and value for Kshs.1,000,000 spent on this project could not be confirmed.

### **3.8 Construction of Classrooms at Manyonge Primary School**

Included in transfers to primary schools' amount of Kshs.38,800,000 is Kshs.1,000,000 which was disbursed to Manyonge Primary School for the construction of two (2) classrooms to completion. However, physical verification conducted in March, 2023 revealed that the project was complete and in use but the floors had cracks which was an indication of poor workmanship.

In the circumstances, value for Kshs.1,000,000 spent on this project could not be confirmed.

### **3.9 Construction of Classrooms at Ngonga SDA Primary School**

Included in transfers to primary schools' amount of Kshs.38,800,000 is Kshs.1,000,000 which was disbursed to Ngonga SDA Primary School for the construction of two (2) classrooms. However, physical verification conducted in March, 2023 revealed that the project was complete and in use, but there were cracks on the floor and some window panes had been vandalized.

In the circumstances, value for Kshs.1,000,000 spent on this project could not be confirmed.

### **3.10 Construction of Laboratory at Konduru Mixed Secondary School**

Included in the transfers to secondary schools' amount of Kshs.40,804,000 is Kshs.2,094,000 which was disbursed to Konduru Mixed Secondary School for the construction of a laboratory. However, physical verification conducted in March, 2023 revealed that the project was incomplete as paint works had not been done and window panes had not been fixed on the door. In addition, the floor had not been plastered, ceiling works had not been done and the contractor was not on site.

In the circumstances, value for Kshs.2,094,000 spent on this project could not be confirmed.

### 3.11 Project Implementation Status

During the year under review the approved code list for the Fund had projects with total estimated cost of Kshs.137,088,879. Review of the project implementation status report revealed that seven (7) projects with a total budget of Kshs.16,194,000 had not been completed by 30 June, 2022. Out of these, four (4) projects with a budget of Kshs.11,594,000 were ongoing and three (3) projects with estimated cost of Kshs.4,600,000 as listed below had not started. It was noted that the funds for these seven (7) projects had already been transferred to the schools' Project Management Committees (PMCs) accounts.

<b>Institution</b>	<b>Project Description</b>	<b>Amount Transferred (Kshs.)</b>
Piny Owacho Secondary School	Construction of foundation, walling and 1 <sup>st</sup> floor slab for 4 classrooms	4,000,000
Mukuyu Secondary School	Plastering, painting, fixing of windows and doors of one classroom	300,000
Bware Primary School	Plastering, painting, fixing of windows and doors of one classroom	300,000
<b>Total</b>		<b>4,600,000</b>

In the circumstances, the residents of Uriri Constituency have not realized the expected benefits from the delayed projects.

### 4.0 Non-Reporting on the Utilization of Emergency Reserves

The statement of receipts and payments reflects other grants and transfers amount of Kshs.78,489,923 which, as disclosed in Note 7 to the financial statements, includes Kshs.4,200,000 spent on emergency projects. However, evidence of reporting on the utilization of the emergency reserve to the Board within thirty (30) days of the occurrence of the emergency in the format prescribed by the Board, was not provided for audit review contrary to Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016.

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

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal 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 controls, 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 and using the applicable basis of accounting unless the 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 the Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in

an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal 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 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 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 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**

**31 May, 2023**