

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MASINGA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2021

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 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 16 to 47, which comprise of the statement of financial assets and liabilities as at 30 June, 2021, 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, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

1.1 Cash and Cash Equivalents

The statement of financial assets and liabilities as disclosed in Note 10A to the financial statements reflects bank balances of Kshs.12,714,539. However, review of the bank reconciliation statements revealed the following anomalies:

- i. Payments which were in cash book not in the bank statements amounted to Kshs.7,844,462, out of which Kshs.1,747,162 were stale cheques with some dating as far back as 28 February, 2020. No explanation was rendered for failure of the beneficiaries to present the cheques for payment and why those cheques had not been written back in the cashbook.
- ii. Receipts which were in bank statements not recorded in cash book amounted to Kshs.15,000,000. No explanation was given for failure to update the cash book to include these receipts.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.12,714,539 could not be confirmed.

1.2 Acquisition of Assets

The statement of receipts and payments as disclosed in Note 8 to the financial statements reflects acquisition of assets amount of Kshs.3,514,627. This, however, differs with the balance of assets addition during the year of Kshs.2,265,000 reflected in Annex 4 to the financial statements. The resultant difference of Kshs.1,249,627 has not been explained or reconciled.

In the circumstances, the accuracy and completeness of the acquisition of assets expenditure of Kshs.3,514,627 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 - 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

1. Budgetary Control and Performance

The comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.212,374,883 and Kshs.163,186,004 respectively resulting to an under funding of Kshs.49,188,879 (or 23%) of the budget. Similarly, the Fund expended Kshs.150,471,465 against an approved budget of Kshs.212,374,883, resulting into an under expenditure of Kshs.61,903,418 or 29% of the budget.

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

2. Unresolved Prior Year Matters

In the audit report of the previous year, a number of paragraphs were raised under the Report on Financial Statements. However, Management has not resolved the issues nor disclosed all the prior year matters as provided for by the Public Sector Accounting Standards Board templates.

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. Poor Construction of Administration Block at Kangonde Secondary School

The statement of receipts and payments as disclosed in Note 6 to the financial statements reflects the transfers to other Government units expenditure of Kshs.67,482,635 which includes an amount of Kshs.1,600,000 which was spent on building of an Administration block at Kangonde Secondary School. However, the procurement process was not

adequately supported with relevant documents such as tender evaluation committee minutes, tender evaluation report, award notification letters and professional opinion from the Head of Procurement Unit.

Physical verification of the project carried out in the month of May, 2022 revealed that the administration block was complete and in use. However, plumbing, drainage works and gutters worth Kshs.124,300 were poorly done.

In the circumstances, proper procurement process and value for money from the expenditure of Kshs.124,300 incurred on the project could not be confirmed.

2. Delay in Completion of a Library at Masinga Boys Secondary

The statement of receipts and payments as disclosed in Note 6 to the financial statements reflects transfers to other Government units expenditure of Kshs.67,482,635 The expenditure includes the amount of Kshs.2,200,000 which was spent on completion of school library with a capacity of 100 students. However, physical verification of the project in the month of May, 2022 revealed that the project was not completed although the school was using part of the building as a classroom.

In the circumstances, value for money from the expenditure of Kshs.2,200,000 incurred on the project could not be confirmed.

3. Delay in Completion of Projects from Previous Years

The statement of receipts and payments as disclosed in Note 6 to the financial statements reflects transfers to Other Government Units expenditure of Kshs.67,482,635. Included in the expenditure are six (6) projects with a total allocation of Kshs.3,800,000 which had not been completed as detailed in the table below:

No.	Project Name	Activity	Amount (Kshs.)	Remarks
1	Kaseve Secondary School	Construction of a Dormitory	700,000	On going
2	Kaseve Secondary School	Construction of a Dormitory	800,000	On going
3	Kamunyu Secondary School	Completion of Administration Block	500,000	On going
4	Kivaa Secondary School	Construction of a Dining Hall	800,000	On going
5	Malimbani Pre-primary School	Renovation of 2 No of classrooms-roofing and flooring	400,000	Funds reallocated
6	Lelanthi Secondary School	Renovation of 3No. of classrooms- roofing and flooring	600,000	On going

No.	Project Name	Activity	Amount (Kshs.)	Remarks
	Total		3,800,000	

Non-completion of projects with allocated funds is a contravention of the provisions of Regulation 11(1)(j) of the National Government Constituencies Development Regulations, 2016, which states that all projects should receive adequate funding and be completed within three years.

In the circumstances, value for money may not be realized from the amount of Kshs.3,800,000 incurred on the incomplete projects .

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 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 Key Staff in the Constituency Office

Review of the Constituency's staff establishment revealed that there seven (7) members of staff holding various positions. However, it was observed that the Fund lacks the Clerk of Works, an Accountant and ICT professional to assist in monitoring and evaluation of the implementation of projects and other support functions.

In the circumstances, lack of key staff may hinder the provision of efficient and effective services to the residents.

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 controls 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 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 entity 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 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 control 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 controls 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 noncompliance. 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 controls.
- 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 controls 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

06 September, 2022