

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MBEERE SOUTH 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 National Government Constituencies Development Fund - Mbeere South Constituency for the year ended 30 June, 2021 set out on pages 17 to 61, 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, 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 Mbeere South National Government Constituency Development Fund 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 National Government Constituencies Development Fund Act, 2015 and Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Unsupported Expenditure on Other Grants and Transfers

1.1 Bursaries to Secondary Schools and Tertiary Institutions

The statement of receipts and payments for the year ended 30 June, 2021 reflects an amount of Kshs.43,981,537 under other grants and other transfers, as disclosed in Note 7 to the financial statements. The balance includes Kshs.12,210,000 and Kshs.8,642,000 relating to bursary to secondary schools and to tertiary institutions respectively. However, supporting schedules provided indicated balances of Kshs.12,208,000 and Kshs.8,062,000 resulting to unexplained variance of Kshs.2,000 and Kshs.580,000 in respect of secondary schools and tertiary bursaries respectively.

Further, details of students awarded bursaries amounting Kshs.582,000 were not provided for audit verification, contrary to the requirement of Section 23(1)(d) of the Public Finance and Management Regulation 2015, which states that an Accounting Officer shall in accordance with Article 226(2) of the Constitution and section 68(1) of the Act be accountable to the National Assembly for measures taken to prepare the financial reports that reflect a true and fair financial position of the entity.

1.2 Expenditure on Sports Projects

The statement of receipts and payments reflects an amount of Kshs.43,981,537 under other grants and other transfers which as disclosed under Note 7 to the financial statements include Kshs.2,747,354 incurred on sports projects, which included facilitation of and organizing football and volleyball tournaments, buying boots, uniforms and trophies. However, bank statements, expenditure returns and reconciliation of quantities received vide the Counter Receipt Vouchers(S13s) with quantities in the distribution list were not provided for audit verification contrary to the requirement of Section 104(1) of the Public Finance and Management Regulation, 2015 which states that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

In the circumstances, the accuracy and completeness of expenditure on Secondary Schools, Tertiary Institutions and Sports projects of Kshs.12,210,000, Kshs.8,642,000 and Kshs.2,747,354 respectively could not be confirmed.

2.0 Unsupported Expenditure on the Use Goods Services

2.1 Committee Allowance

The statement of receipts and payments reflects Kshs.9,752,003 under use of goods and services as disclosed in Note 5 to the financial statements. The amount includes Kshs.609,000 relating to committee allowances which were not supported with the relevant meeting minutes, attendance lists, notices of meetings and meeting agendas contrary to the requirement of Section 99(3) of Public Finance Management (National Government) Regulations, 2015 which require that every entry in the accounts shall be supported by a voucher or other approved document containing full details, clear narrations and particulars of the items to which it relates.

2.2 Fuel Expenditure

Note 5 to the financial statements reflects Kshs.300,000 incurred on fuel, oil and lubricants whose fuel register was not availed for audit review contrary to Section 81(3) of Public Finance Management Act, 2012, which states that Accounting Officer should ensure that proper books of accounts are prepared and the financial statements prepared thereof are in agreement with the books of accounts and Section 104(1) of the Public Finance Management (National Government) Regulations 2015, which provides that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported with the appropriate authority and documentation.

In the circumstances, the Committee allowance and fuel expenditure of Kshs.609,000 and 300,000 respectively 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 - Mbeere South 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.

Other Matter

1.0 Budgetary Control Performance

The summary statement of appropriation reflects final budgeted receipts of Kshs.262,589,842 and actual receipts of Kshs.216,900,963 resulting to an under funding of Kshs.45,688,879 or 17% of the budget. Similarly, the statement reflects final budgeted payments of Kshs.262,589,842 and actual payments of Kshs.205,842,458 resulting to an under expenditure of Kshs.56,747,384 or 22% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Mbeere South Constituency.

2.0 Prior Year Matters

In the audit of the previous year, a number of paragraphs were raised under the Report on Financial Statements, Reports on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues or disclosed all the prior year matters as provided 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

1.0 Irregular Payments

Note 5 to the financial statements reflects an amount of Kshs.1,435,200 relating to office and general supplies and services, which further includes Kshs.464,400 spent on the purchase and delivery of office stationery. However, review of the payment voucher, invoice and delivery note revealed that the goods procured were not requisitioned by the user department contrary to Section 71(1) of the Public Procurement and Asset Disposal Regulation, 2020 which states that the head of the user department shall initiate the procurement process through a requisition as per the approved procurement plan.

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

2.0 Projects Implementation

The statement of receipts and payments reflects an balance of Kshs.143,820,585 under transfers to other Government units, as disclosed under Note 6 to the financial statements. During the year under review Management of the National Government Constituency Development Fund disbursed an amount of Kshs.6,426,000 to three Secondary School projects, Kshs.1,800,000 to two Primary Schools and 1,900,000 to three Security projects. However physical verification during the audit revealed that these projects were not implemented in accordance with the terms of respective contracts contrary to the requirement of Section 139(1) of the Public Procurement and Asset Disposal Regulations, 2020 which requires that a contractor shall satisfactorily perform its contractual obligations prior to any payment by a procuring entity.

3.0 Undelivered Plastic Water Tanks

Note 7 of the financial statements reflects an amount of Kshs.4,992,182 incurred on environment projects, which further includes Kshs.3,342,000 paid to a supplier for the supply of (21) water tanks (10,000 litres) to eleven (11) institutions and construction of bases and gutters and planting of trees in Mbeere South NG-CDF compound.

It was however noted that out of the twenty-one (21), water tanks only eight (8) were delivered leaving thirteen (13) tanks not delivered contrary to the requirement of Section 104(1) of the Public Finance Management (National Government Regulations 2015) which states that all payment vouchers of public moneys shall be supported by the appropriate authority and documentation.

In the circumstances, it could not be confirmed whether Mbeere South Constituencies got value for their money.

4.0 Project Management Committee Accounts

Note 17.4 and Annex 5 to the financial statements for the year ended 30 June, 2021 reflects Project Management Committee bank balances amounting to Kshs.117,191,865 relating to one hundred and thirty-seven (37) Project Committee bank balances. Review of records provided revealed that 34 out of 137 Project Management Committee bank accounts holding Kshs.8,396,129.50 were dormant contrary to the requirement of Section 83(1) and (2) of the Public Financial Management (National Government) Regulations 2015 which states that (1) The National Treasury shall be responsible for establishing sound cash management systems, procedures and processes, to ensure efficient and effective banking and cash management practices and (2) For purposes of this regulation, sound cash management includes avoiding accumulation of idle balances.

Further, Annex 5 to the financial statements reflect Project Management Committee's bank balance of Kshs.117,191,865 as at 30 June, 2021. It was however noted that cash books were not maintained to support the Project Management Committee bank balances contrary to the requirement of Section 100 of the Public Finance Management (National Government) Regulations, 2015 which states that Accounting Officers shall keep in all offices concerned with receiving cash or making payments a cash book showing the receipts and payments and shall maintain such other books and registers as may be necessary for the proper maintenance and production of the accounts of the vote for which he or she is responsible.

Further, the bank reconciliation statements maintained were incomplete and did not indicate bank statement and cash book balances but merely recorded the receipts, payments and bank charges during the period.

In the circumstances, accuracy, optimal management and utilization of project management committee accounts might have not been realized, and 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, 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.

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 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 sustainability of service basis of accounting unless Management is aware of the intention to terminate the Fund or 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 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 the Fund 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 going concern 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 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 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 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

07 September, 2022