

REPORT OF THE AUDITOR-GENERAL ON NATIONAL CONSTITUENCIES DEVELOPMENT FUND - MWEA 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

Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Mwea Constituency set out on pages 17 to 55, which comprise of the statement of assets and liabilities as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows, and the 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 - Mwea 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 do not comply with the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Failure to Prepare a Trial Balance

The Fund prepared and submitted for audit financial statements for the year ended 30 June, 2021. However, a trial balance was not provided for audit review.

In the circumstances, the accuracy and completeness of the financial statements balances could not be confirmed.

2. Unsupported Use of Goods and Services

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.8,797,532 which, as disclosed in Note 5 to the financial statements, includes printing advertising and information supplies and services amounting to Kshs.562,695 and training expenses amounting to Kshs.1,200,000. However, payment vouchers, invoices and delivery notes in support of the expenditures were not provided for audit review.

In the circumstances, the accuracy and completeness of use of goods and services expenditure of Kshs.1,762,695 could not be confirmed.

3. Unsupported Transfers to Primary Schools

The statement of receipts and payments reflects transfers to other Government units amounting to Kshs.136,860,000 which, as disclosed in Note 6 to the financial statements includes transfers to Primary Schools amounting to Kshs.99,842,000. However, supporting ledgers were not provided for audit review.

In the circumstances, the accuracy and completeness of transfers to Primary Schools expenditure of Kshs.99,842,000 could not be confirmed.

4. Unsupported Other Grants and Transfers

The statement of receipts and payments and the corresponding Note 7 to the financial statements reflects other grants and transfers amounting to Kshs.64,365,385. However, supporting ledgers for expenditure items amounting to Kshs.22,367,885 were not provided for audit review.

Further, included in the expenditure is bursary of Kshs.44,474,000 out of which disbursements amounting to Kshs.3,474,000 to eighty-seven (87) learning institutions were not supported with official receipts or acknowledgment letters. Further, bursaries totalling to Kshs.581,000 were awarded to one hundred and eighty-three (183) students who did not have admission or registration numbers.

In the circumstances, the accuracy and completeness of other grants and transfers expenditure amounting to 26,422,885 could not be confirmed.

5. Inaccuracies in Comparative Balances

The comparative balances in the financial statements were at variance with the prior year audited balances as summarized below:

Component	2020/2021 Financial Statements Comparative Balance A (Kshs.)	2019/2020 Audited Financial Statements Balance B (Kshs.)	Variance A-B (Kshs.)
Compensation of Employees	2,733,382	2,872,182	138,800
Use of Goods and Services	7,308,945	7,214,004	94,941
Transfer to Other Government Entities	68,082,323	65,933,823	2,148,500
Other Grants and Transfers	18,071,615	21,019,256	2,947,641
Acquisition of Assets	-	2,000,000	2,000,000
Unutilized Fund	132,413,250	69,856,854	62,556,396

In the circumstances, the accuracy and completeness of the above balances in the financial statements could not be confirmed.

6. Unsupported Disclosures on Fixed Assets

Annex 4 to the financial statements reflects fixed assets balance of Kshs.54,309,580. However, it does not reflect the classes of fixed assets at the beginning of the year, additions/disposals during the year and closing balance as required by the reporting template. Further, audit review noted the following anomalies in the management and recording of the fixed assets:

- i. The fixed asset register did not contain a unique asset number, current location and its custodian.
- ii. Land on which the Fund's office stands amongst other parcels valued at Kshs.2,630,000 had no ownership documents.
- iii. Assets were not tagged for easy identification and verification.

- iv. Office equipment and furniture and fittings purchased at a cost of Kshs.278,000 and Kshs.388,690 respectively have never been put into use.
- v. Caterpillar motor grader acquired on 01 July, 2007 at a cost of Kshs.18,005,000 was not physically verified and its work tickets were not provided for audit review.
- vi. The Fund's office building were not disclosed in the financial statements.

In the circumstances, the ownership, accuracy and completeness of the disclosed fixed assets balance 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 - Mwea 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

1. Budgetary Control and Performance

The summary statement of appropriation reflects final receipts budget and actual on comparable basis totalling to Kshs.277,413,457 and Kshs.232,324,577 respectively, resulting to an underfunding amounting to Kshs.45,088,880 or 16% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.277,413,457 and Kshs.213,935,341 respectively, resulting to an underperformance amounting to Kshs.63,478,116 or 23% 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

The audit report of the previous year raised several issues. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board reporting template.

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 for 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. Transfers to Other Government Units

The statement of receipts and payments reflects transfers to other Government units amounting to Kshs.136,860,000 which includes transfers to Primary Schools amounting to Kshs.99,842,000 as disclosed in Note 6 to the financial statements. The following unsatisfactory matters were noted:

1.1 Poor Workmanship in Facelift of Primary Schools

Review and physical verification of three (3) projects implemented at a cost of Kshs.9,300,000 revealed instances of defective and poor workmanship. The paintings, plastering and floor finishing works were poorly done. This is contrary to section 72(1) of Public Finance Management Act 2012 that states that an Accounting Officer for a National Government entity shall manage assets in a way which ensures that the National Government entity achieves value for money in acquiring, using and disposing of those assets.

1.2 Purchase of Land at Kianjogu Primary School

The balance includes an amount of Kshs.4,200,000 disbursed to Kianjogu Primary School towards the purchase of three (3) acres of land for the establishment of the School. However, the project files and the title deed for the acquired parcel of land were not provided for audit review. This is contrary to Regulation 15(1b) of the of the National Government Constituencies Development Fund Regulations, 2016 which provides that the Project Management Committee shall maintain proper records of all minutes, accounting documents and other records in relation to projects being implemented.

In the circumstances, the validity and value for money of the projects to the public could not be confirmed.

2. Other Grants and Transfers

The statement of receipts and payments and corresponding Note 7 to the financial statements reflects other grants and transfers of Kshs.64,365,385. The following unsatisfactory matters were noted:

2.1 Non-Compliance with Bursary Application and Awarding Guideline

The balance includes bursaries to secondary, tertiary and special schools amounting to Kshs.44,474,000. However, Management had not put in place Education Bursary, Mock Examinations and Continuous Assessment Tests Committee to invite, analyze applications and make appropriate recommendations to the NG-CDF Committee as required by NG-CDF Board Guideline for Administration of Education Bursary Schemes, Mock Examinations and Continuous Assessment Tests, 2020.

2.2 Construction at Kinyaga Chief's Office

The balance includes expenditure on security projects amounting to Kshs.12,880,000. The expenditure was utilized towards construction of an office block and pit latrine at Kinyaga Chief's Office. However, the project file was not provided for audit verification. This is contrary to Regulation 15(1b) of the of the National Government Constituencies Development Fund Regulations, 2016 which provides that the Project Management Committee shall maintain proper records of all minutes, accounting documents and other records in relation to projects being implemented.

Further, physical verification carried out on the project in April, 2022 revealed that the pit latrine was not painted and the contractor was not on site.

In the circumstances, the validity and value for money from the expenditure could not be confirmed.

3. Irregular Labeling of Projects

Physical verification of projects carried out in April, 2022 revealed that the labelling done included the name of the incumbent Member of Parliament. This is contrary Section 15(1f) of the National Government Constituency Fund regulations 2016 which stipulates that Project Management Committee shall undertake project closure, labelling and handover upon completion.

In the circumstances, 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 and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

Lack of Risk Management Policy

The Fund did not have a risk management policy that guides on the assessment and evaluation of risk and development of the strategies to mitigate them. This is contrary to Regulation 165(1) of the Public Finance Management Act (National Government) Regulations, 2015 which requires the Accounting Officer to ensure that the entity develops risk management strategies, which include fraud prevention mechanism, and a system of risk management and internal control that builds robust business operations.

In the circumstances, existence of effective risk management 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 controls, 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 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 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 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 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

29 July, 2022