

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

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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 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 - Mwingi North Constituency set out on pages 18 to 55, which comprise of the statement of assets and liabilities as at 30 June, 2021, 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, 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 - Mwingi North Constituency as at 30 June, 2021, 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 to the Project Management Committee Bank Account Balances**

Note 17.4 to the financial statements reflects the Project Management Committee (PMC) account balances of Kshs.10,527,155 and Kshs.3,993,505 for 2020/2021 and 2019/2020 respectively. However, Annex 5 to the financial statements indicates PMC account balances of Kshs.20,427,005 and Kshs.12,548,360 for same periods resulting in unexplained variances of Kshs.9,899,850 and Kshs.8,554,855 for the two financial years.

In the circumstances, the accuracy and completeness of the PMC bank account balances could not be confirmed.

#### **2. Variances Between the Financial Statements and the Trial Balance**

The statement of receipts and payments reflects acquisition of assets amount of Kshs.349,974 while the final balances supporting this item reflected an amount of Kshs.649,974 resulting to an unexplained unreconciled variance of Kshs.300,000. Similarly, the statement reflects other grants and transfers amount of Kshs.79,742,924 while the trial balance reflects an amount of Kshs.79,442,924 resulting to an unexplained and unreconciled variance of Kshs.300,000.

In the circumstances, the accuracy and completeness of statement of receipts and payments could not be confirmed.

#### **3. Inaccuracies in Other Grants and Transfers**

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects expenditure of Kshs.79,742,924 in respect of other grants and transfers. The expenditure includes bursary disbursements to secondary schools and tertiary institutions amounting to Kshs.57,161,276. However, review of the supporting documents indicated that, the expenditure included general administration expenses totalling Kshs.3,932,725, wrongly classified as bursary disbursements.

In the circumstances, the completeness and accuracy of the Other Grants and Transfers amount of Kshs.79,742,424 could not be confirmed.

#### **4. Inaccuracies in the Cash and Cash Equivalents**

The statement of assets and liabilities and as disclosed in Note 10(a) to the financial statements reflects cash and cash equivalents balance of Kshs.509,925. However, bank reconciliation statements reflected stale cheques totalling Kshs.648,275 which had not been written back into the cashbook. No explanation was provided for the failure to write back the stale cheques in the cash book.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.509,925 could not be confirmed.

#### **5. Unsupported Training Expenses**

The statement of receipts and payments and as disclosed in Note 5 of the financial statements reflects expenditure of Kshs.7,679,306 in respect of use of goods and services. Included in the expenditure is an amount of Kshs.300,200 relating to training expenses which was not supported with attendance registers and training reports.

In the circumstances, the completeness and accuracy of expenditure of Kshs.300,200 included in training expenses for the year ended 30 June, 2021 could not be confirmed.

#### **6. Unsupported Transfer of Funds to the Project Management Committees**

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects other grants and transfers of Kshs.79,742,924 which includes transfers totalling Kshs.21,771,648 to four (4) Project Management Committees (PMC) for security, sports, environment and emergency projects. Included in this expenditure is an amount of Kshs.4,500,000 which was not supported with relevant documents such as approved requisitions for transfers, PMC minutes, bill of quantities, budgets and work plans.

In the circumstances, it was not possible to confirm the completeness and accuracy of the transfer and other payments amounting to Kshs.4,500,000.

#### **7. Errors in the Statement of Cash Flows**

The statement of cash flows and as disclosed in Note 10(a) reflects cash and cash equivalents balance of Kshs.667,388 while the statement of assets and liabilities reflects a balance of Kshs.509,925 resulting to a variance of Kshs.157,463. In addition, the statement reflects net decrease in cash and cash equivalents balance of Kshs.138,727 instead of Kshs.296,190.

In the circumstances, the accuracy of statement of cash flows could not be confirmed.

## **8. Inaccuracies in Summary of Fixed Asset Register**

Annex 4 on summary of fixed assets register reflects historical cost of assets balance of Kshs.31,117,657. However, total additions during the year reflects an amount of Kshs.649,974 which differs with Kshs.349,974 in respect of acquisition of assets in the statement of receipts and payments resulting to a variance and overstatement of assets by Kshs.300,000.

In the circumstances, the accuracy of the summary of fixed assets register balance of Kshs.31,117,657 could not be confirmed.

## **9. Misstatement in Unutilized Fund Balance**

Note 17.3 reflects unutilized fund balance of Kshs.47,992,473 and Kshs.72,503,931 in respect to 2020/21 and 2019/20 financial years respectively. However, the supporting Annex 3 to the financial statements is blank. In addition, the indicated comparative balance of Kshs.72,503,931 differs from the Kshs.73,310,045 confirmed from the audited financial statements for 2019/2020, by unexplained and unreconciled balance of Kshs.806,114.

In the circumstances, the accuracy of unutilized fund balance of Kshs.47,992,473 could not be confirmed.

## **10. Irregular Payment of Gratuity**

The statement of receipts and payments and as disclosed in Note 4 to the financial statements reflects compensation of employee's expenditure of Kshs.4,834,247. The expenditure includes an amount of Kshs.1,611,527 gratuity payments to contractual employees. However, review of payment vouchers revealed that one employee was paid an amount of Kshs.58,627 for six (6) months gratuity from January, 2021 to June, 2021 while the personal file indicated that the employee was on a two (2) year contract from 1 February, 2021 and therefore had not qualified for gratuity payment.

In the circumstances, the regularity of the expenditure of Kshs.58,627 paid as gratuity 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 - Mwingi North 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**

### **Budgetary Control and Performance**

The summary statement of appropriation reflects the budgeted receipts of Kshs.210,398,924 and actual receipts of Kshs.163,073,839 resulting to under disbursements of Kshs.47,325,085 (or 23%) of the approved budget. Similarly, out of the available receipts of Kshs.163,073,839 only Kshs.162,406,451 was utilized resulting in under absorption of Kshs.667,388 of the approved budget. No explanation was given for the low absorption rate.

In the circumstances, the underfunding and the resultant under-absorption implies that some of the planned projects and programmes were not implemented which may have negatively impacted on effective service delivery to the public.

## **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. Delays in Completion of Projects**

Review of the Project Implementation Status (PIS) report provided revealed that a total of Kshs.262,780,096 was allocated for implementation of one hundred and fifty-four (154) projects during the year. Out of these, eighty-four (84) projects at a cost of Kshs.132,258,773 were completed during the year, while sixteen (16) projects costing Kshs.21,176,379 were ongoing. Further, fifty-four (54) projects with a total allocation of Kshs.109,344,944 had not been commenced by the end of the year under audit. No satisfactory explanation was provided for failure to implement all the planned projects.

In the circumstances, it was not possible to confirm whether and when the public will obtain value for money from Kshs.218,689,888 allocated to projects that were not completed during the year under audit.

#### **2. Irregular Payment of Special Duty Allowances**

The statement of receipts and payments and as disclosed in Note 4 to the financial statements reflects compensation of employees' expenditure of Kshs.4,834,247. The expenditure includes an amount of Kshs.3,157,920 relating to staff salaries. However, review of the payroll revealed that five (5) employees who were not performing duties of higher post were paid special duty allowance amounting to Kshs.222,000 for more than six months. This is contrary to the provisions of Section C.15 (1) of the Human Resource Policies and Procedures Manual for the Public Service of 2016.

In the circumstances, the regularity of the expenditure of Kshs.222,000 paid as special duty allowances could not be confirmed.

### **3. Irregular Procurement of Goods and Services**

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects use of goods and services expenditure of Kshs.7,679,306. However, review of procurement documents for goods and services revealed the following anomalies:

- i. The expenditure includes training expenses of Kshs.2,265,100 which further includes an amount of Kshs.328,000 which was paid to a hotel. However, the expense was not supported with user requisition, appointment letters of tender opening and Tender Evaluation Committees, individual score sheets, and notification of the outcome to the unsuccessful bidders.
- ii. In addition, the expenditure includes routine maintenance-vehicles and other transport equipment expenses of Kshs.651,010 which includes an amounts of Kshs.245,700 paid for servicing of motor vehicles. However, these expenses were not supported with user requisition, appointment letters of tender opening and Tender Evaluation Committees, individual score sheets and notification of the outcome to the unsuccessful bidders.
- iii. The expenditure also includes Kshs.97,500 paid for purchase of motor vehicle tyres. However, the expense was not supported with user requisition, appointment letters of tender opening and Tender Evaluation Committees, individual score sheets, and notification of the outcome to the unsuccessful bidders.
- iv. Included in the expenditure is Kshs.86,000 paid to a consultant for ICT equipment maintenance. However, there was no user requisition, the expenditure was not included in the Procurement Plan and the consultant was not on the list of registered suppliers. In addition, there were no, appointment letters for tender opening and Evaluation Committees, individual score sheets, professional opinion, local purchase order and notification to unsuccessful bidders.
- v. The expenditure includes an amount of Ksh.540,671 relating to fuel and lubricants which was however not supported with procurement contract documents.

In the circumstances, the propriety and value for money for expenditure of Kshs.1,297,871 incurred on use of goods and services could not be confirmed.

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 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 a Disaster Recovery Plan**

The Fund did not have a Risk Management Policy framework to guide in identification, assessment and mitigation of risks. In addition, there was no evidence to show that a formal risk assessment and evaluation was undertaken during the year. This is a contravention of the provisions of Regulation 165 (1) of the Public Finance Management (National Government) Regulations, 2015 which outlines the role and responsibilities of Accounting Officers in respect to risk management. In addition, the Fund did not have in place a Disaster Recovery and Business Continuity Plan.

In the absence of Risk Management Policy and, a Disaster Recovery and Business Continuity Plan, the Fund lacks a blueprint for identifying, preventing and mitigating against risks and disasters for efficient and effective operations that is not interrupted in case of unforeseen events.

#### **2. Failure to Automate Key Processes**

Review of the operations for the year, revealed that the Fund had not automated its' key processes in financial accountability and has no ICT Policy in place. Further, the Fund adopted the use of manual way of maintaining financial records and reporting. However, manual records by nature lack inbuilt data security arrangement and do not have audit trail which poses a threat to data availability, security and integrity.

In the circumstances, the Fund is exposed to records manipulation and loss of important data due to failure to automate its operations.

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 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 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 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 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 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 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 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**

**08 September, 2022**