

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – MWINGI WEST 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 - Mwingi West Constituency set out on pages 18 to 64, 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, 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. Variances Between the Financial Statements and Trial Balance

Review of the statement of receipts and payments reflected variances with the trial balance as detailed below:

Component	Trial Balance Amount (Kshs)	Financial Statement Amount (Kshs)	Variances (Kshs)
Use of Goods and Services	5,929,798	5,701,798	228,000
Other Grants and Transfers	77,559,434	77,959,434	(400,000)
Transfers to Other Grants	83,767,416	84,317,158	549,742
Acquisition of Assets	949,742	228,000	721,742

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

2. Irregular House Allowance Increments

The statement of receipts and payments and as disclosed in Note 4 to the financial statements reflects compensation of employees' expenditure of Kshs.3,764,515. Included in the balance is house allowance payments of Kshs.810,000 which further includes the amount of Kshs.270,000 which was paid as house allowance increments. However, review of payroll summaries and employment contracts revealed that the NG-CDF Committee reviewed and approved the increments of staff house allowances from Kshs.5,000 to Kshs.7,500 during a meeting held on 2 December, 2020. The review of the rates was however not approved by the Salaries and Remuneration Commission.

In the circumstances, the accuracy and regularity of the expenditure of Kshs.270,000 incurred on the house allowance increments could not be confirmed.

3. Irregular Bursary Disbursements

The statement of receipts and payments reflects other grants and transfers expenditure of Kshs.77,959,434 as disclosed in Note 7 of the financial statements. The expenditure includes bursary disbursements to Secondary Schools and Tertiary Institutions totaling

Kshs.58,325,200. However, review of supporting documents revealed the following anomalies:

- i. The bursary disbursements included the amount of Kshs.40,000 which was issued to five (5) students whose admission details were not provided.
- ii. The beneficiaries who were in boarding schools were issued with bursaries of Kshs.2,200 each instead of the minimum amount of Kshs.2,500 which was approved by the Bursary Sub-committee. No explanation was given for the anomaly.
- iii. Two (2) students who were in special category groups were issued with the bursary of Kshs.16,000 each contrary to Bursary Sub-committee's approved amount of Kshs.8,000 per student.

In the circumstances, the regularity of the bursary disbursements of Kshs.58,325,200 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 West 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 recurrent and development combined reflects final budgeted receipts of Kshs.232,460,855 and actual receipts of Kshs.187,371,976 resulting in budget shortfall of Kshs.45,088,879 or 19% of the approved budget. Similarly, the statement reflects final budgeted payments of Kshs.232,460,855 and actual payments of Kshs.171,970,905 resulting in net under expenditure of Kshs.60489,950 or 26% of the budget.

The underfunding and the under performance affected the planned activities may have impacted negatively on 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. Delay in Completion of Projects

Review of the Project Implementation Status (PIS) report provided revealed that a total of Kshs.117,375,198 was allocated for implementation of fifty-four (54) projects during the year. Out of fifty four (54) projects, forty (40) projects amounting to Kshs.101,325,198 had not been completed. Further, fourteen (14) projects with allocation of Kshs.16,050,000 had not been started due to delay in disbursing funds by National Government Constituencies Development Fund Board.

In the circumstances, it was not possible to confirm whether the public will obtain value for money from an amount of Kshs.117,375,198 allocated to projects that were not completed during the year.

2. Un-surrendered Project Management Committee Bank Account Balances

Note 17.4 and Annex 5 to the financial statements reflects the Project Management Committee (PMC) account balances of Kshs.18,124,964. Included in the balance is the amount of Kshs.726,940 relating to completed projects which should have been surrendered to the Fund main bank account. This is a breach of the provisions of Section 12(8) of the National Government Constituencies Development Fund Act, 2015 which states that all unutilized funds of the Project Management Committee shall be returned to the Constituency Fund Account.

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

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 Ksh.5,701,798. The expenditure includes an amount of Kshs.629,065 which was incurred on procurement of various goods and services. However, the expenditure was not supported documents such as user requisitions, professional opinion from the head of procurement and letters notifying the unsuccessful bidders of the outcome of the procurement process. This is contrary to the provision of Public Procurement and Assets Disposal Act, 2015

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

4. Irregular Procurement of Primary and Secondary Projects

The statement of receipts and payments and Note 6 to the financial statements reflects transfers to other Government units of Kshs.84,317,158. Review of documents and physical verifications of Primary and Secondary Schools' projects revealed irregularities in the procurement processes as indicated below:

4.1 Nzuli Secondary School

Management disbursed a total of Kshs.2,898,000 to the Project Management Committee (PMC) of Nzuli Secondary School for construction of a Computer Laboratory. However, professional opinion from the Head of procurement and copies of letters notifying the unsuccessful bidders of the outcome of the procurement process were not provided for audit review. Further, the project was not included in the Project Status Report as required by Regulation 140(1) of the Public Procurement and Asset Disposal Regulations, 2020.

4.2 Muthioni Secondary School

Management disbursed a total of Kshs.1,700,000 to the Project Management Committee (PMC) of Muthioni Secondary School for construction of a Dining Hall. However, professional opinion from the Head of procurement and copies of letters notifying the unsuccessful bidders of the outcome of the procurement process were not provided for audit review. Further, the project was also not included in the Project Status Report as required by Regulation 140(1) of the Public Procurement and Asset Disposal Regulations, 2020.

4.3 Kyome Primary School

Management disbursed amount of Kshs.1,500,000 to the Project Management Committee (PMC) of Kyome Primary School for construction of three (3) classrooms. However, professional opinion from the Head of procurement and copies of letters notifying the unsuccessful bidders of the outcome of the procurement process were not provided for audit review. Further, the project was also not included in the Project Status Report as required by Regulation 140(1) of the Public Procurement and Asset Disposal Regulations, 2020.

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, 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 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 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, 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 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 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 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 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

05 September, 2022