

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NORTH MUGIRANGO 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 - North Mugirango Constituency set out on pages 12 to 47, 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 - North Mugirango 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 and Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Unsupported Committee Allowances

The statement of receipts and payments and as disclosed in Note 5 to the financial statements, reflects use of goods and services balance of Kshs.8,071,217 and which includes an amount of Kshs.3,251,000 in respect of committee allowances. However, Management did not provide the approved schedule of the meetings, signed and dated committee attendance sheet or register, committee meeting minutes as well as monitoring and evaluation reports for audit review.

In the circumstances, the validity and accuracy of the committee allowance amount of Kshs.3,251,000 could not be confirmed.

2. Unsupported Environmental Projects

The statement of receipts and payments and as disclosed in Note 7 to the financial statements, reflects other grants and transfers expenditure balance of Kshs.61,297,235 which includes an amount of Kshs.2,741,775 in respect to environmental projects. However, the supporting documents including the project files were not provided by the Management for audit review. In addition, physical verification carried out at the time of audit on 6 April, 2022 revealed that the projects were not in existence.

In the circumstances, the validity and occurrence expenditures on environmental projects of Kshs.2,741,775 could not be confirmed.

3. Overstated Cash and Cash Equivalents Balance

The statement of assets and liabilities and as disclosed in Note 10A to the financial statements, reflects cash and cash equivalents balance of Kshs.295,013. Review of the bank reconciliation statements revealed un-presented cheques totalling Kshs.17,358,709 which included stale cheques of Kshs.366,687 that had not been reversed in the cash book which led to the overstatement of the cash and cash equivalents balance.

In the circumstances, accuracy and completeness of the balance of Kshs.295,013 in respect to cash and cash equivalents 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 - North Mugirango 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 summary statement of appropriation for the year under review reflects total budgeted receipts of Kshs.200,667,784 and actual receipts of Kshs.155,578,905 resulting to under collection of receipts of Kshs.45,088,879 or 22% of the budget.

Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.200,667,784 and Kshs.155,283,892 respectively resulting in an under expenditure amounting to Kshs.45,383,892 or 23% of the budget.

The underfunding and under expenditure affected the planned activities of the Fund and may have impacted negatively on service delivery to the residents of North Mugirango Constituency.

2. Unsatisfactory Implementation of Primary School Projects

The statement of receipts and payments reflects transfers to other Government entities expenditure balance of Kshs.83,150,000 as disclosed in Note 6 to the financial statements and which includes an amount of Kshs.37,500,000 in respect to transfers to primary schools. Review of expenditure documents revealed that an amount of Kshs.9,000,000 was transferred to four (4) primary schools.

However, a physical verification of the projects carried out at the time of audit on 6 April, 2022 revealed that the projects had not been implemented although funds were transferred to the Project Management Committee bank account in the month of May, 2021.

In the circumstances, value for money for Kshs.9,000,000 was not realized from works not done in the primary school projects.

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 sections 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. Drilling of Boreholes at Gekonge Secondary School

The statement of receipts and payments reflects transfers to other Government entities expenditure balance of Kshs.83,150,000 as disclosed in Note 6 to the financial statements and which includes an amount of Kshs.45,650,000 in respect to transfers to secondary schools. Review of expenditure records revealed that an amount of Kshs.4,000,000 was disbursed to Gekonge Secondary School towards drilling and equipping of three (3) boreholes. However, Management did not provide for review the reports of hydro-geological survey on viability of the project, bills of quantities and inspection and acceptance certificates.

In addition, a physical verification carried out at the time of audit on 6 April, 2022 revealed that the project was not functional and the school community was not benefitting from it due to lack of water.

In the circumstances, value for money was not achieved from the expenditure of Kshs.4,000,000 on drilling of bore holes.

2. Other Grants and Transfers

2.1 Lack of a Properly Constituted Bursary Sub-Committee

The statement of receipts and payments reflects other grants and transfers expenditure balance of Kshs.61,297,235 as disclosed in Note 7 to the financial statements and which includes an amount of Kshs.43,588,460 in respect to bursaries to secondary schools. However, Management did not provide documentation to confirm that the bursary sub-committee as constituted co-opted two members, one whom must be the area Education Officer or representative of the of Ministry of Education. This is contrary of the provisions of the CDF Board circular reference No.VOL1/111, dated 13 September, 2010 which requires formation of a sub-committee of constituency development fund to manage the bursary scheme including two co-opted members one of whom must be an education officer or an officer seconded from the Ministry of Education.

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

2.2 Emergency Expenditure

The statement of receipts and payments reflects other grants and transfers expenditure balance of Kshs.61,297,235 as disclosed in Note 7 to the financial statements and which includes an amount of Kshs.8,967,000 in respect to emergency projects. However, Management did not provide documentary evidence that the utilization of emergency reserve was reported to the National Constituency Development Fund Board in line with the provisions of Regulation 20(2) of the National Government Constituency Fund Regulations, 2016 which provides that, the utilization of the emergency reserve shall be reported to the Board within thirty days of the occurrence of the emergency, in the format prescribed by the Board.

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

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 processes and systems of internal control, risk management and 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 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 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 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 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 controls 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 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 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 scepticism 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 ability of the Fund 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 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 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

20 September, 2022