

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - RANGWE CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2022

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 the 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 – Rangwe Constituency set out on pages 1 to 43, which comprise of the statement of assets and liabilities as at 30 June, 2022, and the statement of receipts and payments, statement of cash flows and 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund –Rangwe Constituency as at 30 June, 2022, 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 the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Misstatement in Transfers from the National Government Constituencies Development Fund (NGCDF) Board

The statement of receipts and payments reflects transfers from NGCDF Board of Kshs.200,177,758 as disclosed in Note 1 to the financial statements. However, the balance includes an authority to incur expenditure (AIE) referenced AIENO.B 140712 with an amount of Kshs.12,000,000 which was received on 16 June, 2021 before the financial year under review began. This is in contravention of Section 1.2.1 of the International Public Sector Accounting Standard Board (IPSASB) final pronouncement of November, 2017 that requires financial reporting under the cash basis of accounting to recognize transactions and other events only when cash is received or paid.

In the circumstances, the accuracy and completeness of transfers from the NGCDF Board of Kshs.200,177,758 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 –Rangwe Constituency Management in accordance with ISSAI 30 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 matter to report in the year under review.

Other Matter

Emphasis of Matter

1. Budgetary Control and Performance

The summary statement of appropriation reflects total actual expenditure of Kshs.181,874,082 against an approved budget of Kshs.203,268,845 resulting to an under-expenditure of Kshs.21,394,763 or 10% of the budget.

The under expenditure affected the Fund's planned activities and may have impacted negatively on service delivery to the residents of Rangwe Constituency.

2. Unresolved Prior Year Audit Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, Management has not provided reasons for the delay in resolving

the prior year audit issues. Further, the unresolved prior year issues are not disclosed in the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

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. Poor Workmanship in Project Implementation

The statement of receipts and payments reflects transfers to other government units of Kshs.131,147,034 which includes transfers to secondary schools of Kshs.56,147,034 as disclosed in Note 6 to the financial statements.

The following anomalies were observed in the projects implementation.

1.1 Construction of Modern Dormitory at Asumbi Girls High School

Included in the balance of Kshs.56,147,034 is an amount of Kshs.10,000,000 disbursed to Asumbi Girls School towards construction of a one storey modern dormitory with cubicles to accommodate 120 students on each floor, 5 door - bathrooms and 5 door - toilets on each floor with one chamber catering for persons living with disability on each floor and access ramp to the first floor.

However, an audit inspection of the project carried out at the time of audit in the month of March, 2023, revealed that the project was ongoing with the following anomalies:

- i. Gauge thirty (30) iron sheets were used instead of gauge twenty-eight (28) as specified in the bills of quantities.
- ii. Rainwater goods were costed at Kshs.93,200 in the bill of quantities were not yet installed.
- iii. Only twenty-two (22) instead of the required thirty-two (32) 1800x1500mm high windows were fixed at a cost of Kshs.210,600.
- iv. Glazing of window glasses to metal costed at Kshs.135,800 in the bill of quantities were not yet done.
- v. Ceiling finishes costed at Kshs.678,800 in the bills of quantities were not yet done
- vi. Staircase & ramp finishes of Ksh,72,600, finishes (ceiling painting) of Kshs.679,700 and fitting and fixtures not done of Kshs.181,300 were not done.

In the circumstances, value for money may not have been achieved on the transfers to secondary schools expenditure of Kshs.10,000,000.

1.2 Construction of Modern Dormitory at Orero Boys High School

Further, included in the transfers to secondary schools balance is an amount of Kshs.5,000,000 disbursed to Orero Boys High School towards construction of a one storey modern dormitory with cubicles to accommodate 120 students on each floor, 5-door bathrooms and 5 door - toilets in each floor with one chamber catering for persons living with disability and an access ramp to the first floor.

An audit inspection of the project carried out at the time of audit in the month of March, 2023 revealed that the project was already in use. However, it was observed that gauge thirty (30) iron sheets were used instead of gauge twenty-eight (28) as specified in the bills of quantities and rainwater goods costed at Kshs.65,350 in the bill of quantities had not been installed. Further, the glazing of window glasses to metal costed at Kshs.72,000 in the bill of quantities were not yet done while ceiling finishes costed at Kshs.233,000 in the bills of quantities had not been done. In addition, mechanical services costed at Kshs.150,000 in the bill of quantities were not done.

In the circumstances, value for money on the transfers to secondary schools expenditure of Kshs.5,000,000 may not have been achieved .

1.3 Construction of Modern Dormitory at St. Josephine Bakhita Girls High School

In addition, included in the balance of Kshs.56,147,034 is an amount Kshs.5,000,000 disbursed to St. Josephine Bakhita Girls High School towards construction of a one storey modern dormitory with cubicles to accommodate 120 students on each floor, 5-door bathrooms and 5-door toilets in each floor with one chamber catering for persons living with disability and access ramp to the first floor.

An audit inspection carried out on the project at the time of audit in the month of March, 2023, revealed that the project was already in use. However, it was observed that gauge thirty (30) iron sheets were used instead of gauge twenty-eight (28) as specified in the bills of quantities. Further, rainwater goods which were costed at Kshs.65,350 in the bill of quantities had not been installed while the ceiling together with painting works valued at Kshs.375,500 were not yet done. In addition, mechanical services costed at Kshs.100,000 in the bill of quantities had not been done while the dormitory cubicles were excluded during the construction.

In the circumstances, value for money on the transfers to secondary schools expenditure of Kshs.5,000,000 may not have been achieved.

2. Delayed Implementation of Projects

The statement of receipts and payments reflects transfers to other government units amount of Kshs.131,147,034, as disclosed in Note 6 to the financial statements, which includes transfers to secondary schools balance of Kshs.56,147,034.

The amount of Kshs.56,147,034 further includes a balance of Kshs.6,500,000 which was transferred to two primary schools and a Police post for various construction and renovation projects as detailed in the table below: -

Approved activity	Amount Allocated	Remarks
Construction of classrooms at Ayuyu Primary School	2,000,000	Funds disbursed to PMC account
Renovation of classrooms at Gul Kagembe Primary School	1,000,000	Awaiting funds disbursement from the Board
Construction of Police Post with 4 offices, male and female Cells to completion at Ngegu Police Post	3,500,000	Roofing works on going
	6,500,000	

However, an audit inspection carried out at the time of audit in the month of March, 2023 revealed that the projects were not implemented despite the monies having been disbursed to the respective project management committee accounts.

In the circumstances, the residents of Rangwe were denied the benefits accruing from the environmental projects valued at Kshs.6,500,000, which were not implemented during the year ended 30 June, 2022.

3. Bursary Allocation below the Legal Threshold

Review of the budget execution by sectors and projects revealed that an amount of Kshs.20,816,895 (or 15%) of the total approved budget of Kshs.137,088,879 was allocated towards bursary and social security programmes during the year ended 30 June, 2022 as opposed to the set threshold of 25%. This is contrary to Regulation 21(5) of the National Government Constituencies Development Fund Regulations, 2016 provides that a Constituency Committee shall allocate not less than twenty-five percent of the funds allocated to a constituency for bursaries.

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 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 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 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 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 intentions 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 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 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 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 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

17 July, 2023