

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - WEBUYE WEST CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Webuye West Constituency set out on pages 10 to 25, which comprise the statement of assets and liabilities as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows, summary statement of appropriation: recurrent and development combined 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, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund - Webuye West Constituency as at 30 June, 2019, 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituency Development Fund - Webuye 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 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

During the year under review, and as reported in the summary statement of appropriation: recurrent and development combined, the Fund spent Kshs.71,918,264 against a budgeted amount of Kshs.127,218,753, thereby resulting in a net budget under-absorption of Kshs.55,300,489 or 43% of budget.

Further, Note 3 to the financial statements reflect the following detailed actual expenditure items whose corresponding budget amounts were not provided. As a result, it was not possible to determine whether the actual expenditures on these items were within budget:

Description	Amount Kshs.
Utilities, Supplies and Services	24,448
Domestic Travel and Subsistence	165,000
Printing, Advertising and Information Supplies and Services	228,166
Training Expenses	832,200
Office and General Supplies and Services	23,485
Fuel, Oil and Lubricants	1,538,928
Other Operating Expenses	662,200
Routine Maintenance – Vehicles and other Transport Equipment	962,160
Total	4,436,587

In addition, during the year and as disclosed in the statement of receipts and payments, the Fund received Kshs.65,963,940 from the National Government Constituency Development Fund (NG-CDF) Board. However, the amount excludes Kshs.834,641 that had accumulated over the years as tabulated below, which ought to have been received from the NG-CDF Board:

Year	Allocation Kshs.	Disbursed Kshs.	Balance Kshs.
2014/2015	110,957,173	110,957,152	21
2016/2017	81,896,552	77,311,921	4,584,631
2017/2018	86,810,334	90,560,345	-3,750,011
Total	279,664,059	278,829,418	834,641

In view of the foregoing, the Fund may not have achieved all its project completion targets, resulting in delayed benefits to the residents of Webuye West Constituency.

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. Failure to Insure Fixed and Movable Assets

Annex 2 to the financial statements on summary of fixed assets register for the year under review reflects total fixed assets balance of Kshs.32,474,171, which have not been insured. This is contrary to Section 36(3) of the National Government Constituencies Development Fund Act, 2015.

Consequently, the Fund management was in breach of the law.

2. Failure to Transfer Unutilized Project Management Committee Funds to The Constituency Account

Annex 3 to the financial statements reflects Project Management Committee (PMC) bank balances as at 30 June, 2019 totaling Kshs.8,769,836, which includes a balance of Kshs.7,321,263 relating to projects which, according to the project implementation status report, had been completed and were operational as at 30 June, 2019. However, this unutilized amount of Kshs.7,321,263 had not been returned to the constituency account as at the time of audit, contrary to Section 12(8) of the National Government Constituencies Development Fund Act, 2015.

Management explained that, the unutilized amount related to retentions due to project contractors and unclaimed allowances of PMC members. However, no supporting documents were provided to support the assertion.

Management was therefore in breach of the law.

3.0 Project Implementation Status

3.1 Projects for the Year Under Review

The Fund was to implement a total of 27 projects/programmes under security, education, sports, and environment sectors during the financial year under review. However, analytical procedure applied on the project records and physical verifications conducted revealed that 7% of the projects had not started, 26% were still on going and 67% had been completed as at 31 March, 2020 as highlighted below:

Sector	Total Project Cost Kshs.	Budgeted Projects No.	Actual/Implemented Projects						
			Not Started		Ongoing		Completed		% of Completed Projects
			No.	Kshs.	No.	Kshs.	No.	Kshs.	
Bursaries	25,000,000	2	-	-	-	-	2	25,000,000	100%
Emergency Projects	4,800,000	5	-	-	3	4,500,000	2	300,000	40%
Environment Projects	2,000,000	1	1	2,000,000	-	0	-	0	0%
Primary School Projects	89,506,788	12	1	4,500,000	3	18,000,000	8	67,006,788	67%

Sector	Total Project Cost Kshs.	Budgeted Projects No.	Actual/Implemented Projects						
			Not Started		Ongoing		Completed		% of Completed Projects
			No.	Kshs.	No.	Kshs.	No.	Kshs.	
Secondary School Projects	63,463,269	4	-	-	-	0	4	63,463,269	100%
Security Projects	5,800,000	2	-	-	1	300,000	1	5,500,000	50%
Sport Projects	2,000,000	1	-	-	-	0	1	2,000,000	100%
Total	192,570,057	27	2	6,500,000	7	22,800,000	18	163,270,057	67%
% of all Projects			7%		26%		67%		

3.2 Projects for Prior Years

The project implementation status report submitted for audit review showed that a number of projects with total estimated cost of Kshs.21,320,025, which were to be implemented during the 2013/2014 to 2017/2018 financial years had still not been completed as at 31 March, 2020 as tabulated below:

Financial Year	Project Name	Approved Activity	Estimated Cost (Kshs.)	Implementation Status
2013/2014	Sambu Pefa Primary School Lukuku	Plastering walls painting and finishes of 3 classrooms	-	Not started
2014/2015	Ndurusia Primary School	Purchase of one and a half acre of land	800,000	Ongoing
2014/2015	Moyokwe Secondary School	Purchase of 2 acres of land	1,125,000	Ongoing
2015/2016	Ndurusia PEFA primary School	Purchase of half acre land	800,000	Ongoing
2015/2016	Bituyu Primary	Purchase of 2 acres of land	1,000,000	Ongoing
2015/2016	Moyokwe Secondary School	Final payment for purchase of 2 acres of land	1,125,000	Ongoing
2016/2017	Ngwelo Secondary School	Walling and roofing of dining hall and finishes	7,650,384	Ongoing
2017/2018	Ngwelo Secondary School	Completion of a dining hall roofing plasterworks, floor screed, painting and finishes.	7,650,384	Ongoing
2017/2018	Brendah Girls Misikhu Secondary School	Setting up of Constituency innovation hub	1,169,257	Not started
Total			21,320,025	

Consequently, the Fund may not have achieved its projects completion targets and could therefore not provide its constituents with all the services planned and budgeted for, for the six years to 30 June, 2019. Further, management may not be prioritizing on-going projects when allocating funds as required by Section 46(2) of the National Government Constituencies Development Fund Act, 2015.

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 matter described in the Basis for Conclusion on Internal Controls Effectiveness, Governance and Risk Management Systems 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

Weaknesses in Internal Control over Accounting Records

A review of the Fund's annual expenditure returns for the year ended 30 June, 2019 revealed a number of transactions which were charged to (accounted for under) wrong project/item code as detailed below, casting doubt on whether the Fund has checks and balances to ensure accuracy and reliability of accounting records:

Expenditure Item	Amount Kshs.	Item Charged	Correct Item Code
Acquisition of Assets			
Purchase of Computers, Printers and other IT Equipment	85,000	2110000-Wages and Salary Contributions	3111002
Purchase of Office Furniture and Fittings	132,240	2110000-Wages and Salary Contributions	3111099
Purchase of Photocopier	2,350	2110000-Wages and Salary Contributions	3111005
Purchase of Photocopier	67,122	2210802-Boards, Committees, Conferences and Seminars	3111005
Other Grants and Transfers			
Bursaries	22,499,897	2210802-Boards, Committees, Conferences and Seminars	2640500
Use of Goods and Services			
Fuel, Oil and Lubricants	1,338,198	2110000-Wages and Salary Contributions	2211200
Office and General Supplies and Services	23,485	2110000-Wages and Salary Contributions	2111100
Printing, Advertising and Information Supplies and Services	228,166	2110000-Wages and Salary Contributions	2210500
Routine maintenance – Vehicles and other Transport Equipment	869,097	2110000-Wages and Salary Contributions	2220100
Utilities, Supplies and Services	24,448	2110000-Wages and Salary Contributions	2210100

Expenditure Item	Amount Kshs.	Item Charged	Correct Item Code
Domestic Travel and Subsistence	165,000	2210802-Boards, Committees, Conferences and Seminars	2210300
Fuel, Oil and Lubricants	200,730	2210802-Boards, Committees, Conferences and Seminars	2211200
Other Operating Expenses	662,200	2210802-Boards, Committees, Conferences and Seminars	2211300
Printing, advertising and Information Supplies and Services	20,000	2210802-Boards, Committees, Conferences and Seminars	2210500
Routine Maintenance – Vehicles and other Transport Equipment	144,463	2210802-Boards, Committees, Conferences and Seminars	2220100
Training Expenses	995,200	2210802-Boards, Committees, Conferences and Seminars	2210700
Total	27,457,596		

Consequently, the information in the annual expenditure returns for the year under review may be misleading.

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 governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain 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 Fund 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 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 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 December, 2021