

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCY DEVELOPMENT FUND - NORTH MUGIRANGO FOR THE YEAR ENDED 30 JUNE, 2020

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 46, which comprise the statement of receipts and payments for the year ended 30 June, 2020, statement of assets and liabilities as at 30 June, 2020, statement of cash flows, summary statement of appropriation: recurrent and development combined, summary statement of appropriation : recurrent, summary statement of appropriation - development, budget execution by programmes and sub-programmes for the year then ended, significant accounting policies and notes to the financial statements 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 the National Government Constituencies Development Fund - North Mugirango Constituency as at 30 June, 2020, 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

1. Inaccurate Presentation of Transfers from the Board

The summary statement of appropriation - recurrent and development combined reflects transfers from the Board amounting to Kshs.123,795,064 whereas the statement of receipts and payments reflects an amount of Kshs.118,995,688.00 resulting to unexplained variance amounting to Kshs.4,799,376.

Under the circumstances, accuracy, completeness, presentation and disclosure of the financial statements could not be confirmed.

2. Lack of Ownership Documents on Purchase of School Bus

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other government units amounting to Kshs.45,037,000 which includes an amount of Kshs.3,500,000 for purchase of a school bus for Nyagokiani Secondary School. However, no log book was produced to confirm the ownership of the bus by the school.

Consequently, the ownership of the bus 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 Constituency Development Fund - North Mugirango 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 receipts budget and actual on comparable basis of Kshs.166,266,995 and Kshs.123,794,064, respectively resulting to an under-funding of Kshs.42,471,930 or 26% of the budget. Similarly, the Fund expended Kshs.98,983,612 against an approved budget of Kshs.166,266,995 resulting to an under-expenditure of Kshs.67,283,383 or 40% of the budget.

The underfunding and underperformance affected the planned activities and 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. Unimplemented Projects

Audit of the projects planned by National Government Constituency Development Fund - North Mugirango Constituency reflects projects valued at Kshs.31,900,000 under the component transfers to other government units had not started as at 30 June, 2020.

In the circumstances, the residents of North Mugirango did not get the expected goods and services amounting to Kshs.31,900,000 being the budget projects that had not started. This is an indication of inappropriate project implementation mechanism.

2. Stalled Projects

The Constituency during the year 2019/2020 constructed four classrooms at Wanchania Primary School. Physical verification in the month of February, 2021 revealed that the classrooms have not been plastered, floor screeded, no window frames among others. Further, the classroom structures are idle and due to the long years of neglect the classrooms walls are now collapsing. Further, the classrooms are

not in the constituency development fund work plan of 2021/2022 casting doubts as to whether the project will be completed in the near future.

Consequently, the citizens of North Mugirango may not have achieved value for money invested in the projects.

3. Incomplete Works on Drilling of Boreholes in Schools

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other government units of Kshs.45,037,000 which include Kshs.16,000,000 paid to the National Water Harvesting and Storage Authority for the hydrological survey, drilling, test pumping, equipping, laying of pipeline, water kiosks construction, installation of solar panel systems for eight boreholes in North Mugirango constituency. The project management committees were China Primary school, Kiabunyoru High school, Gekonge Secondary school and St Monica Mageri Secondary. A physical review of the project revealed that the work was not complete in Kiabunyoru High School, Gekonge Secondary and St Monica Mageri.

The water permits issued by the Water Resources Authority in accordance with section 12(d) of the Water Act 2016 for abstraction and use of water and hydrological survey reports for drilling at China Primary School and St Monica Mageri, have not been produced for audit.

Under the circumstances the value for money of Kshs.16,000,000 on drilling of boreholes for the year ended 30 June, 2020 could not be confirmed.

4. Un Implemented Project - Construction of a Classroom

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other government units amounting to Kshs.45,037,000. Included in the amount is Kshs.1,000,000 disbursed by North Mugirango Constituency Development Fund office to the project management committee of St. Clare Girls Gekonde for the construction of one classroom. Physical revification of the project on 16 February, 2021 and enquiries at the Constituency Development Fund office reflects that no work had started, and the funds continue to lie idle in the bank account more than eight months after they were disbursed for the activities contrary to Section 3(f) of the National Government Constituencies Development Fund Act, 2015.

Consequently, the Fund is in breach of the law.

5. Projects Not Branded

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other government units amounting to Kshs.45,037,000 which include an amount of Kshs.20,900,000 incurred on nine (9) projects. However, physical verification revealed that the projects were not branded with the constituency development fund logo, and year when the activity was approved and budgeted for implementation.

Failure to brand the projects with the logo of the constituencies Development Fund may result in overlaps especially where there is multi-funding.

6. Poor Workmanship of Project Implementation

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other government units amounting to Kshs.45,037,000. Physical verification conducted on 16 February, 2021 on five (5) projects funded by the North Mugirango constituency in the financial year 2019/2020 totalling Kshs.10,200,000 revealed defects in some of the structures put up as shown below;

Institution	Activity	Amount (Kshs.)	Defects
Nyasio Girls Secondary School	Construction of Dormitory	1,900,000	Cracking floor
Ikonge Girls Secondary	Construction of two classrooms	1,900,000	Cracking floor
Gitwebe Primary	Construction of two classrooms to completion	1,900,000	Cracking walls, collapsing window sills, Cracked paving slab
St. Francis Gekonde Secondary	Construction of two classrooms	2,000,000	Cracked floor
Nyakaranga Primary	Construction of six classrooms	2,000,000	Window panes falling off
Total		10,200,000	

Consequently, the accountability and value for money amounting to Kshs.10,200,000 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, 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

Non Maintenance of Fixed Assets Register

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Annex 4 to the financial statements reflects assets listing amounting to Kshs.51,815,446 as at 30 June, 2020. The assets namely land, transport equipment, office equipment and other machinery were not supported by schedules and fixed asset register was not maintained.

Consequently, the accuracy, validity and completeness of the fixed assets balance of Kshs.51,815,446 could not be confirmed.

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.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using applicable basis of accounting unless Management is aware of the intention to abolish 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the funds financial reporting process, reviewing the effectiveness of how the entity 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 overall 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 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

08 February, 2022