

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

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## 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 - Mwala Constituency set out on pages 1 to 51, 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 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 National Government Constituencies Development Fund - Mwala 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**

### **1. Inaccuracies in the Financial Statements**

#### **1.1 Statement of Receipts and Payments - Other Grants and Transfers**

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects other grants and transfers of Kshs.57,992,046 which includes bursary payments of Kshs.15,111,500 and Kshs.32,375,256 disbursed to secondary schools and tertiary institutions respectively. The Management digitized the bursary management process which was operational during the year under review. Review of the system data against other records maintained by the Fund revealed that in the secondary schools' bursary dashboard, 5,208 students applied online while the list of beneficiaries in the system reflects 12 students awarded a total of Kshs.240,000. However, the reported amount for secondary school's bursary is Kshs.15,111,500 resulting to an unexplained variance of kshs.14,871,500

Further, the tertiary institutions digital bursary management system dashboard revealed that verified list of applicants awarded were 3,794 which includes regular tertiary students and special cases awards of Kshs.24,648,000 and Kshs.220,000 respectively, both totalling to Kshs.24,868,000, However, the reported amount was Kshs.32,375,256 resulting to unexplained variance of Kshs.7,507,256.

In addition, in special cases dashboard, students awarded bursaries had not placed online applications hence no record of applicants were retrieved from the system. The system has no evidence on how the applications were vetted and no records of minutes for both vetting committee and awarding committee both at Ward and Constituency levels. Further, information and details from ward level are uploaded by hired clerks centrally.

Further, five (5) sampled bursary disbursement forwarding letters reflected an amount of Kshs. 196,000 while ledger reflected Kshs. 303,000 resulting to an unexplained and unreconciled variance of Kshs. 107,000. In addition, documents reviewed revealed that the bursary disbursements amount of Kshs.47,486,756 included payment of Kshs.87,200 for subscriptions and seminar expenses. The expenditure of Kshs. 87,200 is therefore misclassified;

In the circumstances, the accuracy and completeness of bursaries of Kshs.47,486,756 could not be confirmed.

#### **1.2 Summary Statement of Appropriation**

The summary statement of appropriation reflects Kshs.137,088,879 as the approved budget for the fund during 2021/2022 financial year. However, review of documents

provided in support of approved budget reflected an amount of Kshs.136,088,879 which comprised of initial Board approval of Kshs.134,588,879 and an additional approval Kshs.1,500,000 both totalling Kshs.136,088,879 resulting to unexplained variance of Kshs.1,000,000.

In the circumstances, accuracy and completeness of Kshs 137,088,879 for the approved budget could not be confirmed.

## **2. Unsupported Expenditure and Balances**

### **2.1 Compensation of Employees**

The statement of receipts and payments and as disclosed in Note 4 to the financial statements reflects compensation of employees amount of Kshs.2,101,428. However, review of staff payroll documents revealed that there was a salary increment of Kshs.5,000 for each employee totalling to Kshs.480,000. No explanation was provided in support of the increment of salaries. Further, review of files revealed that a gratuity of Kshs.83,303 was paid to a staff upon resignation after working for 11 months. This was a breach of the contract agreement signed between the employee and the Fund.

In the circumstances, the accuracy and completeness of the compensation of employees amount of Kshs. 2,101,428 could not be confirmed.

### **2.2 Use 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 amounting to Kshs.7,012,148 which includes routine maintenance and other operating expenses payments of Kshs.1,087,096 and Kshs.1,028,979 respectively, both totalling Kshs.2,116,075. However, supporting documents including user requisitions, local purchase order (LPOs), local service orders (LSOs) and invoices were not provided for audit

In the circumstances, the propriety, accuracy and completeness of Kshs.2,116,075 for use of goods and services could not be confirmed.

### **2.3 Other Grants and Transfers**

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects other grants and transfer of Kshs.57,992,046 which includes bursaries of Kshs.32,375,256 and Kshs.15,111,500 disbursed to tertiary institutions and secondary schools respectively, both totalling to Kshs.47,486,756. However, review of payment vouchers revealed that bursary disbursements to tertiary institutions and secondary schools amounted to Kshs.30,915,300 and Kshs.15,774,000 respectively, resulting to variances of Kshs.662,500 and Kshs,1459,356 respectively.

Further, the bursary disbursements of Kshs.849,000 and Kshs.1,383,500 for secondary schools and tertiary institutions respectively were not supported with details of beneficiaries.

In addition, other grants and transfers includes emergency projects transfers amounting to Kshs.5,755,000. However, emergency projects files for Kshs. 1,590,000 were not provided for audit. Further, other grants and transfer includes sports projects amounting to Kshs.2,650,290. However, inspection and acceptance reports, receiving and issuance certificate of sports kits and post activity sports tournament reports were no provided for audit.

In the circumstances, the accuracy and completeness of other grants and transfers amount of Kshs. 57,992,046 could not be confirmed.

## **2.4 Project Management Committees (PMCs) Bank Balances**

As disclosed in Note 17.4 and Annex 4 to the financial statements are Project Management Committee (PMC) bank account balances amounting to Kshs.7,057,724. However, PMC bank balances amounting to Kshs.2,276,296 were not supported by certificate of bank balances. Further, PMC accounts amounting to Kshs.15,556,652 had not been listed in Annex 5 to the financial statements.

In addition, five (5) PMC bank account balances with a total balance of Kshs.485,997 had been listed more than once, hence overstating the PMC account balances by the same amount.

In the circumstances, the accuracy and completeness of PMC bank accounts balance of Kshs.7,057,724 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Mwala 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 reflects approved final receipts budget actual on a comparable basis of Kshs.239,630,903 and Kshs.217,730,903 respectively, resulting to an under-funding of Kshs.21,900,000 or 9% of the budget. Similarly, the Fund expended Kshs.171,708,122 against an approved budget of Kshs.239,630,903 resulting to an under-expenditure of Kshs.67,922,781 or 28% of the budget. The underfunding and

underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

## **2. Projects Implementation Status**

During the year under review, the Board approved a budget of Kshs.78,862,207 to implement a total of fifty-five (55) projects. However, analysis of the status report revealed that thirty-five (35) projects with a budget of Kshs.50,955,000 were implemented while twenty (20) projects with a budget of Kshs.27,907,207 or 35% of the budgeted projects were not implemented.

The underperformance in project implementation affected the planned activities and may have impacted negatively on service delivery to the citizens.

## **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. Irregular Procurement Process on School Projects**

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects transfer to other government units of Kshs. 91,760,000 which includes Kshs. 4,650,000 for four (4) projects at Mwaasua Secondary School, Kundu, Nunga and Kwamutia Primary Schools. However, a professional opinion was not issued prior to sending letters of notification of award and signing of contract agreements. This is contrary to Section 84(1) of the Public Procurement and Asset Disposal Act, 2015 which states that the head of procurement function of a procuring entity shall, alongside the report to the evaluation committee as secretariat comments, review the tender evaluation report and provide a signed professional opinion to the accounting officer on the procurement or asset disposal proceedings.

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

#### **2. Unsatisfactory Implementation of Projects**

##### **2.1 Kwamutia and Kisinzi Primary Schools**

The Fund Management awarded two (2) different contracts for installation of solar water piping equipment at Kwamutia Primary School and Kisinzi Primary School at Kshs.2,805,905 and Kshs.2,776,640 respectively. However, review of documents and

physical verification of projects done in March, 2023 revealed that both contractors were fully paid, but works were not done to completion. At Kwamutia Primary School the contractor had only installed 16 panels of 200 watts each instead of the required 22 panels as provided in the contract and bill of quantities (BOQ) and at Kisinzi Primary School the contractor had installed 18 panels of 200 watts each instead of the required 22 panels as provided in the contract and BOQ.

## **2.2 Kyeenguli Primary School**

The Fund Management awarded contracts for trenching, piping and installation of 10,000 litre water tank at Kyeenguli Primary School at a contract sum of Kshs.3,028,550. However, review of documents and physical verification of projects done in March, 2023 revealed that the project was not functional as pipes leading to the water tank and related booster equipment had been vandalized.

## **2.3 Makaalu and Muusini Primary Schools**

The Fund Management awarded two contracts for renovation of three (3) classrooms at Makaalu and Muusini Primary Schools at Kshs.600,000 and Kshs. 475,000 respectively. However, review of documents and physical verification of projects done in March, 2023 revealed that in both cases work had not been completed and the plastering and painting had not been done satisfactorily.

## **2.4 Yathui Police Station**

The Fund Management awarded a contract for completion of administration block at Yathui Police Station at a contract sum of Kshs.1,100,000. However, review of documents and physical verification of projects done in March, 2023 revealed that offices were at the foundation level, doors and windows were missing, proper roofing and painting was not done. In addition, the engineer certified an incomplete project and the contractor was fully paid.

In the circumstances, the value for money invested in the projects could not be confirmed.

## **3. Irregular Bursary Award**

Review of the bursary expenditure records revealed that a total of Kshs.47,486,756 was disbursed to tertiary institutions and secondary schools. However, review of documents in support of disbursements of Kshs.4,768,300 to tertiary institutions and Kshs.3,970,000 to secondary schools respectively revealed the students did not formally place applications in the bursary management digital platform.

Further, the amount disbursed to tertiary students was ranging from Kshs.10,000 to Kshs.30,000 and secondary schools ranging from Kshs. 5,000 to Kshs.15,000. However, the criteria used to determine the amounts disbursed was not provided for audit.

In addition, bursaries were paid to students in private universities casting doubt as to whether they were deserving.

In the circumstances, the value for money disbursed to projects 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, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance 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**

#### **Lack of Risk Management Policy and Strategy**

During the year under review, the Fund Management did not have a risk management policy and risk register to mitigate against risk. This is in contravention of Regulation 165(1)(a) and (b) of the Public Finance Management (National Government) Regulations, 2015, which requires an accounting officer of national government entity to develop a risk management strategy, which includes fraud prevention mechanism and a system of risk management and internal control that builds robust business operations.

In the circumstances, existence of effective risk management measures 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 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 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 to sustainability of services and using the appropriate basis of accounting unless Management is aware of the intention 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 control would not necessarily disclose all matters in the internal controls 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 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 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 Fund's ability 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**

**20 June, 2023**