

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MANDERA EAST CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2021**

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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 which considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations which 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 the 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 - Mandera East Constituency set out on pages 18 to 49, 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 National Government Constituencies Development Fund - Mandera East 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

### **Basis for Qualified Opinion**

The following balances reflected in the financial statements were not supported with sufficient appropriate records:

#### **1. Other Grants Transfers**

The statement of receipts and payments reflects other grants and transfers totalling Kshs.74,247,153 , as further disclosed in Note 5 to the financial statements. The balance includes bursaries totalling Kshs.37,133,700 disbursed to tertiary institutions. However, payments totalling Kshs.129,500 are double payments made to the same students whereas bursaries totalling Kshs.376,500 and Kshs.200,000 denoted as having been paid to the Ministry of Foreign Affairs were issued to undisclosed individual beneficiaries, and an institution, respectively. In addition, letters from beneficiary institutions acknowledging receipt of the bursaries were not provided for audit.

In the circumstances, the propriety and accuracy of bursaries reported to have been disbursed to tertiary institutions totalling Kshs.706,000 could not be confirmed.

#### **2. Transfers to Other Government Units**

The statement of receipts and payments reflects transfers to other government entities totalling Kshs.76,000,000, as further disclosed in Note 4 to the financial statements. The following unsatisfactory matters were noted in relation to the balance:

- i. Transfers totalling Kshs.44,500,000 were made to secondary schools out of which payments totalling Kshs.44,000,000 were not supported with minutes of the meetings of the Project Management Committees at which the payments were authorized. In addition, the respective work plans and expenditure returns, lists of registered suppliers, contractors and consultants were not provided for audit.
- ii. Projects implemented at a cost of Kshs.26,000,000 were not supported with contract agreements and completion certificates.
- iii. Purchases of laboratory equipment and beds at a cost of Kshs.24,000,000 were not supported with stores records and as a result, their delivery and receipt could not therefore be confirmed.

- iv. Transfers to primary schools totalling Kshs.17,250,000 were not supported with completion certificates and minutes of the meetings that authorized the payments.
- v. Expenditure totalling Kshs.2,000,000 incurred on purchase of desks for six (6) primary schools were not supported with stores records that confirmed receipt of the stores.
- vi. A sum of Kshs.4,000,000 was transferred to Neboi Primary School for renovation of six (6) classrooms and construction of two (2) new ones. However, verification at the School in April, 2022 indicated that the project was not implemented. In addition, the respective project files and expenditure returns were not provided for audit.
- vii. Four (4) classrooms and two (2) pit latrines at Duse Primary School built and completed at a cost of Kshs.4,250,000 were not labelled as NGCDF projects.

In view of these discrepancies, the propriety, occurrence and accuracy and completeness of transfers to other government entities expenditure totalling Kshs. 76,000,000 could not be confirmed.

### **3. Other Grants and Transfers**

The statement of receipts and payments reflects other grants and transfers totalling Kshs.74,247,153, as further disclosed in Note 5 to the financial statements. The balance includes social security programmes totalling Kshs.12,000,000 which denote payments for medical insurance cover for two thousand (2,000) households. However, the amount was not supported by minutes of the Social Security Program Sub-committee meetings. In addition, the updated register of all households that benefited from the sponsored medical insurance scheme was not provided for audit. Further there were no receipts from National Hospital Insurance Fund (NHIF) and information on membership to NHIF by the persons reported to have benefited from the scheme.

In the circumstances, the occurrence and propriety of the expenditure on social security programmes totalling Kshs.12,000,000 could not be confirmed. Further, value for money and sustainability on the one-year social security programme was doubtful.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Manderu East 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 audit 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 which, 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 reflects final receipts budget and actual on comparable basis totalling Kshs.212,380,887 and Kshs.186,192,007 respectively, resulting in an under-funding of Kshs.26,188,880 or 12% of the budget. Similarly, the Fund spent Kshs.164,943,479 out of the approved expenditure budget of Kshs.212,380,886, resulting in an under-expenditure of Kshs.47,437,407 or 22% of the budget.

The shortfall of revenue and under-expenditure constrained execution planned activities and may have hampered the Fund's delivery of public services to the residents of Mandera East Constituency.

## **2. Prior Year Issues**

The audit report for the financial year ended 30 June, 2020 raised several issues relating to the balances reflected in the financial statements and on internal control. The report on progress made in following up on the issues indicates that the matters had since been resolved. The actual status of the issues shall be confirmed after they are discussed by Parliament.

## **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. Un-implemented Projects**

During the year under review, the Fund budgeted to implement seventy-three (73) projects at a cost of Kshs.134,754,441. However, only Kshs.88,000,000 was disbursed to forty-five (45) projects. Therefore, funds totalling Kshs.46,754,441 for twenty-eight (28) projects were not disbursed and as a result, the respective projects were not

implemented. No explanation was provided by Management for the failure to disburse the funds.

In the circumstance, the residents of the Constituency did not benefit from goods and services valued Kshs. 46,754,441 budgeted for their use.

## **2. Unsupported Expenditure on Security Projects**

Records on expenditure on grants and payments indicated that the Fund made various payments totalling Kshs.12,088,112, as disclosed in Note 5 to the financial statements. However, the list of registered suppliers, contractors and consultants for goods, works and services were not provided for audit verification. Further, certificates of practical completion for the construction of Arabia Deputy County Commissioner's office and Bulla Jamhuriya Chief's Office at Kshs.4,000,000 and work plans for projects costed at Kshs.12,000,000 in aggregate were not provided for audit.

In the circumstances, the regularity and value for money on the security projects totalling Kshs.12,088,112 could not be confirmed.

## **3. Failure to Report Utilization of the Emergency Reserves**

Examination of expenditure records indicated the Fund spent Kshs.7,309,814 on emergency projects. However, contrary to Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016, Management did not report to the Board details on use of the emergency reserves. The provision requires any of use emergency reserves to 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 law.

## **4. Delay in Remittance of Statutory Deductions**

Review of payrolls and records on statutory deductions indicated that National Social Security Fund(NHIF) deductions totalling Kshs.50,800 were remitted late contrary to Section 53A (1) of the Retirement Benefits Act, 2012. Similarly, Kshs.70,650 due to Kenya Revenue Authority (KRA) was remitted late contrary to Section 37(1) of the Income Tax Act. The delayed payments may have exposed the Fund to penalties and interest on the taxes due.

In the circumstances, Management was in breach of the law and as a result the Fund to the risk of penalties on the outstanding amounts.

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 which 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 controls, 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 which are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and 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 the 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 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 which 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 which 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 which 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 which 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 which 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 which 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 which 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 Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control which 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 which may reasonably be thought to bear on my independence and where applicable, related safeguards.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**19 September, 2022**