

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

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 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 - Moyale Constituency set out on pages 15 to 51, 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 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 the National Government Constituencies Development Fund - Moyale 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

Unsupported Expenditure on Emergency Funds

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects an amount of Kshs.75,050,522 under other grants and other payments which further includes an amount of Kshs.7,500,000 in respect of emergency projects on supply of fresh water to various schools within the constituency.

However, delivery notes were not provided by the recipient schools as evidence that the goods were received together with inspection and acceptance reports.

In the circumstances, the propriety of the expenditure of Kshs.7,500,000 on emergency projects could not be confirmed.

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

Budget and Budgetary Control

The summary statement of appropriation reflects actual receipts of Kshs.168,452,473 against budgeted receipts of Kshs.213,541,352 resulting in a shortfall of Kshs.45,088,879 representing 21% of the budget. Similarly, out of the actual receipts of Kshs.168,452,473, the Fund incurred a total expenditure of Kshs.154,773,373 resulting in an under expenditure of Kshs.58,767,979 or 28 % of the budget.

The underfunding and under expenditure 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. Non-Compliance with the Public Sector Accounting Standards Board Reporting Template

The statement of receipts and payments, statement of assets and liabilities and the statement of cash flow does not indicate the period for which they relate contrary to Section 63(c) of the IPSAS (1) cash basis which states that each component of the financial statements shall be identified clearly.

In the circumstances, the presentation of the financial statements did not comply with the Public Sector Accounting Standards Board Reporting template.

2. Wasteful Expenditure on Hospitality Supplies & Services

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects Kshs.9,836,205 on use of goods and services, which further includes Kshs.1,000,000 in respect of hospitality supplies and services. The funds were spent on accommodation and hotel expenses for Constituency Development Fund Committee Members while on capacity building in Mombasa between 21st and 26th June, 2021.

The full board accommodation and conference facility was paid for sixteen (16) people at a total cost of Kshs.1,000,000 yet the CDFC comprises of 8 gazetted members. The identity of the extra eight (8) people was not provided and what their duties were. In addition, the training was not included in the approved Annual Work Plan and back to office report was not provided for audit review.

In the circumstances, the value for money on the amount of Kshs.1,000,000 incurred on capacity building could not be confirmed.

3. Unsatisfactory Implementation of Primary Schools Projects

The statement of receipts and payments and as disclosed in Note 6 reflects an amount of Kshs.61,412,975 relating to transfer to other Government entities which includes an amount of Kshs.39,642,975 relating to transfer to primary schools. The Fund disbursed an amount of Kshs.1,260,000 to Gordo Korma Primary School for construction of one classroom. However, the roofing timber was not treated with wood preservative as required while the walls and floor had very deep cracks and the door hinges were broken. Further, the Fund disbursed Kshs.1,175,000 for the re-roofing of eight (8) classrooms in Sololo Makutano Primary School. However, only three (3) classrooms were re-roofed leaving balance of five (5) classrooms un-roofed at a cost of Kshs.734,375.

In the circumstances, the value for money on the unroofed primary schools projects costing Kshs.2,435,000 could not be confirmed.

4. Other Grants and Other Transfers

4.1 Environment Projects

The statement of receipts and payments and as disclosed under Note 7 to the financial statements reflects an amount of Kshs.75,050,522 relating to other grants and other payments. Included in the balance is Kshs.600,000 disbursed to Nana Primary School for proposed erection and completion of gabions. However, the bills of quantities provided for supply and installation of 20 gabion boxes with approved rock fills, but only six (6) gabions were physical verified. The balance of fourteen (14) gabions worth Ksh.364,000 remained unaccounted for.

In the circumstances, the value for money on Kshs.600,000 incurred on environment projects could not be confirmed.

4.2 Improper Administration of Bursary Funds

The statement of receipts and payments and as reported under Note 7 to the financial statements reflects Kshs.75,050,522 as grants and other payments, out of which an amount Kshs.43,971,022 was spent on bursaries to secondary schools and tertiary institutions. However, there was no duly constituted Bursary Committees at the ward level contrary to the CDF Board Circulars VOL1/111 dated 13 September, 2010 which states that a Bursary Committee shall exist to vet, identify and categorize needy students using established criteria. Further, the Management did not evaluate the bursary disbursements through a Bursary Sub-Committee, but approved transfer of funds to schools without thorough scrutiny and recommendation of a Bursary Subcommittee constituted to manage the Bursary Scheme in accordance with Regulation 4 of the CDF Board circular which states that a bursary sub-committee will compile report to the main Constituency Fund Committee (CDFC) to ratify all awards.

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

4.3 Irregular Procurement of Car Hire Services

Note 5 to the financial statements reflects an amount of Kshs.9,836,205 on use of goods and services which further includes an amount of Kshs.2,595,563 incurred on training expenses. However, an amount of Kshs.200,000 was spent on car hire services procured through direct procurement contrary to Section 103 (2) of the Public Procurement and Asset Disposal Act, 2015 .

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

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 comply, 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 has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Failure to Institute Internal Audit Arrangements

The National Government Constituency Development Fund Board has an Internal Audit Department that has the mandate to audit Moyale Constituency Fund. However, no internal audit was carried out during the year contrary to Section 73(1) (a) of the Public Finance Management (PFM) Act, 2012 which stipulates that every national government entity shall ensure that it has appropriate arrangements for conducting internal audit according to the guidelines issued by the Accounting Standards Board.

In the circumstances, Management has not instituted operational efficiency and financial reliability to safe guard the Fund's assets.

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 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 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 controls 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 controls 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 controls 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's 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 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 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 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 September, 2022