

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MUHORONI 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 - Muhoroni Constituency set out on pages 16 to 42, 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 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 the National Government Constituencies Development Fund - Muhoroni 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 Constituency Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported PMC Account Balances

As disclosed in Note 17.4 to the financial statements, Management disclosed Nil bank balances for the Project Management Committee (PMC) accounts. However, the PMC balances as disclosed in Annex 5 to the financial statements reflects a balance of Kshs.125,382. In addition, Management failed to provide bank statements, bank reconciliation and bank balance confirmation certificates for the reported PMC accounts.

In the circumstances, the accuracy and completeness of the PMC account Nil balance could not be confirmed.

2. Inaccuracies in Cash and Cash Equivalents

The statement of assets and liabilities and as disclosed in Note 10A to the financial statement reflects a cash book balance of Kshs.56,537,479. Review of the Bank reconciliation statement indicated unrepresented cheques amounted to Kshs.2,625,183 which included stale cheque amounting to Kshs.127,093 which had not been reversed in the cash book. In addition, the bank reconciliation statement did not include unrepresented cheques brought forward from May amounting to Kshs.151,000 which had not been presented to the bank for payment.

In the circumstances, the accuracy and completeness of the bank balance of Kshs.56,537,473 could not be confirmed.

3. Unsupported Committee Allowances

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects an expenditure of Kshs.6,998,127 on use of goods and services which includes an amount of Kshs.1,706,000 in respect of committee allowances. However, Management did not provide support documents in form of notices calling for committee meetings, attendance registers and minutes of the meetings showing the dates and deliberations during the meetings.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.1,706,000 incurred on committee allowances could not be confirmed.

4. Lack of List of Beneficiaries

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects an expenditure of Kshs.45,373,815 in respect of other grants and other payments which includes payments amounting to Kshs.7,132,980 in respect of emergency projects. Review of documents indicated that the funds were disbursed for purchase of foodstuffs, books and school uniforms for the victims of demolitions along the

railway line at Koru, Miwani and Muhoroni. However, the list of the beneficiaries of the emergency disbursements was not provided for audit.

In the circumstances, the accuracy and regularity of the emergency disbursement amounting to Kshs.7,132,980 could not be confirmed.

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

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, 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. Payment Without Valid Contracts

The statement of receipts and payments and as disclosed in Note 4 of the financial statement reflects an amount of Kshs.3,707,780 in respect of compensation of employees. Review of documents revealed that the appointment letters of employees of Muhoroni NGCDF Expired on 22 March, 2021 and as at the time of audit inspection the process of contract renewal had not commenced. Management paid the employees a three months' salary amounting to Kshs.922,500 without a valid contract.

In the circumstances, the regularity of the payment of the salaries amounting to Kshs.922,500 could not be confirmed.

2. Unauthorized Procurement of ICT Equipment and Refurbishment of Buildings

The statement of receipts and payments as disclosed in Note 8 to the financial statements reflects an amount of Kshs.739,670 in respect to acquisition of assets which includes refurbishment of buildings and purchase of ICT equipment's amount of Kshs.380,000 and Kshs.359,670 respectively. However, purchase of laptops and refurbishment of buildings were not included in the approved annual budget and procurement plan,

contrary to Regulation 51(2) of the Public Finance Management (National Government) Regulations, 2015 which states that expenditure commitments of goods and services shall be controlled against spending and procurement plans approval by the Accounting Officer based on allocation and allotment from approved budgets.

In addition, the payment was not supported by the inspection and acceptance committee certificate and there was no document indicating the serial numbers of the laptops.

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

3. Stores not Taken on Charge

Records revealed that Management paid an amount of Kshs.415,000 to a supplier for the supply of hand wash liquid soap at a cost of Kshs.100,000, alcohol sanitizer at a cost of Kshs.270,000, handwashing containers at a cost of Kshs.15,000 and face mask at Kshs.30,000.

However, Management did not provide quotation opening register, quotation evaluation committee minutes and the award letters for audit. In addition, Management did not provide stores records to show the goods were taken on charge before being issued out and utilized.

In the circumstances, value for money on the expenditure of Kshs.415,000 incurred in the procurement of goods 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. I confirm that, nothing has come to my attention to cause me to believe that internal controls were not operating in an effective way.

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 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 control, 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 intention to terminate the Fund or to cease operations.

Those charged with governance are 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 Fund's 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.

The Management is 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 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 controls 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 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 controls 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

23 September, 2022