

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

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 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 - Mandera North Constituency set out on pages 13 to 40, 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 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 North 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Unsupported Transfers to Tertiary Institutions

The statement of receipts and payments reflects transfers to other government entities of Kshs.77,820,000 as disclosed in Note 5 to the financial statements. Included in the balance is Kshs.7,460,000 with respect to transfers to tertiary institutions. However, the project files and payment records for three (3) projects implemented at Manderla North Technical Training Institute amounting to Kshs.4,760,000 were not supported with project management committee (PMC) bank statements, confirming how the disbursed funds were paid out to the contractors. In addition, requests from the institution for funding for the three projects were not provided for audit review.

In the circumstances, the accuracy and completeness of the expenditure on tertiary institutions amounting to Kshs.4,760,000 for the year ended 30 June, 2022 could not be confirmed.

2.0. Other Grants and Payments

2.1. Unsupported Bursaries Disbursements

The statement of receipts and payments reflects other grants and payments of Kshs.86,370,962 which includes bursaries to secondary schools and tertiary institutions of Kshs.15,835,462 and Kshs.19,065,500 respectively as disclosed in Note 6 to the financial statements. Review of payment vouchers and supporting documents revealed that disbursements amounting to Kshs.3,661,600 were not supported with acknowledgement receipts from the recipient institutions.

In the circumstances, the accuracy and completeness of the bursaries disbursements amounting to Kshs.3,661,600 for the year ended 30 June, 2022 could not be confirmed.

2.2. Unsupported Security Projects Expenditure

Included in other grants and payments amount of Kshs.86,370,962 is security projects expenditure of Kshs.37,870,000 as disclosed in Note 6 to the financial statements. Review of project files provided for audit revealed that payment vouchers amounting to Kshs.4,900,000 were not supported with inspection and acceptance reports from the project management committees and payment certificates by the Manderla North Sub County Works Officer.

In the circumstances, the validity, accuracy and completeness of the transfers to other grants and other payments of Kshs.4,900,000 for the year ended 30 June, 2022 could not be confirmed.

3.0 Untitled and Unvalued Parcel of Land

The statement of receipts and payments reflects acquisition of assets of Kshs.15,199,385 as disclosed in Note 7 to the financial statements. Included in the amount is Kshs.12,699,385 with respect to construction of National Government Constituencies Development Fund - Manderla North Office Block. Audit review revealed that the office

block is constructed on a parcel of land within Mandera North Sub County Offices. However, Management did not provide for audit review the title deed or allotment letter in respect of the land. In addition, the value of the land was not disclosed in the summary of fixed asset register in annexure 3 to the financial statements.

In the circumstances, the ownership and value of the land as at 30 June, 2022 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 Constituencies Development Fund - Mandera North 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 which, in my professional judgement, 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 receipt budget and actual on comparable basis of Kshs.218,134,373 and Kshs.206,045,494, resulting in a shortfall of Kshs.12,088,879 or 5%. Similarly, the Fund incurred an under expenditure of Kshs.26,741,156 or 12% of the approved budget of Kshs.218,134,373.

The under-funding and under-absorption may have negatively impacted on service delivery to the residents of Mandera North Constituency.

2. Project Implementation Status

During the year under review, the Fund allocated Kshs.76,462,617 to seventy-three (73) projects in various sectors including emergency, sports, security, CDF office and education. Review of the project implementation status report revealed that sixty (62) projects were completed, ten (10) projects were on-going and one (1) project was reallocated.

In the circumstances, failure to fully implement budgeted projects may have denied the residents benefits that would have been derived from the planned projects.

3. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management had not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

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. Lack of Project Management Committees (PMCs) Records and Returns

Review of documents revealed that records of the bank accounts held by the various PMCs, bank statements, cash books and returns to the constituency committees were not maintained at Fund's office. This is contrary to Regulations 15(1b and d) of the National Government Constituency Development Fund Regulations, 2016 which requires a PMC to maintain proper records of all minutes, accounting documents and other records in relation to projects being implemented; and prepare returns and file them with a constituency committee on a timely basis.

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

2. Failure to Report Expenditure from Emergency Reserve to the Board

The statement of receipts and payments reflects other grants and payments of Kshs.86,370,962 which includes emergency projects expenditure of Kshs.7,000,000 as disclosed in Note 6 to the financial statements. However, the Management did not report to the National Constituencies Development Board the utilization of the emergency funds within 30 days as required by Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016 which provides that the utilization of the emergency reserve shall 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.

3. Non-Priority Construction of Four (4) Underground Water Tanks in Primary Schools

The statement of receipts and payments reflects transfers to other government entities amount of Kshs.77,820,000 which includes Kshs.46,815,000 with respect to transfers to primary schools as disclosed in Note 5 to the financial statements. Review of payment records revealed that the Fund Management transferred an amount of Kshs.6,350,000 to four (4) primary schools project management committees for construction of four (4) underground water tanks. However, the transfers were not supported with need assessment reports, project proposals and requests from respective the beneficiary institutions.

In the circumstances, value for money from the project expenditure of Kshs.6,350,000 for the year ended 30 June, 2022 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 has come to my attention to cause me to believe that internal controls, risk management and overall 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 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 which are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

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 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 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 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 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 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 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 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 which 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 which may reasonably be thought to bear on my independence and where applicable, related safeguards.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

19 May, 2023