

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MAVOKO 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 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 the National Government Constituencies Development Fund - Mavoko Constituency set out on pages 1 to 37, 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 the National Government Constituencies Development Fund - Mavoko Constituency as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with the 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. Anomalies in the Financial Statements

The financial statements as prepared and presented for audit had the following anomalies.

- i. The statement of receipts and payments, the statement of assets and liabilities, statement of cash flows and the summary statement of appropriation have not been signed by the National Government Sub-County Accountant. Further, the ICPAK registration number is missing contrary to the requirements of the financial reporting framework;
- iii. Note 17.4 to the financial statements reflects Project Management Committee (PMC) Account balances totalling Kshs.21,438,320 while Annex 5 of the financial statements reflect balances totalling Kshs.21,808,335 resulting to an unexplained and unreconciled variance of Kshs.370,016.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

2. Inaccuracies in the Financial Statements

The financial statements reflects bank balance of Kshs.13,665,442 as disclosed in Note 10A to the financial statements. However, review of the bank reconciliation statements revealed the following anomalies:

- i. The Bank reconciliation statement for June, 2022 reflects payments in cash book not recorded in bank statement amounting to Kshs.12,164,229. Included in the schedule are stale cheques dating back to 3 June, 2021 totalling to Kshs.1,818,167.00. However, the management did not give reasons for the failure by the beneficiaries to present the cheques for payment and writing back the stale cheques to the cashbook thereby understating the cash balances.
- ii. Receipts and payments in bank statement not recorded in cash book amounted to Kshs.94,500 and Kshs.2,555,920 respectively. However, no explanation was provided for the failure to update the cash book.

- iii. The bank statements for the year were not reviewed by a senior officer of the Fund as required.
- iv. The Board of survey report was not provided.

In the circumstances, the validity, accuracy and completeness of the bank balance of Kshs.13,665,442 for the year ended 30 June, 2022 could not be confirmed.

3. Misstatement of Staff Costs

The statement of receipts and payments and as disclosed in Note 4 to the financial statements reflects an amount of Kshs.4,143,156 in respect to compensation of employees. Included in this expenditure is Kshs.257,040 relating to employer contributions to Compulsory National Social Security Schemes. However, payroll analysis showed employer contributions to compulsory National Social Security Schemes amounting to Kshs.128,520 resulting into an unexplained and unreconciled variance of Kshs.128,520.

In the circumstances, the accuracy and completeness of employer contributions to Compulsory National Social Security Schemes of Kshs.257,040 could not be confirmed.

4. Variances Between Financial Statements and Trial Balance Amounts

The financial statements presented for audit had variances with trial balance amounts as tabulated below.

Item	Financial Statements (Kshs.)	Trial Balance (Kshs.)	Variance (Kshs.)
Use of Goods and Services	7,122,056	7,532,556	(410,500)
Acquisition of Assets	2,121,623	1,711,123	410,500
Gratuity	411,804	-	411,804

In the circumstances, the accuracy and completeness of the financial statements components could not be confirmed.

5. Unsupported Sports Project Expenditure

The statement of receipts and payments reflects other grants and transfers of Kshs.75,613,554 as disclosed in Note 7 to the financial statements. Included in this expenditure is an amount of Kshs.5,483,554 which was incurred in sports projects.

However, the procurement documents, store ledgers and counter issue notes in support of the expenditures were not provided for audit to confirm how the goods were procured, received and issued out to users. Further, the bank statement for sports PMC was also not provided for audit.

In the circumstances, the validity, accuracy, and completeness of the sports expenditure of Kshs.5,483,554 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 - Mavoko 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

Unresolved Prior Year's Audit Issues

The audit report for the previous financial year, raised several issues in regard to the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. The Management has not resolved the issues or given explanation for the failure to adhere to the provisions of the Public Sector Accounting Standards Board template.

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-Surrendered Project Management Committee Bank Account Balances

Annex 5 to the financial statements reflects the Project Management Committee (PMC) account balances of Kshs.21,863,517. Included in the balance is an amount of Kshs.3,974,251.50 relating to completed projects which ought to have been surrendered to the Fund's main bank account. This is contrary to Section 12(8) of the National Government Constituencies Development Fund Act, 2015 which states that all unutilized funds of the Project Management Committee shall be returned to the Constituency Fund Account.

In the circumstances, Management was breach of the law.

2. Anomalies in Project Implementation

The statement of receipts and payments reflects other grants and transfers of Kshs.75,613,554 as disclosed in Note 7 to the financial statements. However, the following anomalies observed;

2.1. Mlolongo Police Post Phase 3

Included in the amount of Kshs.75,613,554 is Kshs.18,400,000 in respect of security projects, out of which, Kshs.2,000,000 was disbursed to the Project Management Committee (PMC) of Mlolongo phase 3 for completion of police post, plumbing, electrical works and construction of four door toilet. However, the physical verification conducted in the month of March, 2023 revealed that the flooring was poorly done as holes and cracks were noted, the fence was vandalized completely, one toilet door was missing, and the project was not branded.

In the circumstances, value for money from the expenditure of Kshs.2,000,000 could not be confirmed.

2.2. Mlolongo Police Post

Included in the amount of Kshs.75,613,554 is Kshs.18,400,000 in respect of security projects, out of which an amount of Kshs.3,100,000 was disbursed to the Project Management Committee (PMC) for Mlolongo police post for fencing of 1-acre compound with concrete poles, chain link, gate and construction of ablution block costing Kshs.1,100,000. However, the physical verification conducted in the Month of March, 2023 revealed that poor workmanship with the ablution block faulty and not in use and the project not branded.

In the circumstances, value for money from the expenditure of Kshs.1,100,000 could not be confirmed.

3. Unsupported Expenditure-Emergency Projects

The financial statements reflects Kshs.75,613,554 in respect of other grants and other transfers. Included in the amount is Kshs.9,400,000 in respect of emergency projects. However, notification of emergencies and proposal requests to the board were not attached to the payment voucher or project files. It was therefore not possible to confirm whether the funding was actually for projects that were emergency in nature, and how the Committee was made aware of the need.

In the circumstances, value for money on the emergency expenditure of Kshs.9,400,000 could not be confirmed.

4. Failure to Comply with the Ethnic Diversity Rule

Review of records on human resources revealed that the Fund had a total of ten (10) employees out of which, nine (9) or 90% of the workforce were from the dominant ethnic community in the County. This is contrary to the provisions of Section 7(1) and (2) of

the National Cohesion and Integration Act, 2008 which states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff, and that no public establishment shall have more than one third of its staff from the same ethnic community.

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

5. Late Remittance of Statutory Deductions

The statement of receipts and payments reflects compensation of employees expenditure of Kshs.4,143,156 as disclosed in Note 4 to the financial statements. Review of schedules for remittances of statutory deductions for NSSF revealed that remittances for March and May, 2022 of Kshs.21,600 each were made after set deadlines which is contrary to Regulation 18 (4) of the National Government Constituency Development Fund Regulations, 2016 which states that the officer of the Board seconded to the constituency shall ensure all employees are paid on time, and all statutory deductions are promptly remitted to the relevant authorities.

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

6. Poor Project implementation

Physical inspections of the projects conducted in the month of March, 2023 revealed the following anomalies:

	Project Name	Activity	Amount (Kshs.)	Anomalies Noted
1	KMC DEB Pri. School	Construction of 8 door latrine for teachers	1,100,000	- Specification changed from 8 door latrine to 4 door latrine - Not Labelled
2	Mavoko Sec. School	Construction of deputy principal and principal two bedroomed house	3,900,000	- Not Labelled
3	Kalimani Pri. School	Construction of 2 door toilet	650,000	- Not Labelled
4	Mavoko Pri. School	Rehabilitation of 1 Classroom-Walling, reroofing, finishing works, flooring plastering and painting	1,800,000	- Not Labelled
5	Athi-River Pri. School	Construction of 200 capacity Dormitory	7,100,000	- Poor workmanship on plumbing. sink leaking and ablution not usable

In the circumstances, value for money on the expenditure of Kshs.14,550,000 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 matters 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

1. Lack of Risk Management Policy

The Fund lacks a risk management policy and does not have a framework for management of risk and therefore it is not possible to identify, assess and control risk.

In the circumstances, the effectiveness of the risk management mechanisms could not be confirmed.

2. Lack of Disaster Recovery Plan

Review of the operations revealed that the Fund did not have in place a disaster recovery plan/ business continuity plan. In the absence of a disaster recovery/business continuity plan, the Fund lacks a blueprint for identifying, preventing and mitigating against disasters and ensuring that its operations are not interrupted.

In the circumstances, the Fund may not be able to mitigate risks in the absence of a disaster recovery plan.

3. Un-updated dated Assets Register

Annex 4 of the financial statements reflects Fund assets valued at Kshs.5,886,293. However, review of the asset register provided revealed that the Fund last updated its asset register in 2019. In addition, ownership documents for the building, structures and motor vehicle were not provided for audit. Further, in the year under review, the Fund

purchased computers and ICT equipment costing Kshs.410,000 which have been not included in the assets register.

In the circumstances, the accuracy and completeness of the historical cost of assets valued at Kshs.5,886,293 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 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 control 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 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 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 control 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 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 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 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 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

19 June, 2023