

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MANDERA SOUTH 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 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 South Constituency set out on pages 1 to 33, which comprise of the statement of financial 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 National Government Constituencies Development Fund - Mandera South 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 National Government Constituencies Development Fund Act, 2015 and Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Cash Book Bank Balance

The statement of assets and liabilities and as disclosed in Note 7 to the financial statements reflects bank balances of Kshs.1,912,352. Bank reconciliation statement for the month of June, 2022 reflected a bank balance of Kshs.50,383,587 which was reconciled to the cash book balance. However, the bank reconciliation statement included un-presented cheques amounting to Kshs.48,637,413 whose schedule indicating the dates, cheque numbers, payees and amount paid was not provided for audit.

In the circumstances, the accuracy and completeness of bank balances of Kshs.1,912,352 as at 30 June, 2022 could not be confirmed.

2. Unsupported Transfers to Secondary Schools

The statement of receipts and payments for the year ended 30 June, 2022 reflects transfers to other Government units of Kshs.151,767,121 as disclosed in Note 4 to the financial statements. Included in the transfers is an amount of Kshs.30,520,000 transferred to secondary schools. However, certificates of practical completion by the Sub-County Engineer, inspection and acceptance certificates and requests from respective School Management identifying project requiring funding from NGCDF-Mandera South were not provided for audit.

In the circumstances, the accuracy and completeness of the expenditure amounting to Kshs.30,520,000 could not be confirmed.

3. Transfer to Primary Schools

The statement of receipts and payments and as disclosed in Note 4 to the financial statements reflects transfers to other Government units of Kshs.151,767,121. Included in the transfers is an amount of Kshs.121,247,121 transferred to Primary Schools. However, procurement records, contract agreements as well as completion certificates for 14 projects amounting to Kshs.18,650,000 were not provided for audit. Further, project proposals and requests from respective Secondary School Management, identifying projects requiring cons funding from National Government Constituency Development Fund - Mandera South, were not provided for audit. Similarly, work plans prepared by Project Management Committees and approved by Constituency Development Fund Committees, indicating how they intended to utilize the funds did not support the payments. This was contrary to Regulation 15(4)(b) of National Government Constituency Development Fund Regulations, 2016.

In addition, purchase of desks for primary schools amounting to Kshs.5,000,000 was not supported by Inspection and Acceptance Committee reports while goods were not received by counter receipt voucher, were not taken on charge and there was no documentation to prove that they were issued to the intended users as required by Section 162(1) of Public Procurement and Asset Disposal Act, 2015 and Regulation 166(2) of Public Procurement and Asset Disposal Regulations, 2020.

In the circumstances, the accuracy and completeness of the expenditure amounting to Kshs.23,650,000 could not be confirmed.

4. Other Grants and Transfers - Unsupported Payments

The statement of receipts and payments as disclosed in Note 5 to the financial statements reflects other grants and other transfers balance of Kshs.39,935,000. Included in the balance is an amount of Kshs.935,000 with respect to bursary grants to various tertiary institutions. However, examination of payment records provided for audit revealed that bursary grants were not supported with acknowledgement receipts from tertiary institutions. Further, bursary application forms including academic performance reports and outstanding fee balances were not provided for audit.

In addition, included in other grants and other transfers balance of Kshs.39,935,000 is security projects amounting to Kshs.29,000,000. However, review of security projects' files revealed that payment vouchers amounting to Kshs.12,800,000 were not supported with Inspection and Acceptance reports from the Project Management Committee and payment certificates by the Mandera South Sub-County Works Officer.

In the circumstances, the accuracy and completeness of other grants and other transfers payments of Kshs.13,735,000 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 South 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 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 budget appropriation indicates that National Government Constituencies Development Fund - Mandera South Constituency incurred an

expenditure of Kshs.229,356,412 against the budgeted expenditure of Kshs.231,268,767, resulting in under expenditure of Kshs.1,912,355 or 0.8% of the approved budget.

The under-absorption may have affected implementation of the Fund's planned activities and may have impacted negatively on service delivery to the public.

2. 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 for the year ended 30 June, 2022.

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. Emergency Projects

The statement of receipts and payments reflects other grants and other transfers balance of Kshs.39,935,000 as disclosed in Note 5 to the financial statements Included in the balance is an expenditure of Kshs.7,100,000 with respect to emergency projects. Review of project files provided for audit indicated that the Fund Management contacted two (2) companies using request for quotation method of procurement to undertake water trucking services for human and animal consumption to communities affected by the drought within the Constituency. However, project files for payments amounting to Kshs.7,100,000 were not supported with professional opinion from the Head of Procurement and Supplies Chain Management contrary to Section 84 of Public Procurement and Assets Disposal Act, 2015. Further, the payment vouchers for water trucking services were not supported with water distributions schedules. In addition, the Fund Management did not report to the National Government Constituencies Development Fund Board of the utilization of the emergency funds within 30 days as stipulated in the legislation contrary to Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016.

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

2. Lack of an Oversight Committee

During the year under review, the Fund Management did not constitute Constituency Oversight Committee to solicit views, opinions and proposals from the public with regard

to the Fund and presenting the views and opinions to the National Assembly contrary to Section 53(1) of the National Government Constituency Development Fund Act, 2015.

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

3. Non-Maintenance of Project Management Committees (PMC) Bank Records and Quarterly Report

The Fund Management did not maintain records of the bank accounts held by the various Project Management Committees, bank statements, cash books and quarterly reports to the Constituency committee by contrary to Regulation 10(a) of the National Government Constituency Development Fund Regulation, 2016.

In the circumstances, it was not possible to confirm whether the funds or grants disbursed to the Project Management Committees were properly managed.

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 matter 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

Lack of an Asset Register

Annex 2 of the financial statements discloses total fixed assets for National Government Constituency Development Fund - Mandera South valued at Kshs.22,500,000 as at 30 June, 2022. However, the Fund did not maintain an asset register contrary to Regulation 143(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws.

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 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 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 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 controls 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 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 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

17 May, 2023