

REPORT OF THE AUDITOR GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MOYALE 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 the Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on the Effectiveness of Internal Control, 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, risk management environment and internal control, 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 14 to 45, 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 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, 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

Cash and Cash Equivalents - Stale Cheques

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.14,894,451 as disclosed in Note 10A to the financial statements. However, the bank reconciliation statements for the month of June 2022 reflected unrepresented cheques amounting to Kshs.7,677,594, which included stale cheques amounting to Kshs.628,119 which had not been replaced or reversed in the cash book. The stale cheques include bursary cheques amounting to Kshs.606,510 which had not been presented for payment. This is an indication of errors and possible non-existence of the beneficiaries among other reasons. It is expected that individual needy students should present bursary cheques for payment of their tuition fees in time and not hold the cheques until they are stale.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.14,894,451 could not be ascertained.

The audit was conducted in accordance with the International Standards for Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Moyale Constituency Management in accordance with ISSAI 130 on the 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

1.0 Budget and Budgetary Control

The summary statement of appropriation for the year ended 30 June, 2022 reflects an approved expenditure budget of Kshs.195,856,857 against actual expenditure of Kshs.180,962,406 resulting to an under expenditure of Kshs.14,894,450 or 8% of the budget.

In addition, the bank balance reflected Kshs.14,894,451 in respect to cash released by the Board but not spent by the Fund. Failure to spend funds released by the Board denied the residents of Moyale Constituency equivalent services.

In the circumstances, under expenditure may have affected the planned activities and may have impacted negatively on service delivery to the public.

2.0 Unresolved Prior Year Matters

In the audit report of the previous year, several paragraphs were raised under the report on financial statements, report on lawfulness and effectiveness in use of public resources, and report on effectiveness of internal control, risk management and governance. Although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the relevant parliamentary committee has not met to deliberate on the same.

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

1.0 Irregular Procurement of Accommodation and Workshop Facility

Note 5 to the financial statement reflects Kshs.9,956,192 in respect to use of goods and services, which includes Kshs.1,580,000 spent on training expenses. Records provided including the attendance register indicated that a half-day conference was held on 16 June, 2022 and attended by 27 participants who included the NG-CDFC members who signed the attendance register. Each member of the NG-CDF Committee was paid allowances of Kshs.35,000 while the Chairman was paid Kshs.49,000 as facilitation allowance for attending the seven-days workshop. However, there was no evidence to show that the members attended the workshop for the seven-day period for which allowance was paid.

In addition, the service provider was paid Kshs.881,000 in cash contrary to the second schedule of the Public Procurement and Asset Disposal Regulations, 2020 which requires that low value procurement under Section 107 of the Act shall be a maximum of Kshs.50,000. Further, there was no break down or itemized charge to show how the service charge of Kshs.881,000 was arrived at.

In the circumstances, the regularity, and the value for money of the Kshs.1,580,000 spent for the training expenses could not be confirmed.

2.0 Irregular Procurement of Drinking Water for Schools

Note 7 to the financial statement reflects Kshs.83,420,383 in respect to expenditure on other grants and other transfers which included Kshs.7,340,000 that was incurred for emergency projects. The Fund engaged various suppliers for the supply of fresh drinking water to various primary schools within the Moyale Constituency. However, it was observed that the sourcing for the suppliers was done by the NG-CDFC contrary to Section 15(6) of the National Government Constituencies Development Fund Regulations, 2016 which requires that a Constituency Development Fund Committee

shall not convert itself into a project management committee. The NG-CDFC irregularly converted itself into an emergency Project Management Committee.

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

3.0 Un-acknowledged Bursaries

During the year under review, the Fund disbursed Kshs.20,340,000 and Kshs.22,592,950 to secondary schools and tertiary institutions, respectively, all totalling to Kshs.42,932,950. However, records provided for audit review showed that only Kshs.20,828,700 or 49% of the disbursed bursaries were acknowledged by the beneficiaries' institutions leaving an amount of Kshs.22,104,250 or 51% unacknowledged.

In the circumstances, it could not be confirmed whether the un-acknowledged bursary reached the intended beneficiaries.

4.0 Administration of Bursary Funds

Note 7 to the financial statements reflects other grants and other payments balance of Kshs.83,420,383 out of which Kshs.20,340,000 and Kshs.22,592,950 were disbursed as bursaries to secondary schools and tertiary institutions, respectively. However, as reported in the previous year, there was no evidence of 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, no evidence was adduced for audit review to show that Management evaluated the bursary disbursements through a Bursary Sub-Committee constituted to manage the Bursary Scheme in accordance with Regulation 4 of the Board circular which states that a bursary sub-committee will compile a report to the main Constituency Fund Committee (CDFC) to ratify all awards.

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 Control, 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 control, risk management and overall governance were not effective.

Basis for Conclusion

Failure to Institute Internal Audit Arrangements

As reported in the previous year, the National Government Constituency Development Fund Board has an internal audit department that has the mandate to audit the Fund. However, there was no evidence that internal audit function was carried out during the year contrary to Section 73(1)(a) of the Public Finance Management 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 safeguard 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 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 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 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.

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 comply 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

Report of the Auditor-General on National Government Constituencies Development Fund - Moyale Constituency for the year ended 30 June, 2022

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 control, 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 control 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 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 control 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 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 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

16 May, 2023