

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MUHORONI 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 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

Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Muhoroni Constituency set out on pages 1 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 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of the National Government Constituencies Development Fund - Muhoroni 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 do not comply with the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Unsupported PMC Account Balances

Note 17.4 and Annex 5 to the financial statements reflects a balance of Kshs.311,752 for the Project Management Committee (PMC) accounts. However, 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 balance of Kshs.311,752 could not be confirmed.

2. Unsupported Expenditure

2.1 Unsupported Committee Allowances

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects an amount of Kshs.6,986,112 on use of goods and services which includes an amount of Kshs.976,000 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.976,000 incurred on Committee allowances could not be confirmed.

2.2 Unsupported Emergency Expenditure

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects other grants and other transfers amount of Kshs.136,440,336 which includes an expenditure of Kshs.9,888,320 in respect of emergency projects. The expenditure on emergency projects includes payments amounting to Kshs.1,675,000 paid to a general merchants on 21 April, 2022 vide payment voucher number 172 which was not supported by the relevant documents such as counter receipt vouchers (S13), stores register and counter requisition and issue voucher (S11) while Kshs.1,541,400 in respect of purchase of relief food for Wairid wind victims and supply of utilities such as water dispenser, liquid soaps, face masks, sanitizers and serviette towels was not supported by a list of the beneficiaries.

In the circumstances, the occurrence and regularity of the emergency disbursement amounting to Kshs.3,216,400 could not be confirmed.

3. Unsupported Expenditure on Strategic Plan

The statement of receipts and payments and as disclosed in Note 5 to the financial statements reflects an amount of Kshs.6,986,112 on use of goods and services which includes an expenditure of Kshs.1,285,000 vide payment voucher number 20 dated 19 August, 2021 to a consulting firm for preparation and review of strategic plan for the constituency through Request for Quotations. However, the strategic plan prepared and reviewed by the consultant was not provided for audit review.

Further, payment vouchers and other supporting documents revealed that the Management procured goods and services worth Kshs.2,694,320 from various suppliers. Although the goods were procured through request for quotation, supporting documents such as quotation opening register, Evaluation Committee minutes, the award letters, counter receipt vouchers (S13) and counter requisition and issue vouchers (S11) were not provided for audit.

In the circumstances, the occurrence of the expenditure of Kshs.3,979,320 could not be confirmed.

4. Unsupported Expenditure on Bursary

The statement of receipts and payments and as disclosed in Note 7 to the financial statement reflects an amount of Kshs.137,725,336 in respect to other grants and other transfers which includes bursary for secondary schools and tertiary institutions totalling to Kshs.86,218,226. However, bursary disbursed amounting to Kshs.39,755,026 was not supported by acknowledgement from the benefiting institutions, minutes of the Bursary Committee and where supported, the minutes were not signed. The schedule of the beneficiary students also did not indicate the admission numbers of the students.

In the circumstances, it was not possible to confirm the regularity and occurrence of the expenditure of Kshs.39,755,026.

5. Unsupported Security Projects

The statement of receipts and payments and as disclosed in Note 7 to the financial statement reflects an amount of Kshs.136,440,336 in respect to other grants and other transfers which includes Kshs.33,137,236 incurred on security projects. However, examination of payment vouchers and other supporting documents revealed that an amount of Kshs.8,250,000 was spent on construction of Masogo DO residential house and construction of Chiefs' Offices at Kano, Fort Ternan and Ombeyi locations. Although the project was budgeted for, the same was not supported with Bills of quantities, minutes of Opening Tender Committee, evaluation report, professional opinion, contract agreement and certificate of practical completion from the works department.

In the circumstances, the regularity of the expenditure of Kshs.8,250,000 could not be confirmed.

6. Unsupported Transfers to Other Government Units

The statement of receipts and payments and as disclosed in Note 6 to the financial statement reflects transfers to other Government units amount of Kshs.30,880,000 in

respect to implementation of projects in various primary and secondary schools. However, examination of payment vouchers, supporting schedules and minutes of the NGCDF Committee revealed that expenditure amounting to Kshs.16,450,000 were not properly supported as follows: -

- (i) Some of the project files did not contain invitation to tender or advertisements. It was therefore not clear how the bidders were outsourced
- (ii) Appointment letters for the Tender Opening and Evaluation Committees were not provided for audit. It was therefore, not clear how the Committees were appointed.
- (iii) Notification to unsuccessful bidders were not provided for audit.
- (iv) Certificates of Practical Completion for some of the projects were not provided for audit. It was therefore not possible to ascertain whether the works were satisfactorily done and in accordance with the specification in the Bills of Quantities.
- (v) Minutes of both Opening and Evaluation Committees were not provided for audit.

In the circumstances, it was not possible to confirm the regularity of the expenditure of Kshs.16,450,000.

7. Lack of Ownership and Valuation Documents

Included in the summary of fixed assets balance of Kshs.43,459,560 reflected in Annex 4 to the financial statement is an office block with a total value of Kshs.17,000,000. However, the land on which the office was constructed was excluded from the register and the summary of the fixed assets balance of Kshs.43,459,560. Further, the constituency had only an allotment letter for the land. The accuracy of the office block balance of Kshs.17,000,000 could not be confirmed since no valuation was carried out.

In addition, the constituency's fixed assets reflect transport equipment with a total value of Kshs.23,000,520 which includes a Toyota Double Cabin, a Grader and a Motor Cycle whose log books were not provided for audit. Physical verification revealed that they were all grounded outside the NGCDF compound for undetermined period.

In the circumstances, it was not possible to confirm the ownership and accuracy of the fixed assets balance of Kshs.42,656,137.

8. Compensation of Employees - Unexplained Deductions of Salary Payments

The statement of receipts and payments under Note 4 reflects compensation of employees amount of Kshs.6,928,270 which includes basic salaries totalling to Kshs.3,546,000. It was however, noted that during the year under review, a total of Kshs.90,000 was deducted from the staff salary.

The deduction started way back in April, 2018 and February, 2019 for nine office assistants and one driver employees resulting in cumulative total deductions of

Kshs.263,250, and Kshs.21,750 respectively totalling to Kshs.375,000. No explanation was given for the salary deductions which is contrary to the respective employee's appointment letters.

Further, examination of the payroll records and payment vouchers provided for audit revealed that although two staff were given salary increment of Kshs.10,000 each, scrutiny of their personal file showed that the staff were not promoted. No explanation was given why the staff were paid more than what is stipulated in their appointment letters.

In the circumstances, the validity of the employees' expenditure and deductions 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 - Muhoroni 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 adverse 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

1. Budgetary Control and Performance

The summary statement of appropriation reflects final receipts budget and actual on comparable basis totalling to Kshs.251,291,212 and Kshs.225,202,333 respectively, resulting to an underfunding of Kshs.26,088,879 or 10% of the budget. Similarly, the Fund spent Kshs.185,595,693 against an approved budget of Kshs.251,291,213 resulting to an under expenditure of Kshs.65,695,520 or 26% of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the residents of Muhoroni Constituency.

2. Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources. The report on progress on follow-up of the auditor's recommendations in the financial statements for the year under review indicates that some of the issues had been resolved and work to resolve the remainder was ongoing as at 30 June, 2022 and the actual status of all the issues will be confirmed after they are discussed by the Oversight Committee.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

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, because of the significance of the matters discussed in the Basis for Adverse Opinion and the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Failure to Establish an Internal Audit Function and Audit Committee

The Fund does not have an internal auditor in place. Further, review of the key entity information and management in the financial statements indicate that the constituency had not established an Audit Committee. This is contrary to Section 73(1) which provides that every National Government entity shall ensure that it complies with this Act and has appropriate arrangements in place for conducting internal audit according to the guidelines of the Accounting Standards Board and Section 73(5) of the Public Finance Management Act, 2012 provides that; every National Government public entity shall establish an Audit Committee whose composition and functions shall be as prescribed by the regulations.

In the circumstances, the Constituency did not benefit from the assurance and advisory services from the internal audit function as well as oversight from the Audit Committee.

2. Lack of Approved ICT Policy and IT Strategic Committee

A review of the ICT structure and its strategies revealed that the Institution did not have in place an approved ICT policy, an ICT Strategic Committee, a Data Security Management Policy or an approved back up policy. Further, a review of the staff files revealed that there was no officer in charge of ICT. This is contrary to Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015 which states that Accounting Officers shall ensure that the national government entity develops risk management strategy which include fraud prevention mechanism and a system of risk management and internal control that builds robust business operations.

In the absence of ICT strategy, ICT Policy and robust back up plans, the Institution is exposed to possible loss of data, resources and disruption of operations in case of a disaster or calamity.

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 controls, 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 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 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 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

01 August, 2023