

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MANDERA NORTH CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2017

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 5 to 28, which comprise the statement of financial assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts 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 Mandera North Constituency as at 30 June 2017, 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.

In addition, and as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that public money has not been used lawfully and in an effective way.

Basis for Qualified Opinion

1. Cash and Cash Equivalents

The statement of assets reflects a bank balance of Ksh.11,481,898.10 as at 30 June, 2017. The balance was supported by certificate of bank balances, cash book, bank statement and bank reconciliation statement. However, a review of the bank reconciliation statement for the month of June 2017 revealed stale cheques amounting to Kshs.1,052,371.2 reflected as payments in cash book not yet recorded in the bank statement (Unrepresented Cheques). Some of the cheques which were paid to various learning institutions in 2014 being payment of bursaries to needy students and Kenya Revenue Authority continued to reflect as unrepresented cheques. Further, no explanation was given why the cash book was not updated.

In the Circumstances, the accuracy, completeness and validity of the cash and cash equivalents balance of Ksh.11,481,89 reported in the statement of assets could not be ascertained as at 30 June 2017.

2. Award of Contracts for Primary School Projects

The National Government Constituency Development Fund – Mandera North disbursed an amount of Kshs.8,050,000 to various project management committees (PMCs) as grants for implementing projects in various primary schools within the Constituency for the year under review. It was however observed that the Public Procurement and Disposal Act, 2015 and the Regulations 2006 were not complied with in the procurement of these projects. Some of the projects were procured through request for quotations against the provisions of the threshold matrix as contained in the mentioned regulations. Further, there were no contract agreements signed between the contractors and the Project Management Committees as required by section 135 (2) of the Public Procurement and Disposal Act, 2015. It was further noted that the payments were not supported with inspection and acceptance committee reports, certificate of practical completion and Hydro-geological survey and post drilling report for borehole drilled at Domog primary school.

In the circumstances, the propriety of the expenditure of Kshs.8,050,000 could not be ascertained.

3. Award of Contracts for Secondary School Projects

During the financial year under review, the National Government Constituency Development Fund – Mandera North disbursed an amount of Kshs.8,050,000 to various Project Management Committees as grants for implementing projects such as construction of laboratory, fencing works and construction of a dining Hall in various secondary schools within the Constituency. It was however noted that tender opening register and evaluation reports for the projects were not made available for audit review. Further, the confidential business questionnaire, Form of tenders and tender questionnaire of the winning bidders were not filled as required by procurement laws. It was further noted that the payments were not supported with certificate of practical completions and inspection and acceptance committee reports.

Under the circumstance, it was not possible to ascertain whether the projects were implemented in accordance with the project specifications and whether the expenditure of Kshs.8,050,000 was accounted for as at 30 June 2017.

4. Unaccounted for Bursary Expenses

In the financial year 2016/2017, the National Government Constituency Fund Committee for Mandera North Constituency disbursed bursaries amounting to Kshs.19,926,000 to various tertiary institutions and secondary schools for the benefit of needy students. However,

examination of payment vouchers and its supporting documents revealed that an amount of Kshs.1,952,200 disbursed to various institutions has not been acknowledged through official receipts or acknowledgement letters by the beneficiary institutions.

Further, cheque dispatch register was not maintained to record the cheques that were issued out, the level of studies for the beneficiaries was not indicated in the supporting payment schedules and minutes of the vetting committee were neither attached to the payment vouchers nor availed for audit review hence it was not possible to ascertain the criteria used in vetting the beneficiaries.

Consequently, the propriety of the expenditure of Kshs.1,952.200 could not be ascertained as at 30 June 2017.

5. Non-Appointment of the Constituency Oversight Committee

During the year under review, it was observed that constituency oversight committee was not appointed as required by section 53(1) of the National Government Constituency Development Fund Act, 2015. No reason was given for not appointing the committee. Consequently, it was not clear how the Fund operated without oversight committee.

6. Non-Maintenance of Financial and Accounting Records for The Project Management Committee

It is a requirement as per section 15(10)(a) and 10(b) of the National Government Constituency Development Fund Regulations, 2016 to maintain records of Bank accounts opened by project management committees and to prepare and table quarterly reports. Contrary to the regulations, it was noted that records of bank accounts held by the various project management committees such as bank statements and cashbooks were not maintained by the National Government Constituency Development Fund Mandera North office. There was no bank reconciliation statement for the Project Management Committee accounts.

Under the circumstances, it was not possible to ascertain whether the funds disbursed to the Project Management Committees accounts were used for the intended purposes and accounted for as at 30 June 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund –Mandera North in accordance with ISSAI 30 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 our professional judgment, were of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

Budgetary Control and Performance

The statement of budget appropriation revealed that during the year under review, the Mandera North National Government Constituency Development Fund had an approved budget amounting to Kshs.117,790,478. Out of the Kshs.117,790,478 approved budgeted, an amount of Kshs.35,393,925 was unspent balance from the financial year 2015/2016. Budget utilization on receipts and expenditure are as follows: -

Item	Budget (Kshs)	Actual (Kshs)	Variance (Kshs)	% Utilization
Receipts	117,790,478	86,842,202	30,948,276	74%
Expenditure	117,790,478	75,360,304	42,430,174	64%

The above analysis reflects actual receipts of kshs.86,842,202 against budgeted amount of kshs.117,790,478 resulting to underfunding of kshs.30,948,276 or 26% of the funds budgeted for the year. Further, the Fund spent an amount of Kshs.75,360,304 against a budgeted amount of Kshs.117,790,478 resulting to under expenditure of kshs.42,430,174 or 36% of the approved budget as detailed below: -

Item	Approved Budget (Kshs)	Actual Expenditure (Kshs)	Under Expenditure (Kshs)	% Difference
Compensation of employees	3,361,477	2,118,000	1,243,477	37%
Use of goods and services	9,930,974	8,240,410	1,690,564	17%
Transfer to other Government units	66,963,897	36,763,897	30,200,000	45%
Other grants and transfers	37,449,556	28,237,997	9,211,559	25%
Acquisition of assets	2,500	0	2,500	100%
Other payments	82,075	0	82,075	100%
Total	117,790,478	75,360,304	42,430,175	36%

No explanation was given why the funds were not fully utilized as budgeted for. The underutilization of the funds deny the constituents the planned and budgeted services.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with [International Financial Reporting Standards/International Public Sector Accounting Standards-Cash Basis and for such 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.

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

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.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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.

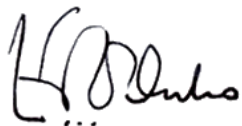
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Fund's 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 going concern 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's 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's 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 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

25 September 2018