

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - WAJIR EAST 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 - Wajir East Constituency set out on pages 6 to 23, which comprise the statement of financial assets as at 30 June 2017, 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 paragraph, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund-Wajir East 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 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 funds have not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Fixed Assets

The financial statements of NG-CDF Wajir East vide Annex 4 reflect fixed asset balance of Kshs.8,686,941 which consists of buildings and structures (Kshs.5,000,000) office equipment, furniture and fittings (Kshs.3,186,941) and ICT equipment, software and other ICT assets (Kshs.500,000) as at 30 June 2017. However, the management did not maintain a fixed assets register to record the assets owned. Further, ownership document for the land where the building of the NG-CDF is to be constructed was not made available for audit review.

In addition, there was no valuation report for the assets maintained and therefore balances and nature of the fixed assets disclosed were not supported with sufficient evidence as required by section 136 of the Public Finance Management Regulations, 2015.

Under the circumstances, it has not been possible to ascertain the completeness and accuracy of the balances and nature of the fixed assets disclosed in the financial statements.

2. Irregular Procurement of Schools Projects

2.1 Procurement of Secondary Schools Projects

During the year ended 30 June, 2017 NG-CDF Wajir East incurred an amount of Kshs.18,200,000 on procurement of secondary school projects out of which projects worth Kshs.9,400,000 had anomalies. A review of the supporting documents and other records revealed that the projects were not procured in accordance with the Public Procurement and Asset Disposal Act, 2015. Further, payments were not supported with contract documents such as notification to successful and unsuccessful bidders and certificates of practical completion. The projects with anomalies were;

| Project | Payee | Amount (Kshs.) |
|-------------------------------------|--------------------------------|------------------|
| Supply of furniture and fitting | Wajir Special Secondary School | 3,900,000 |
| Installation of plastic water tanks | Sabunley Secondary School | 5,500,000 |
| | TOTAL | 9,400,000 |

In addition, copies of tender evaluation and opening minutes were not attached to the payment vouchers and were not made available for audit review. There was no tender notice for the projects hence it was not clear what evaluation criteria was used in evaluating the projects.

2.2 Irregular Procurement of Primary Schools Projects

During the year under review, the NG-CDF Wajir East spent an amount of Ksh.5,400,000 for procurement of primary school projects. It was however noted that although the bills of quantities from the bidders were availed, the same were neither signed nor stamped by the bidders. Further the tenderers' names were not indicated in summary page of the bill of quantities. It was therefore difficult to identify the bidders who filled in each of the BQs mentioned. Further the tender opening committee did not sign one or more pages of the bill of quantities as required by Public Procurement and Asset Disposal Act, 2015. It was further noted that the payments were made without certificates of practical completion.

Physical verification carried out on 18 November, 2017 on the projects revealed that although the projects were completed, they were not labelled to show that the projects were funded by NG-CDF Wajir East Constituency and relate to the financial year under review.

In view of the foregoing, it has not been possible to ascertain the regularity and value for money for the expenditure of Kshs.14,800,000.

3. Implementation of Security Projects

A review of the records revealed that Kshs.9,560,290 was used for security projects out of which Kshs.5,600,000 had various anomalies. The payments were not supported with contract documents such as notifications of both successful and unsuccessful bidders and minutes of inspection and acceptance committees. It was further noted that the tender documents for the contracts were not evaluated as required by the Public Procurement and Asset Disposal Act, 2015. It was therefore not clear how the bidders were identified.

In view of the foregoing, the propriety of the expenditure amounting to Kshs.5,600,000 could not be ascertained.

4. Payment for Car Hire Services

During the year under review an amount of Kshs.1,460,000 was spent on car hire services during monitoring and evaluation exercises. However, a review of the payments revealed that there were no copies of log books, insurance covers and temporary work tickets of the vehicles purported to have been used for the exercise.

As a result, it was not possible to ascertain the authenticity of the expenditure of Kshs.1,460,000 on car hire services.

5. Unsupported Committee Expenses

During the year under review, the management incurred an amount of Kshs.1,773,000 on payment of committee expenses which included allowances, monitoring and evaluation expenses and office administration costs. The payments were however not supported with signed payment schedules, reports and minutes of the CDFC meetings. In some cases, the minutes supporting the payments were not confirmed by the chairman, creating doubt on the genuineness of the expenditure.

Consequently, the authenticity of the payments of Kshs.1,773,000 could not be confirmed.

6. Unaccounted for Bursaries Expenses

An amount of Kshs. 3,643,000 was paid as bursary to needy students during 2016/2017 financial year. However, examination of available records revealed that although the money was purported to have been paid to various institutions where the students from the constituency were learning, there were no official receipts or acknowledgement letters from the institutions.

Under the circumstance, it has not been possible to confirm whether the Kshs.3,643,000 benefited the needy students or was used for the intended purposes and was properly accounted for.

7. Unsupported Emergency Expense

During the year under review, the NG-CDF Wajir East spent Ksh.2,070,000 on purported emergency expenses such as car hire for Kshs.1,000,000 and purchase of fuel and CDFC allowances for Kshs.1,070,000. However, examination of payment vouchers and the

supporting documents revealed that the payments were not supported with the minutes of NG CDFC, temporary work tickets to show the record of journey and authority on the same. It was further noted that the fuel procured was not accounted for through fuel records such fuel register and detail orders.

Under the circumstances, it has not been possible to ascertain the regularity of the expenditure of Kshs.2,070,000 on emergency.

8. Unaccounted for Other Payments

During the year under review, NG-CDF Wajir East spent an amount of Kshs.7,500,000 on other payments. However, according to the approved budget the Fund had a budgetary allocation of Kshs. 7,203,448. This means that the Fund had an over expenditure of Kshs.296,552 on this item. There was no reallocation done for the item and no explanation was made as to why the funds exceeded its budgetary allocation on this item.

In addition, the expenditure was incurred on hire of motor vehicles for monitoring and evaluation exercises, delivery of emergency supplies and chain link fence for NG-CDF Wajir East office. Examination of records available relating to the expenditure revealed that payments amounting to Kshs.4,605,000 had the following anomalies:-

- (i) Car hire services for delivering emergency supplies were directly procured from the supplier without floating request for quotations and there was no work ticket for the vehicles purported to have been hired. No proper explanation was made as to why the services were not competitively sourced.
- (ii) There was no signed contract agreement between the car hire service provider and NG Wajir East CDF Project Management Committee.
- (iii) Lists of the projects visited and the report of the monitoring and evaluation team for the projects visited were not availed for audit review.
- (iv) The Project file for the construction of a chain link fence at Wajir East NG-CDF office was not availed for Audit verification.

In view of the foregoing, it was not possible to confirm the expenditure of Kshs.4,605,000 as a correct charge to public funds.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Wajir East Constituency 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 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. 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

1.0 Budget and Budgetary Control

1.1 Budget Performance Analysis

During the year under review, National Government Constituencies Development Fund-Wajir East had a budget of Kshs.88,036,680 consisting Kshs.84,296,552 for the financial year 2016/2017 and unspent balance of Kshs.1,740,128 from the financial year 2015/2016 and unfunded budget of Kshs.1,999,950 for financial year 2016/2017.

The NG CDF analysis of budget against actual expenditure for the year under review is given as follows: -

1.2 Under/Over Expenditure

| Item | Budgeted (Kshs) | Actual (Kshs) | Under/Over (Kshs.) |
|-------------------------------------|----------------------|----------------------|---------------------|
| Compensation to Employees | 2,000,344.00 | 1,998,500.00 | 1,844.00 |
| Use of goods and services | 8,380,554.00 | 4,382,044.00 | 3,998,510.00 |
| Transfers to Other Government Units | 37,952,180.00 | 37,614,862.00 | 337,318.00 |
| Other grants and transfers | 32,500,154.00 | 32,771,618.00 | (271,464.00) |
| Other Payments | 7,203,448.00 | 7,500,000.00 | (296,552.00) |
| TOTAL | 88,036,680.00 | 84,267,024.00 | 3,769,656.00 |

The National Government Constituency Development Fund Wajir East spent an amount of Kshs.84,267,024 or 96% of the total budgeted allocation for the period under review. This means, the National Government Constituency Development Fund management under spent Kshs.3,769,656 or 4% of its allocation.

No explanation was given for not using in full the funds allocated to benefit the constituents. It was further noted that the fund exceeded its budget on other grants (Kshs.271,464.00) and other payments (Kshs.296,552). No explanation was made for the over expenditure on these items.

Responsibility 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 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 as a going concern/ sustain services, disclosing, as applicable, matters related to going concern/ sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

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 of Kenya. 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 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:-

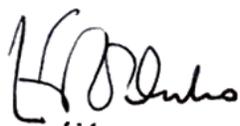
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 as a going concern. 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 as a going concern.
- 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 of the entities or business activities to express an opinion on the financial statements.

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 July 2018