

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - WAJIR 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 - Wajir North Constituency set out on pages 7 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 of Opinion section of my report, the financial statements presents, in all material respects, the financial position of the National Government Constituency Development Fund – Wajir North Constituency as at 30 June 2017, and of its financial performance and its cash flow for the year then ended, in accordance with International Public Sector Accounting Standards Board and complies with the National Government Constituencies Development Fund Act, 2015.

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

Basis for Qualified Opinion

1. Irregular Procurement of Water Projects

During the year ended 30 June 2017, Wajir North Constituency procured and implemented water projects amounting to Kshs.38,970,741. The Contracts for the projects were awarded by Project Management Committees to various contractors in respect of excavation and desilting of water pans within the Constituency. However, the following anomalies were noted: -

- (i) Contracts for desilting of Korondile Mega Water pan, construction of new Qarsa Abula water pan and excavation of Kobole water pan amounting to Kshs.9,995,405, Kshs.7,992,000 and Kshs.7,993,336 respectively were procured through local tender notice. However, the tender notices did not set the criteria to be used for the evaluation of tenders for the projects. The projects were not procured through open tender as required by Section 96(2) of the Public Procurement and Asset Disposal Act, 2015 and the threshold matrix as contained in the Public Procurement and Disposal Regulations, 2006.

- (ii) Projects amounting to Kshs.12,990,000 were procured through request for quotations. The quotations were however not made available for audit review.
- (iii) Some of the BQs for the winning bidders had arithmetical errors which were not detected and corrected by the evaluation committees, an indication that there were no proper evaluation carried out for the projects.
- (iv) Contingencies and supervision cost amounting to Kshs.1,639,004.50 which have been provided for in the BQs were paid to the contractors. The same were however not supported with payment schedules.

Under the circumstances, it has not been possible to ascertain whether the Fund got value for money for the projects implemented costing Kshs.25,980,741 as at 30 June 2017.

2. Unaccounted for Bursary

The NG- CDFC for Wajir North Constituency disbursed bursaries amounting to Kshs.33,092,897 to various institutions for the benefit of needy students. However, examination of records available revealed that an amount of Kshs.7,179,000 disbursed to various institutions has not been acknowledged through official receipts or acknowledgement letters by the beneficiary institutions. It was therefore not possible to confirm whether the bursary funds were spent for the intended purpose and for the benefit of the needy students. The expenditure of Kshs.7,179,000 remained unaccounted for as at 30 June 2017.

3. Unsupported Emergency Expenses

An amount of Kshs.1,420,000 was used for emergency activities in Wajir North Constituency. However, audit review of available records that were used to support the payments revealed that the expenditure was not properly supported with minutes of NG-CDF Committee to confirm the emergencies were identified and deliberated contrary to Section 12(5) of NG CDF Act 2015.

Under the circumstances, it has not been possible to ascertain the propriety of the expenditure of Kshs.1,420,000 as at 30 June 2017.

4. Procurement of Primary Schools Projects

During the year under review, Wajir North Constituency procured Primary School projects amounting to Kshs.43,686,340. However, examination of payment vouchers, projects files, BQs and other tender documents revealed that the payments were not supported with certificate of practical completion, the BQs were not signed by the tender opening committee and in some cases contract agreement were not signed between the contractors and the project management committees (PMCs).

In the circumstance, it has not been possible to ascertain the propriety of the expenditure of Kshs.43,686,340 as at 30 June 2017.

5. Unsupported Committee Allowance

The NG-CDF Wajir North spent an amount of Kshs.693,000 on payment of committee allowances during Monitoring and Evaluation (M&E) exercise. The payments were however not supported with lists of the projects visited and monitoring and evaluation reports for the projects purported to have been visited and the work tickets of vehicles used during the exercise. Payment of allowances to Constituency Development Fund Committee amounting to Kshs.134,000 was not supported with Minutes of the CDFC meeting held. It was further noted that some of the CDFC members who were not in the monitoring and evaluation exercise were irregularly paid allowances.

Under the circumstances, the propriety of the expenditure of Kshs.827,000 could not be ascertained.

6. Unsupported Communications, Supplies and Services Expenditure

During the year ended 30 June 2017, the National Government Constituencies Development Fund-Wajir North Constituency incurred Kshs.674,000 on Communications, Supplies and Services. The expenditure was utilized on CDFC sitting allowances, Monitoring and Evaluation allowances and car hire services. Examination of payment vouchers and other supporting documents revealed that the expenditure was not supported with payment schedules indicating names, details and signature of the CDFC and monitoring and evaluation team, lists of the projects visited and monitoring and evaluation reports for the projects visited and the mode of transport used by the committee during the monitoring and evaluation was not indicated since the payment vouchers were not supported with work ticket/bus tickets. Further, car hire service worth Kshs.200,000 paid vide voucher No.84 of 17/1/2017 was not supported with temporary work tickets showing the areas visited. In addition, there was no valid contract agreement between the service provider and the CDFC Wajir North.

Under the circumstances, it has not been possible to ascertain the authenticity of the expenditure of Kshs.674,000 as at 30 June 2017.

7. Procurement Of Secondary School Projects

An amount of Kshs.5,280,000 was used to procure projects for the Secondary School in the constituency. However, examination of payment vouchers and other records such as project files and bills of Quantities revealed the following anomalies:-

- (i) Although the bill of quantities from the bidders were provided, they were neither signed nor stamped by the tenderers, further the tenderers names were not indicated in the summary page of the bill of quantities, thus it was difficult to ascertain the firms which participated in the tender
- (ii) One or more pages of the bill of quantities were not signed by the tender committee (PMCs) as required by section 78(9) of the Public Procurement

and Asset Disposal Act 2015.

- (iii) Full payments were made to contractors for some of the projects. The payments were however not approved by the CDFCs.
- (iv) Project file for the renovation of 4no. classrooms, Dormitory and administration block for Korondile Secondary School was not availed for audit verification. It was therefore not possible to ascertain whether procurement of the projects was done in a fair and competitive manner.

Consequently, the propriety of the expenditure of Kshs.5,280,000 could not be ascertained.

8. Outstanding Prior Years Audit Issues 2015/2016

The management of NG-CDF Wajir North Constituency did not respond to all the issues raised in the report for 2015/2016 financial year and therefore they remained unresolved.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Wajir North 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 our professional judgment, are of most significance in the audit of the financial statements. Except for the matters discussed 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

Budget and Budgetary Control

During the year under review, National Government Constituencies Development Fund - Wajir North had a budget of Kshs.166,590,543 consisting Kshs.152,006,443 for the financial year 2016/2017 and unspent balance of Kshs.12,984,100 from the financial year 2015/2016. The analysis of budget against actual expenditure for the year under review is as below:-

Under/Over Expenditure

Item	Budgeted (Kshs)	Actual (Kshs)	Under (Kshs.)
Compensation to Employees	2,770,607.00	2,770,607.00	-

Use of goods and services	6,431,085.20	6,431,085.20	-
Transfers to Other Government Units	67,085,051.02	64,889,840.00	2,195,211.02
Other grants and transfers	90,303,800.50	89,788,923.50	514,877.00
Total	166,590,543.72	163,880,455.70	2,710,088.02

The NG-CDFs for Wajir North spent an amount of Kshs.163,880,455 or 98% of the total budgeted allocation for the period under review. This means the management under spent Kshs.2,710,088 or 2% of the budgetary allocation.

No explanation was given for not fully utilizing the funds allocated to benefit the constituents.

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 Accrual 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 going concern 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 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, but not 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.
- 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

26 July 2018