

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MANDERA WEST CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2018**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Mandera West Constituency set out on pages 6 to 39, which comprise the statement of financial assets as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation: recurrent and development combined 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 National Government Constituencies Development Fund - Mandera West Constituency as at 30 June 2018 and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and complies with the National Government Constituencies Development Fund Act, 2015.

### **Basis for Qualified Opinion**

#### **1. Award of Contracts for Primary School Projects**

Included in the transfer to other government entities balance of Kshs.14,421,550 is Kshs.9,097,500 relating to transfer to primary schools. However, a review of the projects records revealed the following anomalies;

- (i) Some of the companies awarded the contracts lacked vital tender documents which were mandatory requirements in the evaluation criteria such as certificate of incorporation and tax compliance certificate contrary to Section 80(2) of the Public Procurement and Asset Disposal Act, 2015.
- (ii) There were no work plans prepared contrary to Section 25(1) of the National Government Constituencies Development Fund Regulations, 2016.
- (iii) Further, there were no letters of acceptance of offer by the contractors as well as delivery notes for desks delivered to 3 primary schools in Takaba-Lagsure ward.

- (iv) The desks were also not received vide counter receipt note (S13) nor recorded in the ledger register. Further, they were not issued out vide counter issue note (S11) as required by stores regulations.
- (v) The original bills of quantities for some of the projects had cancellation and adjustments of figures which were not counter signed by the tenderers.

Under the circumstances, the propriety of the expenditure of Kshs.9,067,500 as at 30 June 2018 could not be ascertained.

## **2. Unaccounted for Bursary Fund**

Included in the other grants and other payments balance of Kshs.26,270,871 reflected under note 7 to the financial statements is an expenditure on bursaries for secondary schools and tertiary institutions amounting to Kshs.18,108,700 which in turn includes Kshs.2,148,000 relating to these bursaries. A review of the expenditure revealed that the bursaries had not been acknowledged through official receipts or letters by the beneficiary institutions. Further, cheque dispatch register was not maintained.

In addition, it was noted that the minutes of the bursary vetting committee were not availed for audit review. It was therefore not possible to ascertain the criteria used in vetting the beneficiaries.

Consequently, the probity of the expenditure on bursaries of Kshs.2,148,000 as at 30 June 2018 could not be ascertained.

## **3. Unsupported Committee Expenses**

Included in the use of goods and services balance of Kshs.9,171,845 reflected under note 5 to the financial statements is an expenditure relating to other committee expenses and committee allowance all amounting to Kshs.1,582,000. However, out of these, an amount of Kshs.890,000 had no supporting documents such as work tickets for the vehicles hired, monitoring and evaluation reports, Constituency Development Fund Committee meeting minutes, invitation letters and meeting attendance registers. Further, some of the committee members drew allowances in order to carry out need assessment of the constituents. However, the report on need assessment was not availed for audit verification.

Under the circumstances, the probity of the expenditure of Kshs.890,000 as at 30 June 2018 could not be confirmed.

## **4. Non-Maintenance of Financial Records for the Project Management Committees**

Records of the bank accounts held by the various Project Management Committees and the quarterly reports to the constituency committee were not maintained by the Fund management. There were no PMC's bank statements and cash books maintained and subsequently no reconciliations were carried out for the PMCs accounts.

Consequently, it was not possible to ascertain whether the funds or grants disbursed to the PMCs were properly managed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Mandera West 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 qualified 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 section, I have determined that there are no key audit matters to communicate in my report.

### **Other Matter**

#### **1. Budgetary Control and Performance**

##### **1.1 Budget Performance Analysis**

Review of summary statement of budget appropriation: recurrent and development revealed that during the year under review, the Fund had an approved budget amounting to Kshs.129,592,543, out of which an amount of Kshs.42,782,198 was unspent balance for the financial year 2016/2017. Budget utilization on receipts and expenditure are as detailed below: -

<b>Item</b>	<b>Budget Kshs</b>	<b>Actual Kshs</b>	<b>Difference Under Kshs</b>	<b>Actual % of Budget</b>
Receipts	129,592,543	56,808,059	72,784,484	56%
Expenditure	129,592,543	51,927,111	77,665,432	59.9%

The above analysis reflects actual receipts of Kshs.56,808,059 against budgeted amount of Kshs.129,592,543 resulting in a short fall of Kshs.72,784,484 representing 56% of undisbursed funds from the National Government Constituencies Development Fund Board.

Further, the Fund had an under expenditure of Kshs.77,665,432 representing 59.9% of the approved budget of Kshs.129,592,543.

##### **1.2 Under Expenditure on Overall Budget**

The Fund recorded an overall 59.9% under expenditure during the year under review as follows: -

Item	Approved Budget Kshs.	Actual Expenditure Kshs.	Under Expenditure Kshs.	% Difference
Compensation of employees	1,876,102	1,412,758	463,344	24.6
Use of goods and services	12,080,178	9,171,910	2,908,268	24
Transfer to other Government units	70,066,551	14,421,550	55,645,001	79
Other grants and transfers	42,581,175	26,270,871	16,310,304	38
Acquisition of assets	550,022	550,022	0	100
Other payments	2,438,514	100,000	2,338,514	95.9
<b>Total</b>	<b>129,592,543</b>	<b>51,927,111</b>	<b>77,665,432</b>	<b>59.9</b>

From the analysis above, the Fund realized under expenditure in 5 out of the 6 items during the year under review.

### 1.3. Project Implementation and Management

During the year under review, the Fund allocated Kshs.61,318,207 to 59 projects in various sectors including Education, Security, Sport, Environment and others. Analysis as per Project Implementation Status(PIS) presented for audit review revealed that twenty-one (21) projects were completed, one (1) had not started and thirty-seven (37) projects were on going as analyzed in the table below:-

Sector	Project Status	Project Cost Kshs.	Number of projects
<b>Sports</b>	Complete	1,736,206	3
	Ongoing	0	0
	Not started	0	0
<b>Environment</b>	Complete	1,057,000	9
	Ongoing	0	0
	Not started	0	0
<b>Security</b>	Complete	0	0
	Ongoing	6,050,000	5
	Not Started	0	0
<b>Education</b>	Complete	10,486,465	7
	Ongoing	35,100,000	32
	Not started	0	0
<b>Others</b>	Complete	4,550,023	2

<b>Sector</b>	<b>Project Status</b>	<b>Project Cost Kshs.</b>	<b>Number of projects</b>
	Ongoing		0
	Not started	2,338,514	1

## **2. Appointment of the Constituency Oversight Committee**

The Fund had not appointed Constituency Oversight Committee, contravening Section 53(1) of the National Government Constituency Development Fund Act, 2015.

Under the circumstances, it has not been clear how the Fund operated without an oversight committee.

### **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**

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit so as 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, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

#### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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. In preparing the financial statements, management is responsible for assessing the Fund's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable 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.

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 are in compliance with the authorities which govern them, and that public money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how the entity 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control 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 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 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 judgment 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 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 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 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 June 2019**