

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – DADAAB 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 - Dadaab Constituency set out on pages 6 to 29, 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 -Dadaab Constituency as at 30 June 2018, 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.

### Basis for Qualified Opinion

#### 1. Other Grants and Other Payments

##### 1.1 Unaccounted for Bursary Expenses

Included in other grants and other payments figure of Kshs.27,402,576 under note 7 to the financial statements is an amount of Kshs.10,453,576 for transfers to tertiary institutions bursaries. A review of the expenditure for the expenditure revealed that an amount of Kshs.2,160,000 had no acknowledgment letters from the beneficiary institutions. It was further noted that details like the admission numbers and fees structure were not indicated or availed for audit review. In addition, the Fund did not maintain cheque dispatch register for the bursary cheques issued out.

In the circumstances, the probity of the expenditure of Kshs.2,160,000 as at 30 June 2018 could not be confirmed.

##### 1.2 Emergency Projects – Water Trucking Expenses

Included in the other grants and other payments figure of Kshs.27,402,576 under note 7 to the financial statements is an amount of Kshs.800,000 meant for emergency projects. The management entered into a contract with a local self-help group for the delivery of 20 trips clean water to the constituents vide quotations and the National Government Constituencies Development Funds Committee minutes at a contract sum of Kshs.800,000. Three bidders had quoted for the contract but a self-help group which quoted Kshs.40,000 per trip, won

the contract being the lowest bidder. A full payment was made on 29 March 2018. However, the following anomalies were noted:

- (i) Tender opening and evaluation minutes were not availed for audit confirmation.
- (ii) The supply of water started on 3 August 2017 and ended 18 August 2017 for 20 trips while the invoice No.01 was raised on 6 February 2018, that is 5 months later.
- (iii) The quotations did not indicate the distance to be covered per trip but the same was indicated in the water trucking schedule an indicator of biasness in the award of the contract.
- (iv) The collection source of the water was not indicated in the quotations.
- (v) The point of delivery such as specific settlements i.e. manyattas were not indicated on the quotations thus leading to unfair competition in awarding the contract.

Under the circumstances, the probity of the expenditure of Kshs.800,000 as at 30 June, 2018 could not be ascertained.

## **2. Irregular and Unsupported Transfer to Primary Schools**

Note 6 to the financial statements reflects a figure of Kshs.9,032,562 being transfer to other Government entities which includes Kshs.8,532,562 transfers to primary schools. A review of the expenditure and other supporting documents maintained at the Fund's offices revealed that payments totaling to Kshs.1,200,000 was made to four contractors as 2<sup>nd</sup> payments for ongoing projects, which included construction of classrooms, 10,000 litres water tank and twin pit latrine at Bogyar, Dagahley, Welhar and Kumahumato primary schools. However, the following anomalies were noted:-

- i. Contract agreements between project management committees and the contractors were not availed for audit review.
- ii. Payments were made without interim certificate of completion from resident engineer.
- iii. Progress reports on the ongoing projects were not availed for audit review.

In the circumstances, the probity of the expenditure of Kshs.1,200,000 as at 30 June 2018 could not be confirmed.

## **3. Unaccounted for Committee Expenses**

Note 3 to the financial statements reflects a figure of Kshs.5,005,717 for use of goods and services which includes Kshs.3,052,400 for committee expenses. Audit review of the expenditure and other supporting documents revealed that payments amounting to Kshs.1,247,000 was spent without proper supporting documents as detailed below:

- i. Copies of imprest warrants used to make cash payments were not attached to the sampled payment vouchers as an evidence of the cash source.
- ii. In some cases, mode of transport used by committee members to and from the meeting venues was not indicated.
- iii. List of bursary cheques disbursed during the education day held at Dadaab was not availed to justify the paid committee allowances while gracing the occasion.
- iv. Contract agreements used for the hire of motor vehicles did not indicate the contract period.
- v. There were no temporary work tickets for the hired motor vehicles.

In the circumstances the probity of the expenditure for Kshs.1,247,000 as at 30 June 2018 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit institution (ISSAIs). I am independent of National Government Constituencies Development Fund – Dadaab 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 of the current year under review. Except for the matters described in the Basis for Qualified Opinion section of my report, I confirm that there were no Key Audit Matters to communicate in my report.

**Other Matter**

**1. Budget Control and Performance**

**1.1 Budgetary Performance**

A review of the statement of budget appropriation revealed that during the year under review, the Fund had an approved budget of Kshs.104,521,501. Out of the amount budgeted, an amount of Kshs.6,331,844 was unspent balance for the financial year 2016/2017. Budget utilization on receipts and expenditure is as follows: -

Item	Budget Kshs.	Actual Kshs.	Difference Kshs.	% of Utilization
Receipts	104,521,501	86,810,345	17,711,156	83%
Expenditure	104,521,501	44,445,778	60,360,092	42%

The above analysis reflects actual receipts of Kshs.86,810,345 against budgeted amount of Kshs.104,521,501 resulting in a short fall of Kshs.17,711,156 representing 17% being the undisbursed funds from the NGCDF Board. Further, the Fund spent Kshs.44,445,778 representing 42% of the approved budget.

## 1.2 Under Expenditure on Overall Budget

The Fund recorded an overall 57% under expenditure during the year under review as follows: -

Item	Approved Budget Kshs.	Actual Expenditure Kshs.	Under Expenditure Kshs.	% of Under-Utilisation
Compensation of employees	3,104,973	3,004,923	100,050	3%
Use of goods and services	11,403,469	5,005,317	6,398,152	56%
Transfer to other Government units	33,262,680	9,032,562	24,230,118	73%
Other grants and transfers	52,073,352	27,402,576	24,670,776	47%
Acquisition of assets	0	0	0	
Other payments	4,677,027	0	4,677,027	0%
<b>Total</b>	<b>104,521,501</b>	<b>44,445,778</b>	<b>60,076,123</b>	<b>57%</b>

From the analysis above, the Fund realized under-expenditure of Kshs.60,076,123 for all the items during the year under review.

## 1.3 Project Implementation and Management

During the financial year under review. The Fund allocated Kshs.50,693,835 to 39 projects in various sectors including education, environment, sports and security.

Analysis as per project implementation status (SPI) presented for audit review revealed that no project was completed, seven (7) projects had not started and thirty two (32) project were on going as detailed below:

Sector	Project Status	Project Cost Kshs.	No. of Projects
<b>Education</b>	Complete	0	0
	Ongoing	32,130,721	28
	Not started	2,390,700	2
<b>Security</b>	Complete	0	0
	Ongoing	8,550,000	4
	Not started	4,150,000	3
<b>Sports</b>	Complete	0	0
	Ongoing	0	0
	Not started	1,736,207	1
<b>Environment</b>	Complete	0	0
	Ongoing	0	0
	Not started	1,736,207	1
<b>Total</b>		<b>50,693,835</b>	

Failure to complete the projects within the stipulated period may have denied the Daadab constituents the much-desired services.

## **2. Lack of Permanent Asset Register**

Annex 4 a summary of fixed asset register attached to the financial statements disclosed the value of the fixed assets as Kshs.2,300,000. However, the Fund did not maintain a permanent fixed asset register to record the assets maintained contrary to Section 136 (i) of the Public Finance Management (National Government) Regulations, 2015. Further, it was noted that no valuation was done for the assets.

In the absence of the fixed asset register, it was not possible to ascertain the validity, completeness and accuracy of the fixed assets balance of Kshs.2,300,000 as at 30 June 2018.

## **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 Qualified Opinion section of my report, I confirm that 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 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, based on the audit 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**

My responsibility is to express a conclusion based on the review. The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit so as to obtain assurance as to whether effective processes and systems of internal control, risk management and governance was maintained 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, risk management and 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 going concern basis of accounting, unless the management either intends to liquidate the Fund or to cease operations, or 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 resources are applied in an effective way.

Those charged with governance are responsible for overseeing the 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 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 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 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 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 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**

**7 August 2019**