

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – DADAAB CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019**

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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 33, which comprise the statement of assets and liabilities as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows and the 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 effects 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 2019 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 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Other Grants and Transfers**

The statement of receipts and payments reflects Kshs.63,059,302 for other grants and transfers. The following observations were made regarding the expenditure:

##### **1.1 Unaccounted for Bursary Expenses**

As disclosed under Note 7 to the financial statements, bursaries amounting to Kshs.13,923,000 and Kshs.15,184,228 were disbursed to secondary schools and tertiary institutions respectively. However, acknowledgment letters from the beneficiary institutions for bursaries amounting to Kshs.1,540,000 were not provided. In addition, the Fund did not maintain a cheque dispatch register for the bursary cheques issued out.

In the circumstances, the accuracy and probity of the expenditure of Kshs.1,540,000 on bursaries could not be confirmed.

##### **1.2 Unsupported Water Trucking Expenses**

As disclosed under Note 7 to the financial statements, an amount of Kshs.10,147,965 was spent on emergency projects of which Kshs.2,648,965 was spent on water trucking. The Management had contracted various local self-help groups for the delivery of clean water to the constituents. However, evidence of delivery indicating the places where the water was delivered was not provided.

Under the circumstances, the accuracy and propriety of the expenditure of Kshs.2,648,965 on water trucking could not be ascertained.

## **2. Unsupported Committee Expenses**

The statement of receipts and payments reflects use of goods and services expenditure amounting to Kshs.10,716,596. As disclosed at Note 5 to the financial statements, the expenditure included committee expenses of Kshs.1,200,000. However, duly signed attendance registers and training reports for payments amounting to Kshs.900,000 were not provided for audit.

In the circumstances the accuracy and validity of the expenditure of Kshs.900,000 on committee expenses could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit institution (ISSAIs). I am independent of the National Government Constituencies Development Fund – Dadaab Constituency Management in accordance with ISSAI 130 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. There were no key audit matters to report in the year under review.

### **Other Matter**

### **Budgetary Control and Performance**

The summary statement of appropriation-recurrent and development combined reflects final receipts budget and actual receipts on comparable basis of Kshs.169,116,999 and Kshs.114,075,721 respectively resulting to an under-funding of Kshs.55,041,278 or 33% of the budget. Similarly, the Fund spent Kshs.109,098,414 against an approved budget of Kshs.169,116,999 resulting to an under-expenditure of Kshs.60,018,585 or 35% of the budget.

The under-expenditure was attributed to delayed disbursement of funds from the Board. There is therefore need for the National Government Constituencies Development Fund Board to disburse funds in a timely manner for effective and efficient delivery of services to the residents of Dadaab Constituency.

## 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**

#### **1. Implementation and Management of Projects**

During the year under review, the Fund allocated Kshs.71,112,370 to fifty-three (53) projects in various sectors including education, environment and security. However, according to the project implementation status report provided for audit, eleven (11) projects were still ongoing and seven (7) projects had not started at the end of the financial year.

Delayed completion of projects denies the constituents the benefits that would have been derived from the projects.

#### **2. Lack of Assets Register**

The summary of fixed assets register at Annex 4 to the financial statements does not provide the historical cost for the various asset classes as required. Further, the Fund did not maintain a fixed assets register as required by Regulation 143 of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, it could not be confirmed that proper control systems existed for assets and that preventative mechanisms were in place to eliminate theft, security threats, losses, wastage and misuse as required under Regulation 139 (1) of the Public Finance Management (National Government) Regulations, 2015.

#### **3. Procurement of Supply of Seedlings**

The Fund spent Kshs.1,736,207 on environment projects as disclosed under Note 7 to the financial statements. The Fund Management engaged a Women Self-Help Group to supply seedlings for planting to various institutions within the Constituency. However, the professional opinion issued by the Head of the Procurement Function in accordance with Section 84 of the Public Procurement and Asset Disposal Act, 2015 and inspection and acceptance committee certificates issued as required under Section 48 (4) (e) of the Act were not provided.

In view of the above, the lawfulness of the procurement and the resultant expenditure could not be confirmed.

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**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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, 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 is aware of the intention to either terminate the Fund or to cease operations.

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 Fund 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.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**14 September, 2021**