

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – WAJIR EAST 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 – Wajir East Constituency set out on pages 6 to 39, which comprise of the statement of assets and liabilities as at 30 June, 2019, 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 matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the National Government Constituencies Development Fund – Wajir East Constituency as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with the 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. Inaccuracies in Cash and Cash Equivalents**

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities reflects cash and cash equivalent totalling to Kshs.880,923. However, review of the bank reconciliation statement for the month of June, 2019 reflected unrepresented cheques amounting to Kshs.378,352 which were all stale some dating back to 2012 paid to various learning institutions as bursaries, individuals and Kenya Revenue Authority. However, the cheques were not reversed in the cash book.

Further, the Management omitted the heading of the statement as ‘statement of assets and liabilities’ as per the reporting template.

Consequently, the accuracy, completeness and validity of the cash and cash equivalent balance of Kshs.880,923 reflected in the financial assets as at 30 June, 2019 could not be confirmed.

#### **2. Transfer to Other Government Entities**

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other Government Entities totalling to Kshs.85,081,831. The following observations were noted:

## **2.1 Unsupported Transfer to Primary Schools**

The balance includes transfers to primary schools amount of Kshs.42,851,831 disbursed to various Project Management Committees. Review of records revealed that Management directly awarded contract amounting to Kshs.3,000,000 to a construction firm for supply of primary school desks. However, counter receipt voucher S13, issue voucher (S11) and inspection and acceptance report were not provided.

Further, the Management awarded a contract for the supply of seven hundred and fifty (750) school desks to a firm at a contract sum of Kshs.5,250,000 but paid an amount of Kshs.5,520,000 resulting an unexplained overpayment amounting to Kshs.270,000.

In the circumstances, the accuracy, completeness and validity of the expenditure for supply of school desks totalling to Kshs.8,250,000 for the year ended 30 June, 2019 could not be ascertained.

## **2.2 Unsupported Transfer to Secondary Schools**

The balance also includes transfers to secondary schools' amount of Kshs.42,230,000 disbursed to various Project Management Committees. Management awarded grants totalling to Kshs.12,910,000. However, signed tender evaluation minutes, bank statements, bank reconciliations and cash books held by the various Project Management Committees, acknowledgments from the beneficiary schools, inspection and acceptance committee reports and procurement professional opinion were not provided.

Further, a contract for supply and delivery of eight hundred (800) chambers and chairs to eight (8) secondary schools was awarded to a firm at contract sum of Kshs.5,600,000. However, the project was procured through local notice instead of advertising in the newspapers of nationwide circulation contrary to Section 96(2) of the Public Procurement and Asset Disposal Act, 2015.

In view of the above, the accuracy, completeness and validity of the expenditure of school desks totaling to Kshs.12,910,000 for the year ended 30 June, 2019 could not be ascertained.

## **3. Other Grants and Other Payments**

As disclosed in Note 7 to the financial statement, the statement of receipts and payments reflects other grants and other payments balance of Kshs.38,314,000. The following observations were made:

### **3.1. Unsupported Procurement of Emergency Projects**

The balance includes an amount of Kshs.4,500,000 incurred on emergency projects. However, review of records revealed that contract for the supply of 11,200 liters of diesel as fuel subsidy to various boreholes and water trucking exercises within the Constituency was awarded to a firm at contract sum of Kshs.1,400,000. However, the expenditure was not supported with; tax compliance certificate, requisitions letters from the community, area chiefs or water user's, tender opening and evaluation minutes, updated work tickets, water trucking schedules/acknowledgment letters and a report to the National Government Constituencies Development Board within thirty (30) days.

### **3.2 Unsupported Procurement of Environmental Project**

The balance also includes an amount of Kshs.1,000,000 incurred on environmental projects. However, the Management did not provide signed tender opening committee minutes, tender award committee minutes, list of prequalified suppliers and date of final submission for tenders.

### **3.3 Unsupported Procurement of Security Projects**

Further, included in the balance is an amount of Kshs.10,170,000 incurred on security projects. However, review of records revealed that an amount Kshs.1,900,000 for the renovation and extension of Assistant County Commissioner's Office was not supported with tender notice, tender opening minutes and letters of award and acceptance and signed tender opening committee.

In the circumstances, the accuracy, completeness and validity of the above expenditures totalling to Kshs. 4,300,000 for the year ended 30 June, 2019.

## **4. Lack of Land Title Deed**

As disclosed in Annex 4 to the financial statements, the summary of fixed assets register reflects a balance of Kshs.8,686,941. However, as previously reported, included in the balance is an amount of Kshs.5,000,000 in respect of the Fund's land. However, the ownership documents of the land were not provided.

Consequently, the legality and ownership of the land valued of Kshs.5,000,000 as at 30 June, 2019 could not be ascertained.

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

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

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.154,100,047 and Kshs.136,519,171 respectively, resulting to an under-funding of Kshs17,580,047 or 11% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.154,100,047 and Kshs.135,053,248 respectively, resulting to an under expenditure of Kshs.19,046,799 or 12% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

## **2. Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

## **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. Non-implementation of Projects**

During the period under review, the Fund budgeted to implement a total of seventy (70) projects comprising of sixty-four (64) projects on education and six (6) projects on security. However, thirty-one (31) projects were implemented leaving thirty-nine (39) projects unimplemented.

In the circumstances, I am unable to confirm whether the public obtained value for money from the allocated expenditure on unimplemented projects for the year ended 30 June, 2019.

#### **2. Transfer to Other Government Entities**

As disclosed in Note 6 to the financial statement, the statement of receipts and payments reflects transfers to other Government Entities totalling to Kshs.85,081,831. The balance includes an amount of Kshs.42,851,831 transferred to various Project Management Committees (PMCs) as transfers to primary schools. Management awarded contracts totalling to Kshs.13,750,000 to two (2) firms for the supply of solid timber school desks. However, the desks were procured through local tender notice instead of advertising in

*Report of the Auditor-General on National Government Constituencies Development Fund – Wajir East Constituency for the year ended 30 June, 2019*

the newspapers for nationwide circulation contrary to Section 96(2) of the Public Procurement and Asset Disposal Act, 2015.

Further, the projects were procured without obtaining signed professional opinion on the procurement as required by Section 84 of the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, the probity of the expenditure for supply of school desks of Kshs.13,750,000 as at 30 June, 2019 could not be ascertained.

### **3. Un-Surrendered Imprest**

As disclosed in Note 10 to the financial statements, the statement of assets and liabilities reflects outstanding imprest totalling to Kshs.585,000 which ought to have been surrendered and accounted for on or before 30 June, 2019. This is contrary to Section 93 Subsection 5 of the Public Finance Management Regulations, 2015 which requires imprest be surrendered or accounted for within seven days after return to the work station.

The Management is therefore in breach of the law.

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 overall 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

*Report of the Auditor-General on National Government Constituencies Development Fund – Wajir East Constituency for the year ended 30 June, 2019*

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 overall 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 applicable basis of accounting unless Management is aware of the intention to 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 overall 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 overall 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 applicable 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.



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

**Nairobi**

**01 October, 2021**