

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - WAJIR NORTH CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019

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 6 to 39, which comprise the statement of financial assets and liabilities as at 30 June, 2019 and the statement of receipts and payments, statement of cash flows and 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 the National Government Constituencies Development Fund - Wajir North Constituency as at 30 June 2019 and 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 Public Finance Management Act, 2012 and National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Unexplained Difference in Cash and Cash Equivalents Balance

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.15,778,196 as at 30 June, 2019. However, the cash book balance as at the same period reflects Kshs.7,937,850 resulting to an unexplained difference of Kshs.7,840,346. The Fund did not prepare bank reconciliation statement as at 30 June, 2019 to ascertain the source of the differences.

Consequently, the validity and accuracy of the cash and cash equivalents balance of Kshs.15,778,196 as at 30 June, 2019 could not be confirmed.

2. Transfer to Other Government Entities

2.1 Unsupported Expenditure on Construction of Classrooms

During the year ended 30 June, 2019, the Fund disbursed an amount of Kshs.6,100,000 to Haradul, Beramo and Bute Primary Schools for the construction of classrooms and renovation of one (1) dormitory as indicated below: -

Payee	PV No.	Description	Amount Kshs.
Haradula Primary School PMC	054 of 25/10/2018	Construction of one (1) Classroom	800,000
Beramo Primary School PMC	432C of 15/5/2019	Construction of five (5) Classrooms	2,100,000
Bute Primary School PMC	396 of 18/6/2019	Renovation of Boarding Wing	3,200,000
Total			6,100,000

However, the project files containing tender documents and other relevant supporting documents were not availed for audit review.

In the circumstances, the validity and completeness of the expenditure for the construction of classrooms of Kshs.6,100,000 as at 30 June, 2019 could not be confirmed.

2.2 Unsupported Transfers to Secondary Schools Project

Included in the transfers to other Government units of Kshs.46,885,203 under Note 6 to the financial statements is an amount of Kshs.10,600,000 transferred to various Project Management Committees (PMCs) as transfers to secondary schools. However, a review of payment records and project files availed for audit review revealed that grants totaling Kshs.6,300,000 had the following anomalies: -

The project files availed for audit did not contain tender documents such as confidential business questionnaires, form of tender, tender questionnaires and project handing over report as required. It was therefore not possible to confirm whether the projects were procured in compliance with Public Procurement and Asset Disposal Act, 2015.

- i) The tender opening committee did not append their signature or initial on one or more pages of the bill of quantities and tender documents as required by Section 78 (9) of the Public Procurement and Asset Disposal Act, 2015. It was therefore not possible to ascertain that the minutes were the correct proceeding of the tender opening committees.
- ii) Tender evaluation minutes supporting the payments were not signed by the evaluation committee members contrary to the requirement of Section 80 (7) of the Public Procurement and Assets Disposal Act, 2015 which requires evaluation report to be signed by each members of the evaluation committee. Further, project files for some of the projects did not contain compliance documents such as certificates of corporation, VAT/PIN, NCA and Tax Compliance Certificates.

- iii) Bank statements and cash books for bank accounts held by various Project Management Committees (PMCs) were not maintained by the Fund.

In the circumstances, the validity and completeness of the expenditure on transfers to secondary schools project of Kshs.6,300,000 as at 30 June, 2019 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 – Wajir South 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 statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.173,647,882 and Kshs.118,607,000 respectively resulting to an under-funding of Kshs.55,040,877 or 32% of the budget. Similarly, the Fund spent Kshs.102,828,809 against an approved budget of Kshs.173,647,882 resulting to an under-expenditure of Kshs.70,819,073 or 41% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Wajir North Constituency

1.1 Projects Implementation

During the period under review, the Fund budgeted to implement sixty-eight (68) projects comprising of thirty-seven (37) on education, seven (7) on emergency and twenty-four (24) on security.

From the analysis above, the Fund implemented only about 60% of the projects budgeted for leaving 40% of the budgeted projects not implemented. Non-implementation of development projects affects service delivery to the constituents of Wajir North.

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 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. Transfer to Other Government Entities

1.1 Irregular Procurement of Perimeter Fence at Malaba Primary School

Included in the transfers to other Government units of Kshs.46,885,203 under Note 6 to the financial statements is an amount of Kshs.36,285,203 transferred to various Project Management Committees (PMCs) as transfers to primary schools out of which Kshs.4,798,803 was disbursed to Malaba Primary School Project Management Committee (PMC) for construction of a perimeter fence with gate and sentry box. However, examination of payment records and tender documents availed for audit revealed the following anomalies: -

The Project Management Committees (PMC) procured the projects through local notice instead of open tender in the dailies as required by Section 96 (2) of the Public Procurement and Asset Disposal Act, 2015.

There was no professional opinion on the procurement proceedings in the project file as required by Section 84 of the Public Procurement and Asset Disposal Act, 2015 and the PMC did not prepare a work plan for the project as required by MIN 2/10/2018 on tender notice and work plan dated 8 October, 2018.

In the circumstances, the value for money on procurement of perimeter fence of Kshs.4,798,803 as at 30 June, 2019 could not be ascertained.

1.2 Irregular Procurement of Primary School Desks Project

During the year under review, the Fund Committee directly awarded a contract to Salman and Siblings Company Limited for the supply of seven hundred and twenty (720) primary school desks at a contract sum of Kshs.3,952,800. The desks were procured without competitive bidding contrary to the provisions of Section 36(1) of the National Constituencies Development Fund Act, 2015. It was further noted that the payment was not supported with an inspection and acceptance committee report as required by Section 48(4) (c) of the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, the legality and value for money of the expenditure on procurement of primary school desks of Kshs.3,952,800 as at 30 June, 2019 could not be ascertained.

2. Other Grants and Other Payments

2.1 Irregularities in Procurement of Emergency Projects

Included in the other grants and other payments balance of Kshs.42,911,682 under Note 7 to the financial statements is an expenditure of Kshs.4,750,000 incurred on emergency projects, out of which Kshs.2,100,000 was not properly supported as follows:-

2.1.1 Contract to Supply Diesel

Contract for the supply of 11,428.8 liters of diesel as fuel subsidy to various boreholes within the Constituency was awarded to Maalim Enterprise and General Supply at a contract sum of Kshs.1,600,000. However, review of the tender documents for the bidders revealed the following;

- (i) The Company did not have mandatory compliance document such as valid tax compliance certificate, certificate of corporation and PIN/VAT certificates.
- (ii) There were no requisitions letters from area chiefs or water user's association on the needs for the fuel subsidy. Further, there were no schedules/acknowledgment letter signed by either chief or local elders as an evidence of the delivery of fuels to various centers.
- (iii) There were no minutes of approval for utilization of emergency funds from NG-CDFC. Further, no evidence was also availed to confirm that the utilization of the emergency funds was also reported to the board within thirty days of the occurrence as required by Section 20 sub section (2) of the National Government Constituencies Development Fund Regulation, 2016.

2.1.2 Re-Roofing of Classrooms at Danaba Primary School

A project for re-roofing five (5) classrooms at Danaba Primary School was awarded to a local company for sum of Kshs.500,000. However, the following was noted:

- (i) The Project file containing the mandatory compliance documents such as tax certificate, PIN, certificate of corporation and NCA registration certificate was not provided for audit review.
- (ii) There were no minutes of approval for utilization of emergency funds from NG-CDF Committee. Further, no evidence was availed to confirm that the utilization of the emergency funds was reported to the Board within thirty days of the occurrence as required by Section 20 sub-section (2) of the National Government Constituencies Development Fund Regulations, 2016.

In view of the above, the legality and value for money of the expenditure on emergency projects of Kshs.2,100,000 as at 30 June, 2019 could not be ascertained.

3. Failure to Maintain a Fixed Assets Register

Annex 3 to the financial statements is the summary fixed assets which reflects Kshs.9,889,900 being total assets owned by the Fund as at 30 June, 2019. However, the Fund did not maintain a fixed assets register contrary to Section 143 of the Public Finance Management Regulations, 2015 which states that the accounting officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws. In the absence of detailed fixed assets register, it was not possible to ascertain the balances and the make-up of the fixed assets disclosed.

The Management is therefore in breach of the Act.

In the circumstances, it was not possible to confirm the completeness, accuracy and existence of the assets balance of Kshs.9,889,900 as at 30 June, 2019.

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 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 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 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 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 Fund's financial reporting process, reviewing the effectiveness of how the Management 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 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 Fund's 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

05 October, 2021