

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – WAJIR EAST CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of the National Government Constituencies Development Fund – Wajir East Constituency set out on pages 21 to 46, which comprise the statement of assets and liabilities as at 30 June, 2020, 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 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, 2020 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 Public Finance Management Act, 2012 and the National Government Constituency Development Fund Act, 2015.

### **Basis for Qualified Opinion**

#### **Incorrect Bank Reconciliation**

The statement of assets and liabilities reflects Kshs.40,304 in respect to cash and cash equivalents as at 30 June, 2020. However, the respective bank reconciliation statement for June, 2020 reflected Kshs.567,500 in respect to unrepresented cheques which included stale cheques amounting to Kshs.275,000. No explanation has been provided for not reversing the stale cheques.

Consequently, the accuracy and validity of the cash and cash equivalents balance of Kshs.40,304 as at as 30 June, 2020 could not be confirmed.

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 are no Key Audit Matters to report in the year under review.

## Other Matter

### 1. Budget Control and Performance

The summary statement of appropriation reflects final receipts budget and actual on comparable basis of Kshs.156,414,523 and Kshs.84,640,923 respectively resulting to a budget shortfall of Kshs.71,773,600 or 46% of the budget. Similarly, the Fund expended Kshs.84,600,619 against an approved budget of Kshs.156,414,761 resulting to an under-expenditure of Kshs.71,814,142 or 46% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Wajir East Constituency.

### 2. Projects Implementation Status

As disclosed in Note 4 and 5 to the financial statements, the Fund disbursed Kshs.74,391,184 for projects implementation against a budget of Kshs.122,060,501 allocated for 105 projects as detailed below:

| Project Category  | Approved Budget (Kshs.) | Number of Projects | Actual Expenditure (Kshs.) | Number of Projects Completed | No of Projects not Implemented |
|-------------------|-------------------------|--------------------|----------------------------|------------------------------|--------------------------------|
| Primary Schools   | 42,936,882              | 59                 | 27,948,684                 | 30                           | 29                             |
| Secondary Schools | 39,711,119              | 31                 | 21,435,000                 | 20                           | 11                             |
| Emergency         | 9,212,500               | 4                  | 9,212,500                  | 4                            | -                              |
| Sports            | 2,000,000               | 2                  | 1,490,000                  | 1                            | 1                              |
| Environment       | 2,400,000               | 3                  | 405,000                    | 1                            | 2                              |
| Security          | 25,800,000              | 6                  | 13,900,000                 | 3                            | 3                              |
| <b>Total</b>      | <b>122,060,501</b>      | <b>105</b>         | <b>74,391,184</b>          | <b>59</b>                    | <b>46</b>                      |

Failure to implementation planned development projects negatively affected service delivery to the residents of Wajir East Constituency.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

As required by Article 229(6) of the Constitution, based on the 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. Irregularities in Procurement of Works during Projects Implementation**

As disclosed in Note 4 and 5 to the financial statements, the Fund transferred Kshs.74,431,184 to various Project Management Committees (PMC) for implementation of various projects across the Constituency. However, a review of payment records and project files among other records revealed the following procurement anomalies:

- i) Projects worth Kshs.15,850,000 were not supported with procurement records including tender documents such as confidential business questionnaires, form of tender, tender questionnaires and handing over reports. Consequently, it was not possible to confirm whether the projects were procured competitively in accordance with the provisions of the Public Procurement and Asset Disposal Act, 2015.
- ii) Contract agreements for projects worth Kshs.9,450,000 were signed between the Project Management Committees and the contractors before lapse of the mandatory fourteen (14) days from the date of tender award notification. This is in contrary to Section 135(3) of the Public Procurement and Assets Disposal Act, 2015.
- iii) Tender documents for contracts worth Kshs.9,450,000 were not signed by the tender opening committee during tender opening as required by Section 78(9) of the Public Procurement and Asset Disposal Act, 2015.
- iv) Contrary to the provisions of Section 84 of the Public Procurement and Asset Disposal Act, 2015, contracts worth Kshs.9,450,000 were awarded without a professional opinion from the head of procurement .
- v) Expenditure amounting to Kshs.6,650,000 on chairs and lockers supplied to various schools were not supported with delivery reports and acknowledgement letters from the beneficiary institutions.

In the circumstances, the lawfulness of procurement of projects worth Kshs.31,950,000 could not be confirmed.

### **2. Irregularities in Procurement of Sports Kits**

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects Kshs.25,047,500 in respect to other grants and transfers which includes Kshs.1,490,000 in respect to sports projects. However, included in the later is sports kits worth Kshs.1,000,000 procured through request for quotations. This is contrary provisions of Public Procurement and Disposal (Amendment Regulations), 2013 that restricts maximum value of goods to be procured through request for quotations for entities under class C at Kshs.500,000.

Consequently, the Management is in breach of the law and propriety of expenditure on sports kits of Kshs.1,000,000 as at 30 June, 2020 could not be confirmed.

### **3. Implementation of Projects Under County Government Functions**

Note 5 to the financial statements reflects Kshs.9,212,500 in respect to emergency projects which includes Kshs.8,200,000 incurred on water trucking services under the emergency allocation. This was contrary to Section 24(a) of the National Government Constituencies Development Fund Act, 2015 which provides that a project under this Act shall only be in respect of works and services falling within the functions of the National Government under the Constitution.

Further, it was observed that water trucking was considered an emergency whereas it is a problem that is expected every year within the region. In addition, the utilization of the emergency reserve was not reported to the Board within thirty days of occurrence of the emergency as required under Section 20(2) of the National Government Constituencies Development Fund Act, 2015.

Consequently, the Management is in breach of the law and the propriety of the expenditure of Kshs.8,200,000 on water trucking services for the year ended 30 June, 2020 could not be ascertained.

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 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 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 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 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 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 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**

**11 February, 2022**