

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

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 11 to 27 which comprise the statement of financial assets and liabilities as at 30 June, 2020 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 the National Government Constituencies Development Fund - Wajir North 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Cash and Cash Equivalents

1.1 Unpresented Cheques

As disclosed in Note 6 to the financial statements, the cash and cash equivalents reflects a balance of Kshs.13,637,421 in the statements of assets and liabilities as at 30 June, 2020. Included in the balance is unpresented cheques amounting to Kshs.12,119,231. However, examination of the records revealed that an amount of Kshs.804,756 constitutes stale cheques which continued to be reflected as unpresented cheques and have not been reversed to the cash book.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.13,637,421 as at 30 June, 2020 could not be confirmed.

2.0 Unsupported Prior Year Adjustment

The statement of assets and liabilities as at 30 June, 2020 reflects a prior year adjustment of Kshs.7,840,346 as similarly disclosed in Note 8 to the financial statements. However, the adjustment was not supported with journal entries.

Consequently, the accuracy and completeness of the prior year adjustment of Kshs.7,840,346 for the year ended 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 North 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 Matter

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

1.0 Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.188,046,449 and Kshs.118,678,725 respectively resulting to an under funding of Kshs.69,367,724 or 37% of the budget. Similarly, the actual expenditure reflects a balance of Kshs.105,041,305 against an approved budget of Kshs.188,046,449 resulting to an under-expenditure of Kshs.83,005,145 or 44% of the budget.

The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the citizens.

2.0 Project Implementation Status

During the year under review, the Board approved a budget of Kshs.126,997,000 for implementation of seventy-nine (79) projects. However, an analysis of the status report revealed that only forty eight (48) projects with a budget of Kshs.70,311,075 were implemented while thirty one (31) projects with a budget of Kshs.56,685,925, being 39% of budgeted projects were not implemented.

The underperformance in project implementation affected the planned activities and may have impacted negatively on service delivery to the citizens.

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

1.0 Implementation of Projects Under County Government Functions

The statement of receipts and payments reflects other grants and transfers balance of Kshs.37,134,075. Included in this figure is an expenditure on emergency projects amounting to Kshs.6,484,075. Review of the payment vouchers and schedules presented for audit revealed that the Fund spent an amount of Kshs.4,595,000 on water trucking services under the emergency allocation. However, the Fund did not provide justification for funding water projects which fall under the functions of County Governments. It was further not clear why water trucking was considered an emergency yet this is a problem that is expected every year in the region. 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.

In the circumstances, Management was in breach of the law.

2.0 Transfers to Other Government Units

2.1 Transfers of Primary Schools

Included in the transfers other Government units of Kshs.56,480,000 in Note 4 to the financial statements is an amount of Kshs.41,780,000 transferred to primary schools. However, a review of payment records, project files and other tender documents revealed that grants totaling to Kshs.9,300,000 were not supported with confidential business questionnaires, form of tender, tender questionnaires and handing over reports. It was therefore not possible to confirm whether the projects were procured in accordance with the Public Procurement and Asset Disposal Act, 2015. Further, the Tender Opening Committee did not append their signatures or initials on one or more pages of the Bills of Quantities and tender documents as required by Section 78(9) of the Public Procurement and Asset Disposal Act, 2015.

2.2 Transfers to Secondary Schools

Included in the transfers to other Government units figure of Kshs.56,480,000 under Note 4 to the financial statements is an amount of Kshs.14,700,000 for transfers to secondary schools. Out of the transfers of Kshs.14,700,000, Kshs.6,100,000 was spent on the construction of a fence and a gate at Bute Boys Secondary School. However, examination of payment records and tender documents for the project revealed the following anomalies:

- i). The project management committees advertised the tender through local notice instead of advertising in the dailies or in the Fund's website as required by Section 96(2) of the Public Procurement and Asset Disposal Act, 2015.
- ii). Standard tender documents such as confidential business questionnaires, form of tender, tender questionnaires and handing over report were not provided for audit review. It was therefore not possible to confirm whether the projects were procured in compliance with Public Procurement and Asset Disposal Act, 2015.
- iii). The tender opening committee did not append their signatures or initials 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 proceedings of the tender opening committees. Further the summary pages of bill of quantities did not have the address, date and signature of the contractor and the witness.

- iv). The project file did not contain professional opinion to support the award of the contract as required by Section 84 of the Public Procurement and Asset Disposal Act, 2015.
- v). 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. It was further noted that mandatory compliance documents such as certificates of incorporation, and National Construction Authority registration certificates for the winning bidders were not availed for audit review.

In the circumstances, Management is 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 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 services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the 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 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

17 February, 2022