

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Wajir South Constituency set out on pages 13 to 44, which comprise of the statement of financial assets 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, the financial statements present fairly, in all material respects, the financial position of the National Government Constituencies Development Fund - Wajir South 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 the Public Finance Management Act, 2012.

Basis for Opinion

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 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 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

A review of the summary statement of appropriation revealed that during the year under review, the Fund had an approved budget of Kshs.198,770,327 and actual receipts of Kshs.129,402,603 resulting to underfunding by Kshs.69,367,724 representing 65% of the budget. Further, the Fund spent an amount of Kshs.124,228,309 against a budgeted amount of Kshs.198,770,326 resulting to under expenditure of Kshs.74,542,017 representing 63% of the approved budget.

Failure to fully absorb the budget and utilize funds approved for development projects may have negatively affected service delivery to the constituents of Wajir South.

2. Projects Implementation Status

During the year under review, the Fund budgeted to implement a total of sixty-two (62) projects comprising of fifty-three (53) Education, two (2) emergency, six (6) security and one (1) sport project as analyzed below:

Project Category	Budget (Kshs.)	No. of Projects	Actual Expenditure (Kshs.)	No. of Projects Completed	No. of Projects not Implemented
Primary Schools	37,550,000	28	9,400,000	9	19
Secondary Schools	38,745,000	25	31,735,000	19	6
Emergency	7,198,241	2	7,000,000	2	0
Security	13,900,000	6	5,450,000	2	4
Sports	514,466	1	0	0	1
Total	90,709,466	62	53,585,000	32	30

From the analysis above, the Fund implemented only about 52% of the projects budgeted for leaving 48% of the budgeted projects not implemented.

Failure to implement projects to completion within the stipulated period may have denied the constituents of Wajir South the desired service delivery.

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 money has not been applied lawfully and in an effective way.

Basis for Conclusion

1. Transfers to Primary Schools

As disclosed in Note 4 to the financial statements, the statement of receipts reflects transfer to other government units of Kshs.92,479,000 representing transfers to various Project Management Committees for implementation of projects in various primary and secondary schools. However, audit review of payment records and project files among other records revealed that expenditure amounting to Kshs.13,000,000 had the following anomalies:

- i) Project files for the projects did not contain confidential business questionnaires, form of tender, tender questionnaires and handing/taking 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.
- ii) Tender opening committee for some of the projects did not append their signatures or initials on some pages of the bills of quantities and tender documents as required by Section 78(9) of the Public Procurement and Asset Disposal Act, 2015.

- iii) Contracts worth Kshs.12,335,000 were awarded without a professional opinion from the head of procurement as required by Section 84 of the Public Procurement and Asset Disposal Act, 2015.
- iv) Payment for projects worth Kshs.13,000,000 were not supported with Inspection and Acceptance Committee reports confirming the condition of the projects before payments were made contrary to the requirements of Section 48(3)(c) of Public Procurement and Asset Disposal Act, 2015.

In the circumstances, the regularity and value for money on the expenditure Kshs.13,000,000 on transfers to primary schools could not be confirmed.

2. Implementation of Projects Under County Government Functions

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects other grants and transfers of Kshs.19,819,000. Included in the transfers is an expenditure on emergency projects amounting to Kshs.9,100,000. Review of the payment vouchers and schedules presented for audit revealed that the Fund spent a total of Kshs.1,800,000 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 foreseeable problem that is expected every year in 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.

In the circumstances, the Fund was 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 procedures performed, 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 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.

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 abolish 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how the entity 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 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

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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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

28 February, 2022