

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - BUMULA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2021

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## PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

## REPORT ON THE FINANCIAL STATEMENTS

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Bumula Constituency set out on pages 18 to 52, which comprise of the statement of assets and liabilities as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation 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 National Government Constituencies Development Fund - Bumula Constituency as at 30 June, 2021, 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. Variances in Employee Costs**

The statement of receipts and payments reflects employee costs amount of Kshs.3,404,388 as disclosed in Note 4 to the financial statements. Included is Kshs.1,988,910 and Kshs.1,066,158 in respect of basic staff salary and gratuity to contractual employees respectively. However, review of the corresponding supporting schedules revealed amounts of Kshs.2,274,828 and Kshs.863,040 respectively, resulting to an unexplained and unreconciled variance of Kshs.285,918 and Kshs.202,748 respectively.

In the circumstances, the accuracy and completeness of employee costs amount of Kshs.3,404,388 could not be confirmed.

### **2. Transfers to Other Government Units**

#### **2.1 Variance in Transfers to Primary Schools**

The statement of receipts and payments reflects transfers to other government units amount of Kshs.87,298,886 as disclosed in Note 6 to the financial statements. Included is transfers to primary schools amount of Kshs.57,500,000. However, supporting schedules provided for audit reflected an amount of Kshs.52,800,000 resulting to an unreconciled and unexplained variance of Kshs.4,700,000.

In the circumstances, the completeness, validity and accuracy of transfers to primary schools amounting to Kshs.57,500,000 could not be ascertained.

#### **2.2 Unsupported Transfers to Schools**

The statement of financial performance reflects transfers to other Government units amount of Kshs.87,298,886 as disclosed in Note 6 to the financial statements, comprising of Kshs.57,500,000 and Kshs.29,798,886 being transfers to primary and secondary schools respectively. Included in the amount of Kshs.57,500,000 transferred to secondary schools is Kshs.1,000,000 disbursed to Tulukuyi School while the amount of Kshs.29,798,886 transferred to primary schools is a total amount of Kshs.1,200,000 disbursed to Masumo Primary School and Kimatuni SA Primary School respectively. However, the disbursed amounts to these schools were not supported by procurement documents, contract agreements, Project Management Committee (PMC) records and minutes and bills of quantities.

Further physical inspection conducted in the month of April, 2022 at Tulukuyi Secondary School revealed that the contractor was not on site and there was no signboard to direct to the project. Further, at Kimatuni SA Primary School the workmanship was poor as the roof was leaking and the floors were damaged.

In the circumstances, the validity, completeness and accuracy of the expenditure amounting to Kshs.2,200,000 on the projects could not be confirmed.

### **3. Un supported Expenditure on Emergency Projects**

The statement of receipts and payments reflects other grants and transfers amount of Kshs.44,684,748 as disclosed in Note 7 to the financial statements. Included is emergency projects expenditure of Kshs.4,821,886. However, out of this amount, only Kshs.3,821,886 was supported leaving an amount of Kshs.1,000,000 unsupported.

In the circumstances, the accuracy of the expenditure of Kshs.4,821,886 on emergency projects 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 - Bumula 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 reflects final receipts budget and actual on a comparable basis of Kshs.209,591,093 and Kshs.164,502,214, respectively resulting to an under-funding of Kshs.45,088,879 or 22 % of the budget. Similarly, the Fund spent Kshs.147,213,651 against an approved budget of Kshs.209,591,093 resulting to an under-expenditure of Kshs.62,377,442 or 30% of the budget.

The under-funding and under-expenditure affected the planned activities of and may have impacted negatively on service delivery to the public.

#### **2. Projects Implementation Status**

Review of the project implementation status report, revealed that out of the fifty eight (58) projects initiated by the Fund at a total cost of Kshs.117,034,203 only thirty four (34)

projects were completed, while nineteen (19) were ongoing and five (5) projects had not started.

Delay in project implementation affected the planned activities of the Fund and may have impacted negatively on service delivery to the public.

## 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. Incomplete Construction of Classrooms

The statement of receipts and payments and as disclosed in Note 6 to the financial statements reflects transfers to other government entities expenditure of Kshs.87,298,886. Included is transfers to secondary schools amount of Kshs.57,500,000 out of which Kshs.2,000,000 was disbursed to St. Kizito Masielo Secondary School for construction of three (3) classrooms. Although physical inspection conducted in the month of April, 2022 revealed that the project was complete and already in use, no completion and handing over certificates were provided for audit and in addition, the floor was already worn out indicating poor workmanship. This was contrary to Section 150(1) of the Public Procurement and Assets Disposal Act, 2015, which provides that an accounting officer be responsible for ensuring that goods, works and services are of the right quality and quantity.

In the circumstances, Management was in breach of the law and value for money on the project could not be confirmed.

#### 2. Irregular Award of Contract

During the year under review, two firms were awarded contracts for construction of pit latrines and urinals for Constituency offices and Bumula Police Station at a total cost of Kshs.1,321,318. Inspection conducted in the month of April, 2022 revealed that the facilities were in use, no drawings, bills of quantities for works, quotations, letter of award, contract agreement and Project Management Committee handing over report were provided for audit contrary to Regulation 15 (2) of the Constituencies Development Fund Regulations, 2016.

In the circumstances, Management 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 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 controls, 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 controls 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 controls, 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 its services and using the applicable basis of accounting unless Management is aware of the intentions 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 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 controls 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 controls.

- 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 controls 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**

**30 September, 2022**