

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – BOMET CENTRAL CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund – Bomet Central Constituency set out on pages 6 to 25, which comprise the statement of assets as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and the 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 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 – Bomet Central Constituency as at 30 June, 2018 and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Other Grants and Transfers

The statement of receipts and payments reflects an expenditure of Kshs.21,637,610 under other grants and transfers which differs with the payment vouchers figure of Kshs.21,706,227 leading to unexplained variance of Kshs.68,617.

2. Use of Goods and Services

A review of expenditure on the use of goods and services revealed the following anomalies:

- i. Included in the reported expenditure of Kshs.4,716,200 on use of goods and services, are payments totalling Kshs.2,003,200 which were not adequately supported by appropriate authority and documentation as required under Regulation 104(1) of the Public Finance Management (National Government) Regulations, 2015.
- ii. Further, the amount of Kshs.4,716,200 paid for the use of goods and services as disclosed under Note 5 to the financial statements is reflected as a block figure without disclosing the various sub-components making up the whole amount.
- iii. Payments totalling Kshs.1,066,700 relating to the use of goods and services which were made on 29 June 2018 were not captured in the cash book and ledger.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.4,716,200 on the use of goods and services for the year ended 30 June 2018 could not be confirmed.

3. Compensation of Employees

The statement of receipts and payments reflects an expenditure of Kshs.3,353,210 for compensation of employees which differs with the amount of Kshs.2,558,821 indicated in the supporting schedules which were provided for audit, leading to unexplained variance of Kshs.794,389.

Consequently, the accuracy the expenditure of Kshs.3,353,210 incurred on compensation of employees could not be confirmed.

4. Bursary Disbursements

Include in other grants and transfers of Kshs.21,637,610 are bursary disbursements totalling Kshs.20,837,610 which were made to various schools and other learning institutions. However, examination of expenditure records relating to the bursary disbursements revealed that the beneficiaries did not acknowledge receipt of the funds disbursed to them. Therefore, it was not possible to ascertain if the bursaries were actually received by the beneficiaries.

In the circumstances, the validity, accuracy and completeness of the bursary disbursements of Kshs.20,837,610 could not be confirmed.

5. Net Financial Position

The statement of assets as at 30 June 2018 reflects total financial assets balance of Kshs.6,089,495.55 and nil liabilities. However, contrary to the guidelines issued by the Public Sector Accounting Standards Board, the statement of assets shows net liabilities instead of the net financial position of Kshs.6,089,495.55.

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. Except for the matters described in the Basis for Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections, I have determined that there are no key audit matters to communicate in my report.

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 Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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. Construction of Classroom at Bomet Township Primary School.

Included in the transfers to other governments units' expenditure of Kshs.7,766,000 is an amount of Kshs.500,000 which was disbursed to Bomet Township Primary School for construction of a classroom. The money had not been used for the intended purposes and was still in the bank account at the time of audit verification in February 2019.

2. Construction of Classroom at Kapcheluch Primary School

Included in the transfers to other governments units' expenditure of Kshs.7,766,000 is an amount of Kshs.265,000 which was disbursed to Kapcheluch Primary School for the completion of a classroom, verandah and painting. However, physical verification done on 21 February 2019 revealed that plastering of the floors and walls were unfinished and the painting was not done.

3. Construction of Classroom at Nyabongo Primary School

Included also in transfers to other Government units' expenditure of Kshs.7,766,000 is a disbursement of Kshs.300,000 which was made to Nyabongo Primary School for completion of an ongoing classroom project, construction of a verandah and painting. However, the funds were diverted to the construction of a new classroom without the approval of the NGCDF Board contrary to the requirements of Section 6(2) of the National Government Constituencies Development Fund Board Act, 2015.

In circumstances, it was not possible to confirm the regularity and value for money of the disbursement.

4. Budget Performance Analysis

The NGCDF Bomet Central Constituency had prepared a balanced program-based budget of Kshs.98,489,655 for 2017/2018 financial year. However, an amount of Kshs.43,405,173 only was received from NGCDF Board, translating to around 44% of the approved budget in the year under review.

Further, the actual expenditure for the year was Kshs.37,472,973, leading to an overall under-expenditure of Kshs.52,789,655 or 62% of the budgeted amount for the year ended 30 June 2018. Consequently, the gross under-expenditure negatively impacted on the achievements of some of the core objectives of the Fund and which in turn affected the effectiveness and efficiency of service delivery to the constituents.

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, except for the matters described in the Basis for Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I confirm that, nothing else 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 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether 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 the 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 ability of the National Government Constituencies Development Fund – Bomet Central Constituency to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to cease operations, or have no realistic alternative but to do so.

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 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 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.

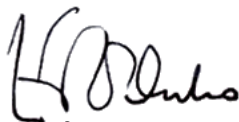
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 going concern 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 ability of the Fund 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 to cease sustaining 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 National Government Constituencies Development Fund – Bomet Central Constituency 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

8 August 2019