

**REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT
CONSTITUENCIES DEVELOPMENT FUND – BOMET CENTRAL CONSTITUENCY
FOR THE YEAR ENDED 30 JUNE, 2019**

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Bomet Central Constituency set out on pages 6 to 27, which comprise of the statement of assets and liabilities as at 30 June, 2019, 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 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 – Bomet Central Constituency as at 30 June, 2019, 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

1.1. Statement of Receipts and Payments

The statement of receipts and payments and supporting schedules had an unreconciled variance amounting to Kshs.8,110,320 on three (3) account balances as tabulated below:

Item	Statements of Receipts and Payments Balance (Kshs.)	Supporting Schedule Balance (Kshs.)	Variance (Kshs.)
Transfer to Primary Schools	28,581,380	22,121,380	6,460,000
Compensation of Employees	3,291,757	2,594,396	697,361
Use of Goods and Services	7,720,776	6,767,817	952,959
Total	39,593,913	31,483,593	8,110,320

In the circumstance, the accuracy, completeness and validity of the expenditure totalling to Kshs. 39,593,913 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

1.2. Statement of Assets and Liabilities

As disclosed in Note 14 to the financial statements, the statement of assets and liabilities reflects cash and cash equivalents totalling to Kshs.16,539,479. However, the bank reconciliation statement provided revealed unrepresented cheques amounting to Kshs.19,239,098 out of which cheques amounting to Kshs.70,253 were stale. However, the cheques had not been written back into the cash book.

Further, the statement reflects nil outstanding imprests. However, a review of the cashbook and general ledger revealed imprests totalling to Kshs.2,560,100 issued to various officers during the year and remained outstanding as at 30 June, 2019.

In the circumstance, the accuracy, completeness and validity of balances reflected in the statement of assets and liabilities as at 30 June, 2019 could not be ascertained.

2. Other Grants and Transfers

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and transfers totalling to Kshs.34,787,430. Review of the expenditure revealed the following unsatisfactory issues:

2.1. Unsupported Emergency Funds

Included in the balance are emergency projects totalling to Kshs.3,000,000 for construction of new classrooms. However, Management did not provide supporting documents such as returns and projects bank statements.

In the circumstance, the accuracy, completeness and validity of the emergency projects payments totalling to Kshs.3,000,000 for the year ended 30 June, 2019 could not be confirmed.

2.2. Unsupported Bursaries

Also included in the balance are secondary schools and tertiary institutions bursaries amounting to Kshs.12,914,800 and Kshs.16,895,480 respectively, all totalling to Kshs.29,497,433. However, Management did not provide supporting documents such as cheque listing indicating the payee and the beneficiary students. Further, details of how the bursary forms were issued, received and processed to determine eligibility of the beneficiaries were not provided.

In addition, the Management did not have Bursary Scheme Sub-committee during the year under review. This is contrary to the provisions of Constituency Development Fund Board Circular No. Vol1/111 of 13 September 2010 that requires a Sub-committee to be formed to manage the Bursary Scheme.

In the circumstance, the accuracy, completeness and validity of bursaries amounting to Kshs.29,497,433 for the year ended 30 June, 2019 could not be confirmed.

3. Unsupported Committee Allowances

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services totalling to Kshs.7,720,776. The amount is reflected as payment of committee allowances. However, supporting documents such as meeting details, attendance and amounts paid to each member were not provided.

Consequently, the accuracy, completeness and validity of committee allowance totalling to Kshs.7,720,776 for the year ended 30 June, 2019 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 – Bomet Central 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 - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.169,914,854 and Kshs.114,873,979 respectively, resulting to an under-funding of Kshs.55,050,875 or 32% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.169,914,854 and Kshs.98,334,500 respectively, resulting to an under expenditure of Kshs.71,580,354 or 42% of the budget.

The underfunding affected the planned activities and projects which may have impacted negatively on service delivery for the public.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

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. Non-Compliance with Public Sector Accounting Standards Board Requirements

The annual report and financial statements have several errors such as; Cover page has the word "revised template 30th June 2019", blank page for the audit report is missing, table of content and page numbering are inconsistent, fiduciary management report names are missing while some paragraphs refer to entity instead of NGCDF-Bomet Central. Further, disclosures of PMC bank balances at Annex 5 is missing, progress on follow up of auditor recommendations is blank, financial statement are not dated, summary of fixed assets is missing and Note 5 has no details. This is contrary to the format prescribed by the Public Sector Accounting Standard Board (PSASB) in accordance with Section 194(1)(d) of the Public Finance Management Act, 2012.

Consequently, the Management is in breach of the law.

2. Irregular Rent Payment

The statement of receipts and payments reflects use of goods and services amount of Kshs.7,720,776 which includes payment of office rent totalling to Kshs.196,700. However, available information indicated that the Management vacated own constructed office space for the County Government staff but details of rent collected and terms were not provided.

In the circumstances, I am unable to confirm whether Management has managed public funds effectively.

3. Project Implementation

The Project Implementation Status Report indicated that a total of Kshs.56,938,222 was allocated for one hundred and twenty-seven (127) projects during the financial year ended 30 June, 2019, twelve (12) projects with a total allocation of Kshs.7,184,310 were ongoing and one hundred and fifteen (115) projects with an allocation totalling to Kshs.49,753,912 had not started.

3.1 Unsatisfactory Implementation of Projects

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Four (4) projects with funding allocation amounting to Kshs.2,000,996 were sampled for physical verification during the month of January, 2020. The following observations were made:

Project Details	Cost (Kshs.)	Observations
Kapsangaru Primary School - Construction of eight (8) cubicles toilet	500,000	Project was incomplete, with no contractor on site. There was no signage or safety measures put in place around the construction to safeguard pupil's safety.
Tarakwa Primary School - Construction of Administration block	700,996	Project was incomplete, school administration did not have the bill of quantities; the contractor was not on site and the project was not branded
Leletetiet Primary School - Construction of new classroom	500,000	Project was incomplete; windows, door and floor finish not done. The contractor was not on site and the project was not branded.
Kapsimotwa Primary School - Construction of classroom	300,000	Project was incomplete; the contractor was not on site and the project was not branded.
Total	2,000,996	

No satisfactory explanations were provided for the above observations.

In the circumstances, the public may not get value for money for the expenditure totalling to Kshs.2,000,996 on unsatisfactory implemented projects.

3.2 Non-Prioritization of Projects

Included in other grants and transfers amount are payments totalling to Kshs.2,051,945 for security projects, out of which an amount of Kshs.660,000 was paid for projects which have been on-going for the last three (3) to six (6) years. This is Contrary to the provisions of Section 46(2) of National Government Constituencies Development Fund Act, 2015 which requires ongoing projects to be given priority, The Fund has not been prioritizing the projects.

Consequently, the 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, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Lack of Risk Management Policy

The Fund did not have a risk management policy that guides on the assessment and evaluation of risk and development of the strategies to mitigate them. This is contrary to Section 165(1) of the Public Finance Management Act (National Government) Regulations, 2015 which require the Accounting Officer to ensure that the Fund develops risk management strategies, which include fraud prevention mechanism; and a system of risk management and internal control that builds robust business operations.

In the circumstances, the Management is exposed to the risks in case they crystallize.

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 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 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 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 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 financial reporting process, reviewing the effectiveness of how the Fund 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 overall 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 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

01 October, 2021