

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

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Bomet East Constituency set out on pages 8 to 24, which comprise the statement of assets as at 30 June 2018, 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, 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 National Government Constituencies Development Fund – Bomet East Constituency as at 30 June, 2018 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.

### Basis for Qualified Opinion

#### 1. Bursary Disbursement

Included in other grant and transfers expenditure of Kshs.24,056,800 is an amount of Kshs.18,654,800 which was incurred on bursary disbursements to needy students in secondary schools and tertiary education institutions. Out of the funds disbursed, an amount of Kshs.12,496,000 was not supported by the acknowledgement receipts. Under the circumstances, the validity of the expenditure totalling Kshs.12,496,000 could not be confirmed.

#### 2. Cash and Cash Equivalents

The statement of assets as at 30 June 2018 reflects cash and cash equivalents balance of Kshs.5,687,606. However, an examination of the cash book revealed that an amount of Kshs.5,000,000 which was received from the NG-CDF Board on 30 January 2018 was not posted in the cash book. In addition, the reported bank balance of Kshs.5,687,606 was not supported by an updated cash book and bank reconciliation statement as at 30 June, 2018.

Further, cheques totalling Kshs.4,194,519 which were paid in respect of the bursaries were reversed in the cash book for being stale. However, the Bomet East NG-CDF committee minutes recommending the reversals of the cheques were not provided for audit review. The reversals were done without replacement of the cheques or subsequent allocations of funds.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.5,687,606 as at 30 June 2018 could be confirmed.

### **3. Net Financial Position**

The statement of assets as at 30 June 2018 reflects net financial assets balance of Kshs.6,483,246. 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.6,483,246.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Bomet East Constituency in accordance with ISSAI 30 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. 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. Purchase of Land**

Included in other grant and transfers expenditure of Kshs.24,056,800 is an amount of Kshs.1,000,000 which was paid for the construction of proposed offices for the Assistant County Commissioner at Chemaner. However, the following anomalies were noted:

- i. Land was not available for construction of the Assistant County Commissioner's office at the time of disbursement of the funds on 7 December, 2018. As a result, the funds disbursed were irregularly diverted to purchase a land at a sales value of Kshs.500,000 without a title deed and supporting valuation certificate.
- ii. A scrutiny of the project's bank account revealed that a total of Kshs.998,110, including the amount paid for the land, had been withdrawn from the bank on various dates between December 2017 and January 2018 without adequate details of the payees and the purpose of the payments.

Under the circumstances, the regularity and validity of the expenditure could not be confirmed.

## 2. Construction of Classroom at Beregeiwet Primary School

Included in the other grants and transfers expenditure of Kshs.24,056,800 is emergency expenditure of Kshs.1,930,000 which in turn includes an amount of Kshs.500,000 which was paid to Beregeiwet Primary School for construction of a classroom. However, physical verification of the project revealed that the works on the classroom were incomplete with unfinished painting of internal walls, incomplete floors and electrical fittings were yet to be done. Further, the project did not meet emergency requirements as set under Section 8(3) of the National Government Constituencies Development Fund Act, 2015.

## 3. Transfers to Other Government Units

Bomet East National Government Constituency Development Fund had an approved budget of Kshs.37,143,736 for transfers to other government units for the year under review, out of which an amount of Kshs.9,600,000 or 26% only was incurred on nine projects as shown below:

<b>Project</b>	<b>Activity</b>	<b>Amount Kshs</b>
Raiya Primary School	Construction of Classroom	900,000
Chambori Primary School	Construction of Classroom	1,000,000
Koisomoi Primary School	Construction of Classroom	1,500,000
Kamoyo Primary School	Construction of Classroom	600,000
Toronik Secondary School	Construction of Classroom	1,500,000
Chelemei Girls Sec. School	Construction of Classroom	1,000,000
Cheboin Secondary School	Construction of Classroom	1,000,000
Tumoyot Secondary School	Construction of Classroom	1,100,000
Lelkatet Secondary School	Construction of Classroom	1,000,000
	<b>Total</b>	<b>9,600,000</b>

However, the above projects had not been issued with the relevant inspection and acceptance certificates as required under Section 48(4)(e) of the Public Procurement and Asset Disposal Act, 2015. Under the circumstances, it was not possible to ascertain the suitability of the premises for occupation.

## 4. Budgetary Performance Analysis

Bomet East NG-CDF posted significant under-expenditure between the budgeted and actual expenditure in the year under review as analysed below:

<b>Expenditure Head</b>	<b>Budgeted Amount Kshs.</b>	<b>Actual Expenditure Kshs.</b>	<b>Under Expenditure Kshs.</b>	<b>Under Expenditure %</b>
Compensation of Employees	2,714,485	1,915,510	(798,975)	29.4%
Use of goods and services	18,974,091	9,427,544	(9,546,547)	50.3%
Transfers to other government units	37,143,736	9,600,000	(27,543,736)	74.2%
Other grants and transfers	40,567,917	24,056,800	(16,511,117)	40.7%
Acquisition of Assets	3,463,914	1,586,719	(1,877,195)	54.2%

The under-utilization of the approved budget implies that the Fund was not able to achieve some of its core objectives and, thereby impacting negatively on the efficiency and effectiveness of the 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 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 National Government Constituencies Development Fund – Bomet East 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 Fund's ability 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 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 East 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**

**13 June 2019**