

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Borabu Constituency set out on pages 7 to 54, which comprise the statement of assets and liabilities as at 30 June, 2019, 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 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 the National Government Constituencies Development Fund – Borabu Constituency as at 30 June, 2019, 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 Public Finance Management Act, 2012 and the National Government Constituencies Development Fund (NG-CDF) Act, 2015.

### **Basis for Qualified Opinion**

#### **1. Unreconciled Compensation of Employees Expenditure**

The statement of receipts and payments for the year under review reflects compensation of employees' expenditure of Kshs.2,481,946. However, the amount differs with the supporting ledger which reflects an expenditure of Kshs.3,009,044 leading to an unreconciled and unexplained variance of Kshs.527,098.

Consequently, the accuracy and completeness of the expenditure of Kshs.2,481,946 could not be confirmed.

#### **2. Unsupported Bursary Disbursements**

The statement of receipts and payments also reflects other grants and transfers expenditure of Kshs.51,461,214. The expenditure includes Kshs.26,245,992 which was disbursed as bursary to students in various learning institutions. However, bursary disbursements of Kshs.8,857,992 were not supported by any documentation.

Consequently, the validity and regularity of the expenditure of Kshs.8,857,992 could not be ascertained.

### 3. Unreconciled Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.14,748,725 as at 30 June, 2019. However, a bank reconciliation statement which was presented for audit reflected a balance of Kshs.14,909,530 as at 30 June, 2019, resulting in unexplained and unreconciled variance of Kshs.160,805.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.14,748,725 could not be confirmed.

### 4. Inaccurate Net Liabilities Position

The statement of assets and liabilities reflects total financial assets balance of Kshs.14,748,725 and nil liabilities. However, the statement depicts a net liabilities position instead of net financial position of Kshs.14,748,725. No explanation was provided for this anomaly.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Borabu 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

### Budget Performance Analysis

A comparison of the approved budget and actual expenditure for the year ended 30 June, 2019 revealed a significant under-expenditure on two items as shown below:

Expense Item	Final Budget (Kshs.)	Actual Expenditure (Kshs.)	Under Expenditure (Kshs.)	Under Expenditure (%)
Transfers to Other Government Units	72,571,134	55,451,389	17,119,745	24%
Other Grants and Transfers	55,621,763	51,461,214	4,160,549	7%

The under-expenditure on the approved budget items implies that the Fund was not able to achieve some of its core objectives and, thereby impacting negatively on the efficiency and effectiveness of service delivery to the constituents.

## 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. Other Grants and Transfers**

##### **1.1. Overpricing in Purchase of Seedlings**

The statement of receipts and payments reflects an expenditure of Kshs.51,461,214 under other grants and transfers for the year ended 30 June, 2019. The expenditure includes an allocation for environment of Kshs.1,800,000 out of which an amount of Kshs.500,000 was incurred on purchase of seedlings for learning institutions. However, supporting documents provided for audit revealed that the prices charged for the seedlings were higher compared to the prevailing market prices. Further, single sourcing method of procurement was used in the procurement.

In the circumstances, the regularity and value for money of the expenditure of Kshs.500,000 could not be confirmed.

##### **1.2. Construction of Unqualified Access Roads**

The other grants and transfers expenditure of Kshs.51,461,214 also includes an amount of Kshs.6,326,250 which was allocated for emergency projects. The amount includes Kshs.2,650,660 incurred on opening, grading and rehabilitation of various roads within the constituency which falls under the functions of the County Government. This is contrary to Section 24(a) of the National Government Constituencies Development Fund Act, 2015 which stipulates that a project to be undertaken shall, “only be in respect of works and services falling within the functions of the National Government under the Constitution.

Consequently, the regularity of the expenditure of Kshs.2,650,660 incurred on construction of access roads could not be confirmed.

##### **1.3. Delayed Construction of Administration Police Line Offices at Bonyarogande**

The expenditure of Kshs.51,461,214 under other grants and transfers includes an amount of Kshs.6,900,000 earmarked for security projects out of which Kshs.500,000 was allocated for construction of Bonyarogande Administration Police Line Offices.

A physical verification carried out on 10 March, 2020 revealed that the project had not commenced and the funds remained idle. The Management sited unresolved land issues as the cause of the delay.

## **2. Delayed Construction of a Tuition Block at Borabu Teachers Training College**

The statement of receipts and payments reflects an expenditure of Kshs.55,451,389 under transfer to other government units. The expenditure includes an amount of Kshs.18,850,846 which was disbursed to Borabu Teachers Training College for an ongoing construction of tuition block.

A review of the contract documents revealed that the tender was awarded at a contract sum of Kshs.37,654,965 on 24 May, 2017 for a period of 14 months from the date of the agreement with the expected completion date of August, 2018. However, physical verification of the project on 10 March, 2020, revealed that the tuition block had been done up to slab level even though a total of Kshs.25,626,171 had been paid to the contractor including Kshs.18,850,846 paid in the 2018/2019 financial year.

Further, the original contract sum was adjusted upwards by Kshs.4,691,514 to a revised contract sum Kshs.42,346,479 without justification.

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, I confirm that, 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 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 the Fund to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the 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 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 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 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 - Borabu 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**14 September, 2021**