

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – BUURI 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 - Buuri Constituency set out on pages 7 to 41, 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 statements 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 - Buuri 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 National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Accuracy of Summary Statement of Appropriation - Recurrent and Development Combined

The summary statement of appropriation- recurrent and development combined reflects Kshs.91,060,082 in respect to budget adjustments for the year ended 30 June, 2019 which should comprise any utilized funds and cash balances from the previous year. However, the audited 2017/2018 financial statements reflects unutilized funds and cash balances of Kshs.78,608,233 and Kshs.30,437,668 respectively as at 30 June, 2018 both totaling Kshs.109,045,901 resulting to unexplained and unreconciled variance of Kshs.17,985,819.

In the circumstances, the accuracy and completeness of the Kshs.91,060,082 budget adjustments for the year ended 30 June, 2019 could not be confirmed.

2.0 Unreconciled Cash and Cash Equivalent

Note 10A to the financial statements reflects Kshs.10,508,014 in respect to cash and cash equivalents balance as at 30 June, 2019 held in one bank account. However, the following anomalies were noted;

- (i) The respective bank reconciliation statement reflects unrepresented cheques totalling Kshs.2,643,317.25 which further includes sixteen (16) stale cheques totalling Kshs.148,635.65 and which had not been replaced or reversed in the cash

book as at 30 June, 2019 thereby understating the cash and cash equivalents balance of Kshs.10,508,014 by the same amount.

- (ii) Further, the respective bank reconciliation statement reflects Kshs.2,750 in respect to receipts in the bank statements not yet recorded in cash books and therefore understating the cash and cash equivalents by the same amount.
- (iii) In addition, the respective bank reconciliation statement reflects Kshs.25,811 in respect to payments in the bank statements not entered in the cashbooks and therefore overstating the cash and cash equivalents by the same amount.

In view of the above, the validity and accuracy of the cash and cash equivalents balance of Kshs.10,508,014 as at 30 June, 2019 could not be confirmed.

3.0 Transfers to Other Government Entities

3.1 Incomplete Construction of Kitchen at Kangaita Secondary School

Note 6 to the financial statements reflects Kshs.67,450,000 in respect to transfers to other government entities which includes Kshs.18,750,000 in respect to transfers to secondary schools. The amount includes Kshs.800,000 disbursed to Kangaita Secondary School for construction of a kitchen during the year ended 30 June, 2019. However, physical verification conducted in November, 2019 revealed that although a contractor had been paid Kshs.800,000 during the year, the floor, window panes, facial board and paintings which were included in the bill of quantities (BQ) had not been done and the contractor was not on site.

In the circumstances, the regularity and value for money for the Kshs.800,000 expenditure for the year ended 30 June, 2019 could not be ascertained.

3.2 Incomplete Construction of Classes at Angaine Primary School

Note 6 to the financial statements reflects Kshs.67,450,000 in respect to transfers to other government entities. This includes Kshs.48,700,000 in respect to transfers to primary schools which further includes Kshs.1,200,000 disbursed to CCM Angaine Primary School for construction of two classrooms during the year ended 30 June, 2019. However, physical verification done in November, 2019 revealed that the two classrooms had been constructed up to lintel level and there was no sign that the contractor was on site, in spite of the contractor having been paid Kshs.1,200,000.

In the circumstances, the regularity and value for money for the Kshs.1,200,000 expenditure for the year ended 30 June, 2019 could not be ascertained.

4.0 Unaccounted for Bursaries

Note 7 to the financial statements reflects Kshs.44,975,202 in respect to other grants and other payments which includes Kshs.18,053,640, Kshs.12,931,000 and Kshs.475,000 in respect to bursaries to secondary schools, tertiary institutions and special schools respectively all totalling Kshs.31,459,640 as at 30 June, 2019. However, the expenditure was not supported or accounted for, with accounting records such as bursary applications

forms, lists of all applicants, successful applicants, criteria used when awarding the bursaries and the vetting committee's minutes.

It was therefore not possible to ascertain whether bursaries amounting to Kshs.31,459,640 were awarded to the most deserving applicants and whether the funds were utilized for the intended purpose.

Further, out of the Kshs.31,459,640 bursaries disbursed during the year, only Kshs.25,240,100 (80%) were acknowledged by the beneficiary schools and institutions leaving a balance of Kshs.6,219,540 (20%) as unacknowledged.

Consequently, it was not possible to ascertain whether the bursaries totalling Kshs.31,459,640 benefited the intended beneficiaries and whether they were expended as appropriated.

5.0 Unconfirmed Project Management Committees (PMCs) Bank Account Balances

The summary statement of appropriation: development for the year under review reflects actual expenditure of Kshs.125,840,401 which was disbursed to various institutions to implement projects through PMCs. Included in the Kshs.125,840,401 is Kshs.6,431,748 reflected in Note 15.4 to the financial statements as the PMCs bank account balances being the disbursed but utilized projects funds as at 30 June, 2019. However, bank confirmation certificates for these PMCs accounts were not availed for audit review.

In the circumstances, the existence and accuracy of Kshs.6,431,748 in PMCs bank account balances as at 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 - Buuri 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

1.0 Budgetary Performance and Control

The statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.200,100,958 and Kshs.145,060,082 respectively resulting to an under-funding of Kshs.55,040,876 or 27% of the budget. Similarly, the Fund spent Kshs.134,552,068 against an approved budget of Kshs.200,100,958 resulting to an under-expenditure of Kshs.65,548,889 or 33% of the

budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Buuri Constituency.

1.1 Un availed Project Management Implementation Status

The summary statement of appropriation: development for the year ended 30 June, 2019 reflects a budgeted expenditure of Kshs.186,309,393 and actual expenditure of Kshs.125,840,401 which was utilized on project implementation. However, the project implementation status was not availed for audit review.

In the circumstances, it was not possible to ascertain whether the projects worth Kshs.125,840,401 for the year ended 30 June, 2019 were implemented and casting doubt on whether the residents of Buuri Constituency got value for the funds expended.

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 matter described in the Basis on Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing 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

1.0 Presentation of the Financial Statements

The financial statements for the year ended 30 June, 2019 reflects the following anomalies;

1.1 Double Paging of Financial Statements

The table of contents and key constituency information and management in the financial statements for the year ended 30 June, 2019 have both been paginated as page 1.

1.2 Non Inclusion of Key Achievements of Forward Note by the Chairman

The forward note by the chairman in the financial statements for the year ended 30 June, 2019 submitted for audit review only reflects a photo of Kiranga Primary School class rooms. The note does not include the key achievements and challenges faced by the Fund during the year under review contrary to the International Public Sector Accounting Standards (Cash Basis) reporting template revised in 2019 prescribed by the Public Sector Accounting Standards Board (PSASB), which requires inclusion of key achievements, and challenges.

1.3 Progress on Follow-up of Auditor Recommendations

The progress on follow up of auditor recommendations at page 41 of financial statements indicates that all issues raised on the audit report for year 2017/2018 were resolved by March, 2019 but no evidence was availed for audit review.

Consequently, the presentation of the financial statements for the year under review does not conform to the International Public Sector Accounting Standards (Cash Basis) reporting template prescribed by PSASB.

2.0 Transfer to Other Government Entities-Primary Schools

2.1 Unsupported Transfers to DEB Ontulili Primary

Note 6 to the financial statements reflects Kshs.67,450,000 in respect to transfers to other government entities which includes Kshs.48,700,000 in respect to transfers to primary schools and Kshs.260,000 reallocated from security and disbursed to DEB Ontulili Primary school for completion of a classroom including roofing, plastering, windows, floor and painting during the year ended 30 June, 2019.

However, there was no evidence that the reallocation was done with an approval from the Board as required in Section 6(2) of the National Government Constituencies Development Fund Act, 2015 which states that once funds are allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose during the financial year with the approval of the Board.

Further, physical verification done in November, 2019 in the school revealed that it was not possible to identify the particular class where the funds had been applied as the respective class were not labeled contrary to Section 15(1)(f) of National Government Constituencies Fund Regulations 2016 which states that there shall be appointed a project management committee for each project in a constituency in accordance with section 36 of the Act which shall undertake project closure, labelling and handover upon completion.

In addition, the quotations/tender documents and evaluation committee minutes were not availed for audit review.

In the circumstances, the regularity and value for money could not be confirmed.

2.2 Variation of Works at Kangaita Primary School

Note 6 to the financial statements reflects Kshs.67,450,000 in respect to transfers to other government entities which includes Kshs.48,700,000 in respect to transfers to primary schools and Kshs.650,000 disbursed to Kangaita Primary School for construction of two (2) blocks of toilets with 16 doors during the year ended 30 June, 2019. However, physical verification done in November, 2019 revealed that two (2) blocks of toilets with 12 doors had been constructed instead of 16 doors. This is contrary to Section 6(2) of the National Government Constituencies Development Fund Act, 2015 which states that once funds are allocated for a particular project, they shall remain allocated for that project and may

only be re-allocated for any other purpose during the financial year with the approval of the Board.

In the circumstances, the completeness and value for money on the two blocks could not be confirmed.

3.0 Other Grants and Other Payments

3.1 Unsupported Sports Expenditure

Note 7 to the financial statements reflects Kshs.44,975,202 in respect to other grants and other payments which includes Kshs.2,630,606 in respect to sports being funds disbursed to Buuri Sports Project Management Committee. The funds were spent on sports activity allowances and cash rewards for winners of athletics, singing, dancing and drama.

However, no supporting evidence including the minutes approving the sports activities, attendance schedules and mode of transport were availed for audit review to show how the funds were spent. This is contrary to Section 104(1) of the Public Finance Management (National Government) Regulations, 2015 which states that all expenditures and receipts should be supported by appropriate authority and adequate documentations.

Further, the payments contravened Section 25(8) of the National Government Constituencies Development Fund Act 2015 which stipulates that sports activities should be considered as development projects for purposes of this act but shall exclude cash awards.

In the circumstances, the legality and value for money of Kshs.2,630,606 incurred could not be confirmed.

3.2 Unsupported Emergency Projects

Note 7 to the financial statements for the year ended 30 June, 2019 reflects Kshs.44,975,202 in respect to other grants and other payments which includes Kshs.2,610,000 in respect to emergency projects.

However, applications for emergency funding and report on urgent unforeseen situations were not availed for audit review. This is contrary to Section 8(3) of the National Government Constituencies Development Fund Act, 2015 which states that expenditure on emergency should be for an urgent, unforeseen need for expenditure which in the opinion of the constituency committee cannot be delayed until the next financial year without harming the public interest of the constituents.

Further, report on utilization of emergency funds to the board as required by Section 20(2) of National Government Constituencies Development Fund Regulations, 2016 which states that the utilization of the emergency reserve shall be reported to the Board within thirty days of the occurrence of the emergency was also not provided for audit review.

In the circumstances, the regularity and value for money of Kshs.2,610,000 incurred could not be confirmed.

4.0 Wrong Charge on Acquisition of Assets

Note 8 to the financial statements reflects Kshs.9,915,199 in respect to acquisition of assets for the year ended 30 June, 2019 which includes Kshs.1,086,999 in respect to purchase of computers, printers and other Information Technology (IT) equipment and Kshs.391,700 spent on purchase of computers, printers and other IT equipment. The assets were however, charged to purchase of office furniture and fittings contrary to Section 6(2) of the National Government Constituencies Development Fund Act, 2015 which states that once funds are allocated for a particular project, they shall remain allocated for that project and may only be re-allocated for any other purpose during the financial year with the approval of the Board.

In the circumstances, the regularity of the expenditure of Kshs.1,478,699 on acquisition of assets could not be confirmed.

5.0 Unsupported Other Payments

Note 9 to the financial statements reflects Kshs.3,500,000 in respect to other payments for the year ended 30 June, 2019 which further reflects as an expenditure on the Fund's strategic plan.

However, the strategic plan was not provided for audit review. Further, constituency committee minutes approving the strategic plan, public participation, tenders, evaluation committee minutes showing how the supplier was selected and professional opinion were also not provided for audit review.

In the circumstances, the legality and value for money on the expenditure of Kshs.3,500,000 could not be confirmed.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements, 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 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 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 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 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 the 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

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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 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 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

05 October, 2021