

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – BALAMBALA 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 - Balambala Constituency set out on pages 8 to 41, which comprise the statement of financial assets as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation - recurrent and development 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 - Balambala 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. Unconfirmed Cash and Cash Equivalents**

The statement of assets and liabilities and note 10A to the financial statements reflects a bank balance of Kshs.81,685,246 as at 30 June, 2019 which includes an amount of Kshs.23,891,044 and Kshs.57,794,202 held at Chase Bank, Garissa Branch, Account No.8212210001 and Equity Bank, Account No.0580268598022 respectively. However, a review of the records availed for audit revealed that Chase Bank was placed under receivership by the Central Bank of Kenya. However, there was no evidence availed to show any effort made to resolve the issue. Therefore, the recoverability of the public funds held at the bank remains uncertain. Further, no certificate of bank balance as at 30 June, 2019 for the amount held in Equity Bank was availed for audit.

In the circumstances, validity, accuracy and completeness of the cash and cash equivalents balance of Kshs.81,685,246 as at 30 June, 2019 could not be confirmed.

#### **2. Other Grants and Transfers**

##### **2.1 Unsupported Bursaries to Secondary Schools and Tertiary Institutions**

Included in other grants and other payments figure of Kshs.34,222,919 under Note 7 to the financial statements is an amount of Kshs.10,604,000 and Kshs.2,943,000 spent on

bursaries for secondary schools and tertiary institutions respectively. However, a review of the expenditure and other supporting documents revealed that an amount of Kshs.8,235,000 had no acknowledgement letters from the learning institutions. It was further noted that the Fund did not maintain a cheque dispatch register.

In the circumstances, the validity and regularity of the expenditure on bursary of Kshs.8,235,000 as at 30 June, 2019 could not be ascertained.

### **3. Use of Goods and Services**

#### **3.1 Unsupported Committee Expenses**

Included in Note 5 to the financial statements is an amount of Kshs.650,000 and Kshs.987,200 spent on committee expenses and committee allowances respectively. However, a review of the expenditure and other the supporting documents revealed that an amount of Kshs.1,290,000 was spent on monitoring and evaluation exercise within the Constituency without proper supporting documents.

Monitoring and evaluation expenditure was not supported by copies of the work tickets or bus tickets, activity report and list of the visited projects and project management committee trainings were not supported with activity budgets, timetables, reports prepared after trainings and the venues of the trainings were not indicated.

In the circumstances, the regularity and value for money of the expenditure on monitoring and evaluation of Kshs.1,290,000 as at 30 June, 2019 could not be ascertained.

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

#### **Budgetary Control and Performance**

The summary statement of appropriation- recurrent and development combined reflects final receipts budget and actual on a comparable basis of Kshs.201,411,646 and Kshs.145,259,770 respectively resulting to an underfunding of Kshs.56,151,876 or 38% of the budget. Similarly, the Fund spent Kshs.63,574,524 against an approved budget of Kshs.201,411,646 resulting to an under-expenditure of Kshs.137,837,122 or 68% of the

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

### **Project Implementation Status**

During the financial year under review, the Fund allocated Kshs.59,488,200 to thirty two (32) projects in various sectors including education, environment, sports, roads and security.

Analysis as per project implementation status revealed that eight (8) projects were completed and twenty-four (24) had not started by 30 June, 2019. Failure to complete the projects within the stipulated period is likely to deny the constituents the much-needed services.

## **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 for 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 money has not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1.0 Transfers to Other Government Entities**

##### **1.1 Unsupported Transfers to Primary Schools**

Note 6 to the financial statements reflects a figure of Kshs.21,507,570 being transfers to other Government entities which includes Kshs.15,580,000 for transfers to primary schools. However, a review of the expenditure and other supporting documents maintained at the Fund's offices revealed that payments totalling to Kshs.8,685,000 made to various projects had the following anomalies:-

- (i) The procurement process was not supported by the professional opinions from the head of procurement and chain management. There were also no regret letters to unsuccessful bidders.
- (ii) Letters of appointment for both tender opening and evaluation committees were not availed for audit review and there were no inspection and acceptance committee minutes.
- (iii) Confidential business questionnaires were not filled by the contractors and no progress reports of the implemented projects were availed for review.

(iv) There were no certificates of practical completion for some projects.

In the circumstances, the legality and effectiveness in use of public money on the expenditure on transfer to primary schools of Kshs.8,685,000 as at 30 June, 2019 could not be confirmed.

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 has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### Basis for Conclusion

#### Lack of Fixed Asset Register

Annex 3 of the financial statements reflects a summary of fixed assets register with assets value of Kshs.10,445,899 as at 30 June, 2019. However, the Fund did not maintain a permanent fixed assets register to record its assets contrary to Section 136 (i) of the Public Finance Management (National Government) Regulations, 2015. Further, it was observed that no valuation was done for the assets.

Consequently, the validity, completeness and accuracy of the fixed assets balance of Kshs.10,445,899 as at 30 June, 2019 could not be confirmed.

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 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 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 to 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.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**01 October, 2021**