

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - BUMULA 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 - Bumula Constituency set out on pages 6 to 28, 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 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 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 - Bumula 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. Cash and Cash Equivalents

The statement of assets and liabilities reflects a cash and cash equivalents balance of Kshs.54,488,975 as at 30 June, 2019 which comprises bank balances of Kshs.49,719,975 and cash in hand of Kshs.4,769,000 as disclosed at Notes 8A and 8B to the financial statements. However, the bank reconciliation statement for the month of June, 2019 reflected payments totalling Kshs.268,167 in respect of bank charges, under-casts and under-payments relating to the period between March, 2019 and June, 2019, appearing in the bank statement but not recorded in the cashbook. No explanation was provided for failure to update the bank charges in the cashbook.

In addition, the cash at hand balance of Kshs.4,769,000 was not supported.

In the circumstances, it was not possible to ascertain the accuracy and existence of the cash and cash equivalents balance of Kshs.54,488,975 as at 30 June, 2019.

2. Compensation of Employees

The statement of receipts and payments reflects Kshs.2,481,919 for compensation of employees. However, the payroll records reflected total payments of Kshs.2,328,018 resulting into an unreconciled and unexplained variance of Kshs.153,901.

In the circumstances, it was not possible to confirm the accuracy of the reported expenditure of Kshs.2,481,919 for compensation of employees .

3. Fixed Assets Register

Annex 2 to the financial statements - summary of fixed assets register reflects the historical cost for various asset categories of the Fund as at 30 June, 2019. However, the balances reflected differed with the ones reflected in other asset records as shown below:

Assets Class	Figures as Per Asset Records (Kshs.)	Financial Statement Figures (Kshs.)	Variance (Kshs.)
Building and Structure	12,000,000	12,700,000	(700,000)
Office Equipment, Furniture and Fittings	1,128,150	442,500	685,650
ICT Equipment, Software and Other ICT Assets	613,000	400,196	212,804

The variances were not reconciled or explained.

In the circumstances, the accuracy and completeness of the fixed assets balance of Kshs.13,542,696 reflected under Annex 2 to the financial statements, could not be confirmed.

4. Inaccuracies in the Financial Statements

4.1 Net Surplus for the Year

The statement of receipts and payments and the statement of assets and liabilities reflect a surplus figure of Kshs.46,361,374 while the recomputed balance is Kshs.41,592,374 resulting into an unexplained and unreconciled variance of Kshs.4,769,000.

4.2 Unreconciled Variance in Transfers from the Board

The statement of receipts and payments reflects transfers from the Board of Kshs.121,370,186 while the summary statement of appropriation - recurrent and development combined reflects an amount of Kshs.79,777,812 resulting into an unexplained variance of Kshs.41,592,374.

4.3 Unexplained Budget Variances

As reflected in the summary statement of appropriation - recurrent and development combined, the Fund had total receipts under-collection of Kshs.49,719,975 or 38%. In addition, compensation of employees, transfers to other government units and other grants and transfers were under-utilized by 42%, 47% and 39% respectively. However, explanatory notes for the under-collection and under-utilization were not provided

contrary to the requirements of Section 81(2)(a) of Public Finance Management Act, 2012 which requires the accounting officer to provide explanatory notes explaining any variations between the actual expenditure and the sums voted.

4.4 Misstated Other Grants and Transfers Comparative Balance

The comparative figure for other grants and transfers of Kshs.30,892,836 shown in the statement of receipts and payments differs with the recomputed amount Kshs.30,844,000 reflected under Note 5 to the financial statements. The difference of Kshs.48,836 has not been explained.

4.5 Misstatement of Comparative Bank Balance

The statement of assets and liabilities reflects a comparative bank balance of Kshs.8,127,601 which differs with the comparative bank balance of Kshs.1,985,680 reflected under Note 8A to the financial statements by an unexplained variance of Kshs.6,141,921.

4.6 Misstatement in the Statement of Cash flows

The statement of cash flows reflects a net increase of Kshs.46,361,374 in cash and cash equivalents while the recomputed amount is Kshs.41,592,374 resulting into an unexplained variance of Kshs.4,769,000. Further, the statement reflects a comparative net cash flows from operating activities balance of Kshs.487,995 which differs with the audited balance is Kshs.6,784,617 by Kshs.6,296,622. The difference has not been explained.

Consequently, the accuracy of the financial statements could not be confirmed.

5. Unsupported Project Management Committee (PMC) Bank Balances

Note 10.2 to the financial statements and Annex 3 reflect PMC bank account balances of Kshs.5,866,434. However, the recomputed total PMC bank balance under Annex 3 is Kshs.6,299,057 resulting into a variance of Kshs.432,623 which has not been explained or reconciled. Further, the cashbooks and certificates of bank balances in support of the balances held in the PMC bank accounts as at 30 June, 2019 were not provided for audit review.

Consequently, the accuracy of the balance of Kshs.5,866,434 held in the PMC bank accounts 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 - Bumula 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 Control and Performance

The summary statement of appropriation - recurrent and development combined reflects an approved expenditure budget of Kshs.129,497,787 against actual total expenditure of Kshs.79,777,812 resulting into under-absorption of Kshs.49,719,975 representing 38% of the budget.

The under-absorption negatively affected delivery of services to the residents of Bumula Constituency.

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 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. Delayed Projects' Implementation

According to the Projects Implementation Status Report for the Fund as at 30 June, 2019, the Management of the Fund had planned to implement sixty-five (65) projects with a combined budget of Kshs.107,801,042 during the year under review. However, twenty-five (25) projects were still ongoing while funds for two (2) projects were indicated as having been re-allocated.

Delayed implementation of projects, denied the constituents of Bumula Constituency the benefits and services they would have derived from the completed projects.

2. Construction of Administration Block - Kabula Secondary School

The contract for the Construction of Administration Block at Kabula Secondary School was awarded to a local contractor at a contract sum of Kshs.19,997,260 for a contract period of 24 weeks (6 months). The contract agreement was signed on 03 December, 2019 and as at the time of audit, in July, 2020, a total sum of Kshs.4,695,450 had been disbursed to the PMC account for implementation of the project. However, the following anomalies were noted:

- i. The detailed inspection report indicating the progress of works was not provided.
- ii. The project site had not been enclosed as stated in the contract document in spite of a provision of Kshs.150,000 for hoarding in the bill of quantities.
- iii. In spite of a provision of Kshs.40,000, the Project was not labeled as required under Regulation 11(cc) of the National Government Constituencies Development Fund Regulations, 2016.
- iv. The works had only been done up to the foundation slab and the columns had been erected awaiting for the suspended slab. However, the contractor was not on site.

Consequently, value for money may not be obtained from the Project and more funds may be lost through cost escalations occasioned by the delay in completion of the project.

3. Failure to Maintain Imprest Records

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.11,128,824 which as disclosed at Note 3 to the financial statements, included Kshs.943,376 for domestic travel and subsistence. However, the Fund Management did not maintain imprest records during the year under review as required under Regulations 91 to 94 of the Public Finance Management (National Government) Regulations, 2015. The Regulations provide that the officer authorized to hold and operate an imprest shall make formal application for the imprest through an imprest warrant and that the holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station.

In the circumstances, the Management was 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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Report of the Auditor-General on National Government Constituencies Development Fund - Bumula Constituency for the year ended 30 June, 2019

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 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 the Management either intends to liquidate 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 Fund's 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 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 Fund's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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 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 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 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

09 November, 2021