

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - BURA 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 - Bura Constituency set out on pages 7 to 27, 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 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 the National Government Constituencies Development Fund - Bura Constituency as at 30 June, 2019 and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and comply with the National Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Use of Goods and Services

1.1 Unsupported Payments on Committee Expenses and Allowances

Included in the use of goods and services figure of Kshs.9,001,647 under Note 4 to the financial statements is an amount of Kshs.4,256,600 spent on committee expenses and allowances. However, audit examination of payment vouchers and supporting documents revealed that out of the expenditure an amount of Kshs.918,000 was not sufficiently supported with relevant documents.

There were no monitoring and evaluation reports and member's attendance register was not availed for audit review, Further, the Fund Committee minutes were also not availed for audit review and the sitting allowance schedules provided for audit review did not indicate dates, when the meetings took place.

In the circumstances, the validity of the expenditure of committee expenses and allowances of Kshs.9,001,647 as at 30 June, 2019 could not be confirmed.

1.2 Irregular Expenditure on Fuel Oil and Lubricants

Included in the use of goods and services figure of Kshs.9,001,647 under Note 4 to the financial statements is an amount of Kshs.1,232,918 incurred on fuel, oil and lubricants out of which an amount of Kshs.1,156,855 was paid to a local supplier for the supply of fuel. However, audit review of expenditure and the supporting detailed orders revealed that, part of the fuel ordered was supplied to other government departments' vehicles that did not belong to the Fund and the expenditure was not supported with work tickets and fuel register to account for the fuel drawn. Further, the supplier was not in the list of prequalified suppliers.

Consequently, the validity and the regularity of the expenditure of fuel of Kshs.1,232,918 in the year under review could not be ascertained.

2. Unsupported Transfer to Other Government Units

The statement of receipts and payments and Note 5 of the financial statement reflects transfers to other governments units figure of Kshs.35,989,996 as at 30 June, 2019. However, payments amounting to Kshs.10,437,273 on transfer to other government units were not supported. There was no inspection and acceptance committee report, copies of tender register and contract agreement, engineer's estimates and tender opening minutes. The appointment letters of the tender opening and evaluation committees were also not availed for audit review. Further, the procurement plan was not availed for audit review. In addition, there was no tender evaluation committee report used to support the expenditure.

In the circumstances, the validity and value for money on transfer to other government units of Kshs.35,989,996 as at 30 June, 2019 could not be confirmed.

3. Other Grants and Transfers

3.1 Un-Acknowledged Bursary Payments

Included in the other grants and other payments figure of Kshs.67,127,543 under Note 6 to the financial statements is an amount of Kshs.39,835,000 spent on bursary which in turn includes Kshs.23,094,000 for secondary schools and Kshs.16,741,000 for tertiary institutions. However, audit review of the expenditure and the supporting documents revealed that bursaries amounting to Kshs.3,810,000 were not acknowledged through official receipts or acknowledgement letters from the beneficiary institutions.

Consequently, the validity and value for money of expenditure on bursaries amounting to Kshs.39,835,000 for the year ended 30 June, 2019 could not be confirmed.

3.2 Unsupported Expenditure

The statement of receipts and payments and note 6 of the financial statement reflects other grants and transfers figure of Kshs.67,127,543 as 30 June, 2019. However, payments amounting to Kshs.9,192,011 on other grants and transfers were not supported. No copies of tender register, contract agreement, engineer's estimates and tender opening minutes and appointment letters of the tender opening and evaluation

committees were availed for audit review. Further, there was no tender evaluation committee and inspection and acceptance committee minutes/reports availed for audit to support the expenditure. Also no procurement plan was availed confirm the procurement was planned and budgeted for.

In the circumstances, the validity and value for money of expenditure on other grants and transfers of Kshs.67,127,543 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 - Bura 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. Budgetary Control and Performance

The summary statement of appropriation- recurrent and development reflects final receipts budget and actual on comparable basis of Kshs.211,478,701 and Kshs.156,610,823 respectively resulting to an under-funding of Kshs.54,950,876 or 26% of the budget. Similarly, the Fund spent Kshs.117,638,676 against an approved budget of Kshs.211,561,701 resulting to an under-expenditure of Kshs.93,923,025 or 44% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Bura Constituency.

1.1 Project Implementation and Management

During the financial year under review, the Fund allocated Kshs.87,521,337 to thirty one (31) projects in various sectors including social security, education, security, sport and environment. The analysis as per Project Implementation Status (PIS) availed for audit review revealed that eighteen (18) projects were completed, four (4) projects were on going while nine (9) had not started.

Failure to complete the projects within the stipulated period may have denied 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 matters 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 resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Irregularities in Procurement of Strategic Plan

The statement of receipts and payments and Note 7 of the financial statements reflects other payments figure of Kshs.3,900,000 relating to preparation of a five-year strategic plan. Audit review of the expenditure revealed that the services for the preparation of the strategic plan were provided by a consultant. However, documents to support the procurement process used to source the services were not provided for audit review, hence it was not possible to confirm whether due diligence was used in acquiring the consultant.

Consequently, the validity and value for money of the expenditure on strategic plan of Kshs.3,900,000 could not be confirmed.

2. Irregular Award of Contract for Darime Secondary School

During the year under review, the Fund disbursed Kshs.2,500,000 to Darime Secondary School for construction of two (2) classrooms. Audit review of the records for the contract revealed that the second lowest bidder quoted Kshs.2,550,275, while the lowest bidder quoted Kshs.2,350,000. However, the tender was awarded to the second lowest bidder instead of the lowest bidder without justification, contrary to Public Procurement and Asset Disposal Act, 2015.

In the circumstances, the validity and value for money of the expenditure of Kshs.2,500,000 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 matters 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 overall governance were not effective.

Basis for Conclusion

1. Lack of Risk Management Policy and Disaster Recovery Plan

During the year under review, the Fund did not develop and document a risk management policy. It was further noted that the Fund had not put in place a disaster recovery plan. This is in contravention of Section 165(1) of the Public Finance Management (National Government) Regulations, 2015 which provides that the accounting officer shall ensure that the National Government entity develops:

- (i) Risk management strategies, which include fraud prevention mechanism; and
- (ii) A system of risk management and internal control that builds robust business operations.

Consequently, the Fund is in breach of the regulations.

2. Lack of a Constituency Oversight Committee

The Fund had no Constituency Oversight Committee during the year under review as required by Section 53(1) of the National Government Constituencies Development Fund Act, 2015 which provides for establishment of a Constituency Oversight Committee for projects undertaken under the Act.

Consequently, it was not possible to confirm whether mobilization, sensitization soliciting of views, opinions and proposals from the public were carried out effectively as required by the Act.

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 the 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 noncompliance. 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 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

05 November, 2021