

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - BUMULA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020

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 11 to 45, which comprise the statement of assets and liabilities as at 30 June, 2020 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, 2020, 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. Compensation of Employees

The statement of receipt and payments and Note 4 to the financial statements reflect a compensation of employees balance of Kshs.3,414,423. However, the supporting schedule for the expenditure reflected a balance of Kshs.3,508,383, resulting into an unreconciled and unexplained variance of Kshs.93,960.

Consequently, the accuracy of the reported balance of Kshs.3,414,423 for compensation of employees could not be confirmed.

2. Cash and Cash Equivalents

The statement of assets and liabilities reflects a cash and cash equivalents balance of Kshs.4,758,346 comprising of bank balances of Kshs.3,134,490 and cash at hand of Kshs.1,622,856. However, the bank reconciliation statement for the month of June, 2020 reflected that one hundred and sixty-nine (169) unrepresented cheques worth Kshs.1,543,000 had been replaced. However, no evidence was provided that the cashbook was adjusted accordingly.

Further, the cash at hand balance of Kshs.1,622,856 (2019: Kshs.4,769,000) was not supported by a board of survey report.

In the circumstances, the accuracy and existence of the cash and cash equivalents balance of Kshs.4,758,346 as at 30 June, 2020.

3. Fixed Assets Register

Annex 4 to the financial statements on summary of fixed assets register reflected a historical assets cost balance of Kshs.13,803,696 as at 30 June, 2020. However, a review of the records supporting the summary revealed that the cost of some of the assets recorded had not been provided.

In the circumstances, the accuracy and completeness of the balance of Kshs.13,803,696 for fixed assets as at 30 June, 2020 could not be confirmed.

4. Fund Balance Brought Forward

The statement of assets and liabilities reflects a fund balance brought forward of Kshs.52,504,167 which is different from the closing fund balance of Kshs.54,488,975 reflected in the audited financial statements for the year ended 30 June, 2019. The variance of Kshs.1,984,808 has not been explained or reconciled.

In the circumstances, it was not possible to ascertain the accuracy of the fund balance brought forward as at 30 June, 2020.

5. Statement of Cash flows

The statement of cash flows reflects a cash and cash equivalents balance of Kshs.52,504,167 at the beginning of the year which differs with the cash and cash equivalents balance of Kshs.54,488,975 reflected in the audited financial statements for the year ended 30 June, 2019 by Kshs.1,984,808.

Consequently, the accuracy of the statement of cash flows could not be confirmed.

6. Misstated Transfers from National Government Constituencies Development Fund Board

The summary statement of appropriation - recurrent and development combined reflects original and final budgeted transfers from the National Government Constituencies Development Fund Board of Kshs.137,367,624. The adjustments of Kshs.54,488,975 and Kshs.8,740,690 for cash and cash equivalents and the undisbursed amount respectively, as at the end of the 2018/2019 financial year, have not been reflected.

Similarly, the summary statement of appropriation for recurrent and development combined reflects actual transfers of Kshs.68,000,000 from the Board leaving out the opening cash and cash equivalents balance of Kshs.54,488,975.

The accuracy of the receipts balance reflected in the summary statement of appropriation could therefore, not be confirmed.

7. Project Management Committee (PMC) Bank Balances

Note 17.4 to the financial statements and Annex 5 reflect PMC bank account balances of Kshs.6,350,439 as at 30 June, 2020. However, the cashbooks and certificates of bank balances in support of the reported balances were not provided for audit.

In the circumstances, it was not possible to ascertain the accuracy, existence and completeness of the PMC bank account balances as at 30 June, 2020.

8. Irrelevant Notes

Notes 11 to 16 to the financial statements do not contain any explanatory information relating to the reported balances. The relevance of the notes to the users of the financial statements could therefore not be confirmed.

9. Unsupported Expenditure on Training

The statement of receipts and payments reflects other grants and transfers of Kshs.47,302,168 which includes Kshs.16,529,998 for bursary to tertiary institutions as disclosed under Note 7 to the financial statements. An amount of Kshs.2,456,139 was paid to a local driving school to train three hundred and thirty (330) bodaboda riders on road safety and driving skills for three (3) months from 05 May, 2020. However, the training programme, details of the bikes to be used for training and venues for the training were not provided. In addition, copies of the identity cards, driving licenses, photos and other details of the trained riders as well as evidence that the trainees were subsequently licensed was not provided for audit.

In the circumstances, the accuracy and value for money from the payment 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

Budgetary Control and Performance

The Fund incurred expenditure amounting to Kshs.115,828,821 against an approved budget of Kshs.187,537,699 resulting into an under-expenditure of Kshs.71,708,878 or 38% of the budget.

The failure to utilise funds as approved is an indication that services and programs were not delivered as planned and therefore the budget did not meet the intended objectives of improving delivery of services and programmes to the Bumula 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. Projects Implementation Status

The Projects Implementation Status Report for the Fund submitted for audit did not indicate the estimated costs of projects in financial years 2013/2014 to 2017/2018. In addition, the estimated project costs for the financial years 2018/2019 and 2019/2020 did not tally with the allocated amounts as shown in the table below:

Financial Year	Projects	Estimated Cost (Kshs.)	Amount allocated (Kshs.)
2013/2014	44		85,034,676
2014/2015	45		122,876,196
2015/2016	56		129,840,717
2016/2017	29		81,896,552
2017/2018	45		98,189,655
2018/2019	28	44,840,875	216,581,751
2019/2020	76	245,093,998	137,367,724
Total	323	289,934,873	871,787,271

Consequently, the Fund did not maintain proper records of the projects implemented and the status of the projects could not be confirmed.

2. Stalled/Abandoned Projects

Audit inspection on 25 February, 2021 revealed that nine (9) projects had either stalled or been abandoned altogether as shown in **Appendix I**. It was also noted that the Fund had been funding new projects before completion of the ongoing projects contrary to Regulation 11(i) and (j) of the National Government Constituencies Development Fund Regulations, 2016 which provides that a Constituency Committee shall ensure that ongoing projects take priority and that all projects receive adequate funding and are completed within three (3) years.

Consequently, the residents of Bumula Constituency did not get value for money from the stalled/abandoned projects and the public may lose more funds through cost escalation.

3. Uncertified and Incomplete Works Paid for and Other Anomalies

Section 150(3) of the Public Procurement and Asset Disposal Act, 2015 provides that where goods, works and services are of technical nature and the specifications were provided by a technical department or professionals engaged to work on behalf of the

accounting officer, that technical department or professionals engaged to work on behalf of the accounting officer shall be responsible for confirming the right quality and quantity of goods, works or services have been delivered and issue a certificate to the recipient accounting officer. However, included in the amount of Kshs.52,000,000 for transfers to other government units as disclosed under Note 6 to the financial statements, is Kshs.12,500,000 paid under projects being implemented by various Project Management Committees although the works paid for were incomplete and had not been certified by the Fund's Clerk of Works or the County Works Officer.

In addition, tender documents and contract agreements for some of the projects were not provided. Poor workmanship and other anomalies were also noted as outlined in **Appendix II**.

In the circumstances, value for money from the payments could not be confirmed.

4. Irregular Payment of Bursaries

Included in other grants and transfers balance of Kshs.47,302,168 are bursary disbursements of Kshs.13,427,000 and Kshs.16,529,998 both totalling Kshs.29,956,998 as disclosed under Note 7 to the financial statements. However, a review of the bursary applications revealed that the application forms were not certified and stamped upon receipt by the Fund's staff, ward representative and the bursary subcommittee. Also, the supporting schedules for the bursary disbursements did not have full details of the beneficiaries including admission numbers.

In addition, no evidence of continuous communication / liaison with beneficiary education institutions for efficacy of management of the bursaries was provided.

Consequently, the validity and regularity of the bursary disbursements 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, 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, 2020

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 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 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

03 December, 2021

Appendix I – Stalled/Abandoned Projects

No.	Payee	Disbursements (Kshs.)	Contract Sum (Kshs.)	Observations
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1	Bukirimo Secondary	8,748,886	13,615,057	The project for construction of 11 units two floors Administration Block with classrooms and offices had been abandoned after the first floor slab.
2	Lunao Primary	2,000,000	4,360,498	Stalled and abandoned.
3	Masielo Secondary	1,500,000	3,567,673	Stalled and abandoned.
4	Nakhwana R.C Primary	5,000,000	5,635,767	Stalled and abandoned
5	Ngoli Secondary	9,000,000	12,489,000	The project for construction of 11 units two floors Administration Block with classrooms and offices had been abandoned after the first floor slab.
6	Wacholi Primary	2,000,000	4,568,933	Two incomplete old projects yet new ones started
7	Kabula Secondary	9,000,000	19,997,260	Stalled and abandoned
8	Kimaeti Divisional Head Quarters	13,500,000	12,710,163	Purchased 2 acres of land. Divisional headquarters under construction have stalled before lintel beam exposing the building to risks of collapsing. The site was abandoned.
9	Mikokwe ACK Secondary School	5,600,000	5,922,450	Stalled and abandoned
	Total	56,348,886	82,866,800	

Appendix II - Uncertified and Incomplete Works Paid for and Other Anomalies

No.	Project	Disbursements (Kshs.)	Contract Sum (Kshs.)	Observations
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1	Masuno Primary	2,000,000	4,122,118	Tender documents, bills of quantities and contract agreements were not provided, cracks were all over on the wall and floor; Ceiling had not been done.
2	Mutua Primary	2,000,000	4,568,932	Completion of 3 classrooms: fixing shutters, plastering and painting to completion.
3	Mwiyenga Secondary	2,500,000	3,598,668	The land where the project is initiated does not have a title deed and the project is incomplete; no tender documents were availed; the building had so many cracks on the floor and walls; no ceiling had been fixed.
4	Nakhwana R.C Primary	2,000,000	5,635,767	Uncertified works
5	Namanje Primary	2,000,000	3,968,247	The contractor did not adhere to the bills of quantities.
6	Wacholi Primary	2,000,000	4,568,933	Two incomplete old projects yet new ones were started.
	Total	12,500,000		



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi