

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Butere Constituency set out on pages 22 to 58, 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 - Butere 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**

#### **Prior Year Adjustments**

The statement of assets and liabilities reflects a prior year adjustment of Kshs.2,593,824 relating to bank account balances as disclosed at Note 14 to the financial statements. However, Paragraph 1.5 of International Public Sector Accounting Standard - Financial Reporting under the Cash Basis of Accounting requires that errors relating to prior periods shall be reported by adjusting the cash at the beginning of the period and comparative information to be restated accordingly. The disclosure requirements with regard to correction of errors have also not been met.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Butere 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 a final receipts budget and actual receipts on comparable basis of Kshs.212,872,920 and Kshs.143,505,197 respectively, resulting into an under-funding of Kshs.69,367,723 or 33% of the budget. Similarly, the Fund expended Kshs.127,709,007 against an approved budget of Kshs.212,872,920 resulting into an under-expenditure of Kshs.85,163,913 or 40% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the 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. Delayed Implementation of Projects**

According to the Project Implementation Status report as at 30 June, 2020 provided for audit, the Fund had planned to implement eight hundred and seventeen (817) projects at a total cost of Kshs.765,523,297 in the financial years 2013/2014 to 2019/2020. An amount of Kshs.773,967,737 was approved and disbursed towards implementation of the projects. However, twelve (12) projects with a combined allocation of Kshs.16,750,000 were still ongoing as at 30 June, 2020.

In addition, during the financial year 2019/2020, the Fund had planned to implement ninety-eight (98) projects with a combined allocation of Kshs.79,8005,362 out of which nineteen (19) projects valued at Kshs.18,404,440 were indicated as ongoing although they should have been completed and handed over by December, 2020. No reason was provided for the slow implementation of projects.

Failure to complete the projects as planned may have denied the residents of Butere Constituency the much-needed services and the benefits associated with the complete projects.

## 2. Audit Inspection Findings

Audit inspection undertaken in March, 2021 on nine (9) projects for which Kshs.16,100,000 was disbursed revealed the following anomalies:

No.	Project Location	Project Details	Expenditure (Kshs.)	Remarks
1.	Butere Primary School	Completion of 8 classroom storey building-foundation walling and columns	4,500,000	Construction of the building was still in progress.
2	Eshitsakha Primary School	Renovation of 4 classes, plastering, roofing, gate, fencing, Construction of kitchen, 3 door latrines	2,000,000	<ul style="list-style-type: none"> <li>The staffroom which is on the same block with the renovated classrooms was found to be almost collapsing which may affect the whole block.</li> <li>Poor quality of fence, no concrete on bases while erecting posts. The bill of quantities (BQs) provided for the use of concrete at the base of the fence posts. There was no bottom gate plate panels as provided in the bill of quantities.</li> </ul>
3	Marenyo Primary School	Completion of 8 classroom storey building-foundation walling and columns	4,500,000	Construction of the building was still in progress.
4	Eshirumba Primary School	Purchase of one-acre land	600,000	Land purchased but transfer of title to school was still in process.

No.	Project Location	Project Details	Expenditure (Kshs.)	Remarks
5	Eshitsakha Primary School	Planting of trees	100,000	No trees were traced
6	Ekendero Primary School	Planting of trees	100,000	Out of 1000 trees only 60 trees were seen, and the school has no space to accommodate 1000 trees.
7	Ebukuti Primary School	Planting of trees	100,000	Trees planted but many dried due to weather condition.
8	Mureko Police Post	Completion of police post-roofing, plastering, painting to completion.	1,500,000	The building is complete but not in use. The project file/BQ/tendering documents were not presented for audit review. The walls had major cracks.
9	Eshienjera Assistant Chief's Office	Construction of the office-foundation, walling, and roofing.	700,000	Cracked floor and general poor workmanship. The building is incomplete although in use
		<b>Grand Total</b>	<b>14,100,000</b>	

Non-implementation of projects as planned may lead to loss of public funds through price variations and poor workmanship thus denying the residents of Butere Constituency the benefits that would have accrued from such completed projects.

### 3. Purchase of Sports Equipment and Uniforms

As disclosed in Note 7 to the financial statements, the other grants and transfers balance of Kshs.38,867,038 included expenditure of Kshs.3,228,200 on sports. The funds were spent on the purchase of sports equipment and uniforms. However, the report of the inspection and acceptance committee, goods received notes and other stores records showing that the sports equipment and uniform paid for were supplied in the right quality and quantity and on how the same were distributed were not provided for audit.

Consequently, the propriety of Kshs.3,288,200 incurred on sports equipment 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**

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.

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 going concern basis of accounting unless 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.

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 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

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**

**15 December, 2021**