

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCY DEVELOPMENT FUND - BURA 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 Constituency Development Fund - Bura Constituency set out on pages 15 to 40, which comprise of the statement of assets and liabilities as at 30 June, 2020, 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 the National Government Constituencies Development Fund - Bura Constituency as at 30 June, 2020, 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 Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

### Basis for Qualified Opinion

#### 1. Unsupported Use of Goods and Services

The statement of receipts and payments and as disclosed in Note 4 to the financial statements reflects use of goods and services amount of Kshs.7,585,130. The balance includes an amount of Kshs.4,487,100 spent on committee allowance and other committee expenses while conducting monitoring and evaluation of the Fund's projects. However, review of records indicated that committee allowances totalling to Kshs.2,848,200 were not sufficiently supported with relevant documents such as payment schedules, minutes, invitation letters and attendance register for meetings. Further, the balance includes domestic travel and subsistence allowances amounting to Kshs.340,600 paid to staff attending seminars/workshops outside their working station. However, the payments were not supported with invitation letters, training programs, imprest warrants, travel documents such as bus/ air ticket as evidence of the journeys made and attendance registers for the training or training certifications.

In the circumstances, the accuracy, completeness and validity of the use goods and services balance of Kshs.7,585,130 could not be ascertained.

#### 2. Transfers to Other Government Entities

The statement of receipts and payments and as disclosed in Note 5 to the financial statements, reflects transfers to other Government Entities balance of Kshs.40,041,214. A review of the expenditure and related records revealed the following unsatisfactory matters;

### **2.1. Unsupported Expenditure on Transfers to Primary Schools**

The balance includes an amount of Kshs.18,563,214 transferred to Project Management Committees (PMCs) for the implementation of projects in various primary schools. However, review of records revealed that expenditure totalling to Kshs.2,386,729 had not been supported with signed inspection and acceptance committee minutes/report, tender evaluation committee report and project handing/taking over reports from the Project Management Committees.

In the circumstances, the propriety of expenditure of Kshs.2,386,729 on primary school projects could not be confirmed.

### **2.2. Unsupported Expenditure on Transfers to Secondary Schools**

The balance includes an amount of Kshs.21,478,000 to Project Management Committees (PMCs) for implementation of projects in various secondary schools. However, examination of payment records and other supporting documents revealed that an amount of Kshs.6,890,980 was transferred to Fayya Girl's Secondary School Project Management Committee (PMC) for the Construction of a Dormitory/Ablution Block and Kshs.6,815,045 for the construction of a dining hall. However, the payments were not supported with certificates of practical completion, PMC bank statements and project hand over/taking over reports. In addition, full payments had been made to the contractors. However, physical verification carried out on 11 March, 2021 revealed that the projects were incomplete as plastering works, doors and windows and other finishing works with an estimated cost of Kshs.3,776,960 had not been done and the contractors had left the site.

In the circumstances, the accuracy, completeness and validity of payments amounting to Kshs.13,706,025 made to the contractors for the two projects could not be confirmed.

## **3. Other Grants and Transfers**

The statement of receipts and payments, and as disclosed in Note 6 to the financial statements, reflects other grants and transfers amounting to Kshs.59,184,000. A review of expenditure and related records revealed the following unsatisfactory matters;

### **3.1. Unsupported Bursary Disbursements**

The balance includes a total of Kshs.47,427,000 incurred on bursary disbursements to secondary schools and tertiary institutions.

However, Management did not provide the bursary applications register and it was not clear how the beneficiaries of the bursary were identified.

Further, the bursary disbursement of Kshs.2,888,500 were not supported with written acknowledgements from the recipient learning institutions.

Consequently, the propriety of the expenditure on bursary disbursements of Kshs.47,427,000 could not be ascertained.

### **3.2. Unsupported Payments on Security Projects**

The balance includes an amount of Kshs.7,710,000 incurred on implementation of security projects. However, review of records revealed that security projects worth Kshs.4,312,000 had not been supported with professional opinions from the Sub-County head of procurement and supplies chain management, contrary to Section 84 of the Public Procurement and Assets Disposal Act, 2015. In addition, some of the payments for the construction of the chief offices were made without certificates of practical completion.

Further, inspection and acceptances committee reports/minutes were not provided and the bidders were not evaluated in accordance with the criteria set out in the tender notice, which required that bidders must provide valid tax compliance certificate, certificate of incorporation, previous work done, details of directors and National Construction Authority for building works. Physical verification carried out on 11 March, 2021 revealed that Hosingo Chief's Office project is complete but has not been put to use.

In the circumstance, the accuracy and propriety of expenditure totalling to Kshs.4,312,000 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 combined, reflects final receipts budget and actual on comparable basis of Kshs.231,312,749 and Kshs.162,035,024 respectively resulting to an under-funding of Kshs.69,277,725 or 30% of the budget. Similarly, the Fund spent Kshs.109,527,383 against an approved budget of Kshs.231,312,749 resulting to an under-expenditure of Kshs.121,785,366 or 53% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

## **2. Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given satisfactory explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury and Planning Circular reference No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

## **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 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**

#### **Delay in Project Implementation**

During the year under review the Fund's Committee had allocated a total of Kshs.73,147,354 for the implementation of thirty seven (37) projects. However, the fund, spent a total of Kshs.42,341,214 in which ten (10) projects were completed, eight (8) projects were still ongoing as at 30 June, 2020 and nineteen (19) projects had not been implemented.

Failure to complete the projects within the stipulated period may have denied the public the desired services.

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

### **Basis for Conclusion**

#### **Incomplete Fixed Assets Register**

Annex 2 to the financial statements reflects a summary of fixed assets register balance of Kshs.24,887,914 as at 30 June, 2020. However, a review of the Assets Register maintained by the Fund revealed that it was not as per the format prescribed by The National Treasury as it did not indicate details of the assets such as identification or serial numbers of the assets, acquisition date, description of asset, location, asset class and cost of acquisition.

Consequently, the Management may not have instituted adequate internal controls structures to ensure proper safeguards and custody of the assets.

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 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.

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 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 February, 2022**