

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - BUURI 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 - Buuri Constituency set out on pages 19 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 summary statements 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 2010 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 effect 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 - Buuri 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 Public Finance Management Act, 2012 and National Government Constituencies Development Fund Act, 2015.

### Basis for Qualified Opinion

#### 1.0 Cash and Cash Equivalents

Note 10A to the financial statements reflects Kshs.16,066,578 in respect to cash and cash equivalents balance held in one bank account. However, the following anomalies were noted;

- (i) The respective bank reconciliation statement reflects unrepresented cheques totalling to Kshs.2,071,715 which includes thirty-two (32) stale cheques totalling to Kshs.892,699 and which had not been replaced or reversed in the cash book as at 31 October, 2020 thereby understating the cash and cash equivalents balance by the same amount.
- (ii) Further, the bank reconciliation statement reflects Kshs.28,211 in respect to payments in the bank statements not entered in the cashbooks and therefore overstating the cash and cash equivalents by the same amount.

In view of the above, the validity and accuracy of the cash and cash equivalents balance of Kshs.16,066,578 as at 30 June, 2020 could not be ascertained.

#### 2.0 Use of Goods and Services

## **2.1 Domestic Travel and Subsistence**

Note 5 to the financial statements reflects Kshs.8,853,855 in respect to use of goods and services which includes Kshs.487,900 in respect to domestic travel and subsistence which further includes Kshs.150,600 spent in respect to subsistence allowances paid to Fund's officers for undertaking various activities for the constituency.

However, the respective supporting documents including programmes of activities, imprest warrants, work/bus tickets and back to office reports were not provided for audit review. This is contrary to Section 104(1) of Public Finance Management (National Government) Regulations, 2015 which states that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

In the circumstances, the propriety, legality and value for money for the subsistence allowances amounting to Kshs.150,600 for the year ended 30 June, 2020 could not be ascertained.

## **2.2 Other Committee Expenses and Committee Allowance**

Note 5 to the financial statements reflects Kshs.8,853,855 in respect to use of goods and services which includes Kshs.2,647,500 and Kshs.1,292,000 in respect to other committee expenses and committee allowances respectively both totalling to Kshs.3,939,500.

However, included in the Kshs.3,939,500 is Kshs.2,681,500 which was not supported by necessary documentation including programmes of activities, approval of rates paid to non-public officers, minutes, projects visited, mode of transport and back to office reports. This is contrary to Section 104(1) of Public Finance Management (National Government) Regulations, 2015 which states that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

In the circumstances, the propriety, legality and value for money for the Kshs.2,681,500 expenditures for the year ended 30 June, 2020 could not be ascertained.

## **2.3 Insurance Costs**

Note 5 to the financial statements reflects Kshs.8,853,855 in respect to use of goods and services for the year ended 30 June, 2020 which includes Kshs.215,000 paid to a firm in respect to insurance for the Fund's vehicle registration number GK B954H. However, no evidence to show that the firm was prequalified by the Fund was provided for audit review. This is contrary to Section 95(3) of the Public Procurement and Asset Disposal Act, 2015 which states that a procuring entity shall invite tenders from only the approved persons who have been pre-qualified.

In view of the above, the propriety of the Kshs.215,000 expenditure for the year ended 30 June, 2020 could not be confirmed.

## **2.3 Office and General Supplies**

Note 5 to the financial statements reflects Kshs.8,853,855 in respect to use of goods and services which includes Kshs.2,355,469 in respect to office and general supplies and services which further includes Kshs.585,406 paid for various office supplies and operations. However, supporting documents including requisitions, minutes of tender opening and evaluation were not provided for audit review.

In the circumstances, the propriety of the Kshs.585,406 expenditure for the year ended 30 June, 2020 could not be ascertained.

## **2.4 Fuel, Oils and Lubricants**

Note 5 to the financial statements reflects Kshs.8,853,855 in respect to use of goods and services which includes Kshs.400,000 paid to a supplier for supply of fuel, oils and lubricants.

However, supporting documents including; requisitions, framework agreement and bid evaluation reports/minutes were not provided for audit review. This is contrary to Section 104(1) of the Public Finance Management (National Government) Regulations, 2015 which states that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

In the circumstances, the propriety of the Kshs.400,000 expenditure on fuel, oils and lubricants for the year ended 30 June, 2020 could not be ascertained.

## **3.0 Other Grants and Other Payments**

### **3.1 Unaccounted for Bursaries**

Note 7 to the financial statements reflects Kshs.33,957,006 in respect to other grants and other payments which includes Kshs.6,589,500, Kshs.7,775,500 and Kshs.81,000 in respect to bursaries disbursed to secondary schools, tertiary institutions and special schools respectively all totalling to Kshs.14,446,000. However, out of the Kshs.14,446,000 bursaries disbursed during the year, only Kshs.8,577,000 or 59% were acknowledged by the beneficiary schools and institutions leaving a balance of Kshs.5,869,000 or 41% unacknowledged.

In the circumstances, it has not been possible to ascertain whether the bursaries totalling to Kshs.5,869,000 for the year ended 30 June, 2020 benefited the intended beneficiaries and whether the funds were expended as appropriated for.

### **3.2 Motor Riding Course**

Note 7 to the financial statements reflects Kshs.33,957,006 in respect to other grants and other payments which includes Kshs.7,775,500 expenditure in respect to bursary - tertiary which further includes Kshs.4,000,000 spent on motorcycle riding course for one thousand three hundred and forty-four (1,344) rider students.

However, no evidence was provided for audit review to show that the said Institution had been pre-qualified contrary to Section 95(3) of the Public Procurement and Asset Disposal Act, 2015 which states that a procuring entity shall invite tenders from only the approved persons who have been pre-qualified. Further, supporting documents including wards' vetting committee minutes were not provided for audit review.

In the circumstances, the propriety, legality and value for money for the Kshs.4,000,000 expenditure for the year ended 30 June, 2020 could not be ascertained.

### **3.3 Water Tanks to Schools**

Note 7 to the financial statements reflects Kshs.33,957,006 in respect to other grants and other payments which includes Kshs.2,602,390 expenditure incurred on environment which further includes Kshs.1,105,000 in respect to thirteen (13) water tanks procured, supplied and delivered for use by various primary and secondary schools in Buuri Constituency. However, there was no evidence provided for audit review to confirm that the tanks were inspected before acceptance contrary to Section 48(3)(b) of the Public Procurement and Assets Disposal Act, 2015 which states that the inspection and acceptance committee shall immediately after the delivery of goods, works or services inspect and review the goods, works or services in order to ensure compliance with the term and specifications of the contract. Further, audit verifications done in the month of November 2020 revealed that although the tanks were delivered to schools and fully paid for, the same had not been put to use.

In the circumstances, the value for money of the Kshs.1,105,000 expenditure for the year ended 30 June, 2020 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Buuri 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 are no key audit matters to report in the year under review.

### **Other Matter**

#### **1.0 Budgetary Control and Performance**

The statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.203,916,614 and Kshs.134,548,890 respectively resulting to an under-funding of Kshs.69,367,724 or 34%

of the budget. Similarly, the Fund spent Kshs.118,482,311 against an approved budget of Kshs.203,916,614 resulting to an under-expenditure of Kshs.85,434,303 or 41% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the residents of Buuri Constituency.

Further, the Kshs.85,434,303 under expenditure includes Kshs.16,066,578 bank balance. Although these funds were disbursed by the Board during the year under review, the same remained unspent as at 30 June, 2020. These funds could have been disbursed to priority projects that would have improved delivery of goods and services to the residents of Buuri Constituency.

There is need, therefore, for the Constituency Development Fund Management to review its budget making process with a view to formulating a realistic budget that would be actualized for better service delivery to the citizens of Buuri 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 on 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**

#### **1.0 Pagination of Financial Statements**

The Fund's financial statements includes a table of content which covers two pages. However, one page of the table of contents is not paginated. In addition, pages 22 to 24, to the financial statements are not clear since part of the said pages are not visible.

In the circumstances, the presentation of the financial statements for the year under review is not in accordance with the recommended Public Sector Accounting Standards Board (PSASB) reporting format.

#### **2.0 Other Grants and Other Payments**

##### **2.1 Mocks and Continuous Assessment Tests (CATs)**

Note 7 to the financial statements reflects Kshs.33,957,006 in respect to other grants and other payments which includes Kshs.1,906,799 in respect to mocks and CATs relating to revision textbook procured, supplied and delivered to various schools within Buuri Constituency. The books were procured through request for quotation method. However,

no register of suppliers was provided for audit review contrary to Section 106(2)(a) of the Public Procurement and Assets Disposal Act, 2015 which states that the Accounting Officer of a procuring entity shall give the request for quotations to such persons as are registered by the procuring entity.

In view of the above, the Fund Management is in breach of the law.

## **2.2 Project Management Implementation**

Review of the project implementation status report compiled by the Fund revealed that out of one hundred forty-seven (147) projects budgeted during the financial year under review worth Kshs.187,671,464, a total of eighty-four (84) projects had been completed at a cost of Kshs.60,166,349. Out of the remaining projects, twenty-six (26) projects budgeted to cost Kshs.92,927,948 were on going while thirty-seven (37) projects with a cost budget of Kshs.34,577,167 had not been started at the end of financial year under review.

Consequently, due to delay in project implementation, the residents of Buuri Constituency may not have received the planned benefits from implementation of the Projects.

## **2.3 Emergency Projects**

Note 7 to the financial statements reflects Kshs.33,957,006 in respect to other grants and other payments which includes Kshs.9,220,000 incurred on emergency projects.

However, there was no report provided for audit review on utilization of emergency funds by Fund management sent to the National Government Constituencies Development Fund Board (NGCDFB) as required by Section 20 (2) of the National Government Constituencies Development Fund Regulations, 2016 which stipulates that utilization of the emergency reserve shall be reported to the Board within thirty (30) days of the occurrence of the emergency.

In the circumstances, the Fund is 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**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit so as 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 sustain 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 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 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 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 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**

**08 February, 2022**