

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Bomet East Constituency set out on pages 1 to 37, 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 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the National Government Constituency Development Fund - Bomet East 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 do not comply with the National Government Constituencies Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1.0 Inaccuracies in Financial Statements

Review of the financial statements submitted for audit revealed the following inaccuracies.

- 1.1 The forward by the Chairman National Government Constituencies Development Fund Committee at page vi, achievements paragraphs, reflects Kshs.34,694,838 in respect to other grants and transfers. However, the statement of receipts and payments reflects Kshs.33,679,838 in respect to other grants and transfers resulting to unexplained variance of Kshs.1,015,000.
- 1.2 Note 14 to the financial statements reported comparative balance of Kshs.1,576,252 in respect to prior year adjustments which have not been reconciled or supported with a ledger or a journal.

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June, 2020 could not be confirmed.

2.0 Use of Goods and Services

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects Kshs.11,407,520 in respect to use of goods and services. However, the following unsatisfactorily matters were observed:

2.1 Unsupported Committee Expenses

Included in the Kshs.11,407,520 balance is Kshs.5,797,939 in respect to committee allowance which differs with the Kshs.5,599,719 reflected in the supporting schedules provided for audit review resulting to unexplained variance of Kshs.198,220. Further, the supporting schedules provided for audit review did not indicate the dates when the committee meetings were held and location and dates when monitoring and evaluation of projects took place.

In the circumstances, the accuracy and completeness of committee allowance balance of Kshs.5,797,939 for the year ended 30 June, 2020 could not be confirmed.

2.2 Unsupported Other Committee Expenses

Note 5 to the financial statements reflects Kshs.2,220,061 in respect to other committee expenses for which schedules provided for audit review indicated the payee as the Fund Accounts Manager. However, details on the nature and dates of the expenditure incurred were not provided for audit review.

In the circumstances, the accuracy and completeness of other committee expenses of Kshs.2,220,061 for the year ended 30 June, 2020 could not be confirmed.

2.3 Wrong Classification - Office and General Supplies and Services

Note 5 to the financial statements reflects Kshs.1,463,900 in respect to office and general supplies and services which includes wrongly classified expenditure of Kshs.1,414,250, Kshs.9,450 and Kshs.40,200 in respect to routine maintenance–vehicles and other transport equipment, communication, supplies and services and utilities, supplies and services respectively.

In the circumstances, the accuracy and completeness of the office and general supplies and services balance of Kshs.1,463,900 for the year ended 30 June, 2020 could not be confirmed.

2.4 Unsupported Training Expenses

Note 5 to the financial statements reflects Kshs.1,900,000 in respect to training expenses paid to the Fund Accounts Manager. However, detailed schedules indicating the venue of the trainings, training need assessment reports and details of the trainers were not provided for audit review.

In the circumstances, the accuracy and completeness of the training expenses balance of Kshs.1,900,000 for the year ended 30 June, 2020 could not be confirmed.

3.0 Other Grants and Transfers

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects Kshs.33,679,838 in respect to other grants and transfers. However, the following unsatisfactory matters were observed:

3.1 Irregular Issuance of Bursary

Included in the Kshs.33,679,838 balance is Kshs.2,594,000 and Kshs.15,829,490 in respect to bursary to secondary schools and bursary to tertiary institutions all totaling Kshs.18,423,490. However, the supporting schedules did not indicate the beneficiary students' names and admission numbers and bursary policy to guide application, vetting and disbursements of bursaries was not provided for audit review. In addition, public notification on application of bursary, list of all the bursary applications, list of qualifying applications, list of rejected applications, bursary committee vetting minutes approving the list of beneficiaries and need assessment report and acknowledgements receipts were not provided for audit.

In the circumstances, the accuracy and completeness of the bursary disbursements of Kshs.18,423,490 for the year ended 30 June, 2020 could not be confirmed.

3.2 Irregular Procurement of Environment Projects

Note 7 to the financial statements reflects Kshs.4,753,828 in respect to environment projects which relates to procurement and installation of forty-six (46), 8000 litres water tanks. However, procurement records including bills of quantities detailing the materials and the size of the base where the tanks were to stand, distribution list of the tanks and signed delivery notes by the beneficiaries were not provided for audit review. Upon physical verification, it was observed that the tanks had been delivered to various schools though they had not been installed and were not in use.

In the circumstances, the accuracy and completeness of the environment projects balance of Kshs.4,753,828 for the year ended 30 June, 2020 could not be confirmed.

3.3 Sports Expenses

Note 7 to the financial statements reflects Kshs.3,054,000 in respect to sports expenditure out of which Kshs.2,854,000 was payment made to the Fund Account Manager but which was not supported with programme of the sport tournaments and list of the Project Management Committees implementing the project. In addition, the schedules provided for audit review in support of the sport expenditure did not contain the registration number and insurance reference number of transport equipment hired, schedule of matches

officiated by each referee, Football Kenya Federation number and national identification details.

In the circumstances, the accuracy and completeness of the sports project balance of Kshs.2,854,000 for the year ended 30 June, 2020 could not be confirmed.

4.0 Cash and Cash Equivalents

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities reflects Kshs.4,194,724 in respect to bank balance. However, respective bank reconciliation statement for June, 2020 reflects Kshs.6,784,798 in respect to unpresented cheques which includes stale cheques amounting to Kshs.1,207,443 which ought to have been reversed in the cash book. Further, bank balances comparative balance of Kshs.868,961 was not reconciled with the cash book balance of Kshs.566,732 as at 30 June, 2019 resulting to unreconciled variance of Kshs.302,229.

In the circumstance, the accuracy and validity of the cash and cash equivalent balance of Kshs.4,194,724 as at 30 June, 2020 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 – Bomet East 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 Adverse 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

1.0. Budgetary Control and Performance

The summary statement of appropriation reflects final receipts budget and actual on comparable basis of Kshs.195,448,165 and Kshs.124,640,876 respectively resulting to an under-funding of Kshs.70,807,290 or 36% of the budget. Similarly, the Fund expended Kshs.121,315,112 against an approved budget of Kshs.195,448,165 resulting to an under-expenditure of Kshs.74,133,053 or 38% of the budget.

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

2.0 Projects Implementation Status

The project status report provided for audit review indicated that 83 projects with an allocation of Kshs.118,258,642 had the following progress status as at 30 June, 2020:

Project Status	Number of the Projects	Amount (Kshs)
Complete	80	102,435,775
Ongoing	3	15,822,872
Total	83	118,258,642

The fund management attributed the delay in completing the three (3) projects to delayed in disbursements from the National Government Constituencies Development Fund Board.

The delay in completing projects may have impacted negatively on service delivery to the residents Bomet East Constituency.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Project Verification

Physical verification of forty-four (44) sampled projects in January, 2021 implemented at total contract sums of Kshs.59,483,408 revealed the following unsatisfactory matters:

(i) Failure to Maintain Project Files

The National Government Constituency Development Fund Committee converted itself to the project management committees by taking up the roles of project management committee in regard to procurement and implementation of the projects. This contrary to Section 15(6) of the National Government Constituency Development Fund Regulations, 2016 and as a result the Project Management Committees were unable to prepare and submit hand over reports to Constituency Development Fund Committee.

- (ii) Work plans, architectural drawings, bill of quantities, procurement documents, project implementation status report, inspection certificates and completion certificates were not provided for audit review.
- (iii) Six (6No.) projects worth Kshs.6,200,000 had stalled and their completion was, therefore, doubtful.
- (iv) Seven (7No.) projects worth Kshs.8,300,000 exhibited signs of poor workmanship in terms of huge cracks on walls and floors and sagging ceilings.

(v) Prior Year Projects

Seventeen (17) projects worth Kshs.17,300,000 had not been completed despite some of them being over three years old since the start date. This is contrary to Section 11(j) on the National Government Constituency Development Fund Regulations, 2016 which requires the Constituency Development Fund Committee to ensure that all projects receive adequate funding and are completed within three years.

In the circumstance, Fund Management is in breach of the law and the constituents of Bomet East Constituency may not receive value for money on the Projects worth Kshs.59,483,408.

2.0 Failure to Submit Reports on Project Management Committee (PMC) Bank Accounts

The Fund accountant did not provide a record of all the bank accounts opened by the PMCs and quarterly reports on status of the project management committee accounts. This is contrary to Section 15 (10) of the National Government Constituency Development Fund Regulations, 2016 which requires the Officer of the Board seconded to the Constituency to keep a record of the bank accounts opened by a project management committee and to table a quarterly report to a Constituency Committee on the status of the project management committee accounts.

To the extent, the Fund Management is in breach of the law.

3.0 Irregular Expenditure of Emergency Funds

Note 7 to the financial statements reflects Kshs.6,319,250 in respect to emergency projects which was spent on construction of toilets to various primary and secondary schools and completion of treasury offices.

This is contrary to section 8(3) of the National Government Constituencies Development Fund Act, 2015 which states that an Emergency shall be construed to mean an urgent, unforeseen need for expenditure for which it is in the opinion of the committee that it cannot be delayed until the next financial year without harming the public interest of the constituents.

In the circumstance, the Fund Management 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm 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 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 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 Fund 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 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 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 judgment 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

11 February, 2022