

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - BOBASI 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 - Bobasi Constituency set out on pages 14 to 64, which comprise the statement of assets and liabilities as at 30 June, 2020, 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, 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 - Bobasi 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 Public Finance Management Act, 2012.

### Basis for Qualified Opinion

#### 1. Bursary Disbursements

The statement of receipts and payments reflects other grants and transfers balance of Kshs.50,050,457 for the year ended 30 June, 2020. The expenditure includes an amount of Kshs.32,924,600 which was disbursed as bursaries to students in various learning institutions. However, out of the total bursary disbursements, an amount of Kshs.1,229,000 was not acknowledged by the relevant learning institutions.

Consequently, the accuracy, validity and regularity of the expenditure of Kshs.1,229,000 for the year ended 30 June, 2020 could not be confirmed.

#### 2. Summary Statement of Appropriation

The summary statement of appropriation reflected transfers from the Board of Kshs.145,982,976 while the statement of receipts and payments reflects Kshs.135,240,876 leading to an unreconciled variance of Kshs.10,742,100.

Consequently, the accuracy, validity and completeness of the transfers of Kshs.145,982,976 for the year ended 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 - Bobasi Constituency 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**

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

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.224,580,720 and Kshs.145,982,976 respectively resulting to an under funding of Kshs.78,597,744, or 35 % of the budget.

Similarly, the actual expenditure reflects a balance of Kshs.124,542,163 against an approved budget of Kshs.224,580,720 resulting to an under-expenditure of Kshs.100,038,557 or 45% of the budget. The under funding and under performance affected the planned activities and may have impacted negatively on service delivery to the Citizens.

### **2. Un-Implemented Projects**

The constituency was allocated Kshs.3,507,770 for establishment of innovation hubs at St. Paul's Nyacheki, Nyakegogi and Rusinga Secondary Schools for Kshs.1,169,2570 each. The Constituency committee resolved to reallocate the funds to other projects due to lack of rooms for installation of the innovation hub. However, Management did not explain why they never allocated extra funds for the construction of the rooms in the selected schools

Consequently, the intended beneficiaries did not get the benefits due from the innovation hubs.

# 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 sections 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 Transfers to Other Government Entities**

#### **1.1 Construction of a Dormitory at Rianyachuba Secondary School**

Included in the transfers to other government units balance of Kshs.42,355,000 is Kshs.21,655,000 relating to transfers to secondary schools which further includes Kshs.1,000,000 disbursed to Rianyachuba secondary school for the construction of an administration block. However, the funds were diverted to construction of a dormitory without the approval of the Board contrary to the provisions of Section 6(2) of the National Government Constituencies Development Fund Act, 2015.

Consequently, the Fund Management was in breach of the law.

#### **1.2 Reallocation of Funds**

Included in the transfers to other government units balance of Kshs.42,355,000 is Kshs.19,700,000 for transfers to primary schools which further included Kshs.3,500,000 disbursed to four (4) primary schools for the construction of classrooms. A physical verification done in the month of February, 2021 revealed that the funds disbursed to the four schools were diverted to renovation of classrooms without the approval of the Board as stipulated in the National Government Constituencies Development Fund Act, 2015, Section 6(2).

Consequently, the Fund Management was in breach of the law.

#### **1.3 Construction of a Laboratory Block at Enchoro PEFA Secondary School**

Included in the transfer to other government units balance of Kshs.42,355,000 in the statement of receipts and payments is Kshs.21,655,000 for transfers to secondary schools which further includes a disbursement of Kshs.600,000 to Enchoro PEFA secondary school for the completion of a laboratory block. However, a physical

verification revealed that the project stalled with various activities including plastering, flooring and painting works still outstanding.

Consequently, the value for money of Ksh.600,000 for the year ended 30 June, 2020 could not be confirmed.

#### **1.4 Purchase of a Bus for Borangi SDA Secondary School**

Included in the transfers to other government units balance of Kshs.42,355,000 in the statement of receipts and payments is Kshs.21,655,000 for transfers to secondary schools which further includes Kshs.7,200,000 in respect of purchase of a 51 seater school bus for Borangi SDA secondary school. The bus was purchased through direct procurement contrary to Section 91(1) of the Public Procurement and Asset Disposal Act, 2015 which states that open tendering shall be preferred procurement method for procurements of goods, works and services.

Consequently, value for money for the expenditure of Kshs.7,200,000 for the year ended 30 June, 2020 could not be confirmed.

### **2.0 Other Grants and Transfers**

#### **2.1 Emergency Projects**

Included in other grants and other payments balance of Kshs.50,050,457 are payments of Kshs.11,044,040 for emergency projects which further included expenditures worth Kshs.2,300,000 in respect of disbursements to seven (7) schools for various projects, all of which were paid in cash. The payments for procurement of works for amounts ranging between Kshs.300,000 and Kshs.500,000 exceeded the low value cash purchase limit of Kshs.5,000 for entities in class "C" in which the Fund falls. Further, minutes from the CDF Board were not provided for audit review and therefore it was not possible to confirm that the projects met the criteria for emergency projects as specified under Section 8(3) of the National Government Constituencies Development Fund Act, 2015.

Consequently, the regularity and value for money of the expenditure of Kshs.2,300,000 for the year ended 30 June, 2020 could not be confirmed and the Fund Management was 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 procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and 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 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 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 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 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 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**

**09 February, 2022**