

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Bonchari Constituency set out on pages 16 to 50, 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, 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 - Bonchari 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 Constituency Development Fund Act, 2015 and Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Cash and Cash Equivalents

As disclosed in Note 10A to the financial statements, the statement of assets and liabilities as at 30 June, 2020 reflects bank balances of Kshs.2,020,850 which excludes stale cheques amounting to Kshs.666,000. The same had not been reversed into the cashbook as at the time of audit. No explanation for this anomaly was provided.

In the circumstances, the accuracy, validity and completeness of cash and cash equivalents balance of Kshs.2,020,850 as at 30 June, 2020 could not be confirmed.

2. Summary Statement of Appropriation

Included in the summary statement of appropriation - recurrent and development combined for the year ended 30 June, 2020 are adjustments of Kshs.19,450,222 for payments which includes other grants and transfers of Kshs.14,797,369. However, detailed schedule of the projects and programmes in the approved code list in the prior year which were to be funded during the 2019/2020 financial was not provided for audit.

In the circumstances, the accuracy and completeness of the adjustment of Kshs.19,450,222 reflected in the statement of appropriation-recurrent and development combined 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 National Government Constituencies Development Fund - Bonchari 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

1.1 Revenue Analysis

The statement of budget and actual amount for the year ended 30 June, 2020 reflects Kshs.156,817,946 and Kshs.87,507,102 in respect to budgeted revenue and actual revenue respectively. This translates to an under-realization of Kshs.69,310,844 or 44% an indication that some programs and activities that had been planned were not implemented.

In addition, the National Government Constituencies Development Fund (NG-CDF) Board approved a budget of Kshs.156,817,946 to be transferred to Bonchari Constituency Fund but only Kshs.87,507,102 was transferred resulting to underfunding of Kshs.69,310,844. Failure to transfer the Kshs.69,310,844 by the Board translates to planned budget that was not executed for the benefits of the public

1.2 Expenditure Analysis

The statement of comparison of budget and actual amounts for the year ended 30 June, 2020 reflects Kshs.156,683,746 and Kshs.85,724,725 in respect of budget and actual expenditure respectively resulting to under absorption of Kshs.71,093,221 or 45% which translates to equivalent services planned but not delivered to the public

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. Other Grants and Other Payments

1.1 Security Projects - Construction of Nyamwari Chief's Office

Disclosed under Note 7 to the financial statements under other grants and payments of Kshs.38,871,606 is an expenditure of Kshs.2,000,000 for security projects paid for the construction of Nyamwari Chief's Camp Project. Physical verification on 19 January, 2021 revealed that the contractor was not on site and the project had stalled.

Consequently, the regularity and value for money of the expenditure of Kshs.2,000,000 for the year ended 30 June, 2020 could not be confirmed.

1.2 Emergency Projects

Similarly, included in other grants and other payments, is an expenditure of Kshs.9,419,200 for sports projects which exceeds 5% of the total allocation to emergency projects. This is contrary to Section 8(1) of the National Government Constituency Development Fund Act, 2015 which states that a portion of the fund, equivalent to five percent (5%) shall remain unallocated and shall be available for emergencies that may occur within the Constituency.

Consequently, the Fund is in breach of the law.

2. Transfers to Other Government Entities

2.1 Transfers to Primary Schools

As disclosed in Note 6 to the financial statements, the statement of receipts and payments as at 30 June, 2020 reflects a balance of Kshs.37,519,168 in respect of transfers to other government entities. Included in this balance is an amount of Kshs.19,519,168 relating to transfers to primary schools. However, a physical verification confirmed poor workmanship in five primary school with projects worth Kshs.3,500,000 where it was observed that cracks had developed on the floor, ventilations not fitted and paints peeling off.

In the circumstances, the value for money and regularity of the expenditure of Kshs.3,500,000 for the year ended June 2020 could not be confirmed.

2.2 Non-Filling of Expenditure Return by Project Management Committee (PMC)

Note 6 to the financial statement as at 30 June, 2020 reflects a balance of Kshs.37,519,168 in respect of transfers to other government entities for various projects.

However the following documents were not provided.

- i. Work plans for the projects.
- ii. Certificate of completion and Engineers report for the projects before payments are made.
- iii. Schedule of materials.

- iv. Documents from the Public Health for the various toilets constructed within the financial year.

In the circumstances, the value for money and regularity of the expenditure of Kshs.37,519,168 for the year ended June, 2020 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 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 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 noncompliance. 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 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 sustaining 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

07 February, 2022