

REPORT OF THE AUDITOR-GENERAL ON THE NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MATUNGULU CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Matungulu Constituency set out on pages 7 to 22 which comprise the statement of Assets as at 30 June 2018, and statement of receipts and payments, statement of cashflow, 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 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 National Government Constituencies Development Fund Matungulu Constituency as at 30 June 2018, 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 National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

Fixed Assets

From the review of the fixed assets owned by the Fund the following inconsistencies were noted: -

- (i) The summary of fixed asset register at annex 4 in the financial statements reflects historical cost of Kshs.15,086,660 for the two financial years ended 30 June 2017 and 2018. However, and as reported previously, the detailed fixed assets register reflected asset balance of Kshs.25,448,020, resulting in unexplained difference of Kshs.10,361,360.
- (ii) The title deeds and log books for the parcels of land and motor vehicles with historical costs of Kshs.9.6 million and 4.2 million respectively in the summary of fixed asset register were not made available for audit review.

Consequently, the accuracy and ownership of fixed assets balance of Kshs. 15,086,660 as at 30 June 2018 cannot 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 Matungulu Constituency in accordance with ISSAI 30 on Code of Report of the Auditor-General on the Financial Statements of National Government Constituencies Development Fund - Matungulu Constituency for the year ended 30 June 2018

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 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.

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. Flaws in the Procurement Process

During the year under review, the Fund budgeted for the implementation primary and secondary schools projects valued at Kshs.54,606,195. The works entailed construction and renovations of classrooms using contractors procured through competitive tendering process. However, the following anomalies were noted in the procurement process for the contractors: -

1.1. Awards Without Professional Opinion of the Head of Procurement

Contrary to the provisions of section 84(1) of the Public Procurement and Asset Disposal Act, 2015, the management awarded contracts for the projects without seeking the professional opinion of the head of procurement.

1.2. Lack of Project Documentation

Section 70(6b) of Public Procurement and Asset Disposal Act, 2015 requires the procuring entity to have in place the drawings, designs and priced bills of quantities of the project being implemented, the objective being to check price overcharge by bidders. However, for the projects implemented, these requisite documents were lacking. The Fund is to this extent in breach of the Public Procurement and Asset Disposal Act, 2015.

2. Project Verification

Sixteen (16) projects sampled for audit verification in February 2019 revealed that they were unbranded and had the following anomalies:

2.1. Delay in Implementation of Projects

2.1.1 Kwa Mutu Secondary School

The Fund approved proposal for construction of four classrooms, an administration block, an eight-door toilet block at the cost of Kshs.1,827,000, Kshs. 1,603,000 and Kshs. 500,000 respectively. However as at date of the visit, the contractor had only excavated part of the foundation trenches with no other evidence of work ongoing nor materials on site. Management did not render an explanation for the delay and absence of the contractor from site after.

2.1.2 Mbuni Primary School

The proposal for complete construction of six (6) classrooms was approved and funded during 2016/2017 financial year. However, as at February 2019, the construction works had not commenced.

2.2. Unsatisfactory Works - Ndovoini Primary School

The project for the renovation of eight (8) classrooms was funded during 2017/2018 financial year which entailed roofing, flooring, plastering and painting at contract sum of Kshs 3,041,000. However, audit inspection in February 2019, revealed that although the classrooms were in use, poor workmanship was apparent in plastering and paintwork as well as being unbranded. Further, the contractor did not replace the roofing timber but instead used the existing contrary to the contract agreement.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

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 Internal Controls Effectiveness, Governance and Risk Management Systems 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

Fueling of Motor Vehicle

Although the Fund uses detailed orders to draw fuel for its sole vehicle, no register is maintained to show how the fuel drawn has been utilized. There is also no service log book to confirm whether the expense repairs incurred relate to the vehicle. In absence of the above controls, the risk of abuse of the system for non-Fund vehicles is high.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 going concern basis of accounting unless the management either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

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 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 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 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 going concern 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 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

26 August 2019