

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND-LUNGALUNGA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund-Lungalunga Constituency set out on pages 9 to 36, which comprise the statement of assets and liabilities as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows and the 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 National Government Constituencies Development Fund-Lungalunga Constituency as at 30 June, 2019, 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 the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Presentation and Accuracy of the Financial Statements

The following anomalies were noted in the financial statements presented for audit :

- i. The Sub-County Accountant's Institute of Certified Public Accountants of Kenya (ICPAK) registration number was not indicated.
- ii. The breakdown of the unutilized funds amounting to Kshs.61,245,780 reflected in summary statement of appropriation - recurrent and development combined is not provided under Note 15.3 to the financial statements and at Annex 3 as required.
- iii. Management effort to resolve the prior year audit matters has not been disclosed under the progress on follow up of auditor recommendations section of the financial statements.
- iv. The transfers of Kshs.110,284,483 received from the National Government Constituencies Development Fund Board reflected under the summary statement of appropriation - recurrent and development combined did not include the bank balance of Kshs.11,401,238 brought forward from the prior year. The accuracy of the statement and the reported receipts budget utilization difference of Kshs.66,442,114 could, therefore, not be confirmed.

Consequently, the financial statements did not comply with the presentation requirements under International Public Sector Accounting Standard No.1 – Presentation of Financial

Statements and the financial reporting guidelines issued by the Public Sector Accounting Standards Board.

2.0 Inaccuracy of Bank Balance

The statement of assets and liabilities reflects a bank balance of Kshs.6,204,905. However, the June, 2019 bank reconciliation statement reflected payments in cashbook not in bank statement amounting to Kshs.4,729,486, out of which twenty-six (26) cheques amounting to Kshs.537,452 were stale and had not been reversed in cash book as at 30 June, 2019. Further, the bank statements to confirm when cheques totaling Kshs.4,192,034 were subsequently cleared by the bank were not availed for audit review.

In addition, the bank reconciliation statement reflected receipts in bank statement not in cash book amounting to Kshs.15,000 relating to unpaid cheques in June, 2018 and bank charges amounting to Kshs.39,200 as payments in bank statement not yet recorded in cash book. No explanation was given why the long outstanding receipts had not been updated in the cashbook and why the bank charges were not recorded in the cashbook and expensed in the statement of receipts and payments.

Consequently, the accuracy and completeness of the bank balance of Kshs.6,204,905 could not be confirmed.

3.0 Unsupported Payments for Security Projects

The statement of receipts and payments reflects other grants and transfers of Kshs.60,004,999, out of which Kshs.15,076,207, as disclosed in Note 7 to the financial statements, was in respect of security projects. However, payment vouchers for expenditure amounting to Kshs.8,932,000 were not provided for audit verification.

Consequently, the accuracy and propriety of Kshs.8,932,000 spent on security projects 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-Lungalunga 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

Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined, reflects a budgeted expenditure of Kshs.176,726,597 against actual expenditure on comparable basis of Kshs.115,480,817, resulting into an under-absorption of Kshs.61,245,780 or 35%. The under-expenditure was attributed to delayed disbursement of funds by the Board.

There is need therefore for the National Government Constituencies Development Fund Board to disburse funds in a timely manner for implementation of projects as planned to facilitate effective and efficient delivery of services to the residents of Lungalunga 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 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

1.0 Projects Implementation Status

The projects implementation status report as at 30 June, 2019 availed for audit review indicated that seventeen (17) development projects with a total allocation of Kshs.50,560,000 were approved by the National Government Constituencies Development Fund Board for implementation in the financial year 2018/2019. However, twelve (12) projects with a total allocation of Kshs.38,210,000 were still ongoing as at 30 June, 2019. Delayed implementation of projects was attributed to late disbursement of funds.

Delayed completion of the projects negatively affected the delivery of services to the residents of Lungalunga Constituency.

2.0 Poor Projects Monitoring

Audit inspection undertaken in January, 2020 on six (6) projects with a total cost of Kshs.21,010,000 revealed anomalies as provided under Appendix I.

The above state of affairs is an indication of poor projects monitoring and supervision resulting into poor workmanship and delays in implementation of projects which could lead to cost escalations.

3.0 Irregular Procurement of Construction Contracts

Section 91(1) of the Public Procurement and Asset Disposal Act, 2015 provides that open tendering shall be the preferred procurement method for procurement of goods, works and services. Section 96(2) of the Act further provides that, if the estimated value of the

goods, works or services being procured is equal to, or more than the prescribed threshold for County, National and International advertising, the procuring entity shall advertise in the dedicated government tenders' portals or in its own website, or a notice in at least two daily newspapers of nationwide circulation. However, no evidence of advertisement for five (5) construction contracts with a total cost of Kshs.15,500,000 was provided despite their respective contract sums being within the threshold of Kshs.4,000,000 for open tender as detailed below:

No.	Project Name	Project Activity	Contract Sum (Kshs.)
1.	Godo Chief's Office and Police Post	Construction of a new Chief's Office and Police Administration Block	5,500,000
2.	Kiruku Secondary School	Construction of a new Dormitory	5,500,000
3.	Mwangulu Police Station	Construction of a new Administration Block	4,500,000
	Total		15,500,000

It could therefore not be confirmed that the procurement was done in a system that is fair, equitable, transparent, competitive and cost-effective as provided under Article 227(1) of the Constitution of Kenya.

Further, there was no evidence that the bidders submitted any form of tender security as required under Section 61(1) of Public Procurement and Asset Disposal Act, 2015 which provides that an accounting officer of a procuring entity may require that tender security be provided with tenders, subject to such requirements or limits as may be prescribed.

Consequently, Management was in breach of the Law and may have no recourse in case of unsatisfactory performance by the contractors.

4.0 Award of Bursary to Secondary Schools and Tertiary Institutions

The statement of receipts and payments reflects other grants and transfers of Kshs.60,004,999, out of which Kshs.38,265,222 was in respect of bursary to secondary schools and tertiary institutions, as disclosed at Note 7 to the financial statements. However, no evidence was provided of the vetting of the bursary applicants as provided under Regulation 21(3) of the National Government Constituency Development Fund, Regulations, 2016.

In the circumstances, it could not be confirmed that bursaries were awarded fairly and to the deserving applicants.

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 Article 229(6) of the Constitution, 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 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 National Government Constituencies Development Fund-Lungalunga Constituency ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the 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 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 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 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 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

16 September, 2021

APPENDIX I: Poor Projects Monitoring

	Project Name	Details of Project	Cost of Project (Kshs.)	Audit Verification
1.	Mwezamwenye Secondary School	Construction of an Administration Block	6,000,000	<ul style="list-style-type: none"> The Administration Block is complete and in use but toilets are not being used due to lack of septic tank. Softwood doors fitted instead of hardwood as per Bills of Quantities.
2.	Mkono wa Ndugu Primary School	Construction of 2 new classrooms and 1 No. 2 door pit latrine and 20 desks	3,350,000	<ul style="list-style-type: none"> Ongoing works on 2 classrooms. Toilet not complete. Desks not yet supplied.
3.	Mamba Police Post	Completion of police administration block- ceiling, louvres and painting	1,300,000	<ul style="list-style-type: none"> The Project was ongoing, but the roof had already started rusting. The size of the timber for roofing was not as per Bill of Quantities.
4.	Mwashetani High School	Completion of Tuition Block	710,000	<ul style="list-style-type: none"> The Contractor was not on site despite the project being incomplete. The Project Account Statement was not availed for verifications. The current head teacher was not a signatory to the project management committee bank account.
5.	Ngathini Primary School	Construction of 2 new classrooms, 2 door pit latrine and 20 desks	3,650,000	<ul style="list-style-type: none"> The doors size was smaller compared to the specifications in the Bill of Quantities. The desks were not labelled. The toilet had not been connected to the septic.
6.	Lungalunga Secondary School	Construction of Library	6,000,000	<ul style="list-style-type: none"> Observed cracks on the walls and floor. The roof was leaking leading to damage to the ceiling. The contractor had been paid all the money other than the retention money.
Total			21,010,000000	