

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund - Makueni Constituency set out on pages 24 to 61, 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 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 - Makueni 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 the Public Finance Management Act, 2012.

Basis for Qualified Opinion

Lack of Ownership Documents for a Motor Vehicle

The statement of receipts and payments reflects acquisition of assets expenditure of Kshs.5,016,531 which as disclosed at Note 8 to the financial statements, includes an amount of Kshs.4,842,600 relating to purchase of vehicles. Additional information indicated that the Fund purchased a Ford Ranger Double Cabin vehicle. However, the logbook and the motor vehicle inspection report were not provided for audit.

In the circumstances, the ownership and the mechanical soundness of the vehicle could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent the National Government Constituencies

Development Fund - Makueni 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 receipts budget and actual receipts on comparable basis of Kshs.206,903,430 and Kshs.137,535,706 respectively, resulting to an underfunding of Kshs.69,367,724 or 33% of the approved budget. Further, out of the total receipts of Kshs.137,535,706, only Kshs.126,267,748 was utilized during the year resulting into an under-absorption of Kshs.11,267,958 or 8%.

Underfunding and failure to utilize the available receipts affected the planned activities and projects of the Fund which may have impacted negatively on service delivery to the residents of Makueni.

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. Delayed Implementation of Projects

Review of the project implementation documents and audit inspection revealed that, the Fund had allocated Kshs.80,717,102 for implementation of one-hundred and four (104) projects out of which twenty-three (23) projects with a combined budget of Kshs.19,273,677 were on-going while forty-nine (49) projects with a combined allocation of Kshs.41,977,426 had not commenced. In addition, nine (9) projects with a combined budget of Kshs.7,955,602 planned for implementation in the 2018/2019 financial year had not been commenced. No satisfactory explanation was provided for the delayed implementation of projects or measures in place to remedy the situation.

In view of the foregoing, it was not possible to confirm if and when value for money would be realized from the funds allocated to projects that were not implemented during the year under audit.

2. Use of an Unapproved Procurement Method

Review of procurement documents and projects' records revealed that six (6) projects with a combined cost of Kshs.9,502,400 were implemented by way of hired casual workers and use of construction materials acquired by the respective Project Management Committees. However, prior approval of the accounting officer to use the method as required under Section 109(3)(a) of the Public Procurement and Asset Disposal Act, 2005 was not provided. The details of the projects are as outlined below:

Project Location	Project Details	Amount (Kshs.)
Kambi Mawe Secondary School	Construction of dormitory	1,500,000
Itaa Primary School	Completion of dormitory (plastering, flooring and painting)	1,000,000
Manzani Primary School	Renovation of 4 classrooms (roofing, plastering, flooring and painting)	800,000
Kiuuku Secondary School	Construction of 2 classrooms to completion	1,200,000
Muambani Secondary School	Completion of dining hall (plastering, flooring painting and fittings)	1,100,000
AIC Mandoi Day and Boarding Primary School	Construction of dormitory	3,902,400
Total		9,502,400

In the circumstances, the Fund Management was in breach of the Law.

3. Poor Workmanship and Other Anomalies in Implementation of Projects

Audit inspection of projects carried out between 21 and 22 January, 2021 revealed some anomalies in the implementation of six (6) projects with a combined cost of Kshs.4,600,000 as detailed out in the table below:

	Project Location	Project Details	Amount (Kshs.)	Observations
1	Muambani Secondary School	Completion of dining hall (plastering, flooring, painting and fittings).	1,100,000	Contractor had been fully paid. However, the building had not been painted; doors to the toilet, bathroom, store and office have not been fixed.
2	Kambi Mawe Secondary	Completion of Science Laboratory (roofing,	1,000,000	Main door to the laboratory was not fixed. Gas chamber and piping not done, water piping and drainage to the sinks had not been done. Poor

	Project Location	Project Details	Amount (Kshs.)	Observations
		plastering, flooring and painting).		workmanship was observed on fittings. These notwithstanding, the contractor was fully paid.
3	Mwani Primary School	Renovation of 4 Classrooms (roofing, plastering, flooring and painting).	800,000	Floor had not been done despite the contractor having been fully paid.
4	Kiuuku Secondary School	Construction of 2 classrooms to completion.	1,200,000	PMC constructed a science laboratory instead of the two class rooms without reallocation approval from the NG-CDF Board and CDF Committee.
5	Kathonzweini Divisional Police Headquarter in Makueni	Construction of Male Cell, Female Cell, Armory and Offices (roofing, plastering and fittings).	500,000	Floors were poorly done and the fitted doors were not standard for armory and were also of poor quality. Further, the project was completed but had not been put to use.
	Total		4,600,000	

In view of the foregoing, it was not possible to confirm the regularity of the implementation of the projects and whether value for money was realized from the expenditure of Kshs.4,600,000.

4. Failure to Report Emergency Projects Expenditure

The statement of receipts and payments reflects expenditure of Kshs.44,779,886 under other grants and transfers which as disclosed at Note 7 to the financial statements reflects expenditure of Kshs.4,850,000 incurred on emergency projects. However, relevant supporting documents were not provided for audit to confirm that the emergencies were reported to the National Government Constituencies Development Fund Board within thirty (30) days as stipulated under Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016.

In the circumstances, the Fund Management was in breach of the Law.

5. Construction of Classroom at ABC Kalumbi Secondary School

During the year under review, Kshs.1,000,000 was disbursed for the construction of one classroom to completion at ABC Kalumbi Secondary School. The contract was awarded at a contract sum of Kshs.945,500. However, the Project Management Committee in its meeting held on 27 August, 2020 resolved that the Committee was satisfied with the work done up to walling level. The contractor was paid the full contract sum for partial work done under unclear circumstances since no variations were made to the bill of quantities.

In the circumstances, it was not possible to ascertain the validity and value for money from the expenditure of Kshs.945,500 incurred on the project.

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 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 its services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless Management is aware of intention to either terminate the Fund or 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 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 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 Fund's 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 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