

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KWANZA 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 - Kwanza Constituency set out on pages 1 to 40, 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 matter 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 - Kwanza 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.

Basis for Qualified Opinion

1. Unreconciled Project Management Committee - Bank Account Balances

Note 10.3 to the financial statements reflects project management committee bank account balances totaling Kshs.27,132,854 as at 30 June, 2020 which is further detailed under annex 4 in the financial statements. However, the bank reconciliation statements in support of the bank balances were not provided for review contrary to Regulation 90(1) of the Public Finance Management (National Government) Regulations, 2015 which provides that all Accounting Officers shall ensure bank accounts reconciliations are completed for each bank account held by that Accounting Officer, every month and submit a bank reconciliation statement not later than the tenth day of the subsequent month to The National Treasury with a copy to the Auditor-General.

Consequently, the accuracy and validity of the disclosed project management committee bank balances of Kshs.27,132,854 could not be confirmed.

2. Accuracy of the Financial Statements

The summary statement of appropriation: recurrent and development combined shows a budget utilization difference of Kshs.71,721,687 under the receipt's component of transfers from the NGCDF Board. However, a recalculation of the amount shows an

amount of Kshs.69,367,724 thus giving rise to a difference of Kshs.2,353,963 which has not been explained.

In the circumstances, the accuracy of the financial statements 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 - Kwanza 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 Matters

1.1 Budgetary Control and Performance

The summary statement of appropriation: recurrent and development combined shows that the Fund had total budgeted receipts of Kshs.194,821,107 against actual receipts of Kshs.125,453,383 thus resulting in an under-collection of Kshs.69,367,724 or 36% of the expected receipts. Further, the statement shows total budgeted expenditure of Kshs.194,821,107 against an actual expenditure of Kshs.120,045,995 thereby resulting in an under expenditure of Kshs.74,775,112 or 38% of the budgeted expenditure.

The under-collection of receipts and under expenditure implies that some of the planned projects of the Fund were not implemented thus impacting negatively on the service delivery of the constituents of Kwanza constituency.

1.2 Projects Implementation Performance

Review of the projects implementation status report revealed that, the Fund had an approved plan to implement one thousand and fourteen (1014) projects over the seven (7) year period covering the financial years 2013/2014 to 2019/2020, valued at Kshs.648,451,479. However, forty-six (46) projects or 5% valued at Kshs.60,556,388 had not yet been started. Further, eighty-five (85) projects or 8% valued at Kshs.143,757,435 were still ongoing and eight hundred and eighty-three (883) projects or 87% valued at Kshs.444,137,656 had been completed as summarized below: -

| Sector | Not yet started | | Ongoing | | Completed | |
|----------------|-----------------|------------------|---------|------------------|-----------|------------------|
| | No | Value (Kshs.) | No | Value (Kshs.) | No | Value (Kshs.) |
| Administration | | | 5 | 6,663,095 | 40 | 52,702,608 |
| Education | 33 | 54,400,000 | 65 | 121,220,000 | 369 | 264,116,603 |
| Emergency | 8 | 3,150,000 | 2 | 4,974,340 | 87 | 26,530,964 |
| Environment | 2 | 500,000 | 1 | 300000 | 292 | 9,420,000 |

| | | | | | | |
|---------------------------|-----------|--------------------|--------------|--------------------|------------|--------------------|
| Health | | | 5 | 4,200,000 | 21 | 13,732,759 |
| Monitoring and Evaluation | 1 | 1,300,000 | 2 | 4,400,000 | 16 | 25,324,274 |
| Roads | | | | | 20 | 23,119,939 |
| Security | 1 | 600,000 | 5 | 2,000,000 | 32 | 23,750,000 |
| Sports | 1 | 606,388 | | - | 6 | 5,440,509 |
| Sub-Total | 46 | 60,556,388 | 85 | 143,757,435 | 883 | 444,137,656 |
| | | Grand Total | 1,014 | 648,451,479 | | |

Failure to complete projects as planned denies the residents of Kwanza Constituency the benefits that would have accrued from the completed projects.

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

1.1 Poor Workmanship in Project Implementation

Physical verifications carried out on various projects within Kwanza constituency revealed that there was construction of classrooms and dining halls in various schools. Further, it was noted that three (3) of the schools visited had projects that were poorly implemented since there were elements of poor workmanship as indicated in the table below and no satisfactory explanation was given by the project management committees.

| Date | P.V No. | Payee | Description | Amount disbursed (Kshs.) | Observations |
|-----------|---------|---------------------------------|---|--------------------------|--|
| 5.08.2019 | 496 | Kwanza Friends Secondary School | Construction of Storey Dormitory | 2,000,000 | Floor had cracks, Window panes were poorly fixed |
| 5.08.2019 | 457 | Mugumo Primary School | Construction of 2no. Classrooms to completion | 1,500,000 | Floor had cracks |
| 5.08.2019 | 509 | Kapkoi Girls Secondary School | Construction of Twin Lab to roofing | 1,970,000 | Floor had cracks |
| | | | Total | 5,470,000 | |

This is contrary to Section 150(1) of the Public Procurement and Asset Disposal Act, 2015 which states that the accounting officer or his or her appointed representative shall be responsible for ensuring that the goods, works and services are of the right quality and quantity.

1.2 Construction of Kapsitwet Assistant Chief's Office

A local contractor was awarded the tender to construct Kapsitwet Assistant Chief's Office at a contract sum of Kshs.700,000 and was paid the full amount on 05 August, 2019. However, a physical verification exercise carried out on the project revealed that the skirting was not properly bonded with the outer wall and had therefore developed major cracks.

Consequently, the requirements of Section 150(1) of the Public Procurement and Asset Disposal Act, 2015 requiring the accounting officer or his or her appointed representative to ensure that the goods, works and services are of the right quality and quantity were not adhered to in the project implementation.

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 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 such 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.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain its services and disclosing as applicable matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to abolish 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.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity 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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Fund's 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 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 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

28 January, 2022