

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - MALAVA 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 - Malava Constituency set out on pages 1 to 29, which comprise the statement 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 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 - Malava 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Project Management Committee (PMC) - Bank Account Balances

Note 17.4 to the financial statements reflects project management committee (PMC) bank account balances totalling to Kshs.11,380,523 as at 30 June, 2020 as detailed in annex 4 to the financial statements. However, the bank reconciliation statements and cashbooks in support of these balances were not provided.

Consequently, the accuracy and validity of the project management committee bank account balances of Kshs.11,380,523 as at 30 June, 2020 could not be confirmed.

2. Accuracy of the financial statements

The summary statement of appropriation: recurrent and development combined shows total actual receipts of Kshs.100,876,123. However, the re-computed amount is Kshs.101,542,648 thereby resulting in an unexplained variance of Kshs.666,525.

Consequently, the accuracy of the financial statements is in doubt.

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

The summary statement of appropriation: recurrent and development combined shows that the Fund had total budgeted receipts of Kshs.140,910,372 against actual receipts of Kshs.101,542,648 thereby resulting in an under-collection of Kshs.39,367,724 or 28% of the expected receipts. Further, the statement shows total budgeted expenditure of Kshs.140,910,372 against actual expenditure of Kshs.97,450,570 thereby resulting in an under expenditure of Kshs.43,459,802 or 31% of the budgeted expenditure.

The under-collection of receipts and under expenditure is an indication that the planned programs and projects were not implemented and therefore the residents of Malava Constituency did not receive the services they are entitled to.

2. Project Implementation Status

Review of the projects implementation status (PIS) report as at 30 June, 2020, reveals that the Fund had planned to implement sixty-eight (68) projects at a cost of Kshs.145,004,629 and which exceeds the approved budget for the financial year 2019/2020 of Kshs.140,910,372.

According to the PIS, thirty-five (35) projects costing Kshs.59,600,000 had been completed, nine (9) projects costing Kshs.60,804,629 were on going and at various levels of completion while twenty-four (24) projects costing Kshs.24,600,000 had not commenced and no reason was provided as to why the same had not commenced.

Non-implementation of projects as planned is an indication that the residents of Malava Constituency did not receive the services that they are entitled to.

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

Unsatisfactory Implementation of Projects

1. Transfer to Other Government Units - 200 Bed Capacity Dormitory at Lwanda K. Secondary School

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects a transfers to other Government units' figure of Kshs.56,850,000. Included in this amount is an expenditure of Kshs.31,100,000 transferred to secondary schools which in turn includes Kshs.2,400,000 disbursed to Lwanda Secondary School in respect for construction of a 200-bed capacity dormitory during the year under review.

The contract was awarded to a local construction company for a contract sum of Kshs.4,495,335. However, as at the time of audit in February, 2021, although the building was indicated to be complete, the floor and walls had cracked an indication of poor workmanship and there was no evidence that the contractor had been asked to rectify this. In addition, the bills of quantity had provisional sums totalling to Kshs.510,000 out of which Kshs.300,000 for electrical works had no documentary evidence on how it was utilized by the contractor. This is contrary to the provisions of section 150(1) of the Public Procurement and Asset Disposal Act, 2015 which requires the accounting officer or his or her appointed representative to be responsible for ensuring that the goods, works and services are of the right quality and quantity.

The Management is therefore in breach of the law and the residents of Malava Constituency did not receive value for the Kshs.4,495,335 incurred on the project.

2. Other Grants and Transfers

Included in other grants and transfers figure of Kshs.27,083,387 as disclosed in Note 5 to the financial statements, are amounts totalling Kshs.2,200,000 disbursed to Shivanga Chief's Office and Manda Secondary School towards the construction of the chief's office and three (3) classrooms respectively. However, a review of the two projects' records provided revealed anomalies as detailed below: -

Date	P.V NO.	Payee	Description	Amount Kshs.	Observations
03-Jun-20	201	Shivanga Chief's Office	Construction of Chief's office and 4 door pit latrines	1,700,000	1.No inspection and acceptance report from the relevant authorities 2. Floors and walls have cracks; the ceiling cornice was poorly fixed.
23-Mar-20	457	Manda Secondary	Construction of 3no. Classrooms to completion	500,000	1. No proposal letter from the school to show this was an emergency. 2. No Inspection and acceptance report from relevant authorities. 3. Floors and walls have cracks.
Total				2,200,000	

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

Consequently, the Management is in breach of the law.

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, except for the matters described in the Basis for Qualified Opinion section of my report, 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.

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 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

04 February, 2022