

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Matungu Constituency as set out on pages 17 to 57 which comprise the statement of Assets and Liabilities as at 30 June, 2020, the statement of Receipts and Payments, the statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, 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, the financial statements present fairly, in all material respects, the financial position of the National Government Constituencies Development Fund - Matungu 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 Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Matungu 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 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. I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1. Budget Analysis

During the year under review, the National Government Constituencies Development Fund-Matungu Constituency had an approved budget of

Kshs.194,856,978 compare to actual receipt of Kshs.120,486,876 including a brought forward receipt of Kshs.2,402,378 from previous year, 2018/2019, resulting to a budget shortfall of Kshs.71,967,724 which is translating to 36% budget underutilization.

Budget underutilization may lead to non-delivery of planned services and programs to the people of Matungu Constituency.

2. Projects Implementation Status Summary - Delay in Completion of Projects

Review of the projects implementation status report for National Government Constituencies Development Fund - Matungu Constituency revealed that the management of the fund had approved to implement 109 projects at estimated cost of Kshs.85,423,369 in the year under review. Out of the 109 projects, sixty eight (68) projects worth Kshs.53,291,643 (62% performance) had been completed. Thirty-one (31) projects worth Kshs.24,294,719 (28%) were ongoing and ten (10) environmental projects worth 7,837,006 (9%) had not started as at the time of audit. There was notable delay in completion of some of the projects contrary to the provisions of Section 46(2) of the National Government Constituencies Development Fund Act, 2015 which requires that the Constituency Committee shall rank the projects in order of priority and whenever the projects listed exceed the ceiling for a particular constituency, then the order in which they are listed shall be taken as taken as the order of priority for purposes of allocation of funds.

The Management of the Matungu NG-CDF was in breach of the law in as far as completion of projects was concerned.

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. Other Grants and Transfers - Incomplete Works at Wananchi AP

During the year under review, a local construction company was awarded contract for construction of administration block at Wananchi Police Post at a contract sum of Kshs.3,148,680. The Project Management committee was paid Kshs.1,100,000 in respect of the construction of the police post and completion of two units of four (4) doors pit latrines.

However, it was noted that payments to the contractor was made in full and retention money released in two batches of Kshs.145,219 each totaling Kshs.290,438 notwithstanding the following anomalies:

- The contract was not duly dated and signed by the Secretary to the PMC and the contractor's representative.
- There was a change in structural design without the CDFC approval as the internal work plans were modified, doors and window locations were changed. It was also noted that the suspended slab on the armory had poor finishing as well as leakages being noted on the roof.
- The Bills of quantities was inclusive of rainwater gutters but were not installed. Whereas cracks on the walls and floors was visible as well as poor paint work was observed which is an indication of poor workmanship.
- The electrical works were not properly done given that internal lights go off automatically via a triple at the meter box when the security lights are put on. Also, it was noted that an expenditure under contingencies account of Kshs.50,000.00 was also not accounted for.

Full payment of contracts before completion of contract is against Section 98(2), of the Public Finance Management, Regulations, 2015 which requires that advance payments shall not be paid to suppliers of services and goods unless works has been completed.

In the circumstances, the Management was in breach of the law.

2. Transfers to Other Government Units – Poorly Done Project

The statement of receipts and payments and note 6 to the financial statements reflects transfer to other government units of Kshs.49,725,000. Included in this figure is an amount of Kshs.6,470,758 in respect of construction of an administration block for a School. However, it was noted that the Contractor was paid in full and retention money released but the project was poorly done on finishing, doors, fittings, frames, plumbing and had a leaking roof.

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 Conclusion on Effectiveness of Internal Controls, Risk Management and Governance 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

1. Transfers to Other Government Units

As disclosed under Note 6 to the financial statements, transfer to other government units figure of Kshs.49,725,000 includes Kshs.1,886,016 paid to a local contractor for construction of two staff houses at a school. However, audit inspection carried out revealed that electrical works, plumbing works and construction of septic tank have been pending for the last six years.

2. Non-Receipt of Bursary Disbursements

The bursary disbursed to beneficiaries through various institutions during the year under review totaled Kshs.19,444,769 as reported in the financial statements. However, only Kshs.14,354,669 was acknowledged through receipts raised by the respective institutions to Matungu CDF fund, resulting to a variance of Kshs.5,090,100 not acknowledged by the recipient institutions.

In the circumstances, it was not possible to ascertain whether the disbursement of Kshs.5,090,100 reached the intended beneficiaries.

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 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.

In preparing the financial statements, Management is responsible for assessing NGCDF-Matungu ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing NGCDF - Matungu 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.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 NGCDF-Matungu 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 sustainability 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 NGCDF - Matungu 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 NGCDF-Matungu 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 NGCDF-Matungu 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

02 February, 2022