

REPORT OF THE AUDITOR-GENERAL ON NATIONAL CONSTRUCTION AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Construction Authority set out on pages 1 to 34, which comprise of the statement of financial position as at 30 June, 2020, statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts 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 the National Construction Authority as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012 and the National Construction Authority Act, 2011 of the Laws of Kenya.

Basis for Qualified Opinion

Lack of Revaluation of Property, Plant and Equipment

As disclosed in Note 20 to the financial statements, the statement of financial position reflects property, plant and equipment balance totalling to Kshs.183,732,423. Included in the balance are fully depreciated assets with historical cost of Kshs.310,287,381 which further include motor vehicles with historical cost of Kshs.155,435,619 but are in good working condition and are in use. However, the Management has not carried out a revaluation as required under IPSAS 17 paragraph 44.

Consequently, the accuracy, completeness and validity of property, plant and equipment balance totalling to Kshs.183,732,423 reflected in the statement of financial position as at 30 June, 2020 could not be confirmed.

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

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. Purchase of ICT Equipment

During the year under review, the Management procured Information Communication Technology (ICT) equipment at a cost of Kshs.15,285,001 comprising of; computers and accessories valued at a cost of Kshs.5,356,400 and data back up and retention software at a cost of Kshs.9,928,601. However, the purchases were not made through the Ministry of ICT as directed by Circular ref: No. OP/CAB.39A Vol. L that required all procurement of ICT equipment to be centralized at the Ministry to ensure economies of scale in procurement and optimize the use of shared services strategy.

Consequently, the Management was in breach of the Circular.

2. Enterprise Risk Management System (ERMS)

2.1. Acquisition of ERMS

Included in intangible assets balance of Kshs.173,514,481 disclosed under Note 21 is the cost of risk management system of Kshs.9,909,300. However, during the review of the Authority's systems, the ERMS was not functional.

2.2. Failure to Implement ERMS

It was further noted that the contract period of two years for the supply of the system ended in November, 2017. The Authority is now required to procure licenses from the vendor to continue using the system.

Consequently, the ERMS cannot be put into use despite the consultant having been paid their dues in full amounting to Kshs.20,558,100.

In the circumstances, I am unable to confirm whether the public will obtain value for money for the procurement of the system totalling to Kshs.30,467,400.

3. Foreign Contractors' Registration - Requirements and Subcontracting

The review observed that registration of foreign contractors was not pegged on any contracted works. The foreign contractors are not required to provide undertaking to subcontract local contractors and they are not required to commit to transfer of technical skills to locals as required under Section 12(3) of the National Construction Authority Regulations, 2014.

Consequently, the Management is in breach of the law.

4. Long Outstanding Receivables

As disclosed in Note 17 to the financial statements, the statement of financial position reflects receivables totalling to Kshs.1,439,831,186. Included in the balance are debtors totalling to Kshs.1,044,071,491 net of provision for bad debts amounting to Kshs.738,902,185 that have been outstanding for more than four (4) years. Further, a review of records indicated that the amount related to construction levy that was suspended through an Executive Order of 2017. The gross balance also includes an amount of Kshs.1,081,817,245 owed by various County Governments and National Government institutions. Although Management has initiated various strategies to collect the outstanding debts by issuing demand notices, engaging debt collection agencies, engagement with The National Treasury and the Council of Governors, the efforts have not been successful.

In the circumstance, the recoverability of the receivables balance of Kshs.1,439,831,186 as at 30 June, 2020 is doubtful.

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 matter 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

Lack of Integration Revenue Management Systems

The staff under the finance and accounts department did not have access to the invoices generated by the RCIS. As such it was impossible to conduct reconciliations of the amounts received on E-citizen against the invoiced amounts. Further it was observed that it was not possible to trace a transaction from RCIS to ERP. There is possible loss of revenue during registration and transfer from e-citizen to ERP for lack of the reconciliations.

In the circumstances, I am unable to confirm the effectiveness of revenue collection measures put in place by Management.

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 the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual 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 Authority'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 the intention to liquidate the Authority 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.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Authority 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 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 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 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 Authority'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 Authority 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 Authority 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

01 February, 2022