

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND-JOMVU CONSTITUENCY FOR THE YEAR ENDED 30 JUNE 2018**

---

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund- Jomvu Constituency set out on pages 10 to 36 which comprise the statement of assets and liabilities as at 30 June 2018, 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 - Jomvu Constituency as at 30 June 2018, 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 No.30 of 2015.

### **Basis for Qualified Opinion**

#### **1. Presentation of the Financial Statements**

- i) Significant accounting policy no.3 states that the amounts are rounded to nearest shilling. However, some figures in these financial statements are not rounded off to the nearest shilling.
- ii) Note 14 to the financial statements for the year ended 30 June 2018 reflects prior year adjustments for comparative year (2016/2017) of Kshs.20,016 in respect to bank accounts. However, the statement of assets and liabilities reflect Nil balance under note 14.

As a result, the financial statements do not comply with the presentation guidelines prescribed by the Public Sector Accounting Standards Board.

#### **2. Inaccuracies in the Financial Statements**

The statement of receipts and payments for the year ended 30 June 2018 reflected total expenditure of Kshs.53,209,391 whereas recasted total was Kshs.53,263,391 resulting to a variance of Kshs.54,000 and which has not been reconciled or explained.

Consequently, the accuracy and completeness of the total payments of Kshs.53,209,391 for the year ended 30 June 2018 could not be confirmed.

### 3. Use of goods and services

Note 5 to the financial statements for the year ended 30 June 2018 reflects other operating expenses of Kshs.147,034 out of which an amount of Kshs.67,449 was described as 'others'. However, no details or explanation in respect to expenditure described as others was availed for audit.

In the circumstances, the propriety and completeness of the expenditure of Kshs.67,449 described as others for the year ended 30 June 2018 could not be confirmed.

### 4. Acquisition of Assets

Note 8 to the financial statements for the year ended 30 June 2018 reflects purchase of vehicles and other transport equipment of Kshs.4,532,000. However, the logbook of the motor vehicle was not availed for audit verification.

In the circumstances, the validity and ownership status of the motor vehicle costing Kshs.4,532,000 as at 30 June 2018 could not be confirmed.

### 5. Other Grants and Transfers

Note 7 to the financial statements for the year ended 30 June 2018 reflects bursary – secondary schools amounting to Kshs.12,086,293. However, audit revealed the following anomalies totaling Kshs.468,140 in the awarding of bursaries.

No	Description	Amount Kshs.
1	Students without admission numbers	331,380
2	Students awarded twice	84,160
3	Students in same school sharing admission number	52,600
	<b>Total</b>	<b>468,140</b>

The management has not explained why such anomalies took place and the remedy for the same.

In the circumstances, the regularity and completeness of bursary – secondary schools amounting to Kshs.468,140 for the year ended 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund- Jomvu Constituency in accordance with ISSAI 30 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. Except for the matter described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

### Other Matter

#### 1. Budgetary control and Performance

##### 1.1 Receipts Analysis

The fund's revenue budget for the year under review was Kshs.160,357,971 against a total actual receipts of Kshs.76,616,591 resulting to budget under funding of Kshs.83,741,380 or 52.2% as summarized below:

Item	Budgeted amount Kshs.	Actual Receipts Kshs.	Under Collection Kshs.	Under Collection (%)
Transfer from CDF Board	160,003,971	76,262,591	83,741,380	52.2%
Other receipts	354,000	354,000	-	-%
<b>Total</b>	<b>160,357,971</b>	<b>76,616,591</b>	<b>83,741,380</b>	<b>52.2%</b>

The under collection of Kshs.83,741,380 representing 52.2% of the budget is an indication that projects have not been funded as planned. The underfunding of funds may have impacted negatively on the delivery of goods and services to the residents of Jomvu.

##### 1.2 Expenditure Analysis

The fund's overall budget for the year under review was Kshs.160,003,971 against total actual expenditure of Kshs.53,209,391 resulting to budget under absorption of Kshs.106,740,580 or 66.7% as summarized below:

Item	Budgeted amount Kshs.	Actual expenditure Kshs.	Under absorption Kshs.	Under absorption (%)
Compensation of employees	2,550,826	892,748	1,658,078	65%
Use of goods and services	8,471,248	3,186,350	5,284,898	62%
Transfers to Other Government Units	31,600,000	28,100,000	3,500,000	11%
Other grants and transfers	63,573,276	15,582,293	47,990,983	75.5%
Acquisition of Assets	8,795,387	5,502,000	3,293,387	37%

Item	Budgeted amount Kshs.	Actual expenditure Kshs.	Under absorption Kshs.	Under absorption (%)
Other Payments	4,677,027	0.00	4,677,027	100%
Un approved projects	40,336,207	0	40,336,207	100%
<b>Total</b>	<b>160,003,971</b>	<b>53,263,391</b>	<b>106,740,580</b>	<b>66.7</b>

The under absorption of Kshs.106,740,580 representing 66.7% of the budget is an indication that projects have not been implemented as planned. The underutilization of funds may have impacted negatively on the delivery of goods and services to the citizens of Jomvu. This may be an indication of over-budgeting by the National Government Constituencies Development Fund - Jomvu Constituency.

### 1.3 Project Implementation status

#### 1.3.1 Ongoing Projects

The project status report as at 30 June 2018 availed for audit reflected eight (8) projects with a total budget of Kshs.20,300,000 as summarized below:

No.	Financial Year	Project Name	Activity	Completion %	Project Cost (Kshs)	Remarks
1	2017/2018	Amani Primary School	Removing asbestos and replacing with iron sheets and painting flooring of 3 classrooms	85%	2,800,000	Agreement signed on 5 November 2018 for a duration of 12 (twelve) weeks.
2	2017/2018	Kwa Jomvu Primary School	Removing asbestos and replacing with iron sheets and painting flooring of 3 classrooms	70%	2,800,000	Agreement signed on 5 November 2018 for a duration of 12 (twelve) weeks.
3	2017/2018	Miritini Primary School	Removing asbestos and replacing with iron sheets and painting flooring of 3 classrooms	70%	2,800,000	Agreement signed on 5 November 2018 for a duration of 12 (twelve) weeks.
4	2017/2018	Miritini World bank Primary School	Removing asbestos and replacing with iron sheets and painting flooring of 3 classrooms	80%	2,800,000	Agreement signed on 6th November 2018 for a duration of 12 (twelve) weeks

No.	Financial Year	Project Name	Activity	Completion %	Project Cost (Kshs)	Remarks
5	2017/2018	Kwashee Primary School	Removing asbestos and replacing with iron sheets and painting flooring of 3 classrooms	80%	2,800,000	Agreement signed on 5th November 2018 for a duration of 12 (twelve) weeks.
6	2017/2018	St. Mary's Primary School	Construction of perimeter Wall	80%	2,000,000	Agreement signed on 5 November 2018 for a duration of 12 (twelve) weeks.
7	2017/2018	Mreroni Primary School	Construction of one classroom	25%	1,500,000	Agreement signed on 5 November 2018 for a duration of 12 (twelve) weeks.
8	2017/2018	Miritini Secondary School	Removing asbestos and replacing with iron sheets and painting flooring of 3 classrooms	80%	2,800,000	Agreement signed on 5 November 2018 for a duration of 12 (twelve) weeks.
<b>Total</b>					<b>20,300,000</b>	

The expected completion time for the above projects was 25 January 2019. However, as at the time of field audit visit on 30 January 2019, the projects had not been completed. The projects were behind the schedule and their continued delay in completion may affect delivery of goods and service to the residents of Jomvu Constituency and the intended purpose of the projects may not be realized.

### 1.3.2 Projects Not Started

The project status report as at 30 June 2018 availed for audit reflected seventeen (17) projects approved with a total budget of Kshs.30,236,206.90 had not been started as at 30 June 2018 as summarized below:

No.	Financial Year	Project Name	Activity	Project Cost (Kshs)
1	2016/2017	NG -CDF Offices	Construction of NG-CDF office and toilets in same block.	5,000,000.00

No.	Financial Year	Project Name	Activity	Project Cost (Kshs)
2	2016/2017	Maganda Primary School	Construction of 2 classrooms and 4 toilets	4,500,000.00
3	2017/2018	Mikindani primary school	Renovation of School hall, Painting and flooring.	1,000,000.00
4	2017/2018	Aldina Primary School	construction of two storey building classrooms Kshs.3,000,000, digging a well at Kshs.500,000 soak pit and septic tank at Kshs.500,000	4,000,000.00
5	2017/2018	Miritini Primary School	provision of 100 school desks	500,000.00
6	2017/2018	Kwashee Primary School	provision of 100 school desks	500,000.00
7	2017/2018	Miritini Complex High School	Digging a well of kshs.500,000 and construction of drainage to the soak pit at Kshs.300,000	800,000.00
8	2017/2018	Jomvu ACC & AP Units	Construction of ACC office & AP units	3,400,000.00
9	2017/2018	Mikindani primary school	Renovation of School hall, Painting and flooring.	1,000,000.00
10	2017/2018	Environment	Construction of Gabions in Jomvu Girls High	1,000,000.00
11	2017/2018	Environment	Mkupe	736,206.90
12	2017/2018	Aldina Primary School Project	Construction of 2 No. classrooms	4,000,000.00
13	2017/2018	Kwashee Primary School	Delivery of desks	500,000.00
14	2017/2018	Mikindani Primary School	Renovation of social hall	1,000,000.00
15	2017/2018	Miritini Primary School	Delivery of desks	500,000.00
16	2017/2018	Miritini Complex High School	Construction of a well	800,000.00
17	2017/2018	Jomvu Girls High School	Construction of gabions	1,000,000.00
<b>Total</b>				<b>30,236,206.90</b>

The above state of affairs is an indication of lack of proper planning and prioritizing citizen's needs in the budget making process mechanism. The management has indicated that the delay in starting the construction of NG-CDF offices was due to site challenges and cited problems of land challenges as the reason for delay starting Maganda Primary School and Jomvu ACC & AP units. However, no reason was given for the delay in starting the remaining projects with a budget of Kshs.16,336,206.

In the circumstances, service delivery to the residents of Jomvu Constituency and the intended purpose of the projects may not be realized.

### 1.3.3 Project Inspection

Audit inspection of seven (7) projects with total allocation of Kshs.15,331,095 during the month of January 2019 indicated the following state of affairs:

No	Project Verified	Project Activity	Amount Kshs.	Observations
1	Mreroni Primary school	Construction of 1 No. Classroom	1,500,000	Works not done as per the Bill of quantities (variation done without approval) as follows: i) Erected 3 columns instead of 4 columns at the front side. ii) Erected 3 columns instead of 4 columns at the back/rear side. iii) Changed dimensions by putting up size 6.4m length by 1.5m width instead of 7.5m length by 2m length. iv) Build 3 walls instead of required 4 walls. Used a wall of existing structure to connect to the classroom and make the fourth wall.(contrary to the BQ). v) v) BQ required the use of Y16 steel bars and instead the contractor used Y12 steel bar which is of less strength.
2	Kwa Jomvu Primary school	Renovation of 4 No. Classrooms	2,800,000	i) Supply and fixing of new vent blocks was not done. Instead contractor used existing ones that were to be removed as per contract. ii) Supply and fixing of Facial boards not done, instead the contractor used the old existing ones that were to be removed as per contract.
3	Amani Primary school	Renovation of 3 classrooms	2,747,350	The works were complete
4	Kwashee Primary school	Renovation of 3 classrooms	2,772,015	The works were complete
5	St. Marys Bagladesh Primary school	Construction of Perimeter wall	1,998,830	The works were complete
6	Miritini Primary school	Renovation of 3 classrooms	2,784,250	The works were complete
7	Miritini World bank Primary school	Renovation of 3 classrooms	728,650	The works were complete
<b>Total</b>			<b>15,331,095</b>	

The above observations are indication of poor workmanship which casts doubt on project supervision and value for money for public funds. Changing the number of columns, size of the classroom and the size of steel bar to use required approval for the variation. This also required revision of contract sum downwards but the same was not done.

## 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 Report on Lawfulness and Effectiveness in use of Public Resources/Basis for Qualified Opinion 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

### 1.0 Project Management Committee Bank Balances

Annex 5 to the financial statements for the year ended 30 June 2018 reflects project management committee bank balances amounting to Kshs.41,679,701.21 out of which funds totaling to Kshs.2,775.35 were lying idle in the bank accounts without being used and were not returned to the constituency account contrary to National Government Constituencies Development Fund Act Section 12(8) which states that all unutilized funds of the Project Management Committee shall be returned to the constituency account. The details of the idle funds are summarized below:

No	Project Management Committee	Bank	Account No	Bank balance Kshs.
1	Mtaa Wa Waswahili Borehole Project	Equity	1200199099889	283.35
2	Runyu CDF Borehole Project	Equity	1200264375165	1,420
3	Jomvu Kuu Social Hall	Equity	1200299979826	587
4	Mikindani Streetlights	Equity	1200262612544	485
	<b>Total funds</b>			<b>2,775.35</b>

The idle funds held by the project management committees in the bank accounts are denying the residents of Jomvu the essential services they require. This is an indication of lack of proper planning and prioritizing citizen's needs in the budget making process mechanism.

The management was therefore in breach of the law.

### 2.0 Failure to Establish Constituency Oversight Committee

Audit revealed that the National Government Constituencies Development Fund - Jomvu Constituency had not constituted a Constituency Oversight Committee contrary to the National Government Constituencies Development Fund Act 2015 Section 53(1) which requires establishment of a Constituency Oversight Committee for projects undertaken under this Act.

In the circumstances, the oversight role of the committee was not undertaken effectively as required by the National Government Constituencies Development Fund Act, 2015.

The management was therefore 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 Report on Effectiveness of Internal Controls, Risk Management and Governance/Basis for Qualified Opinion sections 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**

#### **1.0 Pending Accounts Payables**

Note 15.1 to the financial statements for the year ended 30 June 2018 reflects pending accounts payables for supply of goods amounting to Kshs.70,000. However, this balance was in respect to unpaid office rent. The management has not explained why the rent had not been paid while the fund had unutilized funds for use of goods and services amounting to Kshs.5,284,898 as at 30 June 2018.

The fund risks being taken to court for non-payment of rent and the accrued rent arrears may attract penalties to the fund.

Further, the pending accounts payables balance of Kshs.70,000 as at 30 June 2018 do not include a provision for penalties or other charges that the debt may attract.

#### **2.0 Pending Staff Payables**

Note 15.2 to the financial statements for the year ended 30 June 2018 reflects pending staff payables in respect to gratuity for employees amounting to Kshs.177,344. The management has not explained why the same had not been paid while the fund had unutilized funds for compensation of employees amounting to Kshs.1,658,078 as at 30 June 2018.

The unpaid payables may attract penalty if the fund is taken to court.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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, risk management and governance.

In preparing the financial statements, management is responsible for assessing the Fund's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Fund either intends to liquidate 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.

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 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 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 policies and procedures may deteriorate.

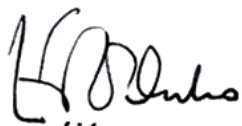
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 going 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 National Government Constituencies Development Fund – Jomvu Constituency ability to continue as a going concern or 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 National Government Constituencies Development Fund – Jomvu Constituency to cease to continue as a going concern or 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 National Government Constituencies Development Fund – Jomvu Constituency 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.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**5 April 2019**