

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

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Kiminini Constituency set out on pages 1 to 29, which comprise the statement of financial assets as at 30 June 2018, and the statements of receipts and payments, statement of cash flows and 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 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-Kiminini 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 Public Finance Management Act, 2012 and National Government Constituencies Development Fund Act, 2015

### Basis for Qualified Opinion

#### 1.0 Cash and Cash Equivalent

##### 1.1 Bank Reconciliations

The cash and cash equivalents balance of Kshs.20,389,783 as reflected in the financial statements for the year under review is not supported with bank reconciliation statements for the months July 2017 to April 2018 and no satisfactory explanation was given for such anomaly.

Further, there were stale cheques totaling Kshs.840,389 which had not been reversed in the cash book as analyzed in the table below.

	<b>Cheque No.</b>	<b>Date</b>	<b>Payee</b>	<b>Amount Kshs.</b>
1	001851	31.1.2016	St. Antony High School	700,000
2	001721	29.10.2015	PAYE	4,484
3	001722	29.10.2015	PAYE	4,484
4	001723	29.10.2015	PAYE	4,484
5	001724	29.10.2015	PAYE	4,484
6	001725	29.10.2015	PAYE	4,484

7	001731	29.10.2015	PAYE	4,484
8	001741	30.11.2015	K-REP Bank	4,260
9	002218	18.2.2016	Undercast	1,000
10	002301	18.2.2016	PAYE	3,868
11	002394	30.6.2016	Commissioner of Income Tax	5,628
12	002396	30.6.2016	NHIF	1,600
13	003506	28.4.2017	University of Nairobi	20,000
14	002507	28.4.2017	Com.of Income Tax	3,867
15	003558	17.5.2017	Ken.Garden High School	3,000
16	003573	17.5.2017	Tolosa Secondary School	3,000
17	003521	24.5.2017	VAT	1,368
18	003523	24.5.2017	VAT	7,261
19	003526	24.5.2017	VAT	4,884
20	003527	24.5.2017	VAT	5,628
21	003541	24.5.2017	VAT	3,868
22	003553	02.06.2017	St. Joseph Girls High School	4,000
23	003654	02.06.2017	St. Michael Top	4,000
24	003703	28.7.2017	St. Maurice High School	3,000
25	003706	31.08.2017	St. Michael Liyay	3,000
26	003719	31.08.2017	PAYE	15,127
27	003724	31.08.2017	NHIF	15,127
			<b>Total</b>	<b>840,390</b>

## 1.2 Un supported Project Management Committee Bank Balance

Note 15.4 to the financial statements reflects project management committee bank account balances totaling Kshs.6,099,174 as at 30 June 2018 as further analyzed under annex 4. However, the cashbooks, bank reconciliation statements and bank confirmation certificates in support of the bank balance totaling Kshs.6,099,174 were not availed for audit review.

In the circumstances, it was not possible to confirm that the cash and cash equivalents balance of Kshs.20,389,783 as at 30 June 2018 is not fairly stated.

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

## **Other Matter**

### **1. Transfers to Other Government Entities**

#### **1.1 Irregularities in Construction of Storey Tuition Block at Nyabomo Secondary School**

Included in the transfer to other Government entities of Kshs.26,800,000 is transfer to secondary schools of Kshs.13,800,000 which in turn includes Kshs.2,500,000 transferred to Nyabomo Secondary School for construction of storey tuition block of six classrooms at the school of which a local contractor was awarded contract at a sum of Kshs.7.2 Million. However, the following anomalies were noted;

- i. The cost of construction was originally estimated to be Kshs.11,012,854 but the contractor was awarded at Kshs.7.2 million. However, there were no revised bills of quantities showing how the works were reduced by Kshs.3,812,854
- ii. Most of the natural stones used for building were of 130mm thick internally instead of 150mm thick internally as prescribed in the approved bills of quantities. No evidence of variation order was provided for audit review authenticating such alteration.
- iii. There was no certificate of works done prepared by the Works Officer indicating the value of works done, amount paid, pending works and specific works done that was being paid for.
- iv. There was no evidence on file to confirm that the projects were being supervised by the relevant Ministry's Works officer and thus it could be confirmed as to whether the works were being done according to specifications and acceptable standards.
- v. The management purchased assorted hardware materials from a local supplier but the receipt for payments of Kshs.1,868,200 did not have ETR. No valid reason was given for such serious omission.
- vi. As at the time of audit, the project had stalled and the contractor was not on site.

In the circumstances, it is not possible to confirm whether the firm was competitively sourced, how the contract sum was arrived at and therefore, the constituents of Kiminini NG-CDF may not have received value for money on these projects.

#### **1.2 Irregularities in Completion of a Dining Hall at Kibomet AIC Secondary School**

Included in the transfer to other Government entities of Kshs.26,800,000 is transfer to secondary schools Kshs.13,800,000 which in turn includes Kshs.1,500,000 transferred to Kibomet AIC Secondary School for construction of multipurpose dining hall by a local construction company. However, the following anomalies were noted.

- i. Assorted hardware materials supplied by a local supplier worth Kshs.98,810 were supported by receipts that were not ETR as detailed in the table below:

<b>Date</b>	<b>Payee</b>	<b>Amount Kshs.</b>
15.10.2018	Eden Rock Hardware	59,810
14.08.2018	Eden Rock Hardware	39,000
<b>Total</b>		<b>98,810</b>

- ii. There was no certificate of works done prepared by the Works Officer indicating the value of works done, amount paid, pending works and specific works done that was being paid for.
- iii. It was not clear how the contractor was identified by the school management since no clear records were maintained by the school accounting officer through the Project Management Committee file.
- iv. The management overcharge by paying items not delivered as analyzed in the table below:

<b>Item</b>	<b>Nos as per BQ</b>	<b>Actual Installed</b>	<b>Amount Kshs.</b>
Wooden doors	9	5	28,800
Steel doors	12	10	54,000
<b>Total</b>			<b>82,800</b>

- v. There were no copies of appointment letters for the committee members to the tender opening, tender evaluation and inspection and acceptance committees. In absence of the letters, it was not possible to confirm whether the members who signed were duly authorized.
- vi. There was no evidence on file to confirm that the projects were being supervised by the relevant Ministry's Works officer and thus it could be confirmed as to whether the works were being done according to specifications and acceptable standards.
- vii. The natural stones used for building were of 130mm thick internally instead of 150mm thick internally as prescribed in the approved bills of quantities.

No evidence of variation order was provided for audit review authenticating such alteration.

In view of the foregoing, it was not possible to confirm whether the firm was competitively sourced, the contract sum and therefore the constituents of Kiminini did not receive value for money.

### **1.3 Irregularities in Construction of Storey Tuition Block at Showground Primary School**

Included in the transfer to other Government entities of Kshs.26,800,000 is transfer to primary schools of Kshs.13,000,000 which in turn includes Kshs.2,500,000 transferred to

Showground Primary School for construction of storey tuition block of six classrooms at the school at a contract sum of Kshs.6,889,878 awarded to a local contractor for a period of six months as per contract agreement. However, the following irregularities were noted;

- i. There was no evidence that the contract was advertised in at least two daily newspapers of nationwide circulation.
- ii. There was no certificate of works done by the works officer indicating the contract sum, amount of work done, pending works and specific work done being paid for casting doubts on quality and extent of works done.
- iii. The tender was to be awarded by the tender evaluation committee instead it was awarded by an unauthorized Project Management Committee as reflected by the minutes dated 25 July 2018
- iv. The natural stones used for building were of 130mm thick internally instead of 150mm thick internally as prescribed in the approved bills of quantities. No evidence of variation order was provided for audit review authenticating such alterations.
- v. There was also no contractor on site as at the time of the audit an indication that the project was abandoned.
- vi. There was no evidence on file to confirm that projects were being supervised with the relevant ministry's works officer and thus it could be confirmed as to whether the works were being done according to specifications and acceptable standards.

#### **1.4 Irregularities in Construction of Storey Tuition Block at Sibwani Primary School**

Included in the transfer to other Government entities of Kshs.26,800,000 is transfer to primary schools of Kshs.13,000,000 which in turn includes Kshs.2,500,000 transferred to Sibwani Primary School for construction of storey tuition block of six classrooms at the school at a contract sum of Kshs.6,889,878 awarded to a local company. The project was to be completed in eight months as per contract agreement. However, the following anomalies were noted;

- i. Most of the natural stones used for building were of 130mm thick internally instead of 150mm thick internally as prescribed in the approved bills of quantities. No evidence of variation order provided for audit review authenticating such alteration.
- ii. There was no evidence that the contract was advertised in at least two daily newspapers of nationwide circulation.
- iii. There was no certificate of works done by the works officer indicating the contract sum, amount of work done, pending works and specific work done being paid for, casting doubts on quality and extent of works done.
- iv. There was no evidence on file to confirm that projects were being supervised with the relevant ministry-works officer and thus it could be confirmed as to whether the works were being done according to specifications and acceptable standards.
- v. No evidence attached that it was advertised in one of the national newspaper.

- vi. There was also no contractor on site as at the time of the audit an indication that the project was abandoned.

### **1.5 Irregularities in Renovation Works at Milimani Primary School**

Included in the transfer to other Government entities of Kshs.26,800,000 is transfer to primary schools Kshs.13,000,000 which in turn includes Kshs.500,000 transferred to Milimani primary school for renovation works at a contract sum of Kshs.500,000 paid to a local contractor for a period of three months as per contract agreement. However, the following anomalies were noted;

- i. There was no certificate of works done by the works officer indicating the contract sum, amount of work done and work pending casting doubts on quality and extent of works done.
- ii. The approved bills of quantities indicated that 6 steel doors (4 double shutters for Hall and 2 single shutter for hall office and staffroom) were to be installed. However, a site visit revealed there were no steel doors installed.
- iii. The specifications in the approved bills of quantities were also not clear i.e. the gauge was not indicated.
- iv. The approved bills of quantities also stated that painting of walls of 4 classrooms was to be done, however, on site visit nothing had been done.
- v. The approved bills of quantities also stated repair of verandahs and fixing of steel pillars which on site visit had not been done
- vi. No copies of appointment letters for committee members to the tender opening, tender evaluation and inspection and acceptance committees. In absence of the letters, it was not possible to confirm whether the members who signed were duly authorized to carry out the tendering process.
- vii. There was no contractor on site as at the time of the audit, an indication that the project was abandoned.
- viii. The contract period had elapsed yet the contract was not complete and there was no extension approval.
- ix. There was no evidence on file to confirm that projects were being supervised by the relevant Ministry's Works Officer and thus it could not be confirmed as to whether the works were being done according to specifications and acceptable standards.

### **1.6 Irregularities in Construction of a Classroom at Kitale Forest Primary School**

Included in the transfer to other Government entities of Kshs.26,800,000 is transfer to Kshs.13,000,000 is Kshs.500,000 transferred to Kitale Forest Primary school for construction of a classroom at a contract sum of Kshs.500,000 to a local company for a period of one and half months as per contract agreement. However, the following irregularities were noted;

- i. The specifications in the approved bills of quantities indicated the iron sheets to be used were to be gauge 28 however on site visit we noted that the iron sheets that were used were gauge 30.
- ii. No copies of appointment letters for committee members to the tender opening, tender evaluation and inspection and acceptance committees. In absence of the letters, it was not possible to confirm whether the members who signed were duly authorized to carry out the tendering process.
- iii. There was no contractor on site as at the time of the audit an indication that the project was abandoned.
- iv. There was no certificate of works done by the works officer indicating the contract sum, amount of work done and work pending, casting doubts on quality and extent of works done.
- v. There was no evidence on file to confirm that projects were being supervised by the relevant Ministry's works officer and thus it could be confirmed as to whether the works were being done according to specifications and acceptable standards.

## 2. Use of Goods and Services

Included in the use of goods and services of Kshs.5,969,079 is Kshs.357,005 for office and general supplies and services which in turn includes Kshs.88,750 paid directly to an individual without duly authorized imprest warrant as detailed below;

Voucher no.	Payee	Amount Kshs.
131	Haron Rotich	45,000
Cash	Haron Rotich	43,750
	<b>Total</b>	<b>88,750</b>

In absence of an approved imprest warrant, it was not possible to confirm the propriety of the payments.

## REPORT ON LAWFULNESS AND EFFECTIVE IN USE OF PUBLIC RESOURCES

### Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Report on Lawfulness and Effective 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. Budget Control and Performance

##### 1.1 Budget Performance for the Financial Year 2017/ 2018

During the financial 2017/2018 NG-CDF of Kiminini NG-CDF had approved budget of Kshs.130,123,369. They received Kshs.74,353,447 from NG-CDF Board during the financial year under review resulting to underfunding of Kshs.54,784,482 and satisfactory explanation was given for such underfunding. Out of the amount received of Kshs.74,353,447, the management of Fund spend Kshs.54,949,104 resulting to under-absorption on the budgeted amount.

Receipt/Expense Item	Original Budget Kshs.	Adjustments Kshs.	Final Budget Kshs.	Actual on Comparable Basis Kshs.	Budget Utilisation Difference Kshs.	% of Utilisation
	a	b	c=a+b	d	e=c-d	f=d/c %
<b>Receipts</b>						
Transfers from NGCDF Board	86,810,345	43,313,024	130,123,369	75,338,887	54,784,482	58%
<b>Payments</b>						
Compensation of Employees	2,452,320	320,000	2,772,320	1,962,320	810,000	71%
Use of goods and services	6,452,032	1,724,059	8,176,091	5,969,079	2,207,012	74%
Transfers to Other Government Units	42,800,000	28,200,000	71,000,000	26,800,000	44,200,000	38%
Other grants and transfers	0,428,965	13068,965	43,497,931	20,163,760	23,334,171	46%
<b>Totals</b>	<b>82,133,317</b>	<b>43,313,024</b>	<b>122,676,794.32</b>	<b>54,895,159</b>	<b>70,561,000</b>	

In view of the foregoing, the funds not utilized imply that approved programs were not implemented, and thus the budget did not fully meet the objectives of improving delivery of services to the constituents of Kiminini.

## 1.2 Projects Implementation Performance

Detailed analysis of the Projects Implementation Status of the Constituency reveals that the management of the fund had an approved plan to implement four hundred and fifty five (455) projects between financial year 2013/14 to 2017/18, valued at Kshs.400,082,277. However, sixty eight (68) projects representing 14.95% valued at Kshs.6,801,528 had not started, eighty eight (88) representing 19.34% valued at Kshs.108,417,758 were still ongoing and two hundred and ninety nine (299) representing 65.71% of total projects) valued at Kshs.284,862,992 had been completed as summarized in the table below.

Sector/Status	Not yet started		Ongoing		Completed	
	No	Value (Kshs)	No	Value (Kshs)	No	Value (Kshs)
Administration	2	410,000	13	14,334,195	34	27,235,472
Agriculture	0	0	5	4,748,000	0	0
Education	5	3,169,500	55	72,250,000	155	213,933,079



Emergency	1	100,000	2	6,167,647	5	11,564,725
Environment	47	2,071,066	4	498,415	39	3,048,308
Health	0	0	0	0	3	4,482,759
Roads/Bridges	0	0	1	300,000	3	6,400,000
Security	1	300,000	6	9,900,000	23	12,050,000
Sports	12	750,962	2	219,500	37	6,148,649
<b>Total</b>	<b>68</b>	<b>6,801,528</b>	<b>88</b>	<b>108,417,758</b>	<b>299</b>	<b>284,862,992</b>

Failure to implement projects as planned may have denied the constituents of Kiminini the much desired services

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 Report 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

### IT Internal Controls

The Fund did not have the Information Technology Strategic policy nor Strategic plan, active IT steering committee either at the constituency level or at the Board level, formally approved IT Security policy to ensure data confidentiality, formally documented and approved process to manage upgrades, environmental controls such as fire suppression systems, fire extinguishers and air conditioning systems. However, the Fund manager is trained on IT in the Constituency and such training has not been extended to other staff members.

### Basis for Conclusion

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 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.

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 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.

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.
- 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 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 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.



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

**Nairobi**

**02 July 2019**