

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - RONGO 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 - Rongo Constituency set out on pages 6 to 32, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement 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 effects 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 - Rongo 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, 2015.

### Basis for Qualified Opinion

#### 1. Compensation of Employees

The compensation of employees' expenditure of Kshs.1,988,744 reflected in the financial statements differs with the ledger balance of Kshs.1,520,124 leading to unreconciled and unexplained difference of Kshs.468,620. Consequently, the accuracy and completeness of the compensation of employees' expenditure of Kshs.1,988,744 could not be confirmed.

#### 2. Net Financial Position

The statement of assets and liabilities as at 30 June 2018 reflects net financial assets balance of Kshs.14,943,650. However, contrary to the guidelines issued by the Public Sector Accounting Standards Board, the statement assets and liabilities shows net liabilities instead of the net financial position of Kshs.14,943,650.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Rongo 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 matters described in the Basis for Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections, I have determined that there are no key audit matters to communicate in my report.

## **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 Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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. Construction of Dining Hall at Siala Technical Training Institute**

A contract for the proposed construction of a dining hall at Siala Technical Training Institute was awarded to a local contractor at a contract sum of Kshs.7,990,620 being the lowest evaluated bidder. The contract period was ninety days effective from the date of signing the contract on 3 March 2017.

Physical verification of the project which was conducted on 11 March 2019 indicated that substructure, superstructure and roofing had been done while finishes, doors, windows and painting had not been done. The construction was incomplete despite the contract period having long expired. The contractor had been paid a total of Kshs.5,924,121 as of the above date.

The works were subcontracted to another contractor by the main contractor after having failed to complete the works despite the fact that there was no provision for sub-contracting under the contract terms. However, quantification of the outstanding works was not done before sub-contracting.

The Project Management Committee minutes of 27 June 2018 indicated that the slab was to be demolished due to poor workmanship. It is not clear why the works were certified and the contractor paid if he had performed substandard works. The demolition of the slab may translate into variation of contract sum and further additional costs which have not been budgeted for.

In the circumstances, the constituents have not realized for value for money for the amount of Kshs.5,924,121 paid so far to the contractor for construction of the proposed dining hall.

## **2. Construction of Rongo Administration Police Post**

A contract for the construction of Rongo Administration Police Post was awarded to the highest bidder at a contract sum of Kshs.4,275,710 against the lowest evaluated bid of Kshs.3,151,103. No satisfactory explanation was provided for this anomaly.

Further, the project was approved under tertiary institutions despite being a security project thereby overstating the amount of transfer to other government entities expenditure of Kshs.28,376,421 by Kshs.4,000,000. Physical verification conducted on 7 March 2019 indicated that substructure, superstructure, roofing and plastering were done, and painting was ongoing.

## **3. Irregular Reallocation of Funds**

Included in the emergency projects expenditure of Kshs.4,812,567 under other grants and transfers in Note 7 to the financial statements is an amount of Kshs.2,537,067 that relates monitoring and evaluation hence a reallocation of funds without the approval of the board. Consequently, the regularity of the expenditure of Kshs.2,537,067 could not be ascertained.

## **4. Maintenance of Roads**

Included in the emergency projects expenditure of Kshs.4,812,567 is expenditure amounting to Kshs.1,975,500 incurred on maintenance of three roads namely; Oyugi Ogango road - Kshs.665,800, Sigiria road - Kshs.668,800 and Miyare school road - Kshs.641,700. Physical verification of the roads which was conducted on 12 March 2019 revealed no sign posts to confirm that the maintenance works were financed by Rongo NG-CDF.

Further, it was not clearly clarified why the roads which falls under the functions of the County Government were financed by the Rongo NG-CDF. Consequently, the CDF management was in breach of the law.

## **5. Project Implementation**

### **5.1. Construction of Administration Block at Kodero Bara Primary School**

Included in the transfer to other Government Units expenditure of Kshs.28,379,421 is an amount of Kshs.2,500,000 which was paid in respect of construction of an administration block at Kodero Bara Primary School. Physical verification of the project which was conducted on 11 March 2019 revealed that the substructure, walling, roofing, doors and windows, painting and branding were done. However, the following anomalies were noted:

- i. The contract was awarded to a contractor at the bill of quantity sum of Kshs.2,323,030 on 13 June 2018. However, a review of the contract agreement document revealed that the contract period and contract sum were not indicated, making it difficult to ascertain the expected date of completion and the actual contract sum.

- ii. On 11 November 2018, the Ministry of Public Works, Roads and Transport wrote to the contractor terminating the contract due to delaying and abandoning site without communication.
- iii. The remaining works were contracted to another contractor at a total cost sum of Kshs.2,323,030, under unclear circumstances, which was the same total sum awarded to the first contractor.
- iv. There was no project assessment report showing the works done and works outstanding after the termination of the first contract before awarding the contract to the second contractor.
- v. During the verification, it was noted that the ceiling board work was still outstanding while a certificate of completion was issued on 3 January 2019 certifying the works as done.

Although, a total of Kshs.2,500,000 was paid for the proposed construction of the administration block during the year under review, the initial contractor was awarded the contract at the bill of quantity sum of Kshs.2,323,030, leading to unexplained variance of Kshs.176,970. Consequently, the value for money and regularity of the expenditure could not be confirmed.

## **5.2. Construction of Chief's Camp and AP Residence at Kobado Chiefs Camp**

Included in other grants and transfers of Kshs.31,381,787 is an expenditure of Kshs.1,200,000 for the construction of Kobado Chief's Camp and AP Residence. Physical verification of the project which was carried out on 12 March 2019 revealed that the contract was awarded to a contractor by the Project Management Committee at a cost of Kshs.3,401,090 for construction of a Chief's Camp, AP Residential units and pit latrines. However, the following anomalies were noted:

- i. The project was about 75% complete. Some works were still remaining for the residential units, pit latrines and the branding of the structures.
- ii. The contract period was not disclosed or stated in the contract documents provided for audit.
- iii. The approved budget was Kshs.1,200,000 while the PMC entered into contract of Kshs.3,401,090 leading to a variance of Kshs.2,201,090 whose source could not be ascertained in the absence of a supplementary budget.
- iv. More funding to the tune of Kshs.1,200,00 was disbursed during the 2018/2019 financial year for this ongoing project.

## **5.3. Construction of a Police Post at Opapo Trading Centre**

Included in other grants and transfers of Kshs.31,381,787 is an amount of Kshs.1,900,000 which was paid for the construction of a police post at Opapo trading centre. Examination of the expenditure records revealed that the contract was awarded to a contractor by the Project Management Committee at a revised contract sum of Kshs.4,294,235 for construction of an administration block, residential units, pit latrine and electrical works (installation and testing).

However, a physical verification of the project which was conducted in the month of March 2019 revealed the following anomalies:

- i. The project was around 90% complete. Painting of the pit latrine and branding of the structures were remaining.
- ii. More funding were disbursed during financial year 2018/2019 implying that the project was not completed on time.
- iii. The completion period was not clearly indicated in the contract documents making it difficult to confirm the completion date.
- iv. The approved budget for the project was Kshs.1,900,000 while the revised contract sum was Kshs.4,294,235 leading to an over expenditure of Kshs.2,394,235.

#### **5.4. Construction of South Kamagambo Information Communication Technology (ICT) Hub**

The Project Management Committee awarded a contract in June 2018 for construction of an ICT Hub office in South Kamagambo at a sum of Kshs.2,217,940. The works included construction of an office block with six rooms housing a library, computer room, store, two small offices and a secretary/reception's area.

Physical verification which was conducted on 11 March 2019 revealed that the project was incomplete with only the main structure, roof, doors, window and plastering of the interior complete. The windowpanes, floor, plastering of exterior and painting works were yet to be done despite the fact that the contractor had been paid up to 95% of contract price, which translates to a total of Kshs.2,200,000 inclusive of VAT.

Consequently, the regularity and value for money of the expenditure on the project could not be ascertained.

#### **6. Budgetary Performance Analysis**

The Rongo NG-CDF management budgeted for total receipts and expenditure Kshs.98,824,670, respectively. However, the actual receipts were Kshs.87,252,311 resulting in under-realization of Kshs.11,572,311 which is equivalent to 12% of the final approved budget. In addition, the management spent a total of Kshs.72,501,709 against a budget of Kshs.98,824,670 leading to under expenditure of Kshs.26,322,961 which is equivalent to 26% of the approved budget.

The underutilization of the approved budget hindered the achievements of some of the core objectives of the Fund, which in turn adversely affected the effectiveness and efficiency in the delivery of services to the constituents.

#### **7. Project Management Committee Bank Balances**

Included in annex 4 to the financial statements are the project management committees' unspent balances amounting to Kshs.29,016,016.40 as at 30 June 2018. Adequate reasons were not provided for failure by the concerned Project Management Committees (PMC's) to spend the amounts allocated.

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 and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### **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 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 ability of National Government Constituencies Development Fund - Rongo Constituency to sustain services, disclosing, as applicable, matters related sustainability of services and using the applicable basis of accounting unless the management either intends 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 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.

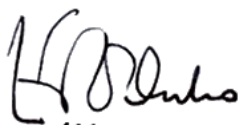
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the 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 ability of the Fund 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 to cease sustaining 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 - Rongo 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**

**30 May 2019**