

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

---

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of the National Government Constituencies Development Fund- South Imenti Constituency set out on pages 10 to 48, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of National Government Constituency Development Fund – South Imenti 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 do not comply with the National Government Constituencies Development Fund Act, 2015.

### **Basis for Adverse Opinion**

#### **1.0 Project Management Committee (PMC) Bank Balances**

Note 6 and 7 to the financial statements reflected transfers to other Government entities and other grants and other payments of Kshs.23,250,000 and Kshs.51,692,163 respectively both totaling to Kshs.74,942,163 which was earmarked to implement projects in various sectors within the constituency during the year under review. Included in this amount is Kshs.18,237,134 unutilized funds reflected at Annex 5 to the financial statements as project management committee (PMC) bank balances in respect of twenty-six (26) projects. However, the respective bank reconciliations, bank statements, bank certificates and cash books were not provided for audit review.

In the circumstances, the accuracy of PMC bank balances of Kshs.18,237,134 as at 30 June 2018 could not be ascertained.

#### **2.0 Transfer to Primary Schools - Incomplete Projects**

Note 6 to the financial statements reflected Kshs.23,250,000 in respect to transfer to other government entities which includes Kshs.19,250,000 in respect to transfer to primary schools to implement various projects, which further includes Kshs.2,200,000 disbursed to Giumpu primary school for heavy grading of the football pitch and levelling the ground. However, a physical verification done on the project in the month of January 2019, revealed that included in the Kshs.2,200,000 payments were works worth Kshs.591,000 which were either not supported or had not been completed as follows:

<b>Incomplete works</b>	<b>Cost of unsupported/incomplete Works (Kshs)</b>
Sign Board	40,000
Material Testing & Control	45,000
Planting of Kikuyu Grass	79,000
Culvert Drainage Works	32,000
Cross Cutting Issues	58,000
Preliminary Provision	337,000
<b>Total</b>	<b>591,000</b>

In the circumstances, it has not been possible to ascertain whether the Kshs.591,000 payment was a proper charge to public funds including whether it has the respective value for money in the year ended 30 June 2018.

### **3.0 Other Grants and Other Payments**

#### **3.1 Bursaries**

Note 7 to the financial statements for the year ended 30 June 2018 reflected Kshs.51,692,163 in respect to other grants and other payments which included Kshs.9,358,601 and Kshs.9,488,045 in respect to bursaries to secondary schools and tertiary institutions respectively both totaling to Kshs.18,846,646. However, only bursaries totaling to Kshs.8,514,573 (45%) were acknowledged by the respective beneficiaries through letters of acknowledgement or issue of official receipts leaving a balance of Kshs.10,332,073 (55%) un-acknowledged by the beneficiary institutions.

In the circumstances, the accuracy, validity and value for money for the Kshs.10,332,073 bursaries for the year ended 30 June 2018 could not be ascertained.

Further, it was noted that a total of 2,718 applicants from Abogata East, Igoji West and Nkuene wards had applied for bursary but only 2,379 applicants were vetted resulting to 339 applicants who were not vetted and therefore not considered for bursary contrary to Section 21(3) of the National Government Constituencies Development Fund Regulations, 2016 which states that a Constituency Committee shall vet all persons proposed to receive support in accordance with guidelines issued by the Board.

In the circumstances, it was not possible to ascertain that the bursaries totaling Kshs.18,846,646 were issued to the most needy and qualified applicants.

### **3.2 Irregular Security Projects**

Note 7 to the financial statements for the year ended 30 June 2018 reflected Kshs.51,692,163 in respect to other grants and other payments which includes Kshs.15,000,000 in respect to transfers to security projects which further includes Kshs.10,500,000 disbursed to a project management committee (PMC) for construction of the final phase of the Igoji departmental offices which comprised wall plastering, flooring, electrical works, plumbing works, painting, fittings of ground floor, first and second floors, septic tank and landscaping.

As reported in the previous year, the project is a three storied building whose construction started in the financial year 2010/2011. The project implementation status for the seven financial years starting 2010/2011 to the financial year under review revealed that a total of kshs.37, 028,045 had been spent on the project as at 30 June 2018. However, it was not possible to ascertain the project duration and cost as the contract documents were not made available.

Further, a physical inspection carried out in the month of January 2019 revealed that the building had not been completed as electrical wiring, plumbing works, septic tank and landscaping, doors to the first floor, flooring, ceiling board and doors to the second floor and flooring, painting, ceiling and door to the third floor had not been done seven years after commencement of the project contrary to Section 11 (j) of the National Government Constituencies Development Regulations, 2016 which states that the constituency committees should ensure that all project receive adequate funding and are completed within 3 years.

In the circumstances, the propriety and value for money for the Kshs.37, 028,045 as at 30 June 2018 could not be ascertained.

### **3.3 Poorly Done Emergency Projects**

Note 7 to the financial statements for the year ended 30 June 2018 reflected Kshs.51,692,163 in respect to other grants and other payments which includes Kshs.2, 980,000 in respect to emergency projects which further includes Kshs.450,000 and Kshs.500,000 in respect to the construction of Gankari foot bridge and Ithitwe culvert respectively both totaling to Kshs.950,000. However, respective supporting documents including advertisements for the tender, bill of quantities, and regret letters to the unsuccessful bidders were not availed for audit verifications. Further, a physical verification carried out in the month of January, 2019 revealed that both the culvert and the bridge wing wall had collapsed which is an indication of poor workmanship.

In the circumstances, the propriety and value for money for the Kshs.950,000 in respect to emergency projects for the year ended 30 June 2018 could not be ascertained.

### **3.4 Unsupported Expenditure - Supply of Seedlings**

Note 7 to the financial statements for the year ended 30 June 2018 reflected Kshs.51,692,163 in respect to other grants and other payments which further includes Kshs.3,374,138 in respect to environmental projects which comprised of Kshs.1,637,932 and Kshs.1,736,206 paid through Local Purchase Order (LPO) numbers NG-CDF/Environment/ (2017) and NG-CDF/Environment/ (2018) respectively for supply of seedlings to various institutions. However, the expenditure was not supported by a list of how the seedlings were distributed to schools and institutions, the minutes on how the project management committee (PMC) was constituted, bank account signatories and introduction letter of the PMC to the bank by the Fund Account Manager.

In addition, Local Purchase Order (LPO) number NG-CDF/Environment/ (2017) was issued on 15 November 2017 which is a day before the bids were opened on 16 November 2017 and thirty (30) days before the bids evaluation which was done on 16 December 2017.

Further, Local Purchase Order (LPO) number NG-CDF/Environment/ (2018) was issued on 24 March 2018 which is eleven (11) days before the set bid submission date of 4 April 2018 contrary to Section 78 (3) Public Procurement and Disposal Act 2015 which states that immediately after the deadline for submitting tenders, the tender opening committee shall open all the tenders received within the stipulated timelines.

In the circumstances, the Fund is in breach of the law. In addition, the propriety and value for money for the Kshs.3,374,138 in respect to environment projects could not be ascertained.

### **3.5 Construction of a Social Hall- Abogata West Ward**

Note 7 to the financial statements for the year ended 30 June 2018 reflected Kshs.51,692,163 in respect to other grants and other payments which include Kshs.8,281,034 in respect to markets and community centers and which further includes Kshs.1,181,034 for the construction of a social hall and Kshs.300,000 for constructing of a pit latrine both totaling to Kshs.1,481,034. However, the respective supporting documents including inspection reports, Project Management Committee (PMC) minutes authorizing withdrawal of funds and project handover minutes were not availed for audit review.

In addition, disbursements records made available for audit review showed that Kshs.1,781,034 was disbursed and spent on the project by the project management committee resulting to an unapproved expenditure of Kshs.300,000 contrary to Section 25 (2) of the National Government Constituencies Development Regulations, 2016 which states

that a Constituency Committee shall not incur expenditure unless such expenditure is supported by an approved work plan, a procurement plan and a budget.

Further, out of Kshs.1,781,034, only Kshs.1,093,691 was certified by the sub-county works officer while the differences amounting to Kshs.687,343 was paid without being certified. In addition, physical verification carried out in the month of January 2019 revealed that the project was not complete since window glasses, painting and electrical works had not been done and the contractor was not on site.

In the circumstances, the Fund is in breach of the law. In addition, the value for money for Kshs.1,781,034 in respect to markets and community centers could not be ascertained.

#### **4.0 Stolen Assets**

Annex 4 to the financial statements reflected Kshs.17,725,021 in respect to historical cost of fixed assets which includes Kshs.11,371,750 in respect to transport equipment which further includes Kshs.345,506 and Kshs.29,464 in respect to a Yamaha motorcycle registration number A832N and Sony television serial number 1004245 respectively both totaling to Kshs.374,970. Although the two assets were indicated as stolen in the fixed assets register, they were still reflected as part of the Fund's assets in the financial statements and therefore overstating the assets by the same amount. Further, there was no evidence to show when the items were stolen and whether the matter was reported to police. In the circumstances, the accuracy of Kshs.11,371,750 transport equipment as at 30 June 2018 could not be ascertained. Further, the security and recoverability of the two assets worth Kshs.374,970 as at 30 June 2018 is in doubt.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of 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 adverse 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(s) described in the Basis for Adverse Opinion section, I have determined that there are no other key audit matters to communicate in my report.

#### **Other Matter**

#### **1.0 Budget Control and performance**

## 1.1 Receipts Analysis

The summary statement of appropriation: recurrent and development combined reflected an approved receipt budget for the year ended 30 June 2018 of Kshs.139,284,196 and an actual receipt of Kshs.84,499,713 resulting to a budgeted receipt shortfall of Kshs.54,784,483.

Overall, the Fund failed to actualize its receipt budget by Kshs.54,784,483 or 39.3% an indication that some of the programmes and activities that had been planned were not implemented. There is need therefore for Constituency Development Fund management to review its budget making process with a view to formulating a realistic budget that would be actualized for service delivery to the citizens of South Imenti Constituency.

## 1.2 Expenditure Analysis

The summary statement of appropriation: recurrent and development combined reflected an approved expenditure budget for the year ended 30 June 2018 of Kshs.139,284,196 and an actual expenditure of Kshs.80,668,590 resulting to an under expenditure of Kshs.58,615,607 as shown below:

Item	Budget (Kshs)	Actual (Kshs)	Under (Kshs)	%
Compensation of Employees	3,758,000	1,846,697	1,911,303	51%
Use of Goods and Services	7,156,369	3,879,729	3,276,640	46%
Transfer to Other Government Units	60,150,000	23,250,000	36,900,000	61%
Other Grants and Transfers	67,969,827	51,692,163	16,277,664	24%
Acquisition of Assets	250,000	0	250,000	100%
<b>Total</b>	<b>139,284,196</b>	<b>80,668,589</b>	<b>58,615,607</b>	<b>42%</b>

The under-spending of the budget by Kshs.58,615,607 reflected equivalent services expected and not delivered to the residents of South Imenti constituency. The funds could have been allocated to other deserving areas that would have improved delivery of goods and services to the residents of South Imenti constituency. There is need therefore for the management to re-look at its budgeting mechanism with a view to focusing on areas which will improve service delivery to the citizens of South Imenti constituency.

## 2.0 Projects Implemented Status

The project implementation status report made available for audit review shows that one hundred and fifty-four (154) projects worth Kshs.142,781,314 were budgeted to be implemented during the year under review. However, only sixty-two (62) projects worth Kshs.44,769,060 were completed, thirty-five (35) projects worth Kshs.52,186,974 were on

going and fifty-seven (57) projects worth Kshs.45,825,280 had not started as at 30 June 2018 as follows;

Sector	Project Status	Amount Allocated (Kshs)	Amount Disbursed (Kshs.)	Number Of Projects
Education	Completed	13,400,000	13,400,000	28
	Ongoing	8,550,000	8,550,000	19
	Not Started	19,800,000	1,300,000	36
	<b>Sub Total</b>	<b>41,750,000</b>	<b>23,250,000</b>	<b>83</b>
Sports	Completed	1,736,207	1,736,207	1
	Ongoing	0	0	0
	Not Started	0	0	0
	<b>Sub Total</b>	<b>1,736,207</b>	<b>1,736,207</b>	<b>1</b>
Bursary	Completed	18,846,646	18,846,646	2
	On going	21,855,940		
	Not Started	0	0	0
	<b>Sub Total</b>	<b>40,702,586</b>	<b>18,846,646</b>	<b>2</b>
CATS	Completed	1,474,138	1,474,138	1
	On going	0	0	0
	Not Started	0	0	0
	<b>Sub Total</b>	<b>1,474,138</b>	<b>1,474,138</b>	<b>1</b>
Security	Completed	800,000	800,000	3
	Ongoing	13,500,000	13,500,000	9
	Not Started	6,100,000	700,000	13
	<b>Sub Total</b>	<b>20,400,000</b>	<b>15,000,000</b>	<b>25</b>
Emergency	Completed	5,137,931	2,980,000	6
	Ongoing	0	0	0
	Not Started	0	0	0
	<b>Sub Total</b>	<b>5,137,931</b>	<b>2,980,000</b>	<b>6</b>
Environment	Completed	3,374,138	3,374,138	23
	Ongoing	0	0	0
	Not Started	0	0	0
	<b>Sub Total</b>	<b>3,374,138</b>	<b>3,374,138</b>	<b>23</b>
Social Facilities	Completed	0	0	0
	Ongoing	8,281,034	8,281,034	5
	Not Started	14,586,766	0	4
	<b>Sub Total</b>	<b>22,867,800</b>	<b>8,281,034</b>	<b>9</b>
ICT Hubs	Completed	0	0	0
	Ongoing	0	0	0
	Not Started	2,338,514	0	3
	<b>Sub Total</b>	<b>2,338,514</b>	<b>0</b>	<b>3</b>
Strategic Plan	Completed	0	0	0

<b>Sector</b>	<b>Project Status</b>	<b>Amount Allocated (Kshs)</b>	<b>Amount Disbursed (Kshs.)</b>	<b>Number Of Projects</b>
	Ongoing	0	0	0
	Not Started	3,000,000	0	1
	<b>Sub Total</b>	<b>3,000,000</b>	<b>0</b>	<b>1</b>
<b>Grand Total</b>		<b>142,781,314</b>	<b>74,942,163</b>	<b>154</b>

In view of the foregoing, the constituents did not get expected services equivalent to thirty-five (35) ongoing projects worth Kshs.52,186,974 and fifty-seven (57) not started projects worth Kshs.45,825,280 both totaling to Kshs.98,012,254 for the year ended 30 June 2018. This is an indication of inappropriate project implementation mechanism. Therefore, there is need for the Constituency Development Fund management to review its project planning mechanism with a view to prioritizing those projects which will be implemented during the financial year resulting to higher impact into improving service delivery to the citizen of South Imenti Constituency.

### **3.0 Progress on Follow up of Auditors Recommendations**

The financial statements at Page 45 reflected the progress on follow up of auditor's recommendations which indicates that five (5) issues raised in the audited 2016/17 financial statements had not been resolved while two (2) had been resolved. However, no documentary evidence was made available to show how the two issues were resolved and any action being taken by management towards resolving the five audit issues.

In the circumstances, the issues raised in the 2016/2017 Auditor-General's report has remained unresolved as at 30 June 2018 thereby defeating the whole purpose of including the progress report in the financial statements.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **Stalled Project- Mikumbune Library**

Note 7 to the financial statements for the year ended 30 June 2018 reflected Kshs.51,692,163 in respect to other grants and other payments which include



Kshs.8,281,034 in respect to markets and community centers which further includes Kshs.1,500,000 disbursed for the walling, roofing of first floor and finishing of ground floor of Mikumbune Library project which started in April 2008 at a total cost of Kshs.7,221,670. However, as at 30 June 2018 only Kshs.3,600,000 (50%) had been paid and the project was still not complete almost ten (10) years since it started contrary to Section 11 (j) of the National Government Constituencies Development Regulations, 2016 which states that the constituency committees should ensure that all project receive adequate funding and are completed within 3 years. Physical verification carried out in the month of January 2019 revealed that the project had stalled.

In the circumstances, the value for money for Kshs.3,600,000 on the library project could not be confirmed. In addition, the Fund was 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit so as 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 National Government Constituencies Fund's-South Imenti Constituency ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the National Government Constituencies Development Fund - South Imenti Constituency 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 National Government Constituencies Fund's - South Imenti Constituency'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 noncompliance. 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 National Government Constituencies Fund's –South Imenti Constituency 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's-South Imenti 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-South Imenti 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 – South Imenti 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**

**10 April 2019**