

# REPORT OF THE AUDITOR-GENERAL ON THE NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - JUJA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of the National Government Constituencies Development Fund - Juja Constituency set out on pages 17 to 49, which comprise the statement of assets and liabilities as at 30 June, 2020, statement of receipts and payments, statement of cash flows and summary statement of appropriation-recurrent and development 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 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 the National Government Constituencies Development Fund - Juja Constituency as at 30 June, 2020 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 and the Public Finance Management Act, 2012.

### Basis for Qualified Opinion

#### 1. Bank Balances

The statement of assets and liabilities reflects bank balances of Kshs.3,442,973 as at 30 June, 2020. However, included as part of reconciling items in the bank reconciliation statement were unrepresented cheques amounting to Kshs.89,816 which had gone stale by 30 June, 2020 and had not been reversed in the cash book. The stale cheques relates to statutory payments of PAYE, NSSF and NHIF some dating back to the year 2016. No explanation was given for failure to reverse the stale cheques or reconcile and clear the long outstanding statutory deductions. As a result, the accuracy and completeness of the bank balances of Kshs.3,442,973 as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Juja Constituency in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

## **Other Matter**

### **1. Unresolved Prior Year Audit Matters**

The following issues were raised in the previous audit report for 2018/2019 financial year but have remained unresolved to date:

- i. Failure to obtain ownership documents for the parcel of land on which the Fund office block was constructed at a cost of Kshs.12,000,000.
- ii. Failure to utilize Athi Administration Police Post and Abba Salama Administration Police Post Security Projects implemented at a cost of Kshs.4,000,000 and Kshs.6,023,834, respectively.
- iii. Delayed implementation of projects and low budget absorption.

Management has not given any explanation why the above issues have remained unresolved or explain its failure to report on the progress made in resolving the issues as prescribed in the reporting requirements set by the Public Sector Accounting Standards Board.

### **2. Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.156,888,079 and Kshs.87,520,355, respectively resulting to an under funding of Kshs.69,367,724, or 44% of the budget.

Similarly, the actual expenditure reflects a balance of Kshs.85,356,443 against an approved budget of Kshs.156,888,079 resulting to an under-expenditure of Kshs.71,531,636 or 46% of the budget. The underfunding and under performance affected the planned activities and may have impacted negatively on service delivery to the people of Juja.

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

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

## **Basis for Conclusion**

### **1. Stalled Construction of Department of Lands Registry Offices**

As disclosed in Note 6 to the financial statements under transfer to other government entities figure is an expenditure of Kshs.8,869,747 that was disbursed for the construction of Lands Registry offices in Juja Constituency.

A review of records revealed that the tender was awarded on 18 August, 2019 at a contract sum of Kshs.8,551,420. The contract was to take a period of 90 days commencing September, 2019. A review of documents that were produced for audit and a physical verification done in the month of January, 2021 revealed that completion of the building had stalled for 14 months after expiration of the agreed contract period on 30 November, 2019 and the contractor was not on site. The value of works already certified as at the time of audit in January, 2021, amounted to Kshs.2,800,000, or 33% of the total contract sum, which however, had not been paid. Further, a review of the project management committee minutes dated 10 December, 2020 revealed existence of a disagreement among the members on the issue of valuation and scope of works for the projects which were not commensurate with the contract sum. No action appears to have been taken to resolve the matter.

Consequently, value for money may not have been realized and continued delay in completion of the building may result in cost escalation.

### **2. Construction of an Administration Block, Classrooms and Ablution Block at Abasalama Primary School**

As disclosed in Note 6 to the financial statements under transfers to other government entities is expenditure balance of Kshs.29,200,000 on transfers to primary schools. Included in the expenditure is an amount of Kshs.8,900,000 disbursed to Abasalama Primary School for the construction of administration block with 2 No. offices and a boardroom, two classrooms and an eight-door ablution block and fencing the 1.5-acre land with chain link and concrete posts. Contract for the construction works was awarded at a contract sum of Kshs.8,797,650. The contractor had been paid a total of Kshs.7,653,955.

A physical verification exercise conducted in the month of January, 2021 revealed incomplete works valued at Kshs.369,450 in bill of quantities including windows and floor finishing, painting and decoration, gate and fencing with chain link and the contractor was not on site. No justification was provided for the failure to complete the project.

### **3. Construction of Offices at Toll**

As disclosed under Note 7 to the financial statements under other grants and other payments balance of Kshs.9,113,354 is an expenditure of Kshs.3,500,000 in respect of security projects, out of which Kshs.2,500,000 was for the construction of Offices for the Chief and Assistant County Commissioner at Toll in Juja Constituency. A physical verification carried out on the project revealed that the construction was completed but there was no title deed for the land contrary to the provisions of the Constituency

Development Fund Board Circular Ref. No. CDF/BOARD/CIRCULARS/VOL.1/108 dated 24 August, 2010 on guidelines of land ownership for the National Government Constituencies Development Fund related projects which requires all projects for Funds to be implemented on public land.

#### **4. Failure to Insure Assets**

Annex 4 to the financial statements on summary of fixed assets register reflects assets valued at Kshs.25,095,978 as at 30 June, 2020, out of which transport equipment valued at Kshs.7,800,000 had been insured. The balance of the assets valued at Kshs.17,295,978 were not insured against risk of loss due to fire, burglary, or theft contrary to section 36(3) of the National Government Constituencies Development Fund Act, 2015, which requires all assets to be insured in the name of the Board.

#### **5. Unutilized Funds**

Note 17.3 to the financial statements reflects unutilized funds balance of Kshs.5,698,240 as at 30 June, 2020. The reporting template requires that the unutilized funds be further analyzed in annex 3 to the financial statements. However, no analysis was provided for the unutilized funds as required.

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, I confirm that, nothing 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 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether 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 overall 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 Management is aware of the intention to terminate the Fund or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how Management 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 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 reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**04 February, 2022**