

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND – CHERANGANY CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund – Cherangany Constituency set out on pages 5 to 31, which comprise the statement of assets as at 30 June, 2019, and the statements of receipts and payments, statement of cash flows and the summary statement of appropriation: recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development Fund Cherangany Constituency as at 30 June, 2019, 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 the National Government Constituencies Development Fund Act, 2015.

### **Basis for Qualified Opinion**

#### **1. Unconfirmed Cash and Bank Balance**

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.52,114,267 as at 30 June, 2019 which is in respect of a balance held at Cooperative Bank of Kenya, Kitale. However, audit procedures performed on the bank reconciliation statement for the month of June, 2019 showed that payments in cash book totalling Kshs.901,868 relating to the period 31 December, 2018 and earlier had not been recorded in bank and therefore the cheques were stale but had not been reversed in the cash book.

Consequently, it has not been possible to confirm that the cash and cash equivalents balance of Kshs.52,114,267 as at 30 June, 2019 is fairly stated.

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

The figures in the financial statements submitted for audit were at variance with the amounts in the supporting schedules as shown below:

<b>Item</b>	<b>Financial Statements (Kshs)</b>	<b>Supporting Schedules (Kshs)</b>	<b>Variance (Kshs)</b>
Compensation of employees	1,652,885	1,803,518	(150,633)
Other committee expenses	1,928,330	5,301,830	(3,373,500)
Committee allowance	5,233,860	1,860,330	3,373,530
Bursary - secondary	12,720,700	10,963,000	1,757,700
Bursary - tertiary	7,433,500	9,974,000	(2,540,500)

Further, the financial statements provided for audit had opening balances that were at variance with the previous year's audited financial statements amounts as shown below:

<b>Expenditure Item</b>	<b>Balance as per Financial Statements 2018/2019 (Kshs)</b>	<b>Balance as per Audited Financial Statements 2017/2018 (Kshs)</b>	<b>Variances (Kshs)</b>
Compensation of employees	1,920,291	2,085,003	164,712
Use of goods and services	7,378,990	3,666,800	(3,712,190)
Transfer to other government units	32,626,290	20,700,000	(11,926,290)
Other grants and transfers	69,568,788	2,978,000	(66,590,788)
Acquisition of assets	367,990	0	(367,990)

In the circumstance, the financial statements were significantly misstated.

### **3. Unconfirmed Project Management Committee (PMC) Account Balances**

Annex 5 to the financial statements reflects PMC account balances of Kshs.28,960,946 as at 30 June, 2019. However, the cash books and certificates of bank balances were not availed for audit review.

Consequently, the accuracy of the PMC account balance of Kshs.28,960,946 as at 30 June, 2019 could not be confirmed.

### **4. Assets Without Ownership Documents**

The summary of fixed assets register at Annex 4 to the financial statements, reflects assets valued at Kshs.19,992,900 as at 30 June, 2019. However, the title documents in respect of the land on which the office block is built valued at Kshs.3,500,000 and the log books in respect of two motor vehicles valued at Kshs.10,713,000 were not provided for audit verification.

Consequently, the ownership of the land and the two motor vehicles could not be ascertained.

## **5. Unaccounted for Fuel**

The use of goods and services expenditure of Kshs.9,378,877, includes utilities, supplies and services amount of Kshs.1,204,421 as disclosed in Note 5 to the financial statements and which in turn includes fuel expenses of Kshs.113,819. However, the fuel purchased was not supported with fuel register, motor vehicle work tickets, detail orders, statements from suppliers, LPOs and invoices contrary to Section 68(2) of the Public Finance Management Act, 2012

In the circumstances, the accuracy of utilities, supplies and services amount of Kshs.1,204,421 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund – Cherangany Constituency Management 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. Budgetary Control and Performance**

The summary statement of appropriation: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.215,485,849 and Kshs.136,444,974 respectively, resulting to an under-funding of Kshs.79,040,876 or 37% of the budget. Similarly, the Fund spent Kshs.84,332,711 against an approved budget of Kshs.215,485,849 resulting to an under-expenditure of Kshs.131,153,139 or 61% of the budget.

Failure to utilize funds is an indication that approved programs and services were not delivered, therefore the budget may not have achieved the intended objectives of improving service delivery to constituents of Cherangany Constituency.

### **2. Project Implementation Status**

According to the Project Implementation Status (PIS) report provided for audit review, the Management had planned to implement four hundred and ninety-seven (497) projects since the financial year 2013/2014 towards which, a total of Kshs.285,088,316 had been disbursed as at 30 June, 2019 as shown below:

<b>Financial Year</b>	<b>Status</b>	<b>No. of Projects</b>	<b>Value (Kshs.)</b>	<b>Amount Disbursed (Kshs.)</b>
2013/2014 to	Complete	408	239,697,070	239,697,070
	Ongoing	13	11,868,208	11,868,208
2017/2018	Not Started	4	4,000,000	-
	<b>Sub-Total</b>	<b>425</b>	<b>255,565,278</b>	<b>251,565,278</b>
2018/19	Complete	16	33,023,038	33,023,038
	Ongoing	1	500,000	500,000
	Not Started	55	33,400,000	-
	<b>Sub-Total</b>	<b>72</b>	<b>66,923,038</b>	<b>33,523,038</b>
<b>Grand Total</b>		<b>497</b>	<b>322,488,316</b>	<b>285,088,316</b>

From the above summary, thirteen (13) projects relating to 2017/18 and earlier years with disbursements amounting to Kshs.11,868,208 and which should have been completed by 30 June, 2018 were ongoing. Four (4) projects with a total budget of Kshs.4,000,000 had not started as at the time of audit in June 2020.

In addition, fifty-five (55) projects relating to the year 2018/2019, with a budget of Kshs.33,400,000 had not started although they should have been completed and handed over by 31 December, 2019, while one (1) approved project with a disbursement of Kshs.500,000 was ongoing.

Failure to complete planned projects is likely to deny the Cherangany constituents the much needed services.

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

### Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters 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. Irregular Bursary Disbursements**

The other grants and transfers figure of Kshs.26,718,037 includes bursary to secondary schools of Kshs.12,720,700 and bursary to tertiary institutions amount of Kshs.7,433,500 as disclosed in Note 7 to the financial statements. However, there was no evidence that a bursary subcommittee was constituted in accordance with NGCDF circular reference No. CDF Board Circulars/VOL.1/111 dated 13 September, 2013 which requires that a sub-committee of the Constituency Development Fund Committee be formed to manage the bursary scheme and which must include two co-opted members of whom one must be area Education Officer or an officer seconded from the Ministry.

Further, according to the bursary disbursement schedules provided for audit review, the amounts awarded for tertiary institutions ranged between Kshs.5,000 and Kshs.10,000 while for secondary schools ranged between Kshs.2,000 and Kshs.15,000 contrary to the amounts set by the Cherangany NGCDF Bursary Committee on 21 May, 2019 of Kshs.3,000 for day schools, Kshs.5,000 for boarding schools and Kshs.10,000 for colleges and universities.

Consequently, the Management breached the law and the propriety of the bursary payments of Kshs.20,154,200 for the year ended 30 June, 2019 could not be confirmed.

### **2. Unwarranted Pending Account Payables**

Note 15.3 to the financial statements reflects other pending payables balance of Kshs.131,153,139 as at 30 June, 2019 and which includes amounts due to other government entities of Kshs.90,368,208 and amounts due to other grants and other payments of Kshs.31,305,569. However, as at 30 June, 2019, the Fund was still holding an amount of Kshs.52,114,267 in bank and no reason was provided for not disbursing the funds to the projects.

Consequently, the Cherangany constituents may not have benefited from the projects that were not implemented.

### **3. Inadequacies in Project Implementation**

Physical verification exercise conducted in July, 2020 at seven (7) projects with total disbursement of Kshs.8,900,000, revealed that proper identification, monitoring and supervision was not carried out by the respective Project Management Committees as highlighted in **Appendix 1**.

Due to poor workmanship and delay in completion of some projects, the Cherangany Constituents may not have not obtained value for money spent on these projects.

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 Qualified Opinion section of my report, 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 effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

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



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

**Nairobi**

**01 October, 2021**

## **Physical Appendix 1: Poorly Implemented Projects**

No	Institution	Project	Amount (Kshs)	Observations
1	AIC Tuigoin Secondary School	Construction of School Laboratory	1,300,000	The project is complete and in use but plastering of the floor not done, window panes and some doors are not fixed. Piping and cabling not fixed. Painting only done on the front phase. The project is also not branded.
2	Benon Secondary School	Construction and completion of Twin Laboratory	2,200,000	one was complete, and in use; while one was being used as a dormitory. The lab had floor cracks; the worktop tiles were peeling off and general poor workmanship in the finishes for plumbing works and roofing, iron sheets not uniform in colour and of different sizes. The project was not branded.
3	Top-Suwerwa Primary School	Completion of 3 classrooms	1,500,000	The building is not branded, and general poor workmanship – floor peeling off; and a big crack on the veranda.
4	Karara Secondary School	Construction of a twin laboratory-phase one	1,000,000	The building is incomplete. Plastering, fixing of windows, doors and fittings had not been done.
5	Kaplamai Primary School	Renovation of five classroom-Flooring, plaster and painting	500,000	Renovation was completed. However, the veranda plastering had peeled off an indication of poor workmanship.
6	St. Lwanga Botwa Secondary School	Construction of administration block	1,500,000	The project was initiated during the 2013/14 when the NGCDF disbursed Kshs.500,000 and another Kshs.500,000 advanced during the 2014/15 out initial budget of Kshs.4,500,000. The project was noted to have been poorly done. The building has no foundation, the walls have bends and lintel is sagging and may require additional cost for reinforcement if the building has to be completed and put to use.
7	AIC Kimoson Primary School	Completion of 2 classrooms-	900,000	General poor workmanship noted – floor peeling off; and window panes broken.
	<b>Total</b>		<b>8,900,000</b>	