

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Kesses Constituency set out on pages 9 to 46, which comprise the statement of assets and liabilities as at 30 June, 2019, and the statement 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 - Kesses 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

1.0 Unconfirmed Project Management Committee Bank Balances

Note 15.4 to the financial statements reflects project management committee bank account balance of Kshs.22,876,011 in respect of unutilized funds held by project management committees. However, Management did not provide bank reconciliation statements for audit review.

Consequently, the accuracy and completeness of the project management committee bank balances of Kshs.22,876,011 could not be confirmed.

2.0 Unconfirmed Ownership of Motor Vehicle

The statement of receipts and payments reflects acquisition of assets of Kshs.5,469,600 and as shown under Note 8 to the financial statements, in respect to purchase of a motor vehicle. Available records indicate that the CDF Management purchased a Toyota Hilux Double Cab on 16 January, 2019 vide payment voucher no. 1970 and the vehicle was delivered on 01 February, 2019 after pre-delivery inspection by the Ministry of Transport. However, the motor vehicle registration log book was not provided for audit verification.

In the circumstances, the ownership of the vehicle could not be confirmed.

3.0 Abandoned Motor Vehicle

Included in the summary of fixed assets register figure of Kshs.10,760,685 disclosed under Annex 4 to the financial statement is Kshs.4,800,000 being the cost of a Land Rover Puma which was purchased on 12 May, 2014. Available records indicate that the vehicle developed mechanical problems and was taken for repairs after inspection by the Ministry of Transport on 13 July, 2016. After repairs, the vehicle was released for testing and it again developed a mechanical problem. However, the Management of the garage demanded payment of Kshs. 557,727, being the cost of the initial repairs before any further work could be done. The Complaints Resolution Committee vide minute No. Kesses NGCDFC/02/6 May 2019, based on the estimated cost of repairs of Kshs.3,191,730 by the mechanical inspection, resolved not to pay the garage. The Management cited lack of an LSO and inspection report from the mechanical department for failure to pay.

Further, the motor vehicle registration log book and the last work ticket were not provided for audit verification.

In the circumstances the existence of the vehicle could not be confirmed.

4.0 Inaccuracies in the Fixed Assets Register

Annex 4 to the financial statements reflects a summary of fixed assets register with a historical cost of Kshs.10,760,685 as at 30 June, 2019. However, a review of assets register availed for audit review revealed that fifteen (15) assets did not have their respective cost values indicated. Five (5) of the assets had been transferred from the CDF Board while ten (10) were inherited from former CDF Board.

Consequently, the accuracy and the completeness of the fixed assets cost of Kshs.10,760, 685 as 30 June, 2019 could not confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Government Constituencies Development Fund - Kesses 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

1.0 Budgetary Control and Performance

During the year under review, Kesses CDF had approved budget of Kshs.191,117,162 comprised of a development budget of Kshs.115,926,130, bursary of Kshs.45,507,046

and recurrent budget of Kshs.29,683,986. The Fund had actual receipts of Kshs.135,676,286, resulting in underfunding of Kshs.55,440,876 or 29%.

During the same period, the Fund incurred an expenditure of Kshs.110,970,130 or 58% of the approved budget of Kshs.191,117,162 resulting to underutilization of Kshs.80,147,032 or 42%.

The under absorption and underutilization of the approved budget is an indication that activities and projects in the annual work plan were not implemented by the CDF Management which negatively affected service delivery to the residents of Kesses Constituency.

2.0 Unresolved Prior Year Matters

2.1 Unsupported Expenditure

As previously reported, transfers to other government units figure of Kshs.50,470,000 comprised of transfers to primary schools' figure of Kshs.27,370,000, transfers to secondary schools amount of Kshs.22,900,000 and to health institutions amount of Kshs.200,000, to fund various projects that were to be implemented by project management committees. However, the actual expenditure returns together with supporting documents and acknowledgement letters from the respective project management committees provided for audit verification accounted for only Kshs.900,000 leaving Kshs.49,570,000 un-supported.

Under the circumstances, it was not possible to confirm whether the total transfers of Kshs.49,570,000 was actually received by the institutions and utilized towards the planned projects during the year under review.

2.2 Renovation of Classrooms at Cheptiret Primary School

As previously reported in 2017/2018, included in the transfers to other government units figure of Kshs.50,470,000 was an amount of Kshs.27,370,000 in respect of transfer to primary schools out of which an amount of Kshs.350,000 was disbursed to Cheptiret Primary School for renovation of 20 classrooms. The works to be done included painting the roofs, plastering floors and replacement of window panes. However, an audit inspection of the project in June 2018 revealed that, although the renovation works were complete, floors of three (3) classrooms had major cracks which was an indication of poor workmanship. In addition, completion certificate and handing over report were not availed for audit review.

Consequently, the propriety of the expenditure of Kshs.350,000 incurred on renovation of the classrooms could not be confirmed.

2.3 Unaccounted for Fuel

As previously reported in the year 2017/2018, an amount of Kshs.389,942 was paid to a petroleum dealer for the supply of fuel in bulk. However, quotations, evaluation and award minutes, fuel register, supplier statement and work tickets showing how the fuel purchased was utilized were not availed for audit review.

Consequently, the propriety of the expenditure of Kshs.389,942 on fuel could not be confirmed.

2.4 Loan Repayment for School Bus (Queen of Peace High School-Rukuini)

As previously reported, the CDF Committee allocated and disbursed Kshs.1,000,000 for the Construction of a multipurpose dining hall at Queen of Peace High School-Rukuini. Later on, the NG-CDF Board re-allocated the funds to the repayment of an outstanding loan which had been used to purchase a school bus after the school requested for change of activity.

Available information indicated that, the school bus project was a joint project between the parents and NGCDF at a cost of Kshs.6,100,000. The NG-CDF was to contribute Kshs.4,000,000 while parents had already contributed Kshs.1,000,000. Subsequently, the NGCDFC disbursed the funds in two tranches of Kshs.2,000,000 each to the project account.

Further, the school obtained a loan of Kshs.4,100,000 from Family Bank in Eldoret in November, 2014, under the following conditions;

Total cost of the unit (Bus)	Kshs.6,100,000.00
Customer contribution (Down Payment)	Kshs.2,000,000.00
Balance payable by Family Bank	Kshs.4,100,000.00

Although physical verification confirmed that the existence of the bus and in good condition, the following unsatisfactory matters were noted;

- (i) Management of the school obtained a loan of Kshs.4,100,000 although parents had already contributed Kshs.1,000,000 and the NG-CDFC had approved a further disbursement of Kshs.2,000,000 in the following school term.
- (ii) The PMC maintained two bank accounts (Family bank and KCB) contrary to NGCDF Regulations.
- (iii) The expenditure of the last disbursed tranche of Kshs.2,000,000 and Kshs.1,000,000 contributed by parents were not confirmed.
- (iv) The logbook of the school bus is registered jointly in the names of the school and Family bank.
- (v) Repayment of loans is not among the Nation Government functions as defined under Section 24 of the National Government Constituencies Development Fund Act, 2015 and Section 11 (1)(e) of the NGCDF Regulation, 2016.

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 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

1.0 Non-Implementation of Projects

During the year under review, the CDF Management allocated Kshs.115,926,130 for development projects, out of which Kshs.66,171,538 or 57% of the development allocation was not utilized as at 30 June, 2019 as summarized below;

Development Item	Budget (Kshs.)
Construction of Primary Schools	21,524,000
Construction Secondary Schools	29,146,321
CDF Office Construction	9,124,190
Others	6,377,027
Total	66,171,538

The undisbursed funds had been allocated to 48 projects mainly for construction of CDF Office Kshs.9,124,190, construction of Racecourse Secondary School administration block Kshs.7,010,344 and Seiyo Secondary school Kshs.3,012,659. The details of the projects not implemented during the year are shown in **Appendix I**.

Failure to fund the projects to completion means that the purpose for which these projects were intended will not be achieved.

2.0 Bursary to Tertiary Institutions

Included in the other grants and transfers figure of Kshs.51,482,872 and as shown under Note 7 is bursary disbursements to tertiary institutions totalling Kshs.20,289,000, out of which Kshs.10,000,000 was disbursed to Eldoret National Polytechnic for the purpose of training 700 needy youth to acquire specialized skills through vocational and technical training. The details are provided below:

Date	Payee	P.V No.	Cheque. No.	Amount (Kshs.)
11.10.18	Eldoret National Polytechnic	1957	4441	3,040,000
13.03.19	Eldoret National Polytechnic	2015	4793	7,000,000
	Total			10,040,000

According to minute No. Kesses NG-CDFB/02/28 of September 2018, the committee proposed that the scholarships were to be paid partly by the CDF and the balance by Hon. Dr. Swarup Mishra Foundation. Further, it was confirmed that the committee approved and awarded the students bursaries of Kshs.10 million as part payment for the fees for 700 students.

Further, on 9 October 2018 Eldoret National Polytechnic vide Ref. No. TENP/REG/02/Vol.1 requested Kesses CDF Office to pay Kshs.25,888,300 for 700 students who had reported in the college.

However, there was no letter of commitment written by Dr. Swarup Mishra Foundation to the CDF on co funding of the students and showing actual amount the foundation would pay.

Consequently, the Management did not adhere to Section 49 of the NG-CDF Act, 2015 that requires management to define part of the project funded by the NG-CDF to its completion.

3.0 Delayed Completion and Equipping of Laboratory at Chagaiya Secondary

The National Government Constituencies Development Fund Committee (NGCDFC) allocated and disbursed Kshs.300,000 for completion and equipping of the laboratory, including installation of lab fittings, pipes, plastering, shelves, apparatus and painting work. Physical verification of the project revealed that completion works had not started.

Under the circumstances, the objective of the project has not been achieved and no value for money has been obtained.

4.0 Project not Started at Chagaiya Secondary School

The National Government Constituencies Development Fund Committee (NGCDFC) allocated and disbursed Kshs.200,000 for the completion of a 4 door girl's latrine. However, during the physical verification of the project, it was noted that, the works had not started. Under the circumstances, the objective of the project has not been achieved and no value for money has been obtained.

5.0 Purchase of School Bus for Kuiluget Secondary School

As previously reported in 2017/2018, an amount of Kshs.2,250,000 was disbursed to Kuiluget Secondary School towards the purchase of a school bus. As reported in 2016/2017, Kshs.3,000,000 was disbursed to the school for purchase of a school bus bringing the total disbursements to Kshs.5,250,000. The Project Management Committee (PMC) invited quotations for the purchase of a 33 seater luxury body bus and the evaluation done on 26 May 2016. According to the evaluation minutes, four (4) bidders submitted quotations after which the tender was awarded to the second highest bidder to supply the school bus at cost of Kshs.5,020,000 excluding insurance. Subsequently, three (3) instalments of Kshs.995,000 each, all totalling to Kshs.2,985,000 were made to the firm indicated as deposit for the purchase of a 51 seater bus. Available information revealed that on 23 December 2016, the motor company wrote to the school informing the management that the 51 seater bus Isuzu FRR was ready for branding/registration and need to pay the balance of Kshs.3,251,720 out of the price of Kshs.6,236,720 and insurance for one year amounting to Kshs.264,969.

However, the tender documents including, tender opening minutes, notification and acceptance letters, signed contract agreement, and performance bond guarantee were not availed for audit verification.

Further, the Management did not provide any information including CDFC approval of variation from a 33-seater bus costing Kshs.5,020,000 to a 51 seater costing Kshs.6,236,720, a variation of Kshs.1,216,720 or 24% contrary to Section 139(1) (4)(b) of the Public Procurement and Asset Disposal Act, 2015.

Though the management has provided a copy of the log book to confirm ownership of the bus by the school, the log book indicates that the bus is a 33-seater instead of a 51-seater bus. However, the management has not explained this discrepancy.

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

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 overall governance were not effective.

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 going concern 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 Fund's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

National Government Constituencies Development Fund - Kesses 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 Fund's 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 Fund 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 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

01 October, 2021

Appendix I: Unutilized Funds

No	Project name	Activity	Amount (Kshs.)
	Primary Schools		
1	Asururiet Primary School	Renovation of four classrooms	400,000
2	Sugunanga Primary School	Construction of one classroom and four door toilet	1,000,000
3	Sosiani Primary School	Renovation of 6 classrooms; floor repair, plaster, ceiling, windows & doors repair, painting.	2,500,000
4	Oasis Primary School	Construction of modern toilets for pupils with septic tank.	1,680,000
5	Oasis primary School	Electrical wiring of 7 classrooms	294,000
6	Nabkoi Boys Boarding Primary School	Completion of dormitory: Walling, roofing, plaster, floor, doors and windows.	1,000,000
7	Koiluget Primary School	Completion of dormitory; plaster, ceiling, plumbing, electrical works, floor, doors, windows, painting	1,000,000
8	Asururiet Primary School	Construction of one classroom to completion.	800,000
9	Murgor Primary School	Construction of one classroom to completion.	800,000
10	AIC Rev. Mesis Primary School	Construction of one classroom to completion.	800,000
11	AIC Ruman Chebaiywo Primary School	Construction of one classroom to completion.	800,000
12	Kondoo Farm Nine Primary School	Construction of one classroom to completion.	800,000
13	Boror Primary School	Construction of dormitory: foundation, walling, roofing	800,000
14	Tumoge Primary School	Completion of administration block: plastering, windows, doors, floor, ceiling, electrical works painting.	800,000
15	Moi chuiyat Primary School	Completion of administration block: plastering, windows, doors, floor, ceiling, electrical works painting.	1,100,000
16	Chesunet Primary School	Completion of administration block: plastering, floor, ceiling, electrical works painting.	600,000
17	Lingwai Primary School	Completion of 1 classroom; plaster, floor, windows, door, painting	200,000
18	Chuchuniat Primary School	Construction of one classroom to completion.	800,000
19	Kerita Tulwet Primary School	Construction of one classroom to completion.	800,000
20	Rehema Primary School	Construction of one classroom to completion.	800,000
21	Saroiyot Primary School	Construction of one classroom to completion.	800,000

No	Project name	Activity	Amount (Kshs.)
Primary Schools			
22	Kerita Primary School	Renovation of 5 classrooms; floor repair, plaster, ceiling, windows & doors repair, painting.	500,000
23	Kerita Kosyin Primary School	Completion of dormitory; roofing, plaster, ceiling, plumbing, electrical works, floor, doors, windows, painting	1,500,000
24	Chemenei Primary School	Renovation of 5 classrooms; floor repair, plaster, ceiling, windows & doors repair, painting.	500,000
25	Tarakwa Primary School	Completion of dormitory; floor, plaster, wiring, painting	450,000
Sub-Total			21,524,000
Secondary Schools			
	Project Name	Activity	Amount
26	Koitebes Secondary School	construction of six door toilet	600,000
27	Racecourse Secondary School	Construction of storey administration block	7,010,344
28	Barekeiwo Secondary School	Completion of administration block; roofing, plaster, windows, doors, ceiling, electrical works	1,450,000
29	Bishop Muge Secondary School	Completion of administration block	2,600,000
30	Tarakwa Secondary School	Completion of dormitory;	2,200,000
31	Matharu Secondary School	Construction of 1 classroom to completion.	800,000
32	Chagaiya Secondary School	Completion of laboratory	1,000,000
33	St. Mark Teldet Secondary School	Completion of twin laboratory; plaster, plumbing, ceiling, electrical works, painting	1,000,000
34	Lingway Secondary School	Completion of laboratory;	1,386,659
35	AIC Tulwet Secondary School	Completion of laboratory	1,000,000
36	Bindura Secondary School	Completion of laboratory; plaster, ceiling, plumbing works, gas piping, painting	1,000,000
37	Chepkoiyo Secondary School	Completion of administration block	1,000,000
38	AIC Kaptumo Secondary School	Completion of laboratory;	1,000,000
39	Kerita Day Secondary School	Completion of library	1,000,000
40	Saroiyot Secondary School	Construction of laboratory; foundation and walling to lintel level	1,000,000
41	AIC Isaac Kosgei Secondary School	Construction of dormitory and ablution block	1,000,000

No	Project name	Activity	Amount (Kshs.)
	Primary Schools		
42	R.C.E.A Seiyo Secondary School	Construction of storey administration.	3,012,659
43	Rehema Secondary School	Construction of laboratory; walling, roofing, plaster, doors, windows	1,086,659
	Sub-Total		29,146,321
	Others		
44	Office Construction		9,124,190
45	Constituency Innovation Hubs		4,677,027
46	Office Furniture		1,350,000
47	Constituency Motorcycle		350,000
	Sub-Total		<u>15,501,217</u>
	Total		66,171,538