

# REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - KESSES 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 National Government Constituencies Development Fund - Kesses Constituency set out on pages 15 to 51, which comprise the statement of assets and liabilities as at 30 June, 2020, 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, 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 the National Government Constituencies Development Fund - Kesses 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.

### Basis for Qualified Opinion

#### 1. Unreconciled Variance between Financial Statements and Supporting Schedule

The statement of receipts and payments reflect acquisition of assets of Kshs.5,679,221 which includes an amount of Kshs.5,388,964 in respect to construction of buildings. However, the supporting schedule indicated a total Kshs.5,562,719 resulting to an unexplained variance of 173,755.

In the circumstances, the accuracy of the acquisition of assets of Kshs.5,679,221 reflected in the financial statements as at 30 June, 2020 could not be confirmed.

#### 2. Misstatement of Opening Balance

The summary of fixed asset register disclosed in Annex 4 to the financial statements reflects total assets opening balance of Kshs.10,888,098 comprising of transport equipment, motor vehicles and motorcycle and ICT equipment figure of Kshs.10,269,600 and office furniture and fittings figure of Kshs.618,498. However, audited financial statements for the year ended 30 June, 2019 reflected office furniture and fittings figure of Kshs.491,085 resulting to unexplained/unreconciled variance of Kshs.127,413.

In the circumstances, the accuracy of the financial statements as at 30 June, 2020 could not be confirmed.

### **3. Retentions Money not Reported in the Financial Statements**

The statement of assets and liabilities reflects nil balance in respect of accounts payables-deposits and retentions as at 30 June, 2020 as disclosed in Note 12A to the financial statements. However, audit review of payment vouchers, cash book and bank statements revealed outstanding deposits and retention in respect of 10% retention fee deducted from a contractor amounting to Kshs.556,272 as at 30 June, 2020 which is not included in the statement of assets and liabilities.

Consequently, the accuracy and completeness of account payables-deposits and retentions figure of nil balance as at 30 June, 2020 could not be confirmed.

### **4. Unsupported Project Management Committee Bank Balances**

Annex 5 to the financial statements reflects project management committee (PMC) bank balances amounting to Kshs.57,973,123 as at 30 June, 2020 held in forty-one (41) bank accounts in various commercial banks. However, cash books, bank reconciliation statements, and bank statements for the forty-one (41) bank accounts were not availed for audit review. Further, during the year, a total of Kshs.123,755,977 was disbursed to one hundred and eighty-seven (187) projects an indication of non-disclosure of 146 project management bank balances as at 30 June, 2020.

Consequently, the accuracy, completeness and existence of the project management committee bank balances of Kshs.57,973,123 as at 30 June, 2020 could not be confirmed.

### **5. Unconfirmed Transfers to Institutions**

The statement of receipts and payments for the year ended 30 June, 2020 reflects transfers to other government units of Kshs.66,102,321 relating to funds disbursed to various Project Management Committees and Other grants and Transfers of Kshs.49,782,679 which includes bursary to secondary schools and bursary to tertiary institutions totalling to Kshs.35,740,199. However, actual expenditure returns and acknowledgement letters from institutions that received the funds were not availed for audit verification.

In the circumstances, it was not possible to confirm whether the funds were received and utilized as budgeted in the year under review.

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

## **Other Matter**

### **1. Budgetary Control and Performance**

The summary statement of appropriation - recurrent and development combined for the year under review reflects total budgeted receipts of Kshs.217,538,756 and actual receipts of Kshs.148,171,032 resulting to underfunding of Kshs.69,367,725 or 32% of the budget. Similarly, the statement reflects final expenditure budget and actual totalling to Kshs.217,538,828 and Kshs.129,392,828 respectively, resulting to an under expenditure amounting to Kshs.88,145,928 or 40% of the budget.

The underfunding and under expenditure may have affected delivery of services to the residents of the constituency.

### **2. Unresolved Prior Year Matters**

In audit report for 2018/2019 financial year, several issues were raised under Report on the Financial statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not provided for audit verification the evidence on how the issues were resolved.

## **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 Bursary to Secondary Schools and Tertiary Institutions**

The statement of receipts and payments for the year ended 30 June, 2020 reflects other grants and transfers figure of Kshs.49,782,679 which includes bursary to secondary schools of Kshs.19,010,199 and bursary to tertiary institutions of Kshs.16,730,000 all totalling to Kshs.35,740,199. However, there was no evidence to indicate that vetting, identification and categorizing of needy students was done by the bursary subcommittee. This was contrary to CDF Board guidelines issued vide circular reference VOL1/111 dated 13 September, 2010 which requires formation of a subcommittee of Constituency Development Fund to manage the bursary scheme and that subcommittee should include

two co-opted members one who must be an education officer or an officer seconded from Ministry of Education. Further, the Ward Education Fund Appraisal Committees did not inquire from the learning institutions if the bursary applicants had received funding from other sources.

Consequently, the bursaries may have been awarded contrary the CDF Board circular reference VOL1/111 dated 13 September, 2010 and to undeserving students.

## **2.0 Emergency Payments**

The statement of receipts and payments for the year ended 30 June, 2020 reflects other grants and transfers amounting to Kshs.49,782,679 which includes of payments for emergency projects amounting to Kshs.5,850,000 as disclosed in Note 7 to the financial statements. The payments were made to twelve (12) projects which included security projects, secondary and primary schools. However, there was no evidence to indicate that the Constituency Committee reported the emergencies to the Constituencies Development Board within thirty days as required by Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016.

Consequently, the Fund Management is in breach of regulations.

## **3.0 Construction of Kesses Constituency Office**

The statement of receipts and payments for the year ended 30 June, 2020 reflects acquisition of assets amount of Kshs.5,679,221 which includes construction of buildings amounting to Kshs.5,388,964 as disclosed in Note 8 to the financial statements. During the year, the Fund paid Kshs.5,388,964 to a contractor in respect of construction of NG-CDF Kesses office. However, the contract signed on 23 May, 2019 did not include a clause indicating the expected start date and the contract duration. Also, the tender documents, the inspection and acceptance committee report, supporting documents for project management fees amounting to Kshs.200,000 and ownership document for the land on which constituency Office was being established were not provided for audit.

Further, physical verification of the project carried out in the month of March, 2021 revealed electrical installation from the main grid had not been done.

## **4.0 Abandoned Motor Vehicle**

As reported in the previous year, a Land Rover Puma was purchased on 12 May, 2014 from CMC Motors Ltd at cost Kshs.4,800,000 and included in summary of fixed assets register figure of Kshs.10,760,068 disclosed in annex 4 to the financial statement. Available information indicates that the vehicle developed mechanical problems. The Ministry of Transport carried out an inspection on 13 July, 2016 and the report shows that the vehicle required an engine overhaul at an estimated cost of Kshs.600,000. The CDF management floated quotations and a firm was awarded the contract at a total cost of Ksh.557,727 to repair the vehicle. After the repairs, the vehicle was released for testing and it again developed a mechanical problem and was again taken back to the same garage on 13 July, 2016. However, the management of the garage demanded payment of Kshs.557,727 for the initial repairs before any further work could be done. On

6 May, 2019, Complaints Resolution Committee vide minute No.Kesses NG CDFC/02/6 May, 2019 indicates that mechanical inspection report estimated the cost of repairing the vehicle at Kshs.3,191,730 which was uneconomical and they resolved not to pay the garage because of lack of LSO and inspection report from mechanical department. The motor vehicle logbook was also not availed, and the existence of vehicle was not physically verified.

## **5.0 Projects**

### **5.1 Project Implementation Status**

The project status report for the year ended 30 June, 2020 availed for audit review indicates that the Fund had an approved budget of Kshs.194,797,892 to finance hundred and eighty seven (187) projects out of which Kshs.123,755,977 was disbursed to seventy eight (78) with a total budget of Kshs.132,297,892. However, included in the disbursement of Kshs.123,755,977 project is Kshs.17,225,100 disbursed to six (6) projects which had total budget of Kshs.16,233,250 thus resulting to over funding of Kshs.991,850 contrary to section 196(1) of Public Finance Management Act, 2012.

In addition, hundred and nine (109) projects with total budget of 62,500,000 were not funded during the year ended 30 June, 2020.

Non-utilization of budgeted funds indicates that planned programs or activities were not implemented thus not achieving the intended objective of improving service delivery to the people of Kesses Constituency.

### **5.2 Project Verification**

During the year under review, fourteen (14) projects with total disbursements of Kshs.37,137,321 were verified during the audit in April 2021. Seven (7) projects with funding of Kshs.17,314,257 were found to be complete, seven (7) project with funding of Kshs.19,823,064 were incomplete as indicated in **Appendix I**.

Consequently, it has not been possible to confirm if and when value for money will be realized from the incomplete and unsatisfactorily implemented projects.

## **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 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 applicable basis of accounting unless Management is aware of the intention to abolish 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 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 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 applicable basis of accounting and, based on the audit evidence obtained 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 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**

**09 February, 2022**



## Appendix I

### Project verification Status

No	Project Name	Project Activity	Amount Disbursed (Kshs.)	Delivery status	Project verification Status
1	NG-CDF Office Constituency motorcycle	Purchase of motorcycle to be used by clerk of works to assist in supervision of projects	290,257	100%	Motor cycle delivered and in use
2	Sosiani Primary School	Renovation of 6classrooms; floor repair, plaster, ceiling, windows and doors repair, painting.	2,500,000	100%	Project completed and in use
3	Oasis Primary School	Construction of modern toilets for pupils with septic tank.	1,680,000	100%	Project completed and in use
4	Oasis Primary School	Electrical wiring of 7classrooms	294,000	100%	Electrical wiring is installed
5	Tumoge Secondary School	Purchase of 1 acre land	550,000	100%	Land purchased and fenced
6	Kesses REA Matching Fund Program	REA matching fund program for installation of three 50 KV transformers with a radius of 600 metres in Chepsiria and Ketiplong areas	5,000,000	100%	Three transformers were delivered and installed and in use.
7	Hill School Secondary	Purchase of 51seater school bus	7,000,000	100%	Delivered and in use
		<b>Sub-total</b>	<b>17,314,257</b>		
8	NG-CDF Kesses Office	Construction of 7 door flush bio toilet at Kshs.700,000, Construction of car shade at Kshs.500,000 and fencing of NG-CDF Office one and half acre using concrete poles, barbed wire and wire mesh at Kshs.600,841 and Construction of CDF Office foundation, wall, roofing, windows, doors Kshs.4,000,000	5,562,719	90%	on-going project
9	Moi Chuiyat Primary School	Completion of administration block: plastering, windows, doors, floor, ceiling, electrical works painting.	1,100,000	60%	Project not complete: superstructure and roofing are done and fixing of doors & windows ,plastering are done but flooring, painting, ceiling are not done
10	Racecourse Secondary School	Construction of storey administration block; walling, plaster, floor, windows, doors, electrical and plumbing works	7,000,000	70%	Project not complete: superstructure and roofing are done and fixing of doors & windows are done but flooring, plastering, electrical & plumbing works are not done

No	Project Name	Project Activity	Amount Disbursed (Kshs.)	Delivery status	Project verification Status
11	Racecourse Secondary School	Construction of storey administration block; foundation and concrete slab	1,010,345	70%	Project not complete: superstructure and roofing are done but fixing of doors & windows are not done and plastering, ceiling & electrical works are not done
12	Barekeiwo Secondary School	Completion of administration block; roofing, plaster, windows, doors, ceiling, electrical works	1,450,000	50%	Project not complete: superstructure and roofing are done but fixing of doors & windows are done but flooring, plastering, electrical & plumbing works are not done
13	Tarakwa Secondary School	Completion of dormitory; roofing, plaster, ceiling, windows, doors, electrical works.	2,200,000	70%	Project not complete: superstructure and roofing are done and fixing of doors & windows are done but ceiling & electrical works are not done
14	Kerita Kosyin Primary School	Completion of dormitory; roofing, plaster, ceiling, plumbing, electrical works, floor, doors, windows, painting	1,500,000	90%	Project not complete: superstructure and roofing are done and fixing of doors & windows, flooring are done but ceiling & plumbing works are not done
		<b>Sub-total</b>	<b>19,823,064</b>		
		<b>Grand-total</b>	<b>37,137,321</b>		