

# **REPORT OF THE AUDITOR-GENERAL ON CONSTITUENCIES DEVELOPMENT FUND - MOIBEN 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 - Moiben Constituency set out on pages 13 to 45, 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 - Moiben 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. Errors and Inaccurate Presentation and Disclosure of Financial Statements**

A review of the financial statements submitted for audit reflects the following inaccuracies:-

- i) The statement of receipts and payments reflects prior year expenditure amount of Kshs.2,225,573 on compensation of employees whereas Note 4 to the financial statements reflects an amount of Kshs.2,539,612 resulting to unexplained variance amounting to Kshs.314,039, Further the Note has a casting error totalling to Kshs.314,039,
- ii) The statement of assets and liabilities reflects prior adjustments balance of Kshs.181,784 which is not supported or explained,
- iii) The statement of assets and liabilities reflects deposits(gratuity) balance of Kshs.644,829 which varies with the computed figure and Note 12B to the financial statements amounting to Kshs.675,660 resulting to un explained/reconciled variance amounting to Kshs.30,831, Further, the prior year balance is Nil whereas

Note 12B reflects a balance of Kshs.314,039. Further, the prior year balance has a casting error amounting to Kshs.30,817,

- iv) The statement of assets and liabilities reflects Net financial assets balance of Kshs.19,782,788 which differs with the net financial position amount of Kshs.21,283,945 resulting to unexplained variance amounting to Kshs.1,501,157,
- v) Note 17.3 to the financial statements reflects a balance of Kshs.76,920,286 in respect to prior year unutilized funds. However, Annex 3 reflects a balance of Kshs.77,583,826.68 in respect to the same item resulting to unexplained variance amounting to Kshs.663,540.68,
- vi) The summary statement of appropriation - recurrent and development combined reflects transfers from NGCDF Board amounting to Kshs.145,648,741. However the amount has a casting error totalling to Kshs.15,000.
- vii) Summary statement of appropriation - Recurrent and development combined reflects adjustments on transfers from CDF Board amount of Kshs.77,648,741 which varies with the amount of Kshs.77,583,827 reflected in Annex 3 to the financial statements resulting to a variance of Kshs.64,914 which has not been explained or reconciled,
- viii) The summary of appropriation - Recurrent and Development combined reflects total receipts final budget amount of Kshs.215,016,465 which varies with the final total expenditure budget balance of Kshs.214,960,459 resulting to unbalanced budget amounting to Kshs.56,006.
- ix) The summary of fixed assets register reflects total balance brought forward balance of Kshs.10,882,960 which vary with the computed balance of Kshs.18,227,981 resulting to a variance amounting to Kshs.7,345,021 which has not been explained or reconciled.
- x) Significant accounting policies states that the financial statements are prepared in Kenya shillings and all values are rounded to the nearest Kenya shillings. However, figures in the budget execution by programmes and sub programmes, unutilized funds at Annex 3 and PMC bank balances at Annex 5 to the financial statements have not been rounded to the nearest Kenya shilling.
- xi) There is no evidence on how Progress on follow up of auditor recommendations were resolved.

Under the circumstances, accuracy, completeness, presentation and disclosure of the financial statements could not be confirmed.

## **2. Unsupported Expenditure Under Security Projects**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grants and other payments amount of Kshs.35,550,000 which includes security projects expenditure amounting to Kshs.2,000,000. Included is an amount of Kshs.1,400,000 expenditure for purchase of furniture for Tembelio and Moiben chiefs offices. However, the furniture had not been purchased at the date of audit on 24 February, 2021. Further, the expenditure includes an amount of Kshs.300,000 for the construction 6 door pit latrine at Cheplaskei Assistant Chief's office which had not been constructed. The project returns and PMC bank statements for these projects were also not availed for audit.

Consequently, the validity and value for money for security project amounting to Kshs.1,400,000 could not be confirmed.

## **3. Unconfirmed Project Management Committee Bank Balances**

Annex 5 to the financial statements reflects Project Management Committee (PMC) bank balances totaling to Kshs.125,697,161 as at 30 June, 2020. However, cash books, closing bank balance, confirmation certificates and bank reconciliation statements were not provided for audit.

Consequently, the accuracy, completeness and existence of the Project Management Committee bank balance of Kshs.125,697,161 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 - Moiben 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**

### **Budgetary Control and Performance**

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.215,016,465 and Kshs.145,648,741, respectively resulting to an under-funding of Kshs.69,367,725 or 32% of the budget. Similarly, the Fund expended Kshs.126,062,700 against an approved

budget of Kshs.214,960,459 resulting to an under-expenditure of Kshs.88,897,759 or 41% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

## 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. Projects

##### 1.1 Non Implementation of Projects

A review of the project implementation status report for the National Government Constituencies Development Fund - Moiben Constituency reflects that an amount of Kshs.88,727,027 was budgeted towards implementation of eighty-one (81) projects during the financial year 2019/2020 out of which an amount of Kshs.19,727,027 was disbursed to thirty-one (31) Projects which are now complete but completion certificates were not provided for verification. Further, a balance of Kshs.64,800,000 was disbursed to forty (40) projects which are still ongoing at various levels of completion of between 5% and 95% while a balance of Kshs.4,200,000 were disbursed to ten (10) projects which had not started.

Delay in implementation and completion of planned projects is an indication that the residents of Moiben Constituency failed to receive the benefits accruing from the planned programs and activities for the year ended 30 June, 2020.

##### 1.2 Project Verification

During the audit, twenty-one (21) projects with a total disbursement amounting to Kshs.26,027,027 were inspected in the month of February, 2021; the following issues were noted;

- i. No handing over was done for completed projects,
- ii. Contractor not on site on some of the projects,
- iii. Pit latrine complete but the doors are not properly opening and closing, floor and wall has cracks, handing over not yet done,

- iv. No tank in place,
- v. Project has not started,
- vi. Toilets almost complete, poor quality doors,
- vii. Furniture not purchased.

Consequently, the citizens of Moiben Constituency may not have received the intended services from the incomplete projects.

## **2. Unsupported and Incomplete Projects**

As disclosed in Note 6, Note 7 and Note 8 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.80,127,027, Kshs.35,550,000 and Kshs.1,952,759 on transfers to other government entities, other grants and transfers and acquisition of assets respectively which relates to funds disbursed to various Projects Management Committees. The following issues were noted:

- i. Expenditure returns and acknowledgement letters from institutions that received the funds amounting to Kshs.80,127,027 were not provided for audit. This is contrary to Section 15(1)(d) of the National Constituency Development Fund Regulations, 2016.
- ii. As disclosed under Note 6 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.80,127,027 on transfers to other government entities which includes transfers to secondary schools amounting to Kshs.30,777,027. Included is a balance of Kshs.3,000,000 transferred to St Anne Joachim Secondary School for the construction of an administration block. However, procurement records were not provided for audit, the project has stalled and is subject to court proceedings between the school and the contractor. Available information indicate that bank accounts of the contractor have been frozen by Kenya Revenue Authority.
- iii. As disclosed under Note 6 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.80,127,027 on transfers to other government entities which includes transfers to secondary schools balance of Kshs.30,777,027. Included is an amount of Kshs.1,200,000 transferred to Eldoret GK Magereza Secondary School vide cheque number 2216 on 15 May, 2020 for completion of classroom and purchase of lockers. However, field visit to the school revealed that although the construction works were ongoing the Management had raised concern about poor workmanship and inconsistencies with the bills of quantities. However, the contractor had not made any adjustments. Further the management explained that the tender evaluation committee was not appointed by school project management committee and included some of the constituency staff members. In addition, supporting documents including joint measurement reports, interim certificates and contract agreement were not availed for verification.
- iv. As disclosed under Note 7 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.35,550,000 on other grants and transfers which includes bursary- secondary Schools and bursary-Tertiary institutions amount of Kshs.11,020,000 and Kshs.15,930,000, respectively totaling to Kshs.26,950,000.

However, the beneficiaries were identified from the ward level committees headed by village elder instead of being vetted by the constituency committee as per the requirement of CDF Board circular reference VOL1/111 dated 13 September, 2010. Further, there is no established criteria of identifying the beneficiaries,

- v. As disclosed under Note 8 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.1,952,759 on construction of building which was for payment of certificate number 5 and 6 amounting to Kshs.411,629 and Kshs.806,628, respectively for the construction of the constituency office. However, joint measurement and items of bills of quantities paid were not provided for verification. Further, it was noted that the building is complete and was handed over on 02 February, 2021 but is yet to be occupied by Moiben Constituency which is still paying rent to Kerio Valley Development Authority despite the office being complete.

Under the circumstances, the validity and value for money for expenditure amounting to Kshs.80,127,027, Kshs.35,550,000 and Kshs.1,952,759 on transfers to other government entities, other grants and transfers and acquisition of assets respectively could not be confirmed.

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 Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **Risk Management Policy**

During the year ended 30 June, 2020, the management of National Government Constituencies Development Fund - Moiben Constituency did not have in place a risk management policy, risk management strategies and a system of risk management to enable them develop appropriate risk strategies in order to improve on effective and efficient management of public resources.

Under the circumstances, Management is not likely to respond appropriately to emerging risks that may result in loss of funds.

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.

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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the funds 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 overall 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 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, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Funds 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**

**10 February, 2022**