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REPUBLIC OF KENYA

THE NATIONAL ASSEMBLY

THIRTEENTH PARLIAMENT – FOURTH SESSION

.....

**SEVENTH REPORT OF THE DECENTRALIZED FUNDS ACCOUNTS COMMITTEE
(DFAC)**

ON ITS EXAMINATION OF THE REPORTS OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND (NG-CDF) BOARD FOR THE FINANCIAL YEARS 2016/2017, 2017/2018, 2018/2019, 2019/2020, 2020/2021 AND 2021/2022

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**Directorate of Audit, Appropriations
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The National Assembly
Parliament of Kenya
NAIROBI**

DECEMBER, 2025

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ABBREVIATIONS AND ACRONYMS

BOQ	Bill of Quantities
CDF	Constituencies Development Fund
CoK	Constitution of Kenya, 2010
FAM	Fund Account Manager
FY	Financial Year
GDP	Gross Domestic Product
GOK	Government of Kenya
IPSAS	International Public Sector Accounting Standards
KeRRA	Kenya Rural Roads Authority
LSO	Local Service Orders
MDA	Ministries, Departments and Agencies
MP	Member of Parliament
NG-CDF	National Government Constituencies Development Fund
PMC	Project Management Committee
PSASB	Public Sector Accounting Standards Board
OAG	Office of the Auditor General
KRA	Kenya Revenue Authority
KDIC	Kenya Deposit Insurance Corporation
SPMC	Stimulus Project Management Committee
CPTC	Constituency Project Tender Committee
ESP	Economic Stimulus Programme
CBK	Central Bank of Kenya
BFIU	Bank Fraud Investigating Unit
MIS	Management Information System

CHAIRPERSON'S FOREWORD

The Decentralized Funds Accounts Committee (hereinafter referred to as "the Committee") is amongst the six Watchdog Committees in the Thirteenth Parliament that examines reports of the Auditor-General laid before the National Assembly to ensure probity, efficiency, and effectiveness in the use of public funds. The Committee is established pursuant to the National Assembly Standing Orders 205B and is mandated to examine reports of the Auditor-General for the National Government Constituencies Development Fund, the National Government Constituencies Development Fund Board, The National Government Affirmative Action Fund, and the National Government Affirmative Action Fund Board. This ensures implementation of Article 229(8) of the Constitution of Kenya, 2010 on reports laid before the House by the Auditor-General. The Committee was hived off the Special Funds Accounts Committee for efficiency of examination of the audited Accounts of the National Government.

Oversight over national revenue and expenditure is amongst the roles of the National Assembly as stipulated under Article 95 (4) (c) of the Constitution of Kenya, 2010. Further, Article 226 of the Constitution provides that an Act of Parliament shall provide for the designation of an Accounting Officer in every public entity at the national level who is accountable to the National Assembly for its financial management.

In examining the reports of the Auditor General on the Accounts of the National Government Constituencies Development Fund (NG-CDF) Board, the Committee held **five** sittings where it invited and received oral and written submissions from the Chief Executive Officer of the National Government Constituencies Development Fund Board for the financial years 2016/2017, 2017/2018, 2018/2019, 2019/2020, 2020/2021 to 2021/2022, being the Accounting Officer of the NG-CDF as provided under Section 67 (1) of PFM Act, 2012.

The submissions formed the basis of observations, findings and recommendations of the Committee as outlined in this report. These are also contained in the Minutes and Hansard Reports of Committee proceedings. The report is structured as follows:

- i) general observations arising from recurring and cross-cutting audit queries;
- ii) recommendations to each of the above;
- iii) audit queries identified by the Auditor General in the audit reports of each state corporation;
- iv) management responses to each of the queries;
- v) Committee observations/ findings on each query; and
- vi) recommendations of the Committee to each query raised.

In this report, the Committee makes policy recommendations that it deems will cure financial and audit challenges and at the same time makes specific recommendations aimed at improving the overall governance framework within which the fund operates.

The Committee commends the Chief Executive Officer of the NG-CDF Board for preparing his responses in time and appearing before the Committee as scheduled.

The Committee appreciates the Offices of the Speaker and the Clerk of the National Assembly for the support accorded to it to enable it to perform its mandate. The Committee further extends its appreciation to the Office of the Auditor General and the National Treasury and Economic Planning for the technical support provided during the examination of the reports.

I also extend my appreciation to the Members of the Committee for their Commitment and the Secretariat whose contributions and dedication to duty has enabled the Committee to examine the audited accounts and produce this report.

On behalf of the Decentralized Funds Accounts Committee and pursuant to Standing Orders 199, it is my pleasant duty and honor to present to the House the report of the Committee on the examination of the audited financial statements for the National Government Constituencies Development Fund (NG-CDF) Board for the Financial Years 2016/2017, 2017/2018, 2018/2019, 2019/2020, 2020/2021 and 2021/2022.



HON. DR. (Arch) GIDEON MULYUNGI, CBS, M.P.

CHAIRPERSON, DECENTRALIZED FUNDS ACCOUNTS COMMITTEE

EXECUTIVE SUMMARY

The seventh report of the Decentralized Funds Account Committee contains the Committee's findings on its examination of audited financial statements of the National Government Constituencies Development Fund Board for the financial years 2016/2017, 2017/2018, 2018/2019, 2019/2020, 2020/2021 and 2021/2022.

In its examination and scrutiny of the audited financial statements of the Board, the Committee's primary approach was to receive submissions from the Accounting Officer of the National Government Constituencies Development Fund Board as regards errors of omission or commission that gave rise to the audit queries cited by the Auditor General. This was done guided by the relevant public financial management principles in the Constitution of Kenya, 2010, the Public Audit Act, 2015, the Public Finance Management Act, 2012 and the attendant Regulations, the Public Procurement and Asset Disposal Act, 2015 and the attendant Regulations and the International Public Sector Accounting Standards (IPSAS). The Committee has elaborated on these various provisions and the remedies that are prescribed for their breaches elsewhere in this report.

The preface of the report contains preliminaries on the establishment of the Committee; its membership and secretariat; mandate; and the guiding principles governing the Committee in the discharge of its mandate and its recommendations.

Chapter two of the report contains the general observations on cross-cutting issues and the specific recommendations to each.

Chapter three of this report contains reports of the NG-CDF Board examined for the specific financial years; the specific audit reservations raised by the Auditor General in each financial year; management response to each audit reservation raised; Committee observations/ findings after considering each audit reservation; and finally, Committee recommendations on each audit query.

This report serves as a critical assessment of the financial management practices of the National Government Constituencies Development Fund Board for the specified financial years. Through a comprehensive review of the audited financial statements, the Committee has identified significant errors and areas for improvement, emphasizing the importance of accountability in public financial management.

The recommendations presented in this report not only aim to address the audit queries raised by the Auditor General but also seek to foster transparency, ensure the effective use of public resources, and ultimately improve service delivery to the constituents. The commitment to ongoing evaluation and reform will play a vital role in building trust and ensuring the sustainability of development initiatives across the constituencies.

CHAPTER ONE

1.0 PREFACE

1.1 Establishment and mandate of the Committee

1. The Decentralized Funds Accounts Committee is a Select Committee established pursuant to the National Assembly Standing Orders 205B and is responsible for the examination of the reports of the Auditor-General on the accounts of:
 - i. The National Government Constituencies Development Fund
 - ii. The National Government Constituencies Development Fund Board
 - iii. The National Government Affirmative Action Fund
 - iv. The National Government Affirmative Action Fund Board.

1.1 Guiding Principles

2. The Committee in considering the Audited accounts of National Government Constituency Development Fund is guided by the Constitution of Kenya and the following statutes and regulations in undertaking its mandate: -

1.1.1 Chapter Twelve of the Constitution on Public Finance

Part 1- Principles on Public Finance

3. **Article 201** provides for the fundamental principles that “...shall guide all aspects of public finance in the Republic...” These principles are, inter alia:
 - (i) 201(a) there shall be openness and accountability, including public participation in financial matters.
 - (ii) 201(d) public money shall be used in a prudent and responsible way; and
 - (iii) 201(e) financial management shall be responsible, and fiscal reporting shall be clear.

Part 6 – Control of public Money

4. **Article 226** deals with the accounts and audit of public entities and provides that:
 - (i) the accounting officer of a national public entity is accountable to the National Assembly for its financial management (Article 226(2)); and
 - (ii) the holder of a public office, including a political office, directs or approves the use of public funds contrary to law or instructions, the person is liable for any loss arising from that use and shall make good the loss, whether the person remains the holder of the office or not (Article 226(5); and
5. **Article 227** deals with the procurement of public goods and services. Article 227 (1) in particular, provides that “when a State organ or any other public entity contracts for goods or

services, it shall do so in accordance with a system that is fair, equitable, transparent, competitive, and cost-effective”.

6. **Article 229(8)** of the Constitution of Kenya 2010 mandates the National Assembly to debate and take appropriate action on audit reports within three months of receipt of the reports from the Auditor-General.

1.1.2 Obligations of Accounting Officers

The Public Finance Management Act (CAP. 412A) –

7. **Section 68** sets out the responsibilities of accounting officers for national government entities, Parliament and the Judiciary. This includes accountability to the National Assembly for ensuring that the resources of the respective entity for which he or she is the accounting officer are used a lawful, authorized, effective, efficient, economical and transparent manner (section 68(1)).
8. **Section 72** focuses on the accounting officers’ responsibility to manage the assets and liabilities of national government entities
9. It is on this basis that each Fund Account Manager (FAM) being the Accounting Officer of the NGCDF is held directly and personally liable for any loss of public funds under their watch. This provision obligated Fund Account Managers as accounting officers in the constituencies to appear before the Committee to respond to audit queries raised by the Auditor-General.

1.1.3 National Government Constituencies Development Fund (NG-CDF)

10. The Constituency Development Fund (CDF) was set up in 2003 through the Constituency Development Fund Act (2003) sponsored by the then Ol Kalou Member of Parliament and former Senator for Nyandarua County, Hon. Muriuki Karue, MP.
11. In a bid to align the CDF with the Constitution of Kenya, 2010, Parliament passed the National Government Constituencies Development Fund (NG-CDF) Act, 2015. The NG-CDF is a national fund that comprises of monies of an amount of not less than 2.5% of all the national government's share of revenue as divided by the annual Division of Revenue Act enacted pursuant to Article 218 of the Constitution.
12. Apart from the above-named laws, the Committee was further guided by the following: -
 - (i) the Parliamentary Powers and Privileges Act, (CAP. 6);
 - (ii) the Public Finance Management Act, (CAP. 412A);
 - (iii) the Public Finance Management (National Government) Regulations, 2015;
 - (iv) the Public Procurement and Asset Disposal Act, (CAP. 412C);

- (v) the Public Procurement and Asset Disposal Regulations, 2020;
- (vi) the Public Audit Act, (CAP. 412B);
- (vii) the Fair Administrative Action Act, (CAP. 7L);
- (viii) the National Government Constituencies Development Fund (NG-CDF) Act (CAP. 414A)
- (ix) the National Government Constituency Development Regulations, 2016;
- (x) the Accountants Act, (CAP. 531);
- (xi) the Public Finance Management (National Government Affirmative Action Fund) Regulations, 2016; and
- (xii) the National Assembly Standing Orders

1.2 Committee Membership

13. The Committee comprises of the following fifteen (15) members: -

Chairperson

Hon. Dr. (Arch) Gideon Mutemi Mulyungi, CBS, EBS, M.P.
Member for Mwingi Central Constituency

Wiper Patriotic Front

Vice-Chairperson

Hon. Gertrude Mwanyanje Mbeyu, M.P.
Member for Kilifi Constituency

Orange Democratic Movement

Hon. Kilel Richard Cheruiyot, M.P.
Member for Bomet Central Constituency
United Democratic Alliance

Hon. Mboni David Mwalika, M.P.
Member for Kitui Rural Constituency
Wiper Patriotic Front

Hon. Kahangara Joseph Mburu, M.P.
Member for Lari Constituency
United Democratic Alliance

Hon. Momanyi Innocent Obiri, M.P.
Member for Bobasi Constituency
Wiper Patriotic Front

Hon. Caroline Jeptoo Ng'elechei, M.P.
Member for Elgeyo Marakwet Constituency
Independent Member

Hon. Barre Hussein Abdi, M.P.
Member for Tarbaj Constituency
United Democratic Alliance

Hon. Mogaka Stephen, M.P.
Member for West Mugirango Constituency
Jubilee Party

Hon. Dorothy Muthoni Ikiara, M.P.
Nominated Member
United Democratic Alliance

Hon. Wanyonyi Martin Pepela, M.P.
Member for Webuye East Constituency
Ford Kenya

Hon. James Onyango K'Oyoo, M.P.
Member for Homabay Constituency
Orange Democratic Movement

Hon. Lentoijoni Jackson Lekumontare, M.P.
Member for Samburu East Constituency
KANU

Hon. Guyo Adhe Wario, M.P.
Member for North Horr Constituency
KANU

Hon. Kipngor Reuben Kiborek, M.P.
Member for Mogotio Constituency
United Democratic Alliance

1.3 Committee Secretariat

14. The Secretariat facilitating the Committee comprises the following staff:

Mr. Ahmad Guliye
Clerk Assistant I/Lead Clerk

Mr. John Mutinda
Clerk Assistant III

Ms. Sharon Cherotich Koskei
Clerk Assistant III

Mr. Mabuti Mutua
Legal Counsel II

Ms. Elizabeth Kibati
Research Officer III

Mr. Wilson Mwangi
Fiscal Analyst III

Ms. Winifred Kiziah
Media Relations Officer I

Mr. Wilson Angatangoria
Serjeant-at-Arms II

Mr. Eric Ogolo
Protocol Officer I

Mr. Muchiri Mwangi
Audio Officer III

1.4 Committee Proceedings

15. To produce this report, the Committee held six sittings in which it examined the reports of the Auditor General on the financial statements of the NG-CDF Board for the financial years 2016/2-017 to 2021/2022.
16. The Committee received both oral and written evidence from the Chief Executive Officer, of the NG-CDF Board. The Committee further invited and received oral and written submissions from the Chief Executive Officer of the Kenya Deposit Insurance Corporation on queries touching on NG- CDF protected deposits in custody of KDIC.
17. The Committee's observations and recommendations on the issues raised by the Auditor General for the Board are found under appropriate sections of the report for each of the financial year examined.
18. These findings and recommendations aim to improve the financial management practices of the National Government Constituencies Development Fund Board, strengthen the governance framework governing the NGCDF funds, promote transparency, ensure the responsible use of public resources, and enhance service delivery to constituents.

CHAPTER TWO

2.0 GENERAL OBSERVATIONS AND RECOMMENDATIONS

In consideration of reports of the Auditor General for the National Government Constituency Development Fund (NG-CDF) Board, the Committee encountered cross-cutting and at times recurring matters that make general observations and recommendations. Specific observations and recommendations are made under each report examined:

1. Accuracy of Financial Statements

Committee Observation

19. The Committee observed that the NGCDF Board Management experienced challenges in adapting to International Public Sector Accounting Standards (IPSAS) reporting framework in preparation of financial statements. The Standards were introduced in 2013/14 financial year in the public sector and failure to comply with the standards in subsequent years occasioned qualification of financial statements. Arising from this, the following were noted:
- (i) Inaccuracies in the financial statements.
 - (ii) Wrong categorization of information in the financial statements
 - (iii) Variances in the financial statements

Committee Recommendations

20. The Committee recommends that: -
- i) **The National Treasury and the Office of the Auditor General should conduct annual sensitization and capacity building exercises in consultation with the Public Sector Accounting Standards Board (PSASB) on financial reporting standards to the accounting officer and staff in the finance departments. This includes their responsibilities during the audit cycle and adherence to IPSAS reporting framework.**
 - ii) **The Accounting Officer should ensure there is digitization and automation of the Board's operations before the end of FY 2025/2026, to promote accuracy of data and improvement of the organization's financial management through enhanced management of financial transactions.**

2. Unresolved Prior Year Matters

Committee Observation

21. The Committee observed that prior year audit issues had not been resolved and Management had not provided sufficient reasons as to what led to delays in solving prior year audit issues as required by the Public Sector Accounting Standards Board.

Committee Recommendations

22. **The Committee recommends that the Accounting Officer should adhere to Section 68 (2) (I) of the PFM Act Cap. 412A.**

3. Late submission of supporting documentation

Committee Observation

23. The Committee observed that the management failed to avail complete and reconciled financial and accounting records and other supporting documentation in time for audit review and verification during the audit exercise leading to unnecessary queries. This is contrary to the provisions of section 68(2) of the PFM Act, CAP 412A which requires that the financial and accounting records are presented within three (3) months after the close of the financial year. Section 62 of the Public Audit Act of 2015 also obligates accounting officers to provide the required documents for audit review failure to which they be sanctioned.

Committee Recommendations

24. The Committee recommends that: -
- i) **The Accounting Officer should comply with the provisions of Sections 62 (1) (b) and (c) of the Public Audit Act, Cap. 412B and failure by an accounting officer to provide required information for audit pursuant to the above referenced section should lead to application of the penalties prescribed under Section 62(2) of the Public Audit Act CAP 412B and section.**
 - ii) **The Accounting Officer ensures that the Boards maintains proper records of account pursuant to section 68 (2) (b) and (c) of the PFM Act, Cap.412A.**

4. Delays in project implementation

Committee Observation

25. The Committee observed that the management experienced delays in the implementation of projects e.g. CSR projects due to late disbursement of funds, contract variations, and site abandonment by contractors, logistical issues due to vastness of some constituencies, Covid-19 pandemic and insecurity in some parts of the country.

Committee Recommendations

26. The Committee recommends that: -
- i) **The Accounting Officer should develop a Corporate Social Responsibility (CSR) policy before the end of FY 2026/2027 that will promote better implementation of projects conducted by the Board.**
 - ii) **The National Treasury should ensure timely and adequate disbursement of funds to the National Government Constituencies Development Fund Board for effective implementation of projects.**
 - iii) **The Accounting Officer should adhere to Section 68 (1) of the PFM Act Cap. 412A.**

CHAPTER THREE

3.0 CONSIDERATION OF THE REPORTS THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND (NG-CDF) BOARD FOR FINANCIAL YEARS 2016/2017, 2017/2018, 2018/2019, 2019/2020, 2020/2021 TO 2021/2022

27. The Chief Executive Officer, Mr. Yusuf Mbuno, appeared before the Committee from 11th to 14th August 2023, 13th and 14th February 2024, 2nd March and 19th April 2024 and responded to the audit matters raised in the report of the Auditor General for NG-CDF Board for the Financial Years 2016/2017, 2017/2018, 2018/2019, 2019/2020, 2020/2021 and 2021/2022 as follows:

3.1 Audited Statements for Financial Year 2016/2017

1.0 Cash and cash equivalents

28. The statement of financial position as at 30 June 2017 reflected cash and cash equivalent balance of Kshs. 1,564,762,110. However, the following unsatisfactory issues were observed:
- (i) The bank reconciliation statement as at 30th June 2017 for KCB bank account had long outstanding payments in the bank statements and not reflected in cash book amounting to Kshs. 32,589,080.60. The details of these payments were as indicated below;
 - a) An amount of Kshs. 32,585,558 in respect of monies that were fraudulently withdrawn from the Board's bank account in the Year 2011/2012 and had not been recovered to date.
 - b) A bank reconciliation error dating to year 2007 of Kshs. 3,522.45 that had never been investigated or resolved to date.
 - (ii) The cash and cash equivalent balance of Kshs. 1,564,762,110 also include an amount of Kshs. 332,537,617 held at chase bank limited as an investment. However, Chase Bank Limited was placed under management by Central Bank of Kenya on 7th April 2016 and the realization of this amount is contingent upon the bank reverting back to its normal operations.
29. Consequently, it has not been possible to confirm the accuracy and validity of cash and cash equivalent balance of Kshs. 1,564,762,110 as at 30 June 2017.

Management Response

30. The Committee was informed that the Ksh.32,589,080.60 comprises of the Kshs. 32,551,552 which was fraudulently withdrawn from KCB bank account and Kshs 3,522.45 bank charges not posted to the cashbook. The amount fraudulently withdrawn was reported to the Bank Fraud Investigating Unit (BFIU) of Kenya Police, investigations carried out leading to arrest

- of suspects alien to the Board who were charged in court with stealing in the criminal case number 1183 of 2012. Board staff were called in to testify as witnesses.
31. The bank reconciliation error of Kshs. 3,522.45 were bank charges that was subsequently posted in the cash book.
 32. Chase bank was acquired by the SBM bank in August 2018 and based on the agreement between Central Bank of Kenya, Kenya Deposit Insurance Corporation (KDIC) and SBM Bank Kenya, a transfer of 75% of value of deposit will move to SBM Bank Kenya while 25% of value of deposit will remain with Chase Bank (Receivership) in the custody of KDIC.
 33. Following this agreement, the deposit in Chase bank was transferred as follows:
 - a) KDIC – 82,884,891
 - b) SBM Savings account – 62,163,669
 - c) SBM Current account – 62,163,669
 - d) SBM fixed deposit account – 124,327,338
 34. The National Treasury granted the Board on 2nd February, 2022 the authority to continue operating the current account in SBM Bank into which the balances in savings and fixed deposit accounts were transferred.

Committee deliberations

- (i) **Kshs. 32,551,552 fraudulently withdrawn from the Kenya Commercial Bank (KCB) Account in 2012.**
35. In order to establish the circumstances leading to the loss of funds and make a recommendation, the Committee held a round table meeting with the NG-CDF Board Management, the Kenya Commercial Bank management and the Directorate of Criminal Investigation at a sitting held on Friday 19th April 2024.
36. Mr Yusuf Mbuno, CEO , NG-CDF, accompanied by Mr. James Chebii, Manager Financial Services, Mr. David Nyamu, General Manager, Foreign and Sovereign Services, Kenya Commercial Bank accompanied by Mr. Juma Amimo, Forensics Officer, Mr. Philip Rono , Retail Digital Officer , Mr. Josephat Mutuku , Corporate banking and Ms. Beth Karanja, Legal Officer; and Mr. Paul Wachira ,Deputy Director Investigations Bureau representing the Director of Criminal Investigations accompanied by Mr. Josiah Gichobi, Banking Fraud Investigation Department appeared before the Committee and adduced evidence in respect to the matter.

Submission by the NG-CDF Board

37. The NG-CDF Board CEO submitted as follows:
 - a) The fraud was committed through the electronic payment system (the QuickPay platform) that the Bank had installed at the offices of the CDF Secretariat. The fraud occurred on diverse dates between 27th June 2012 and 30th July 2012 whereby fraudulent payees' files

were processed into the QuickPay electronic system and transmitted to the Bank for processing and disbursement of funds.

- b) The QuickPay system at the CDF was hacked by unknown persons and the transactions executed online with the hackers using the credentials of the duly authorized users of the CDF account to process the payments. Quickpay operations were and are usually done during office hours. The fraudulent transactions happened between 12:00 am – 3:00 am.
- c) The files authorizing payment contained fraudulent payees misrepresented as CDF suppliers. The fraudsters used information available in the system and all the QuickPay files in question therefore appeared to have been prepared at the CDF Secretariat, transmitted to the Bank through a known email address, by a known agent and authorized by two authorizers as per the agreement between the CDF and the Bank on the system. The beneficiaries were not on the list of pre-qualified suppliers for the financial year 2011-2012.
- d) At the time of discovery of the fraud, the CDF Board Secretariat had processed a total of 114 payments through Quick-Pay since November 2009, an average of 4 transaction payments per month. The supplier's list was also maintained by the CDF and the Bank had no reason or basis to doubt any supplier on the payment files for this particular transaction. The documents used to initiate all the fraudulent transactions at CDF and KCB were computer generated from the system.
- e) The case was reported to the Banking Fraud Investigation Unit on 1st August, 2012. Investigations were then commenced where it was established that Kes 39,561,967/- had fraudulently been transferred to different bank accounts in KCB and various other banks from CDF Board Secretariat account No. 1104168863 domiciled at KCB – Kipande House Branch. On different dates between 27th June, 2012 and 30th July, 2012.
- f) Arising from investigations, the Board staff recorded statements with the Banking Fraud Investigations Department (BFID) and were called upon to be witnesses in the criminal court case. Four beneficiaries were then arrested on different dates and charged with Conspiracy to Defraud, Stealing and Handling Stolen Property among other offences. The case went through the hearing; however, the accused persons were acquitted under section 210 of the Criminal Procedure Code.
- g) The bank credited back to the CDF Board account Kshs.5,609,703.35 being funds frozen and recovered from various accounts held at KCB. A further Kshs. 1,401,111.50 bounced back to the CDF account on 1st August, 2012, bringing the total amount recovered to Kshs. 7,010,814.85. The amount of Kshs.32,551,152.20 was not recovered.
- h) The amount currently held at the NG-CDF Board account number 1104168863 at KCB was Kshs.2,284,490.66.
- i) Following engagement of the Board with the Bank under directions of the Committee, the Bank restored the full amount of Ksh. 32,551,552 to the Board's account on 21st March, 2025.

Committee Observations

38. The Committee observed that:

- a) Cyber security was a challenge that all banks face and whereas the quick pay platform is still in use, the Bank has upgraded on cybersecurity. However, the responsibility over the transactions on the platform solely lies on the holder with the platform's credentials since the user credentials are private and the username and password to access the system is strictly confidential. Further, while transfers can be done anytime on the quick pay platform, confirmation calls from the bank to authorize transactions were not done in order to maintain client confidentiality.
- b) The QuickPay system at the NG-CDF was hacked by unknown persons and the transactions executed online with the hackers using the credentials of the duly authorized users of the NG-CDF account to process the payments. The fraudulent payees' files were processed into the QuickPay electronic system and transmitted to the Bank for processing and disbursement of funds.
- c) The Bank wasn't aware that the files contained fraudulent payees misrepresented as NG-CDF suppliers, as all the QuickPay files in question had been prepared fraudulently at the NG- CDF Secretariat and transmitted to the Bank through the hacked email address of the agent and authorizers.
- d) The matter was investigated by the Directorate of Criminal Investigations, the accused were charged and acquitted by the Court under section 210 of the Criminal Procedure Code.
- e) Following interventions from this Committee, the Bank returned the full amount of Ksh. 32,551,552 to the Board's account on 21st March, 2025.
- f) Since the matter was cleared by the court, and full amount recovered, the query is addressed.

Committee Recommendation

39. **The Committee recommends that the Accounting Officer should at all times ensure compliance with section 68(2) on the Public Finance management Act 2012 by ensuring that all financial and accounting records the entity keeps in any form, including in electronic form are adequately protected and backed up.**

(ii) Ksh. 82,884,891 NGCDF protected deposits in the custody of KDIC

40. The Committee made an inquiry to establish the status of the payment of the Kshs. 82,884,891 protected deposits in the custody of the Kenya Deposit Insurance Corporation (KDIC) to the NG-CDF Board.
41. The Committee held sittings with the Kenya Deposit Insurance Corporation management and the NG-CDF Management on 5th March, 19th April, 30th November 2024, 1st April 2025 and 19th September, 2025 where Mrs. Hellen Chepkwony, Chief Executive Officer KDIC accompanied by Mr. David Mungi Director Banking Resolution, Mr. Geoffrey Nyakundi,

Liquidation Agent, and Ms. Eunice Kitihe, Corporation Secretary and; Mr. Yusuf Mbuno, Chief Executive Officer NG-CDF accompanied by Mr. James Chebii Manager Finance Services appeared before the Committee and adduced evidence in respect to the matter.

Submission by the Kenya Deposit Insurance Corporation (KDIC) Management

42. The KDIC CEO submitted that:

- a) The Kenya Deposit Insurance Corporation was appointed on April 7, 2016 to assume the management and control of Chase bank limited pursuant to the provisions of section 43(1), 43(2) and 53(1) of the Kenya Deposit Insurance Act, 2012. The appointment of KDIC was carried out in the interest of the bank depositors, creditors and members of the public.
- b) On August 17, 2018, using the purchase and Assumption Resolution option, SBM bank Kenya Ltd assumed 75% deposits and acquired certain assets of Chase Bank Ltd (in Receivership). This resolution option was in the best interest of the depositors through reduction of potential losses of amount held in the collapsed bank.
- c) Section 33(6) of the KDI Act 2012 requires the Corporation, upon being appointed as Liquidator, to make payment to the depositor of an institution based on the records of the institution and opinion of the Corporation as regards entitlement to the amount claimed. Further, Section 28(1) of the KDI Act 2012 outlines the maximum amount payable by the Corporation to a depositor as protected deposit, that is Kshs.500,000 or such higher amount as the Corporation may from time to time determine.
- d) On placement of Chase Bank Ltd in Liquidation, the NG CDF held deposit balances of Ksh.82,884,891.00. The amount was equivalent to 25% of the total Deposits held by NG-CDF as of 17th August 2018.
- e) The NG-CDF Board lodged their claim for the payment of the protected amount i.e. Ksh.500,000 (five Hundred thousand only) and the amount was paid to the fund on 29th December 2023 leaving a balance of ksh.82,334,891.00 (Eighty-two million, three hundred eighty-four thousand, eight hundred ninety-one only).
- f) Section 29 of the Kenya Deposit Insurance Corporation Act CAP 487C makes provision for repayment of monies to a depositor who is acting as a trustee for another or as a joint owner with another. In this regard, the committee was persuaded that the funds held in the NGCDF account in Chase bank before the bank was put on receivership were held in trust for the 290 constituencies and was therefore owed to them.

Committee Observations

43. The Committee observed that;

- a) The NGCDF Board had submitted a Claim for payment of the moratorium deposit and KDIC remitted Ksh.500,000 to the Boards accounts at SBM bank on 29th December, 2023. Ksh.82,384,891 remained outstanding.

- b) At a joint sitting between the Committee, KDIC and the NGCDF Board held on 1st April 2025, KDIC reported that the Office of the Attorney General had rendered its opinion on the matter that *“it is our considered view that NG- CDF deposits meet the criteria of deposits held in trust as outlined under section 29 of KDI Act. The substantive existence and intent of the trust take precedence over the procedural technicalities such as absence of explicit labelling of the account as trust account.”*
- c) Following the advisory, KDIC commenced internal processes to process balance of Ksh.82,384,891 to the Constituencies in line with Section 33 of the KDI Act.
- d) At a joint sitting between the Committee, KDIC management and NG-CDF Board CEO held on 17th September, 2025, KDIC CEO submitted that approval to appropriate and pay the protected deposits to NG-CDF Board was granted on 4th September, 2025 and payment subsequently made on 10th September, 2025.

Committee Recommendations

44. The Committee recommends that: -

- i) The Cabinet Secretary, the National Treasury should at all times ensure that all public funds are deposited in a reputable bank.**
- ii) Within twelve (12) months upon adoption of this report, the Cabinet Secretary, National Treasury should develop a policy framework on criteria for determining a reputable bank for purposes of deposits of public funds.**

2.0 Trade and other payables

- 45. Trade and other payables of Kshs 124,173,750 as reflected in the statement of financial position excludes a brought forward liability of Kshs 14,917,200 in respect of Stimulus Project Management Committee (SPMCs) and Constituency Project Tender Committee (CPTCs) which were operating under the Economic Stimulus Programme (ESP).
- 46. No documentation was provided in support of the authority to write off the liability. Consequently, the payables balance of Kshs 124,173,750 as at 30 June 2017 was not fairly stated.

Management Response

- 47. The Committee was informed that the ESP program lapsed, and the said committees were disbanded. The constituencies that were owed the ESP allowances did not submit their claims therefore making it difficult to locate the beneficiaries. Such claims were based on submission of expenditure returns which was the criteria for reimbursement without which there was no justification for payment exacerbated by the disbandment of the ESP committees following the lapse of the program. The amount was in the subsequent years approved by the National Treasury through the budgetary process to be utilized by the Board in undertaking its operations.

Committee Observations

48. The Committee observed that: -

- (i) The Stimulus Project Management Committee (SPMCs) and Constituency Project Tender Committee (CPTCs) were operating under the Economic Stimulus Programme (ESP).
- (ii) That the ESP program lapsed, and the said committees were disbanded.
- (iii) The explanation provided by the management was satisfactory and therefore the query is addressed.

3.2 Audited statements for financial year 2017/2018

1.0 Unsupported expenditure

1.1 Unsupported Corporate Social Responsibility

- 49. The statement of financial performance reflects the general expenses balance of Kshs. 584,678,158.00 which as per note 10 of the financial statements includes a figure of Kshs. 217,617,644.00 relating to Corporate Social responsibility.
- 50. Included in the expenditure of corporate social responsibility of Kshs. 217,617,644 is an expenditure amount totaling Kshs. 78,132,400 which had no supporting documentation. Consequently, it was not possible to confirm the propriety for the expenditure of Kshs. 78,132,400 included in the statement of financial performance under general expenses.

Management Response

- 51. The Committee was informed that the amount of Kshs 78,132,400 was an error of double counting arising from adding balance brought forward, additions during the year and balance carried down before deducting payments made during the year leading to erroneous balance carried down. The Board undertook a reconciliation of the Best Practice demonstration projects undertaken from 2015/2016 to 2019/2020 to establish the correct position. During this reconciliation, the errors that had been made in the previous years were adjusted in financial year 2019/2020.

Committee Observations

52. The Committee observed that: -

- (i) This was an issue of documents not being produced during audit period. However, they were later availed for audit review.
- (ii) The errors on unsupported CSR made in the previous years were corrected in the FY 2019/2020.
- (iii) The query was therefore addressed.

1.2 Unsupported Adjustments

53. The management submitted financial statements to the auditor general on 28th September 2018, which was revised, and another set submitted on 26th February 2019. However, the movements in the balances noted in some of the components detailed below were not supported by any documentation or supported adjustments.

Component	1 st Financial statement	Revised financial statements	Variance
General Expenses			
General office supplies	15,597,182	15,583,175	14,007
Medical, cleaning, membership, legal, parking	20,740,722	22,194,537	(1,435,815)
Cash and Cash equivalents			
Co-op Bank	1,502,782,497	1,502,721,471	61,026
Receivables			
Insurance	71,690,057	70,365,859	1,324,198

54. Under the circumstances, the accuracy of the financial statements for the year ended 30 June 2018 could not be confirmed.

Management Response

55. The Board prepared financial statements and submitted them by the 28th of September 2018. The Board in preparation of the schedules for audit realized there were errors in the ledger and the financial statements. The ledger was subsequently adjusted, and journal vouchers provided to the auditor for review:

Component	Amount	Remarks
General Office Supplies	14,007	PV 565 Corrected from 40,297 to 26290
Medical, Cleaning, membership, legal, parking	1,453,815	PV 585 Corrected from 1192700 to 1,573084.8
Co-op Bank	(61,026)	Cashbook Adjustments
Insurances	1,324,198	Cancelled PV AMACO 1002&1003 Totaling 1,324,198

Committee Observation

56. The Committee observed that the ledger was subsequently adjusted, and relevant journal entries availed for audit review and therefore the query is addressed.

1.3 Unsupported Contracted Services

57. The statement of financial performance for the year ended 30 June 2018 reflects contracted services figure of Kshs. 27,699,963. Included in this balance of contracted services figure of Kshs. 27,699,963 is expenditure amounting to Kshs. 341,975 (Note 9) whose contract and other relevant documentation were not availed for audit review. Consequently, the propriety of the expenditure of Kshs. 341,975 on contracted services included in the financial statements could not be confirmed.

Management Response

58. The payment of Kshs. 341,975 was payment to AMC group limited for consultancy services on the certification of ISO 9001:2015 quality management systems. The contract and payment vouchers were availed to the auditors for review.

Committee Observations

59. The Committee observed that: -
- (i) This was an issue of documents not being produced during audit.
 - (ii) Vouchers and contracts were later submitted and verified by the Office of the Auditor General thereby addressing the query.

1.4 Unsupported Board Expenses

60. The statement of financial performance and note 6 to the financial statements reflects the Board expenses figure of Kshs.8,755,505. Included in this balance of Board expenses figure of Kshs.8,755,505 is expenditure amounting to Kshs.649,200 that was not supported with payment vouchers and related documents. Consequently, the propriety of the expenditure of Kshs.649,200 on Board expenses could not be confirmed. Further, included in board expenses of Kshs.8,755,505 is a payment to two board members of Kshs.40,000 which was wrongly paid out as Kshs.160,000, resulting to an overpayment of Kshs.120,000 which has not been recovered. As a result, the accuracy of the board expenditure of Kshs.8,755,505 reported in the financial statements could not be confirmed. In view of the foregoing, it has not been possible to ascertain the accuracy and completeness of the financial statements for the year ended 30 June 2018.

Management Response

61. The Board expense of Kshs. 649,200 was expenditure on Board allowances for various activities through payment voucher numbers 173 of Kshs 300,000, 532 of Kshs 240,000 and 776 of Kshs 109,200.
62. The Kshs. 40,000 was the actual amount of money paid out to the Board Directors as evidenced in the cash book extract provided for audit review. The Board directors undertook a field visit in Turkana. However, by mistake Kshs. 160,000 was erroneously captured in the

ledger as the expenditure. The ledger was subsequently adjusted to reflect the correct position and journal vouchers provided to the auditor for review.

Committee Observations

63. The Committee observed that: -
- (i) This was an issue of documents not being produced during audit.
 - (ii) Vouchers, contracts and relevant journal entries were later submitted and verified by the Office of the Auditor General thereby addressing the query.

2.0 Cash and Cash Equivalentents

64. The statement of financial position as at 30 June 2018 reflects cash and cash equivalent balance of Kshs.1,502,721,471. However, the following unsatisfactory issues were observed:

(i) Cooperative Bank Account

65. Included in the bank reconciliation statement for cooperative bank are payments in the cashbook not in the bank statements totaling to Kshs.90,272,821.04 for which cheques totaling Kshs.55,747,834.60 were later cancelled and reversed back without proper explanation and supporting documentation.

(ii) Kenya Commercial Bank (KCB) Account

66. The figure in the financial statements for KCB bank account is Kshs.5,435,664 which differs with the reconciled cashbook balance as at 30 June 2018 of Kshs.38,052,848 resulting to an unreconciled variance of Kshs.32,617,184.
67. The above variance is in respect of monies fraudulently withdrawn from the Board's KCB bank account in the year 2011/2012 which have not been recovered to date. It is not clear how the amount was cleared from the reconciliation.

(iii) Equity-Gratuity Account

68. The statement of financial position and note 11 to the financial statements reflects cash and cash equivalentents figure of Kshs.1,502,721,471. Included in this cash balance of Kshs.1,502,721,471 is Equity gratuity money balance of Kshs.110,786,072 which had an opening balance of Kshs.79,259,177. During the year under review, a provision of gratuity was made and an amount of Kshs.60,598,759 was sent to the gratuity account at equity bank. However, this block figures for provision of gratuity, the payments made during the year and closing balance have not been analyzed and submitted for audit review.
69. In the circumstances, the accuracy and correctness of the equity-gratuity bank balance of Kshs.110,786,072 as at 30 June 2016 could not be confirmed.

(iv) Dormant Bank accounts

70. The following bank accounts maintained by the CDF Board remained dormant during the year.

Bank name	Balance as at 30 June 2018
KCB(ESP)	32,506,625
ABC (current)	371
Equity	415
SBM - Chase	332,522,667
ECO (Current)	2,938,601
Total	365,033,017

71. No explanation was provided why these bank accounts remained dormant during the year and why action was not taken to close them down to avoid incurring unnecessary running expenses. In consequence, it has not been possible to confirm that the cash-and-cash equivalents balance of Kshs.1,502,721,471 is fairly stated in the financial statements.

Management Response

72. The payments of Kshs. 55,747,834.60 were cheques written to various suppliers undertaking projects in the constituencies. Since this was the first year the Board was undertaking the Best Practice, the cheques were withheld for verification to be done before they were paid out. However, from the inspection visits, it was noted the projects were not complete and hence the holding of the cheques to allow for the completion of the projects. The delay in completion of projects resulted in the cheques becoming stale and to have a correct reflection of the cashbook position the Cheques were reversed.
73. The Kshs. 5,435,664 was the bank statement balance as at 30 June 2018 whereas the cashbook balance was Kshs. 38,052,248. However, the bank statement balance of Kshs. 5,435,664 was erroneously recorded in the financial statements as the KCB bank account balance instead of the cashbook balance of Kshs. 38,052,248. The amount was not cleared from the reconciliation but instead the ledger was amended to capture the correct balances.
74. As earlier reported, the amount fraudulently withdrawn was reported to the Bank Fraud Investigating Unit (BFIU) of Kenya Police, investigations carried out leading to arrest of suspects alien to the Board who were charged in court with stealing in the criminal case number 1183 of 2012. Board staff were called in to testify as witnesses.
75. Kshs. 60,598,759 that was transferred as a block was accrued gratuity for NG CDF employees for the months of July 2017 to January 2018. Gratuity is accrued on a monthly basis payable at the end of the contract of an employee. The Board undertook a reconciliation for outstanding gratuity owed to staff in financial year 2020/2021 where the correct and updated position was posted to the books.

76. During the time of audit, ABC (current), Equity and Ecobank accounts were still operational but has been closed and the balances transferred to the Cooperative Bank operations account. The KCB (ESP) and SBM bank was still operational.

Committee Observations

77. The Committee observed that: -

(i) Cooperative Bank Account

- a) The NG-CDF Board subsequently adjusted the cash book balances. The Office of the Auditor General confirmed verifying these adjustments thereby addressing the query.

(ii) Dormant Bank Accounts

- b) All the accounts were closed, and the balances transferred to the Cooperative Bank operations account except for The KCB (ESP) and SBM bank which are still operational.
 c) The SBM account was still operational because the National Treasury granted the Board on 2nd February, 2022 the authority to continue operating the current account in SBM Bank into which the balances in savings and fixed deposit accounts were transferred.

(iii) Kenya Commercial Bank Account Balances

- d) The Committee observed that following engagement of the Board with the Bank under directions of the Committee, the Bank returned the full amount of Ksh. 32,551,552 to the Board's account on 21st March, 2025 and therefore the query was addressed.

3.0 Amounts wrongly charged to repairs & maintenance of furniture

78. The following amounts were charged wrongly to repair, and maintenance of furniture amounting Kshs. 17,641,603 as tabulated in the table below;

Expenditure Account Charged	Correct account to be Charged	Expenditure Amount Kshs.
Repair and Maintenance of Furniture	Repairs and maintenance of Computers	2,430,000
Repairs and Maintenance of furniture	Repairs and maintenance of Computers	353,220
Repairs and Maintenance of furniture	Repairs and maintenance of Computers	1,055,300
Repairs and Maintenance of furniture	Repairs and maintenance of Computers	1,160,000
Repairs and Maintenance of furniture	Repairs and maintenance of Computers	489,752

Expenditure Account Charged	Correct account to be Charged	Expenditure Amount Kshs.
Repairs and Maintenance of furniture	Repairs and maintenance of Computers	2,430,000
Board expenses	Daily subsistence allowance	307,400
Acting allowance.	Daily subsistence allowance	1,002,400
Temporary employees	Housing allowance	9,723,331
TOTAL		17,641,603

The inconsistency in charging the expenditures to wrong expenditure account class undermines the accuracy of the financial statements and renders budgeting meaningless.

Management Response

79. There was an error during the preparation of the financial statements, where the expenditures were posted to the wrong expenditure items. The ledger was corrected, and journal vouchers availed to the auditor for review.

Committee Observations

80. The Committee observed that: -
- (i) Management confirmed that there was an error during the preparation of the financial statements, where the expenditures were posted to the wrong expenditure items.
 - (ii) The journal vouchers were not produced during audit. However, the ledger was corrected, journal vouchers submitted and verified by the Office of the Auditor General, and therefore the query is addressed.

4.0 Variances between the ledger and financial statements

81. The statement of performance for the year ended 30 June 2018 reflects employee costs figure of Kshs.832,559,413 which, when compared against the Integrated Personal Payroll Data (IPPD) report on the same of Kshs.841,727,361.80 results in unreconciled variance of Kshs.1,845,434 which has not been explained.

Expenditure	Balance for F/S (Kshs.)	Balance for IPPD (Kshs.)	Difference (Kshs.)
Basic Salary	349,594,535	349,240,513	354,022
Total Allowances	357,210,569	375,375,935	(21,165,366)
Temporary Employees	19,237,414	9,514,082	9,723,332
NSSF Employer	875,000	800,370	74,630
Gratuity	105,641,895	103,796,461	1,845,434
TOTAL	832,559,413	841,727,361	(9,156,948)

Further, the payroll for the year under review contains an amount of Kshs.20,061,185 classified as payroll arrears. It is not clear how the arrears were computed, the period to which they related to, payees and type of earnings paid out. In the circumstance, it has not been possible to confirm the expenditure on employee costs of Kshs.832,559,413 included in the statement of receipts and payments for the year ended 30 June 2018.

Management Response

Items	Payroll (IPPD)	F/S	Difference	Remarks
Basic salaries	349,240,513	349,594,535	354,022	Differences due to top up salary for staff on secondment
Total allowances	378,375,935	357,210,569	21,165,366	Kshs. 21,165,366 comprises of the Kshs. 9,723,331 that had been posted under temporary employees, Kshs. 1,002,400 charged under daily subsistence allowance and Kshs 10,439,635 omitted. The omitted amount was corrected, and journal vouchers availed to the auditors for review
Temporary employees	9,514,083	19,237,414	9,723,331	This was corrected by a journal voucher as it was an expense for house allowance
NSSF by employer	800,370	875,000	74,630	The extra amount was due to the temporary employees paid outside the payroll
Gratuity	103,796,461	105,641,895	1,845,434	Kshs. 105,641,895 was the correct gratuity expense as per the schedules provided.

Committee Observation

82. The Committee observed that the reconciliation documents were not produced at the time of audit. The variances were subsequently reconciled/adjusted and verified by the office of the Auditor General, and therefore the query was addressed.

5.0 Property, plant and equipment

83. The statement of financial position and note 13 to the financial statements reflects Property Plant Equipment figure of Kshs.97,283,759 which includes additions during the amounting to Kshs.7,580,899. However, during the year under review, the Board and awarded the contract amounting to Kshs.3,913,086 for partitioning of Board offices at Harambee Co-operative Plaza 6th Floor. The payment of Kshs.3, 913,086 was paid before the end of the financial year but the same was not included in property, plant and equipment additions schedule presented for audit verification. The expense account where the payment was captured could not be identified. Consequently, it has not been possible to confirm that the accuracy of property, plant, and equipment balance of Kshs.97, 283,759 in the financial statements statement for the year ended 30 June 2018.

Management Response

84. The payment of Kshs.3, 913,086 was erroneously omitted in the financial statements. The Board adjusted the ledger and journal vouchers provided to the auditor for review.

Committee Observation

85. The Committee observed that supporting documents were not provided during audit. The management admitted the omission of Kshs. 3,913,086 and adjusted the ledger through a journal entry and therefore the query was addressed.

6.0 Intangible assets

86. Utilization of Development Fund Management Information System. The Board entered into a contract with a consultant for the supply and implementation of an integrated CDF Management Information System (CDFMIS) at a contract sum of Kshs.34,800,000 on 31 August 2010. The major objective of the system was to implement an integrated CDF Management Information System (CDFMIS) across all the departments and at the constituency level. The system has modules which include programs, Finance, legal services, corporate planning strategy, audit, communication, and procurement. The only department that is partially utilizing the system is the programmes department.
87. Further, an amount of Kshs.10,536,800 was spent to train fund managers on use of the projects module of the MIS in Eldoret. The secretariat programmes and finance staff were trained in February 2018 on use of the projects module of the MIS. Details on the cost that was incurred for the training in Naivasha were not availed for audit verification. Despite all the investment in the cost of purchase, maintenance and training, the integrated CDF Management Information System (CDFMIS) largely remains underutilized since 2010 and hence the CDFMIS has not been put in proper use as intended by the Board. No explanation has been provided why the system has not been fully implemented.
88. Further, the application was included in the intangible assets but at historical cost of Kshs.11,332,835 instead of the contract amount as at 30 June 2018. Consequently, the

accuracy and completeness of intangible assets balance of Kshs.5,548,189 as at 30 June 2018 could not be ascertained.

Management Response

89. The NG CDFMIS was initiated as an enterprise reporting system, and it was not until 2016 that it reached utilization stage. Due to issues arising from user experience and the statutory requirement of reviewing the NG CDF Act every two years, the system had to undergo a number of changes that delayed utilization. In financial year 2018/2019, the Board started using the system through a parallel run mechanism where both the manual and automated processes run concurrently in order to compare the accuracy of results. Currently all the project proposals are submitted through the NG CDFMIS and the head office process payment and generate various financial ledgers using the NG CDFMIS.
90. The Board trained the programs and finance staff on the NG CDF MIS at Morendat in Naivasha from the 6th to 10th February 2018 at a cost of Kshs. 234,500 to test the system and check whether it meets the user requirements.
91. The Kshs. 34,800,000 was the total contract sum for the NGCDF MIS, however the Board was to make partial payments to the consultant so as to have an effective step by step review of the system. The Board paid an initial amount of Kshs.21,157,165 which was expensed in 2011/2012 FY. The Kshs. 11,332,835 was paid latter and capitalized since the initial amount of Kshs. 21,157,165 had already been expensed.

Committee Observation

92. The Committee observed that this was an issue of documents not being provided during audit period. However, the ledger for intangible assets 2011-12 to 2021-2022 was later provided and verified by the Office of the Auditor General and therefore the query was addressed.

7.0 General expenses

93. The statement of financial performance reflects an amount of Kshs.585,987,958 in respect of general expenses that includes Kshs.57,778,746 in respect of training expenses. The training expense includes an amount of Kshs.10,536,800 paid during the year under review to train fund managers on use of the projects module of the management information system but the system is still not in use. The basis of selection of the trainer who was different from the system implementation consultant was not availed for audit verification. In addition, the secretariat programme and finance staff were trained in February 2018 on use of the projects module of the system but details of how the trainer was identified and procured and the cost incurred for the training were not availed for audit verification. Consequently, there is no evidence that the Fund has received value for money in the procurement of the integrated CDF Management Information System (CDFMIS) despite

all the investment in the cost of purchase, maintenance, and training. No explanation has been provided why the system has not been fully put into use.

Management Response

94. The Board entered into a contract with Techbiz LTD to develop an integrated management system. Techbiz were to provide the Board with trainers of the system and the initial trainer who was leading the training passed on hence making Techbiz change the trainer. Therefore, it wasn't the Board that procured the new trainer but Techbiz LTD that brought in a new member to assist in the implementation of the system.
95. The Board started using the system in FY 2018/19 through a parallel run mechanism where both the manual and automated processes run concurrently in order to compare the accuracy of results. Currently all the project proposals are submitted through the NG CDFMIS and the head office process payment and generate various financial ledgers using the NG CDFMIS.
96. The Board trained the programs and finance staff on the NG-CDF MIS at Morendat in Naivasha from the 6th to 10th February 2018 at a cost of Kshs. 234,500 to test the system and check whether it meets the user requirements.

Committee Observation

97. The Committee observed that the response given by Management was satisfactory, however value for the Integrated Management System and training may not have been realized.

Committee Recommendation

98. **The Committee recommends that the Accounting Officer should ensure adherence to Regulation 23 (2) (e) of the PFM (National Government) Regulations, 2015.**

8.0 Prior year matters

8.1 Cash and cash equivalents

99. The statement of financial position as at 30 June 2017 reflects cash and cash equivalent balance of Kshs.1,564,762,110. However, the following unsatisfactory issues have been observed: The bank reconciliation statement as at 30 June 2017 for KCB Bank Account has long outstanding payments in the bank statements and not reflected in cash book amounting to Kshs.32,589,080.60. The details of these payments are as indicated below;
 - i. An amount of Kshs.32,585,558 in respect of monies that were fraudulently withdrawn from the Board's bank account in the year 2011/2012 and has not been recovered to date. A bank reconciliation error dating back to the year 2007 of Kshs.3,522.45 that has never been investigated or resolved to date.
 - ii. The cash and cash equivalent balance of Kshs.1,564,762,110 also includes an amount of Kshs.332,537,617 held at Chase Bank Limited as an investment. However, Chase Bank Limited was placed under statutory management by Central Bank of Kenya on 7 April 2016 and the realization of this amount is contingent upon the bank reverting

back to its normal operations. Consequently, it has not been possible to confirm the accuracy and validity of cash and cash equivalent balance of Kshs.1,564,762,110 as at 30 June 2017. Cash and Cash equivalents.

Management Response

100. As earlier reported, the amount fraudulently withdrawn was reported to the Bank Fraud Investigating Unit (BFIU) of Kenya Police, investigations carried out leading to arrest of suspects alien to the Board who were charged in court with stealing in the criminal case number 1183 of 2012. Board staff were called in to testify as witnesses. As earlier reported, the bank reconciliation error of Kshs. 3,522.45 was bank charges that was not captured in the cashbook, this bank charges were posted in the subsequent financial years.
101. Chase Bank was acquired by the SBM bank in August 2018 and based on the agreement between Central Bank of Kenya, Kenya Deposit Insurance Corporation (KDIC) and SBM Bank Kenya, a transfer of 75% of value of deposit will move to SBM Bank Kenya while 25% of value of deposit will remain with Chase Bank (Receivership) in the custody of KDIC.
102. Following this agreement, the deposit in Chase bank was transferred as follows:
- (i) KDIC – 82,884,891
 - (ii) SBM Savings account – 62,163,669
 - (iii) SBM Current account – 62,163,669
 - (iv) SBM fixed deposit account – 124,327,338
103. The National Treasury granted the Board on 2nd February, 2022 the authority to continue operating the current account in SBM Bank into which the balances in savings and fixed deposit accounts were transferred.

Committee Observations

104. The Committee observed that:
- (i) The matter was recurring from the prior year FY 2016/2017.
 - (ii) All the accounts were closed, and the balances transferred to the Cooperative Bank operations account except for The KCB (ESP) and SBM bank which are still operational.
 - (iii) The SBM account was still operational because the National Treasury granted the Board on 2nd February, 2022 the authority to continue operating the current account in SBM Bank into which the balances in savings and fixed deposit accounts were transferred.
 - (iv) KCB returned the full amount of Ksh. Ksh. 32,551,552 to the Board's account on 21st March, 2025 following directions by the Committee and therefore the query was addressed.

8.2 Trade Payables

105. Trade and other payables balance of Kshs.124,173,750 as reflected in the statement of financial position excludes a brought forward liability of Kshs.14,917,200 in respect of Stimulus Project Management Committee (SPMCs) and Constituency Project Tender Committee (CPTCs) which were operating under the Economic Stimulus Programme (ESP). No documentation was provided in support of the authority to write off the liability. Consequently, the payables balance of Kshs.124,173,750 as at 30 June 2017 was not fairly stated.

Management Response

106. As earlier reported, the ESP program lapsed, and the committees were disbanded. The constituencies that were owed the amounts of ESP had not submitted their claims therefore making it difficult to locate the beneficiaries since the claims had not been made. Such claims were based on submission of expenditure returns, which was the criteria for reimbursement without which there was no justification for payment. The amount was in the subsequent years approved by the National Treasury through the budgetary process to be utilized by the Board in undertaking its operations.

Committee Observations

107. The Committee observed that: -

- (i) The matter was recurring from the FY 2016/2017.
- (ii) As earlier reported, the Stimulus Project Management Committee (SPMCs) and Constituency Project Tender Committee (CPTCs) were operating under the Economic Stimulus Programme (ESP) later lapsed, and the committees disbanded.
- (iii) The explanation provided was satisfactory. In addition, the accrued Economic Stimulus Program allowances of Kshs. 14,917,200 was approved for budgeting by the National Treasury and therefore the query was addressed.

Other Matter

1.0 Unaccounted And Unutilized Procurements

1.1 Purchase and Payment For Undelivered Motor Vehicles

108. During the year 2017/2018, approved procurement plan for National Government Constituencies Development Fund Board for the purchase of motor vehicles was Kshs.24,000,000, while the budget for the board shows that the Board will utilize Kshs.40,000,000 to purchase new motor vehicles for the nine regional offices. However, only four motor vehicles were purchased at a total cost of Kshs.37,544,600 resulting to unplanned variance of Kshs.13,544,600 contrary to Section 53(2) of Public Procurement and Asset Disposal, 2015. Further, the payment of Kshs.37,544,600 was made to Toyota Kenya on 30th June 2018 before the delivery of motor vehicles contrary to government regulations governing the purchase of motor vehicles. No explanation has been provided for not complying with the law.

Management Response

109. The procurement plan presented was based on the original budget in which purchase of motor vehicles was budgeted at Kshs. 24,000,000. However, the budget for purchase of motor vehicles was revised to Kshs. 40,000,000 with the procurement subsequently amended. During procurement the actual cost of the vehicles was Kshs. 37,544,600 resulting to savings of Kshs. 2,455,400.

Toyota Kenya usually requires payment to be made in advance. Otherwise, the purchase will not be honored and the vehicle will not be provided. When the Local Purchase Order is issued, Toyota Kenya prepares the invoice with specific chassis number of the vehicle to be issued. The vehicles were later delivered.

Committee Observations

110. The Committee observed that the NG-CDF Board submitted the vehicles logbook, information on the make and the actual cost of each vehicle, and copies of the LPOs and payment vouchers to the Office of the Auditor General for verification.

111. The Committee further resolved to undertake physical verification of the vehicles at the NG-CDF Board Headquarters to ascertain their existence and the physical condition of the vehicles. vehicles exist before it pronounces itself on the matter.

112. Following the physical verification exercise conducted by the Committee on 13th February 2024, it was confirmed that: -

(i) The motor vehicles of registration number **GKB 594U, GKB600U, GKB679U and GKB699U** physically exist, are in good working condition and are stationed at the NG-CDF Board Headquarters at Harambee House.

(ii) The wrecked motor vehicle, registration number **GKB602U** was involved in a road accident and was stationed at a garage in Kisumu where it was undergoing repairs. The Committee verified via Zoom facilitated by the NG-CDF Regional Coordinator in Nyanza Mr. Tom Wasike.

(iii) The chassis numbers for all the motor vehicles were correct as indicated in their respective logbooks.

113. The Committee was satisfied with the response and therefore the query was addressed.

1.2 Purchase of televisions

114. Included in addition to furniture fittings and general equipment are three televisions that were bought at Kshs. 1,907,000 for the boardroom. Details on why three televisions were acquired for the boardroom as opposed to one television were not provided. Further, the price at which each TV was acquired does not reflect a fair market price in accordance with fair competition and value for money. In view of the foregoing, the propriety and validity of the expenditure could not be ascertained.

Management Response

115. The NG-CDF Board was in the process of acquiring additional office space and this gave the insight for the purchase of the three television sets to be used in the new offices and Boardroom. During the time of audit, the televisions were stationed in one Boardroom as the Board was finishing on the other offices in Ukulima. Kshs. 1,907,000 was for three televisions at Kshs. 862,068.96 for two LG UHD TV 65UJ634v and a wall bracket at Kshs. 10,344.82 and a movable trolley of a 75' TV stand at Kshs. 77,586.21. the TVs were reasonably priced in relation to their specifications.

Committee Observations

116. The Committee observed that the management submitted the following to the Office of the Auditor General for review and verification: -

- a) Copies of the LPOs and payment vouchers.
- b) Quotations provided.
- c) Minutes/professional opinion that approved the expenditure.
- d) Procurement method used.

117. The Auditor General submitted that the documents were verified and therefore, the query is addressed.

3.3 Audited Statements for Financial Year 2018/2019

1.1 Loss of obsolete assets

118. The statement of cash flows reflects a loss of obsolete assets amount of Kshs. 5,062,515 under cash from operating activities which was not supported. In addition, the figure has been to as Note 18 to the financial statements while the Note does not reflect such an amount.

Management Response

119. The loss of obsolete assets of Kshs. 5,062,515 as reflected in the statement of cash flows was a book loss occasioned by the reclassification of consumables that were erroneously classified in the preceding years as assets. The depreciation movement schedule in Note 13 shows how Kshs. 5,062,515 was derived. The book loss of Kshs. 5,062,515 was the difference between the purchase cost (Kshs. 67,891,128) and the accumulated depreciation (Kshs 62,828,613) for the reclassified consumables.

Committee Observations

120. The Committee observed that: -

- (i) There were many accounting errors with the financial statements due to issues of capacity with the accounting staff.

- (ii) The errors were corrected and therefore the query is addressed.

1.2 Unexplained disposals of computer equipment

121. Note 13 to the financial statements reflects a disposal figure of Kshs.67,891,128 under computer equipment which is not supported by any documentation. No record was provided to show that the assets were previously categorized as computers. The breakdown of disposed computers and related assets not included in Note 17 on disposal of property, plant and equipment is shown below.

Asset Name	Purchase Date	Cost Kshs	NBV Kshs	Charge value Kshs	Accumulative Depreciation Kshs
CDFMIS Software	30/06/2011	31,219,426	1,259,817	539,921	29,959,609
CDFMIS Software	30/06/2013	35,934,202	2,071,535	887,800	33,862,666
Hard Disk	30/06/2016	200,000	48,020	20,580	151,980
Software	30/06/2017	360,000	123,480	52,920	236,520
Computer System	19/01/2017	107,500	36,873	15,802	70,627
20 Flash Disks	2013	70,000	4,036	1729	65,964
Total		67,891,128	3,543,761	1,518,752	64,347,366

Consequently, the existence, completeness and accuracy of the property, plant and equipment figure of Kshs 112,203,116 has at 30th June 2019 could not be confirmed.

Management Response

122. The listed items that add to Kshs. 67,891,128 were queried during the audit exercise and were described as consumables. The Board reviewed the specific items and noted they did not qualify to be assets under the category of computers. Therefore, to update the asset register they were reclassified as consumables, expensed, and removed from the asset register. The book entries of removing from the asset register, reclassifying as consumables and expensing appear as if it was a disposal. The items had already been depreciated over time with accumulated depreciation of Kshs 62,828,613 and only required a write of the remaining net book value Kshs. 5,062,515 in order to expense the total cost of Kshs. 67,891,128.

Committee Observations

123. The Committee observed that: -

- (i) The items amounting to Kshs. 67,891,128 were categorized as assets in the asset register instead of consumables. However, computer software are intangible assets classified alongside other fixed assets like property plant and equipment.
- (ii) reclassification was done by management as recommended by the auditors.

- (iii) There were many accounting errors with the financial statements due to issues of capacity with the accounting staff
- (iv) The query is addressed.

1.3 Failure to provide original logbooks

124. Included in the property, plant and equipment balance of Kshs.112,203,116 are three (3) motor vehicles reflected in the table below, with a total historical cost of Kshs.17,412,000 whose logbooks were not availed for audit verification:

Asset Name	Barcode Name	Cost (Kshs.)	Year of Purchase
Mitsubishi Pajero	GKB 454D	5,804,000	2013
Mitsubishi Pajero	GKB 455D	5,804,000	2013
Mitsubishi Pajero	GKB 456D	5,804,000	2013

Consequently, the ownership of the above vehicles with a historical cost value of Kshs.17,412,000 could not be confirmed.

Management Response

125. During the time of audit, the Motor vehicle logbooks had not been issued but the Board had initiated the process of acquiring the logbooks. Currently, the Board is in possession of the logbooks and were availed to the auditors.

Committee Observations

126. The Committee observed that: -

- (i) Supporting documents were not availed during audit period.
- (ii) It was erroneous to include assets in the property, plant and equipment balance without ownership documents.
- (iii) Copies of logbooks were later provided and verified by the Office of the Auditor General thereby addressing the query.

1.4 Lost Cameras

127. Included in the balance of Kshs.112,203,116 are cameras bought in 2018 by the Board at a cost of Kshs.279,885 and which were reported missing. The cameras continue to be included in the assets even though not physically available for use by the Board. No meaningful efforts appear to have been taken by Management to recover the stolen equipment or hold any officer responsible for occasioning the loss. Consequently, it has not been possible to confirm that the Fund got value for money from Kshs.279,885 used to procure the cameras.

Management Response

128. The camera had been issued to facilitate pictorial reporting of the Board exhibitions in Kisumu during the ASK show. However, during the session, the camera was snatched from the officer and efforts to recover it was unsuccessful. The matter was reported to the Kisumu police station and a police abstract obtained.

Committee Observations

129. The Committee observed that: -

- (i) The Camera was reported as lost on 28/07/2018 at Mambo Leo police station in Kisumu.
- (ii) The net book value of the camera at the time of loss was Kshs. 160,283.
- (iii) The Officer was surcharged and paid Kshs. 160,283.
- (iv) The query is addressed.

2.0 Cash and cash equivalents

130. The statement of financial position as at 30 June 2019 reflects cash and cash equivalents balance of Kshs. 1,711,951,774. However, the following matters were noted;

2.1 Dormant bank accounts

131. As disclosed in Note 11 to the financial statements, the statement of financial position reflects a balance of Kshs. 1,711,951,774 under cash and cash equivalents which includes an amount of Kshs. 35,429,127 held in dormant bank accounts as follows:

Bank Name	Balance as at 30 June 2019	Kshs.
KCB (ESP)		32,504,840
ABC (current)		371
Equity		415
Eco (Current)		2,923,501
Total		35,429,127

No explanation was provided as to why these bank accounts remained dormant during the last two (2) years and why action had not been taken to close the same and avoid incurring unnecessary running expenses.

Management Response

132. During the time of audit, The ABC (current), Equity and Eco Bank accounts were still operational, but the bank accounts were later closed, and the balances transferred to the Co-operative Bank operations account. The KCB (ESP) and SBM bank accounts were still operational.

Committee Observations

133. The Committee observed that: -

- (i) All the accounts were closed, and the balances transferred to the Cooperative Bank operations account except for the KCB (ESP) and SBM bank which are still operational.
- (ii) The KCB account was still operational because of the ongoing fraud case.
- (iii) The SBM account was still operational because the National Treasury granted the Board on 2nd February, 2022 the authority to continue operating the current account in SBM Bank into which the balances in savings and fixed deposit accounts were transferred.
- (iv) The Committee concurs with the decision to maintain the account until the funds are recovered.
- (v) The explanation offered was satisfactory and therefore the query is addressed.

2.2 Unrecorded amounts - Kenya Commercial Bank account

134. The statement of financial position reflects cash and cash equivalents balance of Kshs.1,711,951,774 which includes a balance of Kshs.38,022,931 held in a Kenya Commercial Bank (KCB) account. However, a review of the KCB account bank reconciliation statements for the month of June 2019 revealed payments in bank statements not in cash book of Kshs.32,589,081. These unrecorded amounts are in respect of monies fraudulently withdrawn from the Fund's KCB bank account in the year 2011/2012 which have not been recovered to date. In the circumstances, the accuracy of the cash balance reflected under the KCB cashbook account of Kshs.38,022,931 could not be confirmed.

Management Response

135. The amount fraudulently withdrawn was reported to the Bank Fraud Investigating Unit (BFIU) of Kenya Police, investigations carried out leading to arrest of suspects alien to the Board who were charged in court with stealing in the criminal case number 1183 of 2012. Board staff were called in to testify as witnesses.

Committee Observations

136. The Committee observed that following engagement of the Board with the Bank under directions of the Committee, the Bank restored the full amount of Ksh. 32,551,552 to the Board's account on 21st March, 2025 therefore the query is addressed.

3.0 Non-current employee benefit obligation

137. As disclosed in Note 16(b) to the financial statement, the statement of financial position reflects a balance of Kshs.227,799,075 under non-current employee benefit obligation being provisions for gratuity less the gratuity paid in the year under review. The Management did not explain why the entire amount was classified as non-current liability yet there was a component of gratuity due and payable each year. Further, the reconciled bank balance for the gratuity money at Equity Bank account as at 30 June, 2019 was Kshs.104,541,042 which differs with the financial statements balance for Non-Current

employee benefit obligation reflected under Note 16(b) to the financial statements of Kshs.227,799,075, and resulted in an unreconciled variance of Kshs.123,258,033. In addition, the Fund Management did not maintain a movement schedule of the opening employee benefit obligation balance, additional provisions made during the year and payments paid out during the current year. Consequently, the accuracy and completeness of non-current employee benefit obligation of Kshs.227,799,075 could not be confirmed.

Management Response

138. The employee benefit obligation of Kshs. 227,799,075 was captured as non-current employee benefit instead of splitting it to current and non-current employee benefit obligation. However, this was corrected in the subsequent financial year to reflect the employee benefit obligation as current and non-current. At the end of the financial year there was a discrepancy of Kshs.123,258 033 between the employee benefit obligation due of Kshs. 227,799,075 and the bank balance of Kshs. 104,541,042. The Board undertook a reconciliation for outstanding gratuity owed to staff in financial year 2020/2021 where the correct and updated position was posted to the books.

Committee Observation

139. The Committee observed that the management corrected the error, and relevant journal entries were submitted to the Office of the Auditor General and verified. The query is addressed.

4.0 Employee benefit obligation

140. The statement of financial position reflects employee benefits obligation of Kshs.2,710,867 which relates to leave allowance provisions net of the allowances paid during the year. However, the analysis of this balance per staff member was not availed for audit verification. Consequently, the accuracy and completeness of the employee benefit obligation of Kshs.2,710,867 could not be confirmed.

Management Response

141. The Board used to analyze the payment of leave allowance paid to officers who have applied and proceeded on leave and make provisions for leave allowance earned but not paid. If an officer did not proceed on leave during the financial year, the leave was computed as an employee obligation and captured as a payable for the year. In the financial year 2018/2019 the outstanding leave allowance was kshs. 2,710,867. However, this procedure was found clumsy and prone to errors. Hence the Board resolved to pay leave allowance to the employees as an anniversary i.e., it's paid once to all eligible staff in December of every year beginning December 2019. The outstanding obligation was fully utilized.

Committee Observations

142. The Committee observed that: -

- (i) This was an issue of documents not being provided during audit.

- (ii) Analysis, relevant documents, and explanation were later provided and verified by the Office of the Auditor General thereby addressing the query.

Other Matters

1.0 Unauthorized training expenditure

143. During the year under review, the Fund Board spent a total of Kshs.171,271,349 on training against a budgetary provision of Kshs.138,227,000, resulting in unauthorized expenditure of Kshs 33,044,349. Further, it was noted that the annual training needs assessment were pegged at Kshs.108,660,372. No reallocation approvals were provided for audit verification. Consequently, it was not possible to match the trainings conducted by the Fund Board against the training needs assessment. Further, the source of funding for over expenditure is unknown. Under the circumstances, the over expenditure of Kshs.33,044,349 on training is irregular.

Management Response

144. The revised budget approved by the Board adjusted training amount to Kshs 172,000,000. The training needs assessment had been done for individual staff members who had requested to be trained on various disciplines according to their duties so as to enhance their performance. The training for Fund Account Managers and the NG CDFC Members is done annually to enhance capacity for the management of the constituency operations.

Committee Observations

145. The Committee observed that: -
- (i) This was an issue of documents not being provided during audit.
 - (ii) Training Needs Assessment (TNA) and training plan were later provided and verified by the Office of the Auditor General and therefore the query is addressed.

2.0 Unresolved prior year issues

146. As disclosed under the progress on follow up of auditor's recommendations section of the financial statements, various prior year's audit issues remained unresolved as at 30 June 2019. Management has not provided reasons for the delay in resolving the prior year's audit issues.

Management Response

147. The issues remained unresolved because the Board had not been invited to render explanations on the matters raised before the relevant National Assembly Committee. The invitation to appear before this committee will remedy the anomaly.

Committee Observation

148. The Committee observed that the Board had resolved some of the prior audit issues. This was corroborated by the Auditor and therefore the query is addressed.

3.4 Audited Statements for Financial Year 2019/2020

1.0 Errors and inaccuracies in financial statements

1.1 Cash flow Statement

149. The statement of cash flows reflects unexplained adjustments amounting to Kshs.29,137,631 under net cash flows from investing activities. Further, the negative cash generated from operations of Kshs.779,064,561 as reflected under Note 23 includes unexplained adjustments amounting to Kshs.46,203,695. The basis and supporting documents for the adjustments were not provided for audit verification. Under the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

Management Response

150. The unexplained adjustments amounting to Kshs.29,137,631 and Kshs.46,203,695 were occasioned by errors made during the preparation of the cashflow statement. They were reviewed and the cashflow statement restated and availed to the auditor for review.

Committee Observations

151. The Committee observed that: -

- (i) This was an issue of documents not being provided during the audit period.
- (ii) The error was rectified by restatement of financial statements in the subsequent financial year and verified by the Office of the Auditor General.
- (iii) The query is addressed.

1.2 Statement of changes in Net Assets - Unsupported Adjustments

152. The statement of changes in net assets for the year ended 30 June 2020 reflects unexplained adjustments amounting to Kshs.90,700,920 which has not been supported by verifiable documentary evidence for audit verification. Under the circumstances, the accuracy and completeness of the statement of changes in net assets could not be confirmed.

Management Response

153. The adjustment under the statement of changes in net assets of Kshs. 90,700,920 was due to errors that occurred during the preparation of the financial statements and misclassification of some items which were corrected in the restated financial statements. The errors have been analysed in the schedule provided to the auditors for review.

Committee Observations

154. The Committee observed that: -

- (i) Documents were not provided during the audit period.
- (ii) The error was rectified by restatement of financial statements and verified by the Office of the Auditor General and therefore the query is addressed.

2.0 Cash and Cash equivalents

155. The statement of financial position as at 30 June 2020 reflects cash and cash equivalents balance of Kshs.844,115,140. However, the following matters were noted:

2.1 Dormant bank accounts

156. As disclosed under Note 15 to the financial statements, the statement of financial position reflects an amount of Kshs.844,115,140. However, the balance constitutes an amount of Kshs.32,504,840 and Kshs.371 held in Kenya Commercial Bank (ESP) account and ABC Bank respectively. However, the bank accounts had been dormant for over three years and continue to incur unnecessary running expenses. Further, the above balance of Kshs.844,115,140 includes a balance of Kshs.38,022,921 held in a Kenya Commercial Bank (KCB) account. However, a review of the KCB account bank reconciliation statement for the month of June 2020 revealed payments in bank statement not in cash book of Kshs.32,585,588. The unrecorded amounts relate to monies fraudulently withdrawn from the Fund's KCB bank account in the year 2011/2012 and which have not been recovered to date. In the circumstances, the accuracy of the reported cash and cash equivalents balance of Kshs.844,115,140 could not be confirmed.

Management Response

157. The ABC bank account was closed, and the balance transferred to the Co-operative Bank operations account. The KCB (ESP) bank account was still operational. As earlier reported, the amount fraudulently withdrawn was reported to the Bank Fraud Investigating Unit (BFIU) of Kenya Police, investigations carried out leading to arrest of suspects alien to the Board who were charged in court with stealing in the criminal case number 1183 of 2012. Board staff were called in to testify as witnesses.

Committee Observations

158. The Committee observed that: -

- (i) All the accounts were closed, and the balances transferred to the Cooperative Bank operations account except for The KCB (ESP) and SBM bank which are still operational.
- (ii) The SBM account was still operational because the National Treasury granted the Board on 2nd February, 2022 the authority to continue operating the current account in SBM Bank into which the balances in savings and fixed deposit accounts were transferred.
- (iii) Following engagement of the Board with the Bank under directions of the Committee, the Bank restored the full amount of Ksh. 32,551,552 to the Board's account on 21st March, 2025 and therefore the query is addressed.

3.0 Unfunded employee benefit obligation

159. The statement of financial position and Note 21 reflect of Kshs.91,917,981 and Kshs.38,873,438 being employee benefit obligation payable within one year and the non-current obligation respectively. However, the reconciled bank balance for the gratuity bank

account held at Equity Bank had a balance of Kshs.52,571,694 as at 30 June 2020 resulting in an unfunded balance amounting to Kshs.78,219,734. Consequently, the ability of the Board to meet its obligations in respect to employee benefits as they fall due could not be confirmed.

Committee Observation

160. The Committee observed that the Board Management reconciled the account and the explanation offered was satisfactory and therefore the query was addressed.

Other Matter

1.0 Budgetary control and performance

161. The statement of comparative budget and actual amounts reflects a final revenue budget and actual on comparable basis of Kshs.1,958,194,000 and Kshs.1,454,631,234 respectively resulting to an under-funding of Kshs.503,562,766 or 26% of the budget. Similarly, the Fund expended Kshs.1,635,281,329 against an approved budget of Kshs.1,958,194,000 resulting to an under-expenditure of Kshs.322,912,671 or 16% of the budget.

Management Response

162. The Board in the year 2019/2020 received Kshs. 1,337,000,000 out of an approved allocation of Kshs. 1,958,194,000 which resulted in underfunding of 621,194,000. These under funding resulted in under absorption of Kshs. 322,912,671. The delayed disbursement of funds also contributed to the under expenditure as funds were not fully absorbed during the period.

Committee Observation

163. The Committee observed that the Management reconciled the account and the explanation offered was satisfactory and therefore the query was addressed.

3.5 Audited Statements for Financial Year 2020/2021

1.0 Statement of cash flows

164. The statement of cash flows reflects net cash generated from operating activities amount of Kshs.229,002,000 which, as disclosed in Note 23 to the financial statements, was arrived at after making an adjustment of Kshs.217,878. However, the basis and records in support of the adjustment were not provided for audit verification. In the circumstances, the accuracy of the net cash flows from operating activities amount of Kshs.229,002,000 could not be confirmed.

Management Response

165. The adjustment of Kshs. 217,878 was an error in the previous year on the property plant and equipment movement schedule. The error has been adjusted so as to have a reconciled property plant and equipment which tallies with the fixed asset register. The journal voucher has been provided for review.

Committee Observations

166. The Committee observed that: -

- (i) This was an issue of documents not being provided during the audit period.
- (ii) The journal vouchers were availed for review and verified by the Office of the Auditor General and therefore the query was addressed.

2.0 Understatement of tax expense

167. As disclosed in Note 29 to the financial statements, the statement of financial performance reflects a tax expense amount of Kshs. 64,596,406. Review of records provided for audit revealed that the Board received a tax demand of Kshs. 184,045,255 from the Kenya Revenue Authority (KRA) on 24 November 2020. The taxes consisted of principal outstanding taxes of Kshs. 97,267,727, interest of Kshs. 77,050,756 and penalties Kshs. 9,726,773 on unpaid corporation tax for the period commencing 2012/2013 financial year to date. The interest and penalties totalling to Kshs. 86,777,529 are nugatory costs which would have been avoided had the Board paid the taxes due to KRA on time. Management indicated that they have paid Kshs. 57,327,620 of the taxes demanded resulting to an unpaid balance of Kshs. 126,717,635. However, the balance is not reflected as outstanding payables in the financial statements. In the circumstances, the accuracy and validity of the tax expenses amount of Kshs. 64,596,406 could not be confirmed.

Management Response

168. The corporate tax due arose from interest earnings from balances in various bank accounts of the NG CDF Board over the years. The Board management assumed that the withholding tax rate of 15% withheld by the bank and remitted was a final tax. KRA neither made any demands over the years until November 2020.

169. The Board subsequently carried out a reconciliation of total interest earned over the period 2012/2013 to 2020/2021 and determined the amount was Kshs. 134,975,090 out of which the banks withheld and remitted Kshs. 66,280,541 while the Board paid a total of Kshs. 60,571,737.

170. Further, KRA wrote a letter dated 19th January 2022 demanding payment for corporation tax of Kshs. 16,518,640.32 composed of principal tax Kshs. 11,093,173.16, penalty of Kshs. 1,103,443.76 and interest of Kshs. 4,322,023.40. The Board responded to KRA vide letter reference NG CDF/KRA/VOL.1/(034) date 21st January 2022 to dispute the quantum of principal tax due and a prayer for waiver for interest and penalties whose response is

awaited to date. Note also that as a result of our ongoing engagement with KRA, we have made an application for refund of Kshs. 28,472,391.38 vide letter reference number NG-CDFB/KRA/VOL.1/(036) dated 5th April 2022. The refund will be applied to clear any outstanding tax liability.

171. The outstanding tax liability has therefore not crystallized but is contingent on the ongoing review by KRA and has been disclosed in the notes to the amended financial statements.

Committee Observations

172. The Committee observed that the Board undertook a reconciliation of the principal outstanding corporation tax for the period under review and settled the amount in December, 2024. The Board benefitted from the tax amnesty waiver of June 2025 with regards to penalties and interests that accrued during the period under review and therefore the query is addressed.

Unsupported trade and other payables

173. The statement of financial position reflects trade and other payables balance of Kshs. 507,856,648 which, as disclosed in Note 20 to the financial statements, includes an amount of Kshs. 417,172,433 for best practice contractual owings. Included in the latter balance is an amount of Kshs. 174,622,294 recognized both as an expenditure and under payables. Although Management explained that this was an amount committed in the vote book and construction had commenced by 30 June 2021, there were no invoices, interim certificates or signed agreements provided to confirm that the related services had been rendered. Under the circumstances, the accuracy and validity of the trade and other payables balance of Kshs. 507,856,648 could not be confirmed.

Management Response

174. The amount of Kshs. 174,622,294 included in the best practice contractual owing balance of Kshs. 417,172,433 was an amount which had been contracted, amounts committed in the vote book and construction commenced by 30 June 2021.

175. However, procurement and contracting for the works was delayed as a result of piecemeal and late disbursement of funds by the National Treasury. In addition, the prevailing Covid 19 pandemic slowed down the implementation of projects by contractors. We therefore considered it prudent to report the amount as a payable because the Board already had contractual obligations and the amounts was falling due and payable at short notice upon issuance of certificates of work done. The Board has intensified the monitoring of the projects to ensure their speedy completion.

Committee Observations

176. The Committee observed that: -

- (i) That late disbursement of funds from the exchequer resulted to delay in the procurement process by the Board and implementation of the projects was further affected by the Covid-19 pandemic.
- (ii) That documents such as invoices, interim certificates or signed agreements were not provided to the Auditor for verification.

Committee Recommendations

177. **The Committee recommends that: -**

- i) The Accounting Officer should at all times comply with the provisions of Sections 62 (1) (b) and (c) of the Public Audit Act, No.34 of 2015.**
- ii) The Accounting Officer should adhere to Regulation 100 of the PFM (National Government) Regulations, 2015.**
- iii) The National Treasury should at all times ensure timely and adequate disbursement of funds to the National Government Constituencies Development Fund Board for effective implementation of projects.**

Other Matter

1.0 Late exchequer release

178. The statement of financial performance reflects Exchequer releases totaling Kshs.1,954,578,640. Included in the balance is an amount of Kshs.268,078,640 relating to Exchequer issues released by the National Treasury to the Board on 24 June and 28 July, 2021 as summarized below.

S/n	Reference Number	Date of Transfer	Amount (Kshs.)
1	Rec 2116507968	24 June, 2021	134,000,000
2	Rec 2119547424	28 July, 2021	134,078,640
	Total		268,078,640

The delayed exchequer releases may have affected the Board's ability to implement its planned programmes, thus negatively impacting on service delivery to the public.

Management Response

179. The Board continually appeals to the National Treasury for prompt disbursement of funds in order for Kenyans to receive services as intended at the time of compiling and approval budget.

Committee Observation

180. The Committee observed that under absorption was occasioned by late exchequer release as at 30th June 2021 by the National Treasury.

Committee Recommendations

181. **The Committee recommends that the National Treasury should at all times ensure timely and adequate disbursement of funds to the National Government Constituencies Development Fund Board.**

2.0 Delays in project implementation

182. The statement of financial position and the corresponding Note 20 to the financial statements reflects trade and other payables balance of Kshs.507,856,648. Included in the amount is Best Practice contractual payables amounting to Kshs.417,172,433. However, review of projects related to the payables revealed that fifty-two (52) projects with a contract sum of Kshs.241,844,754 were behind schedule and six (6) projects with a contract sum of Kshs.36,702,442 had stalled.

Management Response

183. This delay in project implementation was occasioned by piecemeal and late disbursement of funds by the National Treasury, prevailing Covid 19 pandemic slowed down the implementation of projects by contractors, logistical issues in some vast constituencies and insecurity in some parts of the country. The Board has intensified the monitoring of the projects to ensure their speedy completion.

Committee Observation

184. The Committee observed that under absorption was occasioned by late exchequer releases as at 30th June 2021 leading to slowed down implementation of projects.

Committee Recommendations

185. **The Committee recommends that: -**

- i) The Office of the Auditor General should undertake a physical verification and provide the current status of the projects within three months of the adoption of this report by the House.**
- ii) The National Treasury should ensure timely and adequate disbursement of funds to the National Government Constituencies Development Fund Board for effective implementation of projects.**

3.0 Unresolved Prior Year Matters

186. Prior year audit issues remained unresolved as at 30 June 2021. Management has not provided reasons for the delay in resolving the prior year audit issues as required by the Public Sector Accounting Standards Board.

Management Response

187. The issues remained unresolved because the Board had not been invited to render explanations on the matters raised before the relevant National Assembly Committee. The invitation to appear before DFAC committee will remedy the anomaly.

Committee Observations

188. The Committee observed that: -

- (i) Prior issues from previous audit had not been resolved and Management had not provided sufficient reasons as to what led to delays in solving prior year audit issues.
- (ii) However, the issues were resolved when the Committee met with the NG-CDF Board during the examination of their audited accounts for FY 2016/17 to 2021/2022.
- (iii) The explanation and relevant documents provided by Management were satisfactory.

Committee Recommendations

189. **The Committee recommends that the Accounting Officer should at all times adhere to Section 68 (2) (l) of the PFM Act Cap. 412A.**

3.6 Audited Statements for Financial Year 2021/2022

Other Matter

1.0 Delays in project implementation

190. The statement of financial position reflects provisions relating to other payables balance of Kshs.374,002,463 as disclosed in Note 19B to the financial statements. Included in the amount is best practice - contractual payables amounting to Kshs.347,765,753. However, review of projects related to the payables revealed that thirty-eight (38) projects with a contract sum of Kshs.180,827,966 were behind schedule and thirteen (13) projects With a contract sum of Kshs.25,454,807 had stalled. Projects not completed within scheduled time frame, may result in escalation of projected costs and delayed provision of expected service to the intended beneficiaries.

Management Response

191. All CSR projects have contract periods and the expected dates of completion as stipulated in the contract agreement/documents between the Board and the contractors. However, there are a number of reasons as to why projects implementation deadlines may be not met. These include:

- a) Unforeseen occurrences on the ground (project site) for example Contract variations that may rise during the project implementation. The variations raised must be approved by the Board before execution. The contract documents allow for extension of contract period by the Project Manager in cases of variations.
- b) Covid-19 greatly affected the economic stability of contractors who delayed completing projects but eventually completed them.

- c) Increase in cost of construction materials has greatly affected completion of projects that were in progress. However, they were eventually completed
- d) Delay in site hand over- this automatically leads change in the completion date of projects. There are several causes of late hand over of site e.g., cases when contractors pave way for the undertaking of National examinations, unavailability of Project Managers (Sub-County Works Officer), change of project site.
- e) Cases of death of contractors has also contributed to delay in completing projects
- f) Cases of contractors abandoning site due to bankruptcy and requesting for termination of projects causes delay in completing the project.

192. With the above-mentioned challenges and others, the Board is proud to have completed mega projects that have greatly affected the lives of communities. We strive to do better in the best way we can to ensure that we achieve one of our core mandates, i.e., to ensure efficient and effective management of the Fund while contributing to the economic development at the grassroots level.

Committee Observation

193. The Committee observed that the Board failed to implement projects as per the plan and budget.

Committee Recommendations

194. **The Committee recommends that: -**

- i) The Office of the Auditor General should undertake a physical verification and provide the current status of the projects within three months of the adoption of this report by the House.**
- ii) The Accounting Officer should at all times adhere to Section 68 (1) of the PFM Act Cap. 412A.**

2.0 Unresolved prior year matters

195. Prior year audit issues remained unresolved as at 30 June 2022. Management has not provided reasons for the delay in resolving the prior year audit issues as required by the Public Sector Accounting Standards Board.

Management Response

196. The issues remained unresolved because the Board had not been invited to render explanations on the matters raised before the relevant National Assembly Committee. The invitation to appear before DFAC committee will remedy the anomaly.

Committee Observations

197. The Committee observed that this was a recurring matter and the Management had resolved some of the prior audit issues. This was corroborated by the Auditor.

Committee Recommendation

198. The Committee recommends that the Accounting Officer should at all times adhere to Section 68 (2) (1) of the PFM Act (Cap. 412A).

3.0 Employee costs

199. The statement of financial performance reflected an amount of Kshs.932,589,017 relating to employee costs as disclosed in Note 9 to the financial statements. This amount represents 46% of the Board's total revenue of Kshs.2,017,273, 724. This is contrary to Regulation 26. (1) (a) of the Public Finance Management (National Government) Regulations, 2015 which states that expenditure on the compensation of employees (including benefits and allowances) shall not exceed 35 percent of the revenue. In the circumstance, the Management was in breach of the law.

Management Response

200. The management takes due cognizance of the specified provisions of the Public Finance Management regulations, 2015. However, considering that the allocation to the Fund for the year was Kshs 41,714,800,000 with the Board getting Kshs 1,959,025,000 (plus interest earnings of Kshs 57,060,779) and constituencies Kshs 39,755,775,000. And that the Board employs and deploys Fund Account Manager to each of the 290 constituencies, the Board expenditure on employee cost of Kshs 932,589,017 represents 2.2% of total allocation to the Fund. Moreover, as the allocation to the Fund continues to grow and as the Board attains its optimum staffing levels, the percentage expenditure on employee costs would continue to decline.

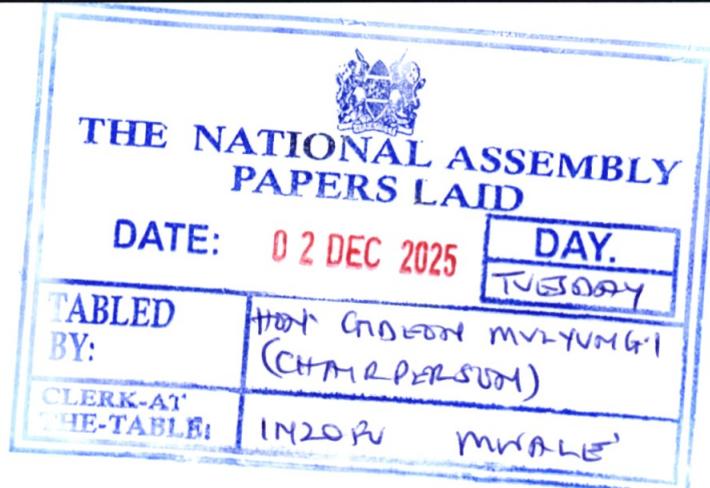
Committee Observations

201. The Committee was satisfied with the management's submission and therefore the query is addressed.

Sign:  Date: 2nd Dec, 2025

HON. DR. (Arch) GIDEON MULYUNGI, CBS, M.P.

CHAIRPERSON, DECENTRALIZED FUNDS ACCOUNTS COMMITTEE



MINUTES OF THE 77TH SITTING OF THE DECENTRALIZED FUNDS ACCOUNTS COMMITTEE HELD ON MONDAY, 24TH NOVEMBER 2025, IN GARDEN SUITS, HILTON GARDEN INN HOTEL, MACHAKOS COUNTY AT 10:30 A.M.

PRESENT

1. **Hon. Gideon Mutemi Mulyungi, CBS, EBS, MP** **Chairperson**
2. Hon. Innocent Momanyi Obiri, MP
3. Hon. K'Oyoo, James Onyango, MP
4. Hon. Adhe Guyo Wario, MP
5. Hon. Richard Cheruiyot Kilel, MP
6. Hon. Adhe Guyo Wario, MP
7. Hon. Martin Wanyonyi Pepela MP
8. Hon. Caroline Jeptoo Ng'elechei, MP
9. Hon. David Mboni Mwalika, MP
10. Hon. Stephen Mogaka, MP

APOLOGIES

1. **Hon. Gertrude Mwanyanje Mbeyu, MP** **Vice Chairperson**
2. Hon. Abdi Barre Hussein, MP
3. Hon. Reuben Kipngor, Kiborek, MP
4. Hon. Jackson Lentoijoni, Lekumontare, MP
5. Hon. Dorothy Muthoni, Ikiara, MP

IN-ATTENDANCE

SECRETARIAT

1. Mr. Oscar Namulanda - Deputy Director
2. Mr. Ahmad Guliye - Clerk Assistant I
3. Mr. John Mutinda - Clerk Assistant III
4. Ms. Sharon Koskei - Clerk Assistant III
5. Mr. Peter Barasa - Legal Counsel II
6. Ms. Elizabeth Kibati - Research Officer III
7. Mr. Wilson Mwangi - Fiscal Analyst II
8. Ms. Winfred Kiziah - Media Relations Officer I
9. Mr. Benson Muchiri - Audio Officer III
10. Mr. Wilson Angatangoria - Sergeant at Arms
11. Ms. Rahima Manzura - Personal Secretary

MIN.NO.NA/DAA&GPC/ DFAC/2025/419

PRELIMINARIES

The Chairperson called the meeting to order at 11:00 a.m. followed by a word of prayer. He thereafter invited all present to introduce themselves.

MIN.NO.NA/DAA&GPC/ DFAC/2025/420 CONSIDERATION AND ADOPTION OF THE SEVENTH REPORT OF THE COMMITTEE ON ITS EXAMINATION OF THE AUDITED FINANCIAL STATEMENTS OF THE NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND (NG-CDF) BOARD FOR THE FINANCIAL YEARS 2016/17, 2017/18, 2018/19, 2019/20, 2020/21 AND 2021/22

- I. The Committee considered and adopted its seventh report on its examination of the audited financial statements of the National Government Constituencies Development Fund Board for the financial years 2016/17 to 2021/22.
- II. The Committee made observations and recommendations as contained in the report.
- III. The adoption of the report was proposed and seconded by Hon. Richard Cheruiyot Kilel, M.P. and Hon. David Mboni Mwalika, M.P. respectively.

MIN.NO.NA/DAA&GPC/DFAC/2025/421 CONSIDERATION AND ADOPTION OF THE EIGHTH REPORT OF THE COMMITTEE ON ITS EXAMINATION OF THE AUDITED FINANCIAL STATEMENTS OF THE NATIONAL GOVERNMENT AFFIRMATIVE ACTION FUND (NGAAF) FOR THE FINANCIAL YEARS 2016/17, 2017/18, 2018/19, 2019/20, 2020/21 AND 2021/22.

- I. The Committee considered and adopted its eighth report on its examination of the audited financial statements of the National Affirmative Action Fund (NGAAF) for the financial years 2016/17 to 2021/22.
- II. The Committee made observations and recommendations as contained in the report.
- III. The adoption of the report was proposed and seconded by Hon. Caroline Jeptoo Ng'elechei, M.P. and Hon. Joseph Kahangara Mburu, M.P. respectively.

MIN.NO.NA/DAA&GPC/DFAC/2025/422 ADJOURNMENT/DATE OF NEXT SITTING

There being no other business, the meeting was adjourned at thirty-five minutes past one p.m. The next meeting will be held after lunch in the same venue.

SIGNED  DATE 
HON. DR. GIDEON MUTEMI MULYUNGI, M.P. CBS
(CHAIRPERSON)

REPUBLIC OF KENYA



**NATIONAL ASSEMBLY
THIRTEENTH PARLIAMENT
DECENTRALIZED FUNDS ACCOUNTS COMMITTEE**

ADOPTION SCHEDULE

We, the undersigned members of the Decentralized Funds Accounts Committee, today 27/11/2025 do hereby affix our signatures to this **7TH REPORT OF THE DECENTRALIZED FUNDS ACCOUNTS COMMITTEE AUDITED FINACIAL STATEMENTS FOR THE NATIONAL GOVERNMENT CONSITUENCIES DEVELOPMENT FUND (NG-CDF) BOARD FOR FINANCIAL YEARS 2016/2017, 2017/2018, 2018/2019, 2019/2020, 2020/2021 AND 2021/2022** to affirm our approval and confirm accuracy, validity and authenticity: -

	NAMES	SIGNATURE
1.	Hon. Dr. Gideon Mutemi Mulyungi, CBS, EBS, MP Chairperson	
2.	Hon. Gertrude Mbeyu, M.P - ViceChairperson	
3.	Hon. K'Oyoo James, Onyango, MP	
4.	Hon. Joseph Kahangara Mburu, MP	
5.	Hon. David Mwalika Mboni, MP.	
6.	Hon. Innocent Momanyi Obiri, MP	
7.	Hon. Adhe Guyo Wario, MP.	
8.	Hon. Richard Cheruiyot, Kilel, MP.	
9.	Hon. Dorothy Muthoni, Ikiara, MP	
10.	Hon. Jackson Lentoijoni, Lekumontare, MP.	
11.	Hon. Abdi Barre Hussein, MP	
12.	Hon. Caroline Jeptoo Ng'elechei, MP	
13.	Hon. Martin Wanyonyi Pepela MP	
14.	Hon. Stephen Mogaka, MP	
15.	Hon. Reuben Kipngor, Kiborek, MP	