

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND UGENYA - CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazetted notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal control, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Ugenya Constituency set out on page 19 to 60, which comprise of the statement of assets and liabilities as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows, summary statement of appropriation for the year ended June, 2021, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the National Government Constituencies Development Fund - Ugenya Constituency as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the National Government Constituencies Development Fund Act, 2015, and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Discrepancies in the Financial Statements

Review of the financial statements indicated that the following discrepancies:

- i. The statement of assets and liabilities reflects a brought forward Fund balance totalling Kshs.5,025,551. However, no explanatory note has been provided in relation to the balance.
- ii. The summary statement of appropriation reflects budget adjustments totalling Kshs.76,579,442 for the year under review. However, Note 17.3 to the financial statements reflects unutilized funds for the financial year 2019/2020 totalling Kshs.75,076,400 resulting to an unreconciled variance of Kshs.1,503,042.
- iii. Headings for Note 16 and Annex 5 to the financial statements are marked '2020/2019' and '2018/2019'; and '2019/20' and '2018/19' respectively, instead of '2019/2020' and '2020/21'.
- iv. The prior year issues reflected in the report on progress on follow-up of auditors' recommendations relate to the financial year 2017/2018 financial year instead of 2019/2020.
- v. Many of the Notes to the financial statements reflect the standard information provided in the financial reporting template, or are blank.
- vi. Casting of balances in the budget execution by programmes and subprograms statement is incorrect.

In view of these discrepancies, the financial statements do not comply with the reporting requirements prescribed by the Public Sector Accounting Standards Board.

2. Unconfirmed Balances

Several balances reflected in the financial statements were not supported with sufficient appropriate evidence:

2.1 Transfers from National Government Constituencies Development Fund Board

The statement of receipts and payments reflects transfers from National Government Constituencies Development Fund Board totalling Kshs.152,367,724, as further

disclosed in Note 1 to the financial statements. However, re-computation of amounts reflected in the respective Authority-to-Incur-Expenditure (AIE) records yielded Kshs.150,367,724 resulting to an unreconciled variance of Kshs.2,000,000.

In view of the discrepancy, the accuracy of transfers from National Government Constituencies Development Fund Board totalling Kshs.152,367,724 could not be confirmed.

2.2 Other Grants and Other Payments

The statement of receipts and payments reflects other grants and other payments totalling Kshs.59,924,937, as further disclosed in Note 7 to the financial statements. However, the following payments totalling Kshs.10,826,341 included in the balance were not supported with sufficient records:

Expenditure Item	Unsupported Amount (Kshs)
Security Projects	3,450,000
Sports Projects	3,281,000
Emergency Projects	4,095,341
Total	10,826,341

As a result, the accuracy of other grants and transfers totalling Kshs.59,924,937 could not be confirmed.

2.3 Cash and Cash Equivalents

The statement of assets and liabilities and Note 10A to the financial statements reflects cash and cash equivalents totalling Kshs.27,602,273. However, the bank reconciliation statement for the month of June, 2021 reflected unpresented cheques totalling Kshs.16,358,622 which included stale cheques totalling to Kshs.953,863 that had not been reversed in the cash book.

In the circumstances, the accuracy of the cash and cash equivalents balance totalling Kshs.27,602,273 could not be confirmed.

2.4 Projects Management Committee Bank Balances

Note 17.4 to the financial statements reflects Project Management Committee bank account balances totalling Kshs.10,716,301 as at 30 June, 2021, as further disclosed at Annex 5 of the financial statements. However, the bank account balances for the thirty accounts were not supported with bank balance confirmation certificates.

As a result, the accuracy and existence of the Project Management Committee bank accounts balances totalling Kshs.10,716,301 could not be confirmed.

2.5 Comparative Balances

The comparative balances reflected in the statement of assets and liabilities and statement of cash flows do not tally with the balances reflected in the audited financial statements for the year ended 30 June, 2020, as indicated in the attached **Appendix**.

Management did not explain the variances and as a result, the opening balances reflected in the financial statements are not fairly stated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Ugenya Constituency Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

The summary statement of appropriation reflects final receipts budget and actual on comparable basis totalling Kshs.213,671,821 and Kshs.157,396,775 respectively resulting to a shortfall of revenue of Kshs.56,275,046 or 26% of the budget. Similarly, the statement reflects an expenditure budget of Kshs.213,671,821 and actual expenditure of Kshs.129,794,502 resulting to an under-expenditure of Kshs.83,877,319 or 39% of the budget.

The shortfall of revenue and under-expenditure constrained execution of planned activities and may have impacted negatively on the Fund's delivery of services to the residents of Ugenya Constituency.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements. However, Management had not resolved the issues as at 30 June, 2021. Further contrary to the reporting requirements set by the Public Sector Accounting Standards Board, and as indicated elsewhere in this report, Management did not disclose the progress made in resolving any of the prior year matters.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Failure to Report Emergency Projects

Examination of records on other grants and other payments indicated that Kshs.10,310,117 was incurred on emergency projects in the year under review. However, contrary to Regulation 20(2) of the National Government Constituencies Development Fund Regulations, 2016, Management did not report to the Board the expenditure on emergency projects. The Regulation requires that any use of the emergency reserve to be reported to the Board within thirty days of the occurrence of the emergency.

In the circumstances, Management was in breach of the law

2. Irregular Reallocation of Funds

Examination of records on transfers to other Government units indicated that a grant amounting to Kshs.2,500,000 disbursed to Ugambe Secondary School for construction of two (2) classrooms and two (2) blocks of three-door pit latrines in the 2018/2019 budget were instead spent on purchase of land. However, contrary to Regulation 25(2) of the National Government Constituencies Development Fund Regulations, 2016, the reallocation was made without Management's approval.

In the circumstances, the Project Management Committee acted in breach of the law.

3. Failure to Insure Assets

The Fund had fixed assets with historical costs totalling Kshs.24,441,031 as at 30 June, 2021. However, contrary to Section 36(3) of the National Government Constituencies Development Fund Act, 2015, the assets were not insured. The law requires that all fixed and movable assets, including equipment bought under the Act for use by the Constituency Committee to be insured in the name of the Board.

In the circumstances, Management was in breach of the law.

4. Unbudgeted Expenditure

Expenditure records indicated that the Fund spent Kshs.700,000 on fencing and purchase of furniture for Ugenya National Treasury Office in spite of the project not having been budgeted for. In addition, authority to reallocate funds to the project and payment vouchers for the expenditure were not provided for audit review.

The funding of the project was done contrary to Regulation 25(2) of the National Government Constituencies Development Fund Regulations, 2016. The Regulation provides that a Constituency Committee shall not incur expenditure unless such expenditure is supported by an approved work plan and budget.

In the circumstances, Management was in breach of the law.

5. Delay in Implementation of Projects

The Project Implementation Status report indicated that, the Fund had planned to implement ninety-one (91) projects allocated with an aggregate budget of Kshs.133,088,879. The report indicated that sixty-five (65) projects costing Kshs.103,311,995 were completed in the year under review, six (6) allocated Kshs.16,039,191 were ongoing and twenty (20) allocated Kshs.17,737,694 had not started.

In view of the delay in completing the twenty six (26) projects, the services and other benefits the projects were expected to provide to the residents of Ugenya Constituency were not realized.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material

misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit

the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Fund policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

30 September, 2022

APPENDIX

Unexplained Variances in Comparative Balances

Component	Balance as Per 2020-2021 Financial Statements (Kshs.)	Balance as Per 2019-2020 Audited Financial Statements (Kshs.)	Variances (Kshs.)
Statement of Assets and Liabilities			
Fund Balance Brought Forward	23,219,831	22,536,707	683,124
Prior Year Adjustment	(1,182,000)	498,876	(1,680,876)
Statement of Cash Flows			
Other Receipts	0	13,277	(13,277)
Total Receipts	121,890,876	121,904,153	(13,277)
Increase or decrease in Accounts Payable	(1,182,000)	498,876	(1,680,876)
Prior Year Adjustments	(1,182,000)	498,876	(1,680,876)
Net Cash Flow from Operating Activities	(15,930,807)	14,735,530	(30,666,337)
Acquisition of Assets	0	2,276,750	(2,276,750)
Net increase in Cash and Cash Equivalent	(15,930,807)	17,695,404	(33,626,211)
Cash and Cash Equivalent at the beginning of the Year	23,219,831	22,037,831	1,182,000