

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - FUNYULA CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2022

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, gazette 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 the 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 controls, 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 - Funyula Constituency set out on pages 20 to 87 which comprise of the statement of assets and liabilities as at 30 June 2022, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of National Government Constituencies Development

Fund - Funyula Constituency as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the National Government Constituencies Development Fund Act, 2015.

Basis for Qualified Opinion

1. Unsupported Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.81,233,769 as disclosed in Note 10A to the financial statements. However, the bank reconciliation statement for the Fund's account for the month of June, 2022 and cash book reflect balances of Kshs.82,201,718 and Kshs.82,184,278 respectively. The respective variances of Kshs.967,949 and Kshs.17,440 were not explained or reconciled. In addition, the bank reconciliation statement reflects unpresented cheques balance of Kshs.4,145,900 which was not supported by detailed analysis.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.81,233,769 could not be confirmed.

2. Unsupported Expenditure on Emergency Projects

The statement of receipts and payments reflects an amount of Kshs.54,949,215 in respect of other grants and transfers which, as disclosed in Note 7 to the financial statements, includes Kshs.5,922,206 relating to emergency projects. The amount was disbursed to implement five (5) projects. However, project files were not provided for review to support the expenditure.

In the circumstances, the propriety of the expenditure of Kshs.5,922,206 in respect to emergency projects could not be confirmed.

3. Unsupported Expenditure on Committee Allowances

The statement of receipts and payments reflects an amount of Kshs.13,392,507 in respect of use of goods and services which, as disclosed in Note 5 to the financial statements, includes Kshs.3,514,751 relating to committee allowances. However, attendance registers, and committee minutes were not provided for audit review.

In the circumstances, the propriety of the expenditure of Kshs.3,514,751 could not be confirmed.

4. Unsupported Expenditure on Other Committee Expenses

The statement of receipts and payments reflects an amount of Kshs.13,392,507 in respect of use of goods and services which, as disclosed in Note 5 to the financial statements, includes Kshs.6,044,000 relating to other committee expenses. However, supporting documents including payment vouchers and monitoring and evaluation reports were not provided for audit review.

In the circumstances, the propriety of the expenditure of Kshs.6,044,000 could not be confirmed.

5. Unsupported Expenditure on Printing, Advertising and Information Supplies and Services

The statement of receipts and payments reflects an amount of Kshs.13,392,507 in respect of use of goods and services which, as shown in Note 5 to the financial statements, includes Kshs.3,433,756 relating to printing, advertising and information supplies and services. However, the expenditure was not supported with documents including ledger schedules, payment vouchers and procurement documents including, request for quotations, tender opening report, tender evaluation minutes, and goods received notes.

In the circumstances, the propriety of the expenditure of Kshs.3,433,756 could not be confirmed.

6. Unsupported Expenditure on Fuel, Oil and Lubricants

The statement of receipts and payments reflects an amount of Kshs.13,329,507 in respect of use of goods and services which, as disclosed in Note 5 to the financial statements, includes Kshs.400,000 relating to fuel, oil and lubricants. However, the expenditure was not supported by relevant documents including ledger schedules, payment vouchers and procurement records.

In the circumstances, the propriety of the expenditure of Kshs.400,000 could not be confirmed.

7. Unsupported Expenditure on Sports

The statement of receipts and payments reflects an amount of Kshs.54,949,215 in respect of other grants and transfers which, as disclosed in Note 7 to the financial statements, includes Kshs. 2,741,777 incurred on sports projects for supply of sports kits. However, supporting documents including payment vouchers, procurement documents and list of beneficiaries was not provided for audit review.

In the circumstance, the propriety of the expenditure of Kshs.2,741,777 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Constituencies Development Fund - Funyula 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 receipts budget and actual on comparable basis of Kshs.215,064,932 and Kshs.185,640,263 respectively, resulting to under-funding of Kshs.29,424,669 or 14% of the budget. Similarly, the statement reflects actual expenditure of Kshs.104,406,495 against approved budget of Kshs.215,064,932 resulting to under-performance of Kshs.110,658,437 or 51% of the budget.

The under-funding and under-performance affected the planned activities and may have impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

In the report for the previous year, several issues were raised under Report on the Financial Statements and Report on Lawfulness in Use of Public Resources. However, Management has not resolved the issues or provided reasons for the delay in resolving them.

3. Variances on Unutilized Fund Balances

Note 17.3 (Annex 3) to the financial statements on unutilized funds reflects comparative balances on four components which are at variance with the corresponding closing balances in the audited financial statements for the year ended 30 June, 2021, as shown below,

No.	Description of Components	Amounts in the Prior Year Audited Financial Statements (Kshs.)	Amounts in the 2021/2022 Comparative Financial Statements (Kshs.)	Variance (Kshs.)
1	Compensation of Employees	6,269,332	0	6,269,332
2	Use of Goods and Services	8,701,984	4,800,000	3,901,984
3	Transfers to other Government Units	17,618,860	11,350,000	6,268,860
4	Other Grants and Transfers	45,385,877	61,826,053	(16,440,176)

In the circumstances, accuracy and completeness of the respective comparative balances of utilized funds could not be confirmed.

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, I confirm that, nothing 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

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 controls, 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 controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management either intends to terminate the Fund or to cease its 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 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 controls 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 controls would not necessarily disclose all matters in the internal controls 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 controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Fund's policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to 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 Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

11 July, 2023