

# **REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - NYANDO CONSTITUENCY FOR THE YEAR ENDED 30 JUNE, 2020**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of National Government Constituencies Development Fund - Nyando Constituency set out on pages 21 to 44, which comprise the statement of assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows, statement of appropriation recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the National Government Constituencies Development Fund - Nyando Constituency as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the National Government Constituencies Development Fund Act, 2015.

### **Basis for Qualified Opinion**

#### **1. Inaccuracies in the Financial Statements**

The financial statements presented for audit contained the following inaccuracies: -

- i. The statement of assets and liabilities reflects the comparative amounts for the Fund balance brought forward as Kshs.6,347,349 which differs with the Kshs.6,247,249 reflected in the audited financial statements for the previous year. Further, the comparative net financial position as at 30 June, 2019 is shown as Kshs.23,590,486 but a cast of the amounts making up the figure gives Kshs.23,690,586.
- ii The statement of financial position for the year under review reflects prior year adjustments amount of Kshs.785,839. However, there were no supporting documents or explanations to support the adjustments.
- iii Note 5 to the financial statements reflects Kshs.10,580,620 for the comparative total but a cast of the items in the note gives Kshs.10,167,970.

- iv Note 7 to the financial statements reflects totals of Kshs.48,051,827 and Kshs.48,041,874 for the current year and the comparative year respectively. However, a cast of the items in the note gives Kshs.47,101,817 and Kshs.48,033,874 for the current and comparative year respectively.

Consequently, the presentation of the financial statements did not conform to the reporting template prescribed for national government constituency development fund. Therefore, the accuracy, validity and completeness of the financial statements for the year ended 30 June, 2020 could not be confirmed.

## **2. Bank Balances**

The statement of assets and liabilities reflects bank balances amounting to Kshs.1,511,719 as at 30 June, 2020. Review of the supporting bank reconciliation statements provided for audit revealed unrepresented cheques totaling Kshs.4,278,376, of which, cheques amounting Kshs.360,821 had become stale and were yet to be reversed in the cash book. Further, the bank statement reflects a balance of Kshs.5,748,454 as at 30 June, 2020, which differs with the bank confirmation certificate balance of Kshs.5,763,614. The resultant difference of Kshs.15,160 was not explained or reconciled.

Consequently, the accuracy, validity and completeness of the bank balances of Kshs1,511,719 as at 30 June, 2020 could not be confirmed.

## **3. Unsupported Expenditure on Use of Goods and Services**

The statement of receipts and payments reflects use of goods and services expenditure of Kshs.14,276,205. The amount includes expenditure on utilities, supplies and services amounting to Kshs.6,485,206 as per note 5 to the financial statements. However, supporting documents such as fuel registers, approval minutes, monitoring and evaluation reports, stores records, workshop reports, procurement records, and justification for payments totalling Kshs.4,536,120 on utilities, supplies and services were not provided for audit review.

Consequently, the accuracy, validity and completeness of use of goods and services figure of Kshs.14,276,205 for the year ended 30 June, 2020 could not be confirmed.

## **4. Accuracy of Other Grants and Transfers**

The statement of receipts and payments reflects other grants and transfers of Kshs.46,901,817. However, the supporting schedules provided for audit review reflected a total amount of Kshs.47,994,817 for the item resulting in unexplained variance of Kshs.1,087,000. Further, Note 7 to the financial statements on other grants and transfers reflects a total of Kshs.48,051,817 instead of Kshs.46,901,817. Additionally, casting of the items in the note adds to Kshs.47,001,817. No explanation was provided for the differences.

Consequently, the accuracy, validity and completeness of other grants and transfers figure of Kshs.46,901,817 for the year ended 30 June, 2020 could not be confirmed.

## **5. Inaccuracies in the Summary Statement of Appropriation**

The summary statement of appropriation indicates that the Fund received Kshs.125,590,486 from the National Government Constituencies Development Fund Board during the year as per the actual on comparable basis column. However, the amount was at variance with the statement of receipts and payments amount of Kshs.102,000,000 by Kshs.23,590,486 which was not supported or explained. In addition, the adjustments total is shown as Kshs.23,590,486 instead of the casted Kshs.23,640,486. Further, there were errors in amounts and percentages under the budget utilization difference column in respect of total receipts, use of goods and services and other grants and transfers.

Consequently, the accuracy of the summary statement of appropriation could not be confirmed.

## **6. Accuracy of the Summary of Fixed Assets**

Annex 4 to the financial statements reflects additions of fixed assets during the year amounting to Kshs.7,061,903. However, the amount differs with Kshs.6,163,379 expenditure on acquisition of assets as per the statement of receipts and payments.

Consequently, the accuracy, validity and completeness of the summary of fixed assets could not be confirmed for the year ended 30 June, 2020.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Nyando National Government Constituencies Development Fund 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 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: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.161,008,210 and Kshs.125,640,486 respectively resulting in underfunding of Kshs.35,367,724 or 22% of the budget. The Funds expenditure was limited to the amount realised and spent Kshs.125,100,571 or 99% of receipts.

Based on the approved estimates, underfunding and under expenditure affected planned activities and may have impacted negatively on service delivery to the residents of Nyando Constituency.

## 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 control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control.

In preparing the financial statements, Management is responsible for assessing the Funds 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, the 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 manner.

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

### **Auditor-General's Responsibilities for the Audit**

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution.

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

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Funds 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 continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**03 February, 2022**