

REPORT OF THE AUDITOR-GENERAL ON NATIONAL GOVERNMENT CONSTITUENCIES DEVELOPMENT FUND - ALEGO USONGA 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-Alego Usonga Constituency set out on pages 1 to 53, 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 the 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 the National Government Constituencies Development Fund - Alego Usonga 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 National Government Constituency Development Fund Act, 2015 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

1.1 Variances between Comparative Balances for 2021/2022 and the Audited Balances for 2020/2021 Financial Year

Review of the financial statements revealed inconsistencies between the balances in the 2021/2022 opening/comparative balances and the audited balances for 2020/2021 as detailed below.

Item	Reference	Audited Financial Statements Closing Balance in 2020-2021 (Kshs)	Opening Balance (2021/2022) Kshs.	Variance-Kshs.
Cash and cash equivalent at start of the year	Statement of cash flows	3,495,521	4,659,121	(1,163,600)
Decrease/increase in accounts receivables	Statement of cash flows	1,163,600	38,500	1,125,100
Net cash from operating activities	Statement of cash flows	7,829,604	6,666,004	1,163,600
Cash equivalent at the end of the year	Statement of cash flows	5,412,585	5,451,085	38,500
Use of goods and service	Note 5	351,384	2,351,384	(2,000,000)
Committee expenses	Note 5	6,480,580	6,664,150	(183,570)
Amount due to other grants other transfers	Note 17.3	32,250,576	30,250,576	2,000,000
Acquisitions of assets	Note 8	5,912,540	-	5,912,540

Item	Reference	Audited Financial Statements Closing Balance in 2020-2021 (Kshs)	Opening Balance (2021/2022) Kshs.	Variance-Kshs.
Balance brought forward	Note 13	4,697,621	4,659,121	38,500

1.2 Variances between the Statement of Cash Flows and the Statement of Financial Position

The statement of cash flows reflects cash and cash equivalents balance of Kshs.26,890,807 as at 30 June, 2022 while the statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.26,852,307 resulting in an unexplained variance of Kshs.38,500.

Similarly, the statement of cash flows as at 30 June, 2021 reflects cash and cash equivalents balance of Kshs.5,451, 085 while the statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.5,412,585 resulting to an unexplained variance of Kshs.38,500.

1.3 Inaccuracies in the Statement of Cash Flows

Recasting of the statement of cashflows revealed the following inaccuracies;

Item	Reported Balance (Kshs)	Recomputed balance (Kshs)	Difference (Kshs)
Net cash flow from operating activities (2020/2021)	6,666,004	6,704,504	(38,500)
Net cash flow from operating activities (2021/2022)	21,439,722	21,478,822	(39,100)
Net increase in cash and cash equivalent (2020/2021)	753,464	791,964	(38,500)
Use of goods and services (2020/2021)	10,801,661	10,753,702	47,959

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

2. Stale Cheques

The statement of receipts and payments reflects use of goods and services and other grants and transfers amounts of Kshs.55,864,444 and as disclosed in Note 7 to the financial statements. This amount includes stale cheques totalling Kshs.96,500 while the expenditure on use of goods and services as also disclosed in Note 5 totalling to

Kshs.8,765,417 includes stale cheques totalling Kshs.75,450 which had not been reversed back in the cash book.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.64,629,861 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the National Government Constituencies Development Fund - Alego Usonga 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 that the Fund expended Kshs.160,738,036 against an approved expenditure budget of Kshs.189,790,343 resulting to an under expenditure of Kshs.29,052,307 or 15.3% of the budget.

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

2. Unresolved Prior Year Matters

In the audit report for the previous year several issues were reported under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources. However, the matters raised remained unresolved as at 30 June, 2022.

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. Payment of Allowances without Charging Income Tax

The statement of receipts and payments reflects use of goods and services amount of Kshs.8,765,417 as disclosed in Note 5 to the financial statements. The expenditure includes an amount of Kshs.4,824,100 paid to Constituency Development Fund Committee members as allowances. However, PAYE on the allowances paid was not deducted and remitted to Kenya Revenue Authority. This contravened Section 3(2)(ii) of the Income tax Act cap 470 revised 2021 which states that subject to this Act, income upon which tax is chargeable under this Act is income in respect of gains or profits from employment or services rendered.

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

2. Payment for Incomplete and Sub-Standard Works

The statement of receipts and payments reflects and Note 6 to the financial statements reflects transfers to other government units amount of Kshs.92,798,478 in respect of transfers to other Government units and as disclosed in Note 6 to the financial statements. The amount includes Kshs.19,395,285 disbursed to fourteen education institutions for renovation of twenty-seven (27) classrooms and fencing of one school compound. However, Physical inspection of the projects in March, 2023, revealed poor workmanship with floors having cracks after completion, some window panes missing, door and window hinges poorly fitted, corridors had deep potholes, paint on the sidewalls falling off and projects not branded.

In addition, included in the expenditure is an amount of Kshs.26,679,706 disbursed to various education institution projects for construction and renovation of nine (9) class rooms. However, review of the procurement documents revealed that contractors awarded the tenders did not have valid tax compliance certificates.

In the circumstances, value for money on the funds incurred on these projects may not have been realized.

3. Vandalized Tractors

Annex 4 to the financial statements reflects fixed assets balance of Kshs.51,281,256 in respect of fixed assets. However, three (3) tractors had been abandoned at the former Municipal Council of Siaya's premises and were heavily vandalized and their value could not be determined.

In the circumstances, the value for money on the funds used to procure the tractors could not be confirmed.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and 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 its services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or 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 Fund's 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 was 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 considered internal controls in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls 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 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:

- Identified and assessed 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 obtained 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 controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 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 controls 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

04 July, 2023