

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF BARINGO FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of County Assembly of Baringo set out on pages 1 to 13, which comprise of the Statement of Financial Assets and Liabilities as at 30 June 2017, and the Statement of Receipts and Payments, Statement of Cash Flows and Statement of Comparison of Budget and Actual Amounts 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, because of the significance of the matter discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of County Assembly of Baringo as at 30 June 2017, and of its financial performance and its cash flows for the year ended, in accordance with International Public Sector Accounting Standards (Cash Basis).

In addition, as required by Article 229(6) of the constitution, I can confirm that, public money has not been applied lawfully and in an effective way.

### **Basis of the Adverse opinion**

#### **1.0 Use of Goods and Services**

##### **1.1 Domestic Travel and Subsistence Allowances**

The statement of receipts and payments for the year ended 30 June 2017 reflects total expenditure on domestic travel and subsistence of Kshs.81,623,168 compared to Kshs.35,639,000 in the previous year and an increase of Kshs.45,984,168 or 56%. No explanation was given for this increase. Further, examination of the cashbook disclosed a balance of Kshs.76,664,243.15 which differed with the ledger balance by Kshs.4,958,925 which has remained unexplained/unreconciled.

In the circumstances, the accuracy and completeness of the statement of receipts and payments could not be confirmed.

##### **1.3 Over expenditure on Communication, Supplies and Services**

The statement of receipts and payments reflects an expenditure of Kshs.4,840,733 incurred on communication, supplies and services during the period under review.

However, the approved budget for the item was Kshs.4,690,000.00 and therefore unauthorized over expenditure of Kshs.150,733.00 .

Although it has been explained that the over expenditure resulted from erroneous posting of the amount from office and general supplies and services to communication, supplies and services, no journal vouchers have been produced for audit to confirm the adjustments made to correct the wrong posting.

In the circumstances, the accuracy and completeness of the statement of receipts and payments could not be confirmed.

#### **1.4 Irregular Procurement – Insurance Costs**

The statement of receipts and payments reflects an expenditure of Kshs.16,298,193 was incurred on insurance costs during the period under review. However, there was no evidence of the tender security/performance bond having been demanded as required by the procurement laws since this was not produced for audit verification. In addition, no comprehensive valuation report of the fleet of motor vehicles which insurance premiums totaling Kshs.1,143,007 were paid for was produced for audit verification.

In the absence of the valuation reports, it was not possible to confirm how the insurance cost was determined.

### **2.0 Statement of Financial Assets and Liabilities**

#### **Understated Outstanding Imprest**

The outstanding imprest as per the GOK IFMIS imprest register for the year ended 30 June 2017 was Kshs.12,409,135 while the outstanding imprest disclosed in the statement of financial assets and liabilities was Kshs.9,239,410. Consequently, the outstanding imprest disclosed in the financial statements was understated by Kshs.3,169,728. No explanation has been given so far for the understatement. Consequently, the accuracy of the standing imprest reported in the statement and liabilities could not be confirmed.

#### **3.0 Inaccurate cash and cash equivalent balances**

The statement of cash flows reflects cash and cash equivalents at the beginning and the close of the year to be Kshs.21,619,348 . This did not take into account the closing cash balance of Kshs.8,855,000 in the year 2015/2016. Further note 7 to the financial statement which is meant to expand the figure given in the financial statement show 3 bank accounts with an aggregate balance of 111,494,052. The county government has not corrected or explained this fundamental error.

Consequently, the accuracy of the statement of cash flows as at 30 June 2017 could not be confirmed.

#### **4.0 Summary of Fixed Assets**

It was observed that Baringo County Assembly did not attach an annexure of the summary of fixed assets in the 2016/2017 financial statements in accordance with the revised financial reporting template dated 30 June 2017. Instead, an assets register was attached which did not disclose the total value of the assets. In the absence of the summary of fixed assets, it was not possible to verify the balance of Kshs.15,693,000 brought forward from the previous year and the additions of Kshs.476,106 in the year 2016/2017.

In the circumstances, it was not possible to ascertain the value of fixed assets belonging to the county assembly.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Baringo in accordance with ISSAI 30 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 adverse opinion.

#### **Key audit Matters**

Key audit matters are those that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Adverse Opinion section of my report, I have determined that there were no other key audit matters to communicate in my report.

#### **Other Matter**

##### **1.0 Irregular Expenditure-Other Grants and Transfers**

An expenditure of Kshs.5,529,800.00 was incurred on other current transfers, grants. However, examination of the expenditure records produced for audit disclosed the expenditure was incurred on travelling and accommodation allowances paid to members of the county assembly while participating in sporting activities and payment of subscriptions to sports associations. The expenditure was therefore irregular as it was incurred in contravention of section 138 of the Public Finance Management Act, 2012 which says grants are intended to finance development of projects or delivery of services.

##### **2.0 Failure to Establish Audit Committee**

Examination of the internal audit reports indicated that the county assembly has not established an audit committee. This contravenes the prevailing regulations which stipulate that all County Government entities should constitute an audit committee to scrutinize and make recommendations on both internal and external auditors' reports.

Although the internal audit reports are addressed to the County Assembly Clerk, no action appear to have been taken to implement the recommendations of the internal audit hence the need for establishment of the audit committee.

So far no explanation has been given for failure to establish an audit committee has been established.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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 such 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.

In preparing the financial statements, management is responsible for assessing the County Assembly's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the County Assembly or to cease operations, or have no realistic alternative but to do so.

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.

Those charged with governance are responsible for overseeing the County Assembly's financial reporting process.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the County Assembly's 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 County Assembly'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 County Assembly 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 County Assembly 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.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**16 July 2018**