

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF ELGEYO MARAKWET FOR THE YEAR ENDED 30 JUNE 2018**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of County Assembly of Elgeyo Marakwet set out on pages 1 to 31, which comprise the statement of financial assets and liabilities as at 30 June 2018, 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, 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 County Assembly of Elgeyo Marakwet as at 30 June, 2018, 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 County Governments Act, 2012 and The Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1.0 Presentation and Accuracy of the Financial Statements**

##### **1.1 Statement of Comparison of Budget and Actual Amounts**

The statement of comparison of budget and actual amounts recurrent and development combined reflects total payment adjustments figure of Kshs.17,864,051 which is at variance with the computed figure of Kshs.127,191,421 resulting to a variance of Kshs.109,327,370 which has not been reconciled or explained. Further, the statement reflects compensation of employees final budget of Kshs.226,603,351 which is also at variance with the computed figure of Kshs.335,930,721 resulting to a variance of Kshs.109, 327,370 which has also not been reconciled or explained.

Under the circumstance, the accuracy of the statement of comparison of budget and actual amounts recurrent and development combined for the year ended 30 June 2018 could not be confirmed.

##### **1.2 Variance Between Statement of Receipts and Payments and Statement of Comparison of Budget and Actual Amounts**

The statement of receipts and payments for the year ended 30 June 2018 reflects total receipts of Kshs.483,780,305 which is at variance with the statement of comparison

between budget and actual amounts recurrent and development combined figure of Kshs.483,318,854 resulting in unreconciled balance of Kshs.461,451. The statement of receipts and payments also reflects total payments figure of Kshs.483,636,693 while the statement of comparison between budget and actual amounts recurrent and development combined indicates a figure of Kshs.483,318,854 resulting in unreconciled balance of Kshs.317,839.

In consequence, the accuracy and completeness of the statement of receipts and payments for the year ended 30 June 2018 could not be confirmed.

## **2.0 Use of Goods and Services**

### **2.1 Domestic Travel and Subsistence**

Included in the use of goods and services expenditure of Kshs.177,407,534 reflected in the statement of receipts and payments is domestic travel and subsistence expenditure of Kshs.40,499,965 which include Kshs.16,406,800 incurred on County Assembly members' per diem. However, the per diems were directly expensed instead of being issued as imprest. Although management has explained that the expenditure relates to reimbursements for expenditure incurred before release of funds, supporting claim vouchers and approval for incurring the expenditure were not provided for audit verification. Further, invitation letters, attendance registers, training needs assessment report, nomination letters for participants and certificates in support were not made available for audit scrutiny.

In view of the foregoing, the accuracy, validity and propriety of Kshs.16,406,800 expenditure on domestic travel and subsistence for the year ended 30 June 2018 could not be ascertained.

### **2.2 Committee Expenses**

Included in the use of goods and services figure of Kshs.177,407,534 reflected in the statement of receipts and payments is other operating expenses expenditure of Kshs.44,224,096 which include an expenditure of Kshs.14,440,195 incurred on per diems for members of county Assembly which was directly expensed instead of being issued as imprest.

Under the circumstances, the validity and propriety of other operating expenses expenditure of Kshs.44,221,096 for the year ended 30 June 2018 could not be confirmed.

## **3. Lack of Management Representation Letter**

International Standard of Supreme Audit Institutions 1580 requires management to provide a management representation letter on the assertions made on the financial statements presented for audit. However, the County Assembly management did not provide the prerequisite management representation.

Consequently, the ownership, validity and authenticity of the financial statements for the year ended 30 June 2018 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Elgeyo Marakwet County Assembly 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 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. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

## Other Matter

### 1. Budget Control and Performance

#### 1.1. Budget Absorption

During the year under review, the Elgeyo Marakwet County Assembly had a total budget of Kshs.484,923,423 comprising development budget of Kshs.12,487,427 and recurrent budget of Kshs.472,435,996. However, the total budget reflected overall under absorption of Kshs.1,604,839 as summarized below:

Item	Budgeted Allocation 2017/2018	Actual 2017/2018	Under/Over Absorption	Under Absorption Rate %
Development	12,487,427	11,360,601	1,126,826	9%
Recurrent	472,435,996	471,957,983	478,013	0%
<b>Total</b>	<b>484,923,423</b>	<b>483,318,584</b>	<b>1,604,839</b>	<b>0%</b>

The under absorption of approved budget on development vote is an indication of activities and projects in the annual work plan not implemented by the County Assembly which is likely to have negative effect on service delivery by the County Assembly.

#### 1.2 Development Budget

During the year under review, the County Assembly allocated Kshs.12,487,427 to development Vote and spent a total of Kshs.11,360,601 resulting to net under expenditure of Kshs.1,126,826. However, the development vote budget is approximately 2.6% of the total budget contrary to Regulation 25 (1)(g) of the Public Finance Management (County Governments) Regulations, 2015 which stipulates that pursuant to Section 107(5) of the of the Public Finance Management Act, 2012 the county government actual expenditure on development shall be at least thirty percent in conformity with the requirement under Section 107(2)(a) of the Act.

### 1.3 Recurrent Budget

During the year under review, the Elgeyo Marakwet County Assembly allocated Kshs.472,435,996 for recurrent expenditure and spent a total of Kshs.471,957,983 resulting to under expenditure Kshs.478,013 as detailed below:

<b>Item</b>	<b>Budgeted Allocation 2017/2018 (Kshs)</b>	<b>Actual Expenditure 2017/2018 (Kshs)</b>	<b>Under/Over Absorption (Kshs)</b>	<b>Absorption Rate %</b>
Compensation of Employees	226,603,351	226,603,314	37	100%
Use of goods and services	177,881,645	177,404,535	477,110	100%
Transfers to Other Government Units	45,000,000	45,000,000	0	100%
Acquisition of Assets	22,948,000	22,947,134	866	100%
Other Payments (Bank Charges)	3,000	3,000	0	100%
<b>Total</b>	<b>472,435,996</b>	<b>471,957,983</b>	<b>478,013</b>	<b>100%</b>

From the above analysis, it is evident that the County assembly spent all funds allocated for the recurrent vote. However, the Assembly spent Kshs.226,603,314 or 47% of the receipts on compensation of employees contrary to Section 25 (1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which stipulates that the County Executive Committee Member with the approval of the County Assembly shall set a limit on the county government's expenditure on wages and benefits for its public officers pursuant to section 107(2) of the Public Finance Management Act, 2012 and the limit set shall not exceed thirty five (35) percent of the county government's total revenue. The 12% over expenditure on the recommended limit has not been explained.

#### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

##### Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Conclusion on Compliance 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

## **1.0 Compensation of Employees**

### **1.1 Failure to Observe One Third Staff Establishment Rule**

An audit review of personnel records availed for audit revealed that the County Assembly had 68 (Sixty-eight) employees out of which 65 (Sixty-five) or 96% are from the dominant ethnic community. The County Assembly is in breach of Section 65(1) (e) of the County Governments Act, 2012 on staff establishment which requires that County Public Service Board in selecting employees should ensure that at least thirty (30%) of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community.

### **1.2 Irregular payment of Acting Allowances**

Included in the compensation of employees figure of Kshs.226,603,314 reflected in the statement of receipt and payments is acting allowance expenditure of Kshs.15,983,595. However, the expenditure was not budgeted for and no documentary evidence was availed to confirm that officers had been appointed in acting capacity.

Under the circumstances, the propriety of acting allowance expenditure of Kshs.15,983,595 for the year ended 30 June 2018 could not be confirmed.

## **2.0 Use of Goods and Services**

### **2.1 Printing, Advertising and Information Supplies**

Included in the use of goods and services figure of Kshs.177,407,534 reflected in the statement of receipt and payments is an expenditure of Kshs.2,736,805 on advertisements in local dailies whose procurement did not meet the conditions for use of direct method as stipulated in Section 103 (2) of the Public Procurement and Asset Disposal Act, 2015.

Under the circumstance, the validity and propriety of Kshs.2,736,805 expenditure on advertisements for the year ended 30 June 2018 could not be confirmed.

### **2.2 Hospitality Supplies and Services**

An audit review of records related to expenditure on hospitality supplies and services including payment vouchers, ledgers, cashbook, invoices, LPOs and the supporting schedules revealed that the entity incurred an expense of Kshs.5,693,665 on catering and other hospitality services . However, no procurement records were availed to confirm how the suppliers of catering services were identified. Further, invoices, time tables/itineraries and signed attendance registers were not availed for audit verification.

Under the circumstances, the validity of hospitality supplies and services expenditure of Kshs.5,693,665 for the year ended 30 June 2018 could not be confirmed.

### **2.3 Routine Maintenance - Vehicles and Other Transport Equipment**

Included in the use of goods and services figure Kshs.177,407,534 is routine maintenance of vehicle and other transport equipment of Kshs.2,799,961. However, the expenditure was not supported by job cards indicating the repairs carried out and the estimated cost.

Under the circumstances, the validity and propriety of routine maintenance of vehicle and other transport equipment expenditure of Kshs.2,799,961 could not be confirmed.

### **3.0 Acquisition of Assets**

#### **3.1 Construction of Building**

Included in the acquisition of assets figure of Kshs.34,307,736 as disclosed under note 10 to the financial statements is construction of building figure of Kshs.7,200,957 in respect of the completion of cafeteria Phase II . Available records revealed that the completion of cafeteria Phase II was estimated to be on 12 April 2016 but physical verification during the month of October 2018 revealed that it has not been completed to date. No approval for extension of contract period was availed for audit review although the contractor had requested for an extension of the contract period on 16 November 2017, about 18 months after expiry of the contract period .

The contractor is in breach of contract agreement for the construction of buildings.

#### **3.2 Purchase of Vehicles and Other Transport Equipment**

Included in the acquisition of asset figure of Kshs.34,307,736 reflected in the statement of receipt and payments is purchase of motor vehicles and other transport equipment figure of Kshs.13,875,000 However, available information indicates that the expenditure was not budgeted for and therefore not approved.

Under the circumstances, the management is in breach of the law.

#### **3.3 Purchase of Office Furniture and Other Equipment**

Included in the acquisition of assets figure of Kshs.34,307,736 reflected in the statement of receipts and payments is purchase of office furniture and other general equipment expenditure of Kshs.5,049,507. However, the furniture and equipment have not been put to use eight (8) months since their delivery. Although the management explained that the equipment could not be put in to use as the cafeteria was not complete and operational, no reason was given for acquiring the equipment before the building was complete as this could render the equipment unusable or even become obsolete and tying the much need cash. Further, procurement records such as quotations were also not availed for audit verification.

Under the circumstances, value for money on the office furniture and other general equipment expenditure of Kshs.5,049,507 was not realised.

#### **3.4 Purchase of ICT Equipment, Software and Other ICT Equipment**

The County Assembly procured tablets costing Kshs.5,012,800 but a list of officers issued with the tablets and laptops was not availed for audit verification. In addition, the inspection and acceptance reports for the tablet was also not availed for audit verification.

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, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

### Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### Basis for conclusion

#### 1. Understanding the Entity

##### 1.1. IT Controls

As noted in the previous audit, audit review of the ICT environment of Elgeyo Marakwet County Assembly for the year ended 30 June 2018 revealed the following:

- a) The entity has not established IT steering committee at the board level to provide direction on IT matters.
- b) The following issues regarding non-implementation of some of the provisions of the ICT Policy were noted, including:
  - i) The policy recommends that the Anti-Virus software be updated every fortnight but this could not be verified.
  - ii) The policy makes provision for staff to have unique e-mail addresses which could also not be verified.
  - iii) There is provision for creation of an office intranet which could not be verified as well

- iv) There is provision for creation of an ICT Department with an ICT Manager. At the time of audit in October 2018, there were two officers designated Officer I and Officer II.

Under the circumstances, the entity may fail to realize its objectives due to effects associated with poor implementation of IT policies.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 County Assembly of Elgeyo Marakwet's ability to continue sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the County Assembly either intends to liquidate the Elgeyo Marakwet 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.

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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the Elgeyo Marakwet County Assembly 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 review is planned and performed to express a conclusion with limited assurance as to 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 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 review 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 Elgeyo Marakwet County Assembly 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 Elgeyo Marakwet County Assembly 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 Elgeyo Marakwet County Assembly to cease to continue as a going concern or 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 Elgeyo Marakwet 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**

**18 February 2019**