

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF KIAMBU FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Kiambu set out on pages 15 to 34, which comprise 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, 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 Kiambu as at 30 June, 2017, 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.

in addition, as required by Article 229(6) of the Constitution, except for the matters described in the Qualified Opinion and Other Matter section of my report, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Compensation of Employees

1.1 Accuracy of Compensation of Employees' Figure

The statement of receipts and payments for the year ended 30 June 2017 reflects compensation of employees of Kshs.440,105,393. However records maintained by the County Assembly indicate a figure of Kshs.453,316,866, resulting in an unreconciled variance of Kshs.13,211,473. As a result, the accuracy of compensation of employees' figure totaling Kshs.440,105,393 could not be confirmed.

1.2 Overpayment of House Allowance

Note 4 to the financial statements reflects personal allowances paid as part of salary of Kshs.103,112,000. Included in this figure is Kshs.714,000 being house allowance overpaid to seven staff owing to wrong placements in higher job groups. House

allowances of Kshs.20,000 which are above the recommended amounts of Kshs.13,000 were paid. This is contrary to salaries and remuneration commission's recommendations vide circular No.SRC Ref.No.SRC/ADM/CIR/1/13 Vol.III (126) dated 10 Dec 2014.

Consequently, the propriety of the total house allowance of Kshs.714,000 paid could not be confirmed.

1.3 Unjustified Payment of Sitting Allowances

The personal allowances paid as part of salary of Kshs.103,112,000 as disclosed in Note 4 to the financial statements includes an amount of Kshs.280,383 paid to members of the County Assembly(MCAs) as sitting allowances for various meetings, seminars and conferences held during the year. However, a review of schedules and other supporting documents revealed that some members did not attend meetings held according to minutes presented for audit and they did not sign attendance registers. Further, some members were found to have signed attendance registers of different meetings held concurrently in the assembly and away from the precincts of the County Assembly and paid sitting allowances for both meetings.

In view of the observations, ineligible sitting allowances of Kshs.280,383 paid to MCAs during the year under review for concurrent meetings is an irregular charge to public funds.

2.0 Use of Goods and Services

The statement of receipts and payments for the year ended 30 June 2017 reflects Use of Goods and Services expenditure totaling Kshs.392,044,066 as detailed in Note 5 to the financial statements. The following observations were made in respect of the expenditure:

2.1 Domestic Travel and Subsistence

Included in the use of goods and services figure of Kshs.227,817,422 as further disclosed in Note 5 to the financial statements is domestic travel and subsistence expenditure of Kshs.17,245,900.

The expenditure is in respect of various activities such as consultative meetings and report writing. However, notices of meetings, agenda, reports and minutes for the said meetings were not produced for audit verification. Further the meetings were held in locations away from the premises of the County Assembly in contravention of Treasury circular No.17/2013 Reference ES/1/03 H(12) of 17 December 2013 which states that such meetings that would ordinarily be done outside the office should be discouraged .

The County Assembly management was therefore in breach of the law. Additionally, the propriety of the expenditure of Kshs.17,245,900 could not be confirmed.

2.2 Foreign Travel

Note 5 to the financial statements reflects foreign travel and subsistence expenditure of Kshs.15,006,680 which includes an amount of Kshs.6,428,478 incurred by three (3) County Assembly delegations that visited Kampala, Uganda for training on women empowerment between 18 and 28 September 2016 and other two visits on Legislative and Parliamentary practices from 30 October to 8 November 2016 and from 4 to 13 December 2016. However, the expenditure was not supported by evidence of travel such as copies of passports, boarding passes and reports of the meetings attended.

Consequently, the propriety and validity of foreign travel and subsistence expenditure of Kshs.6,428,478 could not be confirmed.

2.3 Training Expenses

Included in the Use of Goods and Services and as further disclosed in Note 5 to the financial statements is training expenditure totaling Kshs.26,824,024. However, records maintained by the County Assembly reflect total expenditure of Kshs.27,268,024 resulting in unexplained and unreconciled difference of Kshs.443,591.

Consequently, the accuracy and completeness of training expenses of Kshs.26,824,024 could not be confirmed.

2.4 Hospitality Supplies and Services

Note 5 to the financial statements reflects hospitality, supplies and services expenditure of Kshs.20,096,810 paid in respect of hire of conferences facilities for holding various workshops, seminars and training of officers and members of the County Assembly. However, the payments were not supported by attendance lists or reports emanating from such meetings.

Consequently, the propriety of hospitality, suppliers and services figure of Kshs.20,096,810 could not be confirmed.

2.5 Rentals of Produced Assets

Note 5 to the financial statements further reflects rentals of produced assets expenditure of Kshs.14,058,079 out of which Kshs.11,155,641 was in respect rent for ward offices that have been leased for members of the County Assembly. The rent was paid at a uniform rate of Kshs.15,000 per month for each ward office. However, as previously reported in 2015/2016, no valuation was done to establish the reasonableness of the rent charged. The management has not explained how rent for offices located in different towns were charged and paid for uniformly.

Consequently, it has not been possible to confirm the propriety and value for money on ward office rent expenditure of Kshs.11,155,641.

2.6 Other Operating Expenses

Note 5 to the financial statements reflects other operating expenses of Kshs.21,673,118 which include an amount of Kshs.15,254,580 being imprests issued to County Assembly wards for office running expenses.

However, there was no documentary evidence to show how the imprest issued was accounted for. Consequently, the propriety of operating expenses totaling Kshs.15,254,580 could not be confirmed.

3.0 Acquisition of Assets

3.1 Construction of Buildings

Included in acquisition of assets' balance of Kshs.64,902,873 and as disclosed in Note 10 to the financial statements is construction of buildings expenditure of Kshs.13,000,000. However, supporting schedules maintained by the County Assembly reflect a total of Kshs.26,344,885 resulting in an unexplained variance of Kshs.13,344,885.

As a result, the accuracy and completeness of construction of buildings' figure of Kshs.13,000,000 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Kiambu 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 and Other Matter sections, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1. Failure to Observe One Third Rule on Staff Establishment

A review of human resource records maintained by the County Assembly of Kiambu revealed that the assembly had a total of seventy two (72) employees in its payroll from six (6) ethnic communities.

However, the dominant community in the county took 57 (or 79%) of the staff composition while the remaining balance of 15 (or 21%) of positions were shared among the other five communities contrary to section 65(1)(e) of the County Governments Act, 2012 which requires that at least thirty percent (30%) of the positions should be filled by candidates who are not from the dominant community in the county.

2. Failure to Prepare a Summary of Fixed Assets Register

The statement of receipts and payments shows that an amount of Kshs.64,902,873 was incurred during the year for acquisition of assets. However, the County Assembly did not prepare a summary of fixed assets register as an annex to these financial statements as required by the reporting framework recommended by the Public Sector Accounting Standards Board (PSASB) through circular reference AG4/16/1/Vol.IV/76 dated 13 July 2017. The financial statements therefore do not conform with IPSAS and as prescribed by the Board.

3. Failure to Advertise Positions in Recruitment of Staff

During the year under review, the County Assembly of Kiambu recruited sixteen (16) employees on contract terms. However, management did not present evidence that the positions were advertised and candidates picked in a competitive process contrary to section 66 of the County Governments Act, 2012. The County Assembly was therefore in breach of the law.

4. Overall Budget Performance

During the financial year 2016/2017, the County Assembly of Kiambu had a final budget of Kshs.953,889,139 comprising of recurrent vote of Kshs.906,245,126 and development allocation of Kshs.47,644,013. The County Assembly had an, overall under absorption of budget of Kshs.12,536,807 or 1% as tabulated below;

Vote	Approved Budget 2016/2017 Kshs.	Actual Expenditure 2016/2017 Kshs.	Under Absorption Kshs.	Under Absorption %
Recurrent	906,245,126	894,027,576	12,217,550	1
Development	47,644,013	47,324,756	319,257	1
Total	953,889,139	941,352,332	12,536,807	1

4.1 Recurrent Budget Absorption

During the year under review, the County Assembly of Kiambu allocated Kshs.906,245,126 for recurrent expenditure but spent Kshs.894,027,576 thus resulting in an overall under expenditure of Kshs.12,217,550 as detailed below;

Expenditure Item	2016/2017 Budgeted Amount-Kshs.	2016/2017 Actual Expenditure- Kshs.	Under Absorption Kshs.	Under Absorption %
Compensation of Employees	440,105,393	440,105,393	-	0
Use of Goods & Services	392,261,616	392,044,066	217,550	0.1
Other Grants & Transfers	3,300,000	3,300,000	-	0
Social Security Benefits	41,000,000	41,000,000	-	0
Acquisition of Assets	29,578,117	17,578,117	12,000,000	59
Total	906,245,126	894,027,576	12,217,550	59.1

The above analysis indicates that the under absorption of Kshs.12,217,550 is largely in respect of acquisition of assets, which had an annual budget of Kshs.29,578,117 against actual expenditure of Kshs.17,578,117. The under absorption means that the County Assembly did not implement or complete some projects as planned. The management has not provided any explanation for the under expenditure.

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 continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting.

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