

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF KIAMBU FOR THE YEAR ENDED 30 JUNE 2018

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 43 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 statements of comparison of budget and actual amounts – recurrent, development and 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 effects 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 Kiambu County Assembly 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 Public Finance Management Act, 2012.

Basis of Qualified Opinion

1. Variances Between IFMIS Records and Financial Statements

IFMIS records reflects an amount of Kshs.1,343,283,554.45 against total payments for the year ended 30 June 2018 which differs from the amounts of Kshs.1,266,241,118.85 and Kshs.1,264,915,775 reflected in the ledger maintained by the County Assembly and statement of receipts and payments, respectively.

In addition, IFMIS records reflects amounts of Kshs.1,336,317,224 and Kshs.6,966,330.20 against recurrent and development expenditure while the statements of comparison of budget and actual amount reflects amounts of Kshs.1,264,089,325 and Kshs.826,450 against recurrent and development expenditure, respectively.

The above differences between IFMIS records, the ledger and financial statements have not been reconciled or explained.

2. Variances in Actual Receipts

The statements of comparison of budget and actual amounts reflects amounts of Kshs.1,264,089,325 and Kshs.826,450 against recurrent and development actual receipts

while records maintained in respect of exchequer receipts reflect Kshs.1,264,539,825 and Kshs.2,118,690 for recurrent and development, respectively. The resulting differences of Kshs.450,500 and Kshs.1,292,240 in respect of recurrent and development receipts, respectively have not been reconciled or explained.

3. General Suspense Account

IFMIS Ledger reflects an expenditure of Kshs.1,534,063 under the General Suspense Account which includes a payment of Kshs.813,063 to County Assembly Clerk. However, payment voucher and documents relating to the payment of Kshs.813,063 have not been provided for audit verification contrary to the provisions of Section 9 (1) (e) of the Public Audit Act, 2015. As a result, the propriety and validity of the expenditure of Kshs.813,063 can not be confirmed.

In addition, the County Assembly management has not given reasons for concealing the expenditure of Kshs.1,534,063 in the General Suspense Account.

4. Payment Vouchers

Examination of four payment vouchers revealed that payees disclosed in the IFMIS Ledger differs from payees named on the payment vouchers. In addition, the amounts indicated in the schedules attached to the payment vouchers differs from the amount on the face of the vouchers as summarized below:

PV. No.	IFMIS Payee	PV Payee	PV Amount Kshs.	Supporting Schedules Amount Kshs.	Variance Kshs.
0061	County Assembly Clerk	MCA Induction Training 2017	6,984,000	7,728,000	[744,000]
0067	County Assembly Clerk	MCA Induction Training 2017	4,000,000	2,487,800	1,512,200
0198	County Assembly Clerk	Cooperative Bank of Kenya	1,000,000	617,444	382,556
0431	County Assembly Clerk	Cooperative Bank of Kenya	1,327,100	1,466,600	[139,500]
			13,311,100	12,299,844	1,894,756

No satisfactory explanation has been provided for the above anomalies.

The County Assembly management has not provided for audit the following payment vouchers totalling Kshs. 1,273,870 :

Payment Date	Voucher	Sub item Description	Payee	Amount Kshs
17-Jan-18	40013001	Ministry HQ Recurrent Bank A/C	County Assembly Clerk	560,000

19-Mar-18	40014705	Ministry HQ Recurrent Bank A/C	County Assembly Clerk	262,000
26-Jun-18	40017947	Ministry HQ Recurrent Bank A/C	Stephen Ndichu Ndabi	451,870
Total				1,273,870

Consequently, the propriety and validity of the above expenditure cannot be confirmed.

5. Use of Goods and Services

5.1. Domestic Travel and Subsistence

During the year under review, payments totalling Kshs.9,425,175 were made to Members of County Assembly (MCAs) in respect of attending committee meetings and training sessions and the expenditure charged to domestic travel and subsistence. However, portable biometric devices purchased at a cost of Kshs.1,316,020 were not being used, and thus creating a loophole in attendance control. Consequently, it has not been possible to confirm the propriety and validity of the payments totalling Kshs. 9,425,175 made to the MCAs.

5.2. Unsupported Expenditure on Foreign Travel and Subsistence

Examination of temporary imprests surrender vouchers revealed that expenditure totalling Kshs. 4,634,884 as tabulated below was incurred in Tel Aviv to hire halls and pay facilitators.

PV. No	Payee	Details	Amount Kshs
1342	Paul Mwaura Mucheru	Surrender of imprest for a seminar in Israel	1,527,328
1607	Godfrey Muriuki Kimani	Surrender of imprest for a seminar in Israel	1,553,778
1540	Lillian Wangui Nuthu	Surrender of imprest for a seminar in Israel	1,553,778
		Total	4,634,884

However, the County Assembly management has not justified choice of Tel Aviv as the destination for training. In addition, the expenditure is supported with hand written receipts which are not dated. Consequently, the propriety and validity of the expenditure cannot be confirmed.

5.3. Rentals of Produced Assets

Although tenancy agreements for various ward offices were provided for audit review, the County Assembly management has not explained how rent totalling Kshs.10,955,649 paid in respect of the ward offices was determined.

6. Misclassification of Expenses

Disclosed under Note 5 to the financial statements is an amount of Kshs. 27,820,871 relating to other operating expenses. A review of the ledger postings revealed that included in this figure is an amount of Kshs.15,467,382 described as imprests issued either to county assembly wards for running the ward offices or to other staff members within the Assembly Headquarters. In the circumstances, the validity and accuracy of other operating expenses amounting Kshs.15,467,382 cannot be confirmed.

7. Cash and Cash Equivalents

7.1. Unreconciled Balances

Cash and cash equivalents balance of Kshs.1,742,740 as at 30 June 2018 reflected in the statement of assets and liabilities differs with the negative cash book balance of Kshs.495,707,730 as of that date. The resulting difference of Kshs.497,450,470 has not been reconciled or explained.

Further, no evidence has been provided for audit review to confirm that the County Assembly carried out a board of survey at the end of the financial year to verify the actual cash and bank balances.

In the circumstances, the validity and accuracy of cash and cash equivalents balance of Kshs.1,742,740 cannot be confirmed.

7.2. Bank Reconciliation Statement

Examination of the bank reconciliation statements revealed that the recurrent bank reconciliation statement for the month of June, 2018 was not supported by schedules of payments totalling Kshs.28,614,524 in bank statement not yet recorded in the cash book and unexplained negative receipts of Kshs.204,326,038.40 in cash book not yet recorded in the bank statement.

8. Pending Bills

The financial statements under Annex 1 and 2 shows pending bills totalling Kshs.60,234,731 which were not paid as of 30 June 2018 but were instead carried forward to be settled from the budgetary allocations for 2018/2019 financial year. Had the bills been paid in 2017/2018 financial year, the statement of receipts and payments for the year ended 30 June 2018 would have reflected a deficit of Kshs.58,491,991 instead of a surplus of Kshs.1,742,740 now shown.

Further, included in the above pending bills is an amount of Kshs.15,034,400 for allowances, workshops and training expenses. However, no documentary evidence has been provided on how the workshop and training venues were identified.

9. Failure to Keep and Maintain Assets Register

The financial statements under Note 10 and Annex 4-summary of fixed assets register shows acquisition of assets at a total cost of Kshs.405,726,089, which includes an amount of Kshs.38,738,539 relating to motor vehicles, office furniture and ICT equipment, during the year under review. However, the County Assembly during the year under review did not keep and maintain assets register where details of assets acquired such as date of acquisition, value and disposals were expected to be recorded. Consequently, it has not been possible to verify and confirm ownership, existence, value and completeness of the assets acquired, issued or disposal-off as of 30 June 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kiambu 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 and the Basis for Conclusions on compliance with lawfulness and effectiveness in use of public resources and effectiveness of internal controls, risk management and governance sections, I have determined that there are no key audit matters to communicate in my report.

Other Matters

1. Performance of Budget

During the financial year ended 30 June 2018, the County Assembly of Kiambu had an approved budget of Kshs.1,381,745,034 comprising of recurrent vote of Kshs.1,373,745,034 and development vote of Kshs.8,000,000. The summary statement of appropriation recurrent and development combined reflects overall actual expenditure Kshs.1,264,915,775 which is equivalent to 92% utilization. The analysis below indicates that the development funds were grossly under-utilized resulting in under expenditure of Kshs.7,173,550 or 89.7% of the amount allocated.

Vote	Approved Budget 2017/18 Kshs	Actual Expenditure 2017/18 Kshs	Variance Kshs	% Variance to Budget
Recurrent	1,373,745,034	1,264,089,325	109,655,709	7.98%
Development	8,000,000	826,450	7,173,550	89.7%
Total	1,381,705,034	1,264,915,775	116,829,259	8.45%

The table below further helps to analyze recurrent revenue and expenditure performance for the year under review:

Detailed Analysis	2017/2018 Final Budget Figures Kshs.	2017/2018 Actual Expenditure Kshs.	Variance (Under-Receipts /Under-Expenditure) Kshs	Variance As a Percentage of the Budget %
Revenue				
Transfers from National Treasury	1,381,745,034	1,266,658,515	115,086,519	8%
Expenditure				
Compensation of Employees	410,622,000	396,048,410	14,573,590	4%
Use of Goods and Services	490,138,434	459,941,276	30,197,158	6%
Other Grants and Transfers	3,450,000	3,200,000	250,000	7%
Acquisition of assets	469,494,600	404,899,639	64,594,961	14%
Total	1,373,745,034	1,264,089,325	109,615,709	92%

2. Failure to Implement One Third Rule on Staff Establishment

A review of human resource records maintained by the Kiambu County Assembly revealed that the assembly had 84 employees and 3 staff members seconded from the county executive making a workforce of 87 as at 30 June, 2018. The table below helps to analyze the 87 employees in terms of ethnic composition:

Ethnic Group	Kikuyu	Kamba	Meru	Embu/ Mbeere	Luhya	Luo/Kisii/ Kalenjin	Total
Number	69	4	9	-	3	2	87
Percentage (%)	79.3%	4.59%	8.0%	2.3%	3.4%	1.15%	100%

From the above analysis, the dominant ethnic community in Kiambu County comprised 79.3% of the staff while the remaining balance of 20.7% of positions were shared among the other five ethnic communities contrary to the provision of the County Government Act, 2012 which provides that atleast 30% of the employees should not be from the dominant community in the County.

3. Recruitment of the Clerk to the County Assembly

Although, the financial statements of the County Assembly were signed and delivered for audit by the Clerk to the Kiambu County Assembly, no information and documentary evidence including personal file have been provided to show how the position of the clerk was filled. Further, no documentary evidence has been provided to confirm personal emoluments paid to the clerk during the year under review.

REPORT ON COMPLIANCE WITH 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 Qualified Opinion and the Basis for Conclusions on compliance with lawfulness and effectiveness in use of public resources and effectiveness of internal controls, risk management and governance sections 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. Insurance Costs

Audit of insurance costs revealed that an insurance company was awarded a tender to provide both group and staff medical insurance covers for both Members of County Assembly (MCAs) and the assembly staff at a total cost of Kshs.25,438,187. However, a review of internal memo dated 28 August 2018 and minutes of 53rd meetings held on Thursday 23rd August 2018 revealed that the company was performing below expectations. Records further show that Memorandum of Understanding between the insurance company and hospitals has been suspended and, therefore unable to provide the required services. In the circumstances, value for money may not be achieved as regards the insurance cost of Kshs. 25,438,187.

2. Expired Contract Agreement on Fuel Oil and Lubricants

As shown under Note 5 to the financial statements an amount of Kshs.3,571,459 was paid for fuel, oil and lubricants. However, examination of the respective payment vouchers and other underlying documents revealed that contract for supply of fuel between Total Kenya and Kiambu County Assembly was for the period from February 2015 to February 2016.

Therefore, the fuel was supplied in 2017/2018 financial year without a valid contract contrary to Sections 88 and 139 (2) (a) of the Public Procurement and Asset Disposal Act 2015 which prescribes on how tender validity periods may be extended.

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, except for the matters described in the Basis for Qualified Opinion and the Basis for Conclusions on compliance with lawfulness and effectiveness in use of public resources and effectiveness of internal controls, risk management and governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Risk Management

A review of governance, Information Technology (IT) and risk management environment revealed the following weaknesses:

- The County Assembly has not constituted both IT Plan and Strategic Committees to manage ICT matters. Environmental controls on fire suppression systems and air conditioning on server rooms are not in place.
- Formal documented and tested emergency procedures were not provided for audit review. The County Assembly has no back up and retention strategy to ensure continuity of operations in case of system failure. The management does not conduct regular reviews on risk assessment of operational areas.
- The County Assembly has not constituted a Public Finance Management Standing Committee in accordance with the Public Finance Management (County Government Regulations, 2015), regulation 19(1) to ensure there is prioritization of resource

allocation, regular review of budget implementation, identify risks and implementation of appropriate measures to mitigate such risks.

In the absence of IT policy, IT strategic plan and risk assessment committees, IT goals implemented may not contribute to the objectives of the County Assembly. There may be interruptions, assets of the Assembly may not be safeguarded well and operational risks may not be determined.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit so as 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 ability to sustain service, disclosing, as applicable, matters related to sustainability of service and using the applicable basis of accounting unless the management either intends 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 resources are applied in an effective manner.

Those charged with governance are responsible for overseeing the 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.

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 policies and procedures may deteriorate.

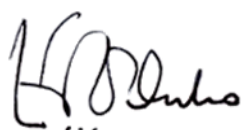
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 County Assembly's ability 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 sustaining 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

14 January 2019