

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF KIRINYAGA 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 Kirinyaga set out on pages 1 to 20, which comprise the statement financial assets 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 County Assembly of Kirinyaga 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 for Qualified Opinion

1. Accuracy of the Financial Statements

1.1. Variances Between Financial Statements and IFMIS Records

The figures reflected in the financial statements for the year ended 30 June 2018 vary with IFMIS records as summarized below:

Item	Actual Receipts/ Expenditure as Per IFMIS Extracts Kshs.	Actual Receipts/ Expenditure as per Financial Statements Kshs.	Difference Kshs.
Tax Receipts	202,399.00	0.00	202,399.00
Compensation of Employees	227,732,107.10	236,238,664.00	-8,506,556.90
Use of Goods and Services	185,789,763.75	239,164,221.00	-53,374,457.25
Other Grants and Transfers	3,200,000.00	0.00	3,200,000.00
Social Security Benefits	47,240,860.00	0.00	47,240,860.00
Acquisition of Assets	177,165,403.30	39,847,301.00	137,318,102.30
Other Payments	6,188,700.00	0.00	6,188,700.00

No reconciliations or satisfactory explanations have been provided for the above variances.

1.2. Variances Between Statement of Comparison of Budget & Actual Amounts and IFMIS Budget Report

Further analysis of budget figures reflected in the statement of comparison of budget and actual amounts presented for audit and IFMIS budget report revealed variances as shown below:

Item Category	IFMIS Budget Report Figures			Budget Figures As Per the Financial Statements		Differences-Kshs.
	Printed Estimate Kshs	Supplementary Estimates-Kshs	Final Approved Estimate (Net) Kshs	Statement of Comparison of Budget & Actual Amounts-Kshs	Supplementary Estimates Kshs	
Exchequer Releases	0	0	0	583,547,175	0	-583,547,175
Payments					0	
Compensation Of Employees	171,634,751	57,211,584	228,846,335	228,846,335	0	1,114,228
Use Of Goods And Services	143,444,985	52,314,995	195,759,980	199,459,980	0	9,970,216
Other Grants And Transfers	2,400,000	800,000	3,200,000	0	0	0
Social Security Benefits	38,805,645	8,435,215	47,240,860	47,240,860	0	0
Acquisition Of Assets	115,806,250	129,268,750	245,075,000	108,000,000	0	67,909,597
Other Payments	0	0	0	6,188,700	0	-6,188,700
TOTAL	472,091,631	248,030,544	720,122,175	583,547,175	0	-510,741,834

No reconciliations or satisfactory explanations have been similarly provided for the above variances.

2. Compensation of Employees

2.1. County Ward Staff

The statement of receipts and payments reflects under compensation of employees' expenditure of Kshs.236,238,664 and as disclosed in Note 4 to the financial statements includes an amount of Kshs.111,010,894 relating to basic salaries of permanent employees. The latter figure also includes an amount of Kshs.18,406,068 which was incurred on salaries of ward staff. The ward staff basic salaries comprise of an amount Kshs.14,199,972 paid to staff appointed during the year while the balance of Kshs.4,206,096 was paid as salaries to outgoing ward staff.

However, a review of records relating to recruitment of the new ward staff revealed that the positions were not competitively filled or advertised and the Assembly does not have a salary structure or job descriptions for the ward staff. Further, the officers with same designations were paid different salaries. No explanation has been provided for these anomalies, Consequently, the validity and propriety of the expenditure of Kshs.18,406,068 incurred on ward office staff during the year ended 30 June 2018 cannot be confirmed.

2.2. Unreconciled Differences

The compensation of employees' expenditure figure of Kshs.236,238,664 for the year ended 30 June 2018 is at variance with IFMIS payments details of Kshs.227,732,107, resulting in a difference of Kshs.8,506,557. Further, included under compensation of employees as disclosed in Note 4 to the financial statements is an expenditure of Kshs.111,010,894 relating to basic salaries of permanent employees. However, this expenditure figure is at variance with an amount Kshs.111,062,894 shown in the supporting schedules. No explanations or reconciliations have been provided for these variances.

As a result, the accuracy of the expenditure figure of Kshs.236,238,664 on compensation of employees during the year under review cannot be confirmed.

3. Pending Bills

The financial statements of the County Assembly indicate that bills amounting to Kshs.19,644,640 that were incurred during the year under review were not settled but carried forward to 2018/2019. Had the bills been paid and the expenditure charged to the accounts for the year under review, the deficit of Kshs.20,453 reflected in the statement of receipts and payments would have increased to Kshs.19,665,093, an indication that the management entered into financial commitments for which no resources were available.

Further, failure to settle bills during the year to which they relate distorts the financial statements for that year and adversely affects the provisions for the subsequent year to which they have to be charged.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Kirinyaga 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 Basis for Conclusion on lawfulness and effectiveness in use of public resources sections of my report, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1. Overall Budget Performance

During the financial year 2017/2018, the County Assembly had a final budget of Kshs.583,547,175 comprising of recurrent vote of Kshs.490,547,175 and development allocation of Kshs.93,000,000. Further, the statement of comparison of budget and actual amounts; recurrent and development combined reflects an overall budget under absorption of Kshs.68,296,990 or 12% as tabulated below:

Vote	Approved Budget 2017/2018 Kshs.	Actual Expenditure 2017/2018 Kshs.	Over/(Under) Absorption Kshs.	Over/(Under) Absorption %
Recurrent	490,547,175	490,567,627	20,452	0.0
Development	93,000,000	24,682,558	(68,317,442)	73
Total	583,547,175	515,250,185	(68,296,990)	12

The above analysis shows that the under absorption of approved budget relates to development vote which impacted negatively on the implementation of approved development projects. However, the management has not provided explanation for the failure to utilize fully budgetary provisions as appropriated by the County Assembly.

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 Qualified Opinion and Basis for Conclusion on lawfulness and effectiveness in use of public resources 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. Staff Establishment

1.1. Unauthorized Administrative Officer Positions

A review of County Assembly Human Resource records revealed that the County Assembly did not have an approved staff establishment in 2017/2018 financial year. Further, a review of proposed staff establishment for administrative officers indicates that two positions are provided for in the establishment against ten administrative officers currently in that position an indication of existence of unauthorized positions.

Further, although the Commission on Revenue Allocation in a Circular Reference CRA/FA/01 VOL.11(22) dated 28 June 2018 capped the maximum number of staff in County Assembly of Kirinyaga, the County Assembly Service Board has not identified the number of different cadres of staff to be employed. In the circumstances, the actual number of staff approved to be in employment of the Assembly can not be established.

1.2. Appointment of Unqualified Staff – Hansard Reporter II

Examination of recruitment records for the County Assembly revealed that on 24 July 2017 the management appointed two officers to the position of Hansard Reporter II who never met the required minimum qualifications. The advertisement notice of vacant position provided that the candidate should have a Bachelor's Degree in Journalism/Mass Communication/Linguistics majoring in English and Kiswahili, and Typing II. However, a review of personal files showed that one of those employed had a Bachelor of Environmental Studies while the other had Bachelor of Technology in Science Laboratory. The management did not explain why the two were considered yet they did not meet the selection criteria.

Further, records indicate that on 10 August 2017 after the two officers were appointed, one of the officers was re-deployed as Second Clerk Assistant/Clerk Assistant II. The re-deployment made those in position to be five against a total of four vacant posts advertised and therefore excess appointments. In addition, before the re-deployment of the officer, three Hansard Reporter II officers had been appointed to the posts on 24 July 2017 against the advertised two vacant posts. The management has however not provided satisfactory explanation for the irregularities noted.

In the circumstances, the County Assembly is in breach of the County Governments Act, 2012, and the County Public Service Human Resource Manual.

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 Basis for Conclusion on lawfulness and effectiveness in use of public resources 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

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 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, risk management and governance.

In preparing the financial statements, management is responsible for assessing the County Assembly of Kirinyaga 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 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 County Assembly of Kirinyaga 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 County Assembly of Kirinyaga 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 of Kirinyaga'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 of Kirinyaga 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 of Kirinyaga 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

15 January 2019