

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF LAIKIPIA 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 Laikipia, which comprise the statement of financial assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows, statement of comparison budget and actual amounts: recurrent, development and combined and budget execution by programmes and sub-programmes 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, the financial position of County Assembly of Laikipia 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 do not comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Qualified Opinion and Other Matter section of my report, I confirm that public money has been applied lawfully and in an effective way.

Basis for Qualified Opinion

1.0 Transfers to Other Government Entities

Note 7 to the financial statements for the year ended 30 June 2017 reflects transfers to other Government entities figure of Kshs.21,478,994 whereas the ledger and supporting schedules indicated a balance of Kshs.24,600,000 resulting in unexplained difference of Kshs.3,121,006. Further, Note 7 does not give a breakdown and specific details making up the transfers to other government figure.

In the circumstances, the accuracy and completeness of transfers to other government entities amount of Kshs.21,478,994 for the year ended 30 June 2017 could not be confirmed.

2.0 Compensation of Employees

The statement of receipts and payments for the year ended 30 June 2017 reflects compensation of employees expenditure of Kshs.209,956,712. However, the following observations were made:

2.1 Unreconciled Variance

The ledger and supporting schedules presented for audit review reflected a balance of Kshs.223,449,393 instead of Kshs.209,956,712 resulting to unreconciled differences of Kshs.13,492,680. Further, note 4 to the financial statements also indicates a balance of Kshs.231,435,906 instead of Kshs.209,956,712 resulting in unreconciled variance of Kshs.21,479,194.

Consequently, the accuracy and completeness of the compensation of employees expenditure of Kshs.209,956,712 for the year ended 30 June 2017, could not be confirmed.

2.2 Ward Office Staff

Note 4 to the financial statements for the year ended 30 June 2017 reflects basic salaries of permanent employees amount of Kshs.163,154,842 out of which Kshs.16,798,010 was paid to eighty (80) ward office staff. However, the County Assembly did not maintain personnel records for the staff such as employment contracts, appointment letters, job description and terms of engagement.

In the absence of records of the staff, the propriety and regularity of payments to ward office staff amounting Kshs.16,798,010 for the year ended 30 June 2017 could not be confirmed.

3.0 County Assembly Car Loan and Mortgage Scheme for Members of the County Assembly

As reported in the previous year, the County Assembly operated a car and mortgage loan scheme. Regulation 15(1)(d) of the Public Finance Management (Laikipia County Assembly Car Loan (members) Scheme Fund) Regulations, 2014 and Regulation 19(1) of the Public Finance Management (Laikipia County Assembly Mortgage (members) Scheme Fund) Regulations, 2014 require the submission to the Auditor-General for audit, the financial statements of each County Assembly Car and Mortgage Fund not later than three months after the end of the financial year. However, the County Assembly of Laikipia management did not submit its Fund's financial statements for the financial year 2016/2017 and has thus contravened the regulations.

Further, as at 30 June 2017, car loan and mortgages totaling Kshs.9,898,493 was still outstanding. However, the following observations were made in respect to the scheme:

- i. The County Assembly had not procured insurance policies on the mortgage loans as required by the regulations.
- ii. A former Member of the County Assembly who died in December 2015 was granted both the car loan and mortgage amounting to Kshs.2,000,000 and Kshs.3,000,000 respectively totaling Kshs.5,000,000. As at the time of his death in December 2015, he had a loan balance of Kshs.3,271,322.57. It was however not explained how the outstanding balance would be recovered.

- iii. Further, another former MCA was granted a car loan of Kshs.2,000,000 and mortgage of Kshs.2,100,000 both totaling to Kshs.4,100,000. By the time when she lost her MCA seat in November 2014, she had a loan balance of Kshs.2,644,805.42. As with the case of the late MCA, the car and mortgage for this particular case was not charged by the County Assembly, and therefore the management may not be able to recover the outstanding debts.
- iv. Similarly, valuation reports for land and properties bought by the mortgage fund were not presented for audit verification.
- v. Logbooks for cars purchased by MCAs through the car loan scheme were not registered in the respective names of MCAs and the County Assembly as required under the fund's regulations.

As these instances show, the management breached regulations governing the administration of the car and mortgage fund. As a result, there is risk that some of the loans and mortgages may not be recovered.

4.0 Modernization of Assembly Chamber and Offices

Note 10 to the financial statements on acquisition of assets reflects refurbishment of buildings amount of Kshs.15,642,289. The amount was paid during the year to a construction company for refurbishment of Assembly chamber and offices. As previously reported, the contract was awarded in 2014/2015 for Kshs.69,523,870 but was later revised to Kshs.75,720,305. However, according to the final payment certificate No.996337 of 21 July 2016 of Kshs.15,642,289, the total amount paid to the contractor amounted to Kshs.92,301,760 resulting to excess payment of Kshs.22,777,890 above the original contract sum of Kshs.69,523,870 which was not supported. Further, the following anomalies were noted.

- (i) During the previous audit, it had been established that the contractor was paid Kshs.7,600,000 as advance payment out of which a sum of Kshs.1,975,000 was recovered from the contractor. However, no evidence was provided to account for the balance of Kshs.5,625,000.
- (ii) During the physical verification of the work done during the year under review, the completed Bills of Quantities (BQs) were not made available and as a result, it was not possible to confirm whether the works were done as per the specifications in the BQs.
- (iii) As reported in the audit report for the previous year, the contractor did not provide a performance bond valued at Kshs.7,600,000 issued by an approved bank or insurance. Therefore, the contractor should have been disqualified when he bid for the contract.

5.0 Cash and Bank Balances

The statement of financial assets and liabilities reflects bank balances of Kshs.14,412,773 as at 30 June 2017 consisting of recurrent accounts at Equity Bank and Central Bank of Kenya holding Kshs.161,111 and Kshs.14,251,662 respectively. However, a review of bank statements for Equity Bank account revealed payments amounting to Kshs.10,291,604 processed through this account which were not supported by relevant documentary evidence such as payment vouchers and instructions for the payments. Consequently, the accuracy of bank balances of Kshs.14,412,773 as at 30 June 2017 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 Laikipia 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 audit opinion.

Key Audit Matter

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 key audit matters to communicate in my report.

Other Matter

1.0 Overall Budget Performance

During the year under review, the approved budget for County Assembly of Laikipia was Kshs.431,466,518 out of which Kshs.406,466,518 (94%) was for recurrent expenditure and Kshs.25,000,000 (8%) was allocated to development as follows:

Item	Approved Budget 2016/2017 (Kshs.)	Actual Expenditure 2016/2017 (Kshs.)	Absorption Rate %	% of Total Expenditure
Development Vote	25,000,000	15,542,289	62	4
Recurrent Vote	406,466,518	372,252,750	92	96
Total	431,466,518	387,795,039	90	100

The above table shows that the County Assembly spent Kshs.387,795,039 or 90% of the total budget. The absorption rate for development expenditure was very low at 62%. The Assembly also spent Kshs.15,542,289 or 4% of total actual expenditure on development vote while Kshs.372,252,750 or approximately 96% on recurrent expenses.

The under-absorption indicates that essential services to the citizens of Laikipia were not provided.

1.1 Under /Over Expenditure

Audit review of the budget and actual expenditure revealed instances of over and under expenditure as shown in the table below:

Item	Budget 2016 - 2017 Kshs.	Actual Expenditure 2016-2017 Kshs.	Under Expenditure Kshs.	Over Expenditure Kshs.
Compensation of Employees	220,493,615	209,956,712	10,536,903	
Use of Goods and Services	162,372,902	140,737,712	21,635,190	
Transfers to Other Government Entities	23,600,000	21,478,994	2,121,006	
Acquisition of assets	25,000,000	15,642,289	9,357,711	
Finance costs		79,333		79,333
Total	431,466,517	387,895,040	43,650,810	79,333

The above analysis shows that the County assembly underspent by a total of Kshs.43,650,810 while over expenditure of Kshs.79,333 was recorded in finance cost which had a nil budget provision. No explanation was provided for the over expenditure and failure to utilize all budgetary provisions.

2.0 Misallocation of Expenditure

A review of approved budget and expenditure records for the year ended 30 June 2017 revealed that expenditure totaling Kshs.15,483,025 on various goods, services and allowances was charged against incorrect accounts as follows:

Expense item	Amount - Kshs.	Reallocated and Charged on
Domestic Travel and subsistence	1,755,100	Refurbishment of buildings
Office and general supplies	276,080	Routine maintenance – vehicles and other transport equipment
Office and general supplies	489,600	Training expenses
Contracted Guards and Cleaning Services	2,368,692	Hospitality supplies and services
Refined Fuels and Lubricants for Transport	3,017,091	Domestic Travel and Subsistence
Tuition Fees Allowance	3,386,925	Domestic Travel and Subsistence
Employer Contribution to Staff Pensions Scheme	4,189,537	Domestic Travel and Subsistence
Total	15,483,025	

No reasons have been presented for charging the expenditure against erroneous accounts and the management has not provided authority for reallocation of expenditure.

Consequently, the management failed to comply with approved budget provisions for the year under review as appropriated by the County Assembly.

3.0 Limitations of Audit Committee

Although the County Assembly appointed 3 members of audit committee on 23 February 2017, the audit committee as at the time of this audit on 7 February 2018, had not met, one year after appointment. Further, the chairman to the committee had not signed his appointment letter as at the time of audit. The head of the internal audit continues to report to the management instead of audit committee. The independence of the internal audit is therefore compromised.

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 going concern assumption.

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 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