

# REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF LAIKIPIA 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 Laikipia set out on pages 1 to 41, 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 – recurrent and development 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 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 Laikipia 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. Variances Between the Financial Statements and IFMIS Report

The financial statements for the year ended 30 June 2018 reflect various amounts and balances which are at variance with figures shown in the IFMIS report as detailed below:

Item Category	IFMIS Figures Kshs.	Financial Statements Amounts Kshs.	Variance Kshs.
Compensation of Employees	189,980,206	197,100,627	(7,120,421)
Use of Goods and Services	196,463,750	192,342,227	4,121,524
Transfers to Other Government Units	-	57,033,482	(57,033,482)
Social Security Benefits	7,998,897	-	7,998,897
Acquisition of Assets	79,173,884	27,140,402	52,033,482
Finance Costs, including Loan Interest	-	26,301	(26,301)
Bank Balances	(503,504,898)	20,718,659	(524,223,557)
Cash Balances	1,441,447,583	-	1,441,447,583
Accounts Receivables – Imprests	(1,000,000)	-	(1,000,000)
Accounts Payables - Deposits	1,321,215,717	-	1,321,215,717
Fund Balance Brought Forward	(405,017,992)	-	(405,017,992)

<b>Item Category</b>	<b>IFMIS Figures Kshs.</b>	<b>Financial Statements Amounts Kshs.</b>	<b>Variance Kshs.</b>
Surplus/deficit For The Year	20,744,960	-	20,744,959.90

Further, the amounts and balances reflected in the trial balance presented for audit differs with the ledger and trial balances generated from IFMIS. No explanations or reconciliations have been provided for these variances.

## **2. Domestic Travel and Subsistence Expenses**

### **2.1. Unsupported and Wasteful Expenditure**

Disclosed under Note 5 to the financial statements is an expenditure of Kshs.75,874,001 in respect of domestic travel and subsistence expenses for the year ended 30 June 2018. Included in the expenditure for the year under review, are payments of Kshs.5,282,900 and Kshs.4,166,000 made to Members of the County Assembly(MCAs) and staff during the first and second induction trainings held between 18 and 22 September 2017 and between 10 and 16 December 2017 respectively.

However, evidence of travel such as bus fare tickets or work tickets, attendance register, reports from the trainings, programme of activities and requisition for the training or needs assessment were not provided for audit review. In addition, the training programmes appear similar raising doubt on the objectives of the trainings. It was also noted that staff of the County Assembly were included in the induction courses although most of them were also serving in the previous Assembly hence no need for the training. Consequently, the propriety and validity of the payments totalling Kshs.9,448,900 cannot be ascertained.

Further, a similar training by LFE Global Resources Training was conducted from 30 April to 4 May 2018 and an amount of Kshs.189,000 paid as facilitation fees while the speaker, twelve MCAs and nine members of staff were paid Kshs.1,344,000 as subsistence allowances.

The County Assembly management has not provided convincing explanation for the expenditure which could have been avoided had the management exercised prudence in use of public resources.

### **2.2. Misallocation of Expenditure**

Included in the expenditure of Kshs.75,874,001 for domestic travel and subsistence expenses is an amount of Kshs.4,313,261 paid to LAPFUND in respect of gratuity for former members of the County Assembly who served in the previous Assembly. The gratuity was irregularly charged to domestic travel and subsistence expenses instead of social security benefits.

In addition, no approval was sought and obtained from the County Assembly for the virement before the payment was made. The management has not given explanation for the failure to use budgetary provisions as appropriated by the County Assembly.

### **2.3. Unsupported Payments and Procurement of KICOSCA/CASA Sports Equipment**

The domestic travel and subsistence expenditure of Kshs.75,874,001 also include an amount of Kshs.6,343,400 paid to Members of County Assembly (MCAs) and staff while attending KICOSCA/CASA games in Machakos County which were held between 19 and 26 November, 2017. Records further indicate that an amount of Kshs.1,280,000 was also paid as transport allowance to the MCAs. It was noted that almost all County Assembly staff and the MCAs were facilitated to travel for the games raising doubts as to whether all attended the games.

Further, the expenditure of Kshs.6,343,400 was not supported by relevant documentations such as fixtures of the various sporting activities, evidence of travel including bus tickets or work tickets and attendance register or representation at the specified events. In addition, included in the expenditure is an amount of Kshs.294,000 paid to the attendants to purchase sports equipment, for which no evidence was provided to confirm that the items were actually purchased, delivered, taken on charge and issued out for the intended use.

In the circumstances, the propriety and validity of the expenditure of Kshs.6,343,400 incurred on the KICOSA/CASA games cannot be confirmed.

### **2.4. Irregular Allowances Paid to Members of Committees of the County Assembly**

Included in domestic travel and subsistence expenditure of Kshs.75,874,001 are payments totalling Kshs.1,356,400 made to members of two County Assembly Committees while attending meetings away from the Assembly premises. However, a review of records revealed the following:

- i. The County Assembly paid an amount of Kshs.856,400 to members of the liaison committee and staff while attending training in Naivasha between 13 and 17 February 2018. However, it was noted that some of the members who allegedly attended the training, were also included in the signed attendance list of implementation committee for a meeting held at Sawela Lodge on 14 February 2018, date which overlap with the first meeting, thus resulting in double payment of allowances.
- ii. Subsistence allowances of Kshs.500,000 were paid to five members of the Committee on Delegated Legislation while in Mombasa for a meeting on County Act and Regulations from 7 to 11 June 2018. However, a review of the attendance register indicate that the same members were also attending concurrent meetings in the County Assembly Board room on 8 June 2018. This, therefore led to irregular double payment. The amount irregularly paid had not been recovered from the beneficiaries as at the time of the audit.

In the circumstances, the validity of the expenditure of Kshs.1,356,400 cannot not be confirmed.

### **3. Procurement of Hospitality Services**

Disclosed under Note 5 to the financial statements is an expenditure of Kshs.7,470,819 in respect of hospitality, supplies and services. According to available information, payments were made to various hotels for catering services procured through request for quotations and framework contracts. However, procurement records including tender documents, evaluation minutes and award letters were not provided for audit verification.

In the circumstances, the validity of the expenditure of Kshs.7,470,819 cannot not be confirmed.

### **4. Foreign Travel and Subsistence Expenses**

Note 5 to the financial statements discloses an expenditure of Kshs.7,247,501 relating to foreign travel and subsistence expenses which is however, not in agreement with the IFMIS payments of Kshs.13,209,185, leading to unexplained variance of Kshs.5,961,684.

Further, included in the IFMIS payments is an amount of Kshs.5,000,000 paid to CIC Insurance Company for medical insurance cover which was irregularly charged on foreign travel and subsistence expenses instead of insurance costs. The management has not provided satisfactory explanation for the mis-allocation of the expenditure.

### **5. Other Operating Expenses**

#### **5.1. Unsupported Ward Office Expenditure**

Included under Note 5 to the financial statements are other operating expenses of Kshs.43,273,154 out of which an amount of Kshs.20,214,775 was used to run ward offices including; payment of staff salaries, office rent and general expenses. However, lease agreements for the ward office signed between the County Assembly and the landlords were not provided for audit review. Further, examination of the expenditure records revealed that payments amounting to Kshs.450,000 were not supported with relevant documentation such as invoices, receipts and payment certificates.

Consequently, the propriety, validity and accuracy of the ward offices expenditure of Kshs.20,214,775 cannot be confirmed.

#### **5.2. Legal Services**

The other operating expenses of Kshs.43,273,154 also include an amount of Kshs.2,025,515 paid to a law firm for provision of legal services to the County Assembly during the year under review. However, contract agreement signed between the County Assembly and the law firm was not provided for audit review. Further, records showing how the law firm was selected from the list of prequalified legal service providers were not provided for verification. In absence of the relevant documents, the validity and propriety of the expenditure of Kshs.2,025,515 cannot be ascertained.

## 6. Expenditure Charged on Wrong Item Code

During the year under review, the County Assembly made payments totalling Kshs.4,560,334 in respect of various goods and services and charged the expenditure to an account described as “expenses” for which no provision and line item vote was in the approved budget and chart of accounts as summarized below:

Voucher No.	Sub item Description	Payment Date	Amount Kshs.
30004906	Expenses	20/2/2018	322,679
50000007	Expenses	13/12/2017	2,755,310
50000008	Expenses	13/12/2017	1,185,345
30004397	Expenses	8/12/2017	297,000
			<b>4,560,334</b>

No journal entries have been prepared to correct the expenditure charged on the wrong item code.

## 7. Bank Balances

The statement of financial assets and liabilities reflects Bank balances of Kshs.20,718,659 as at 30 June 2018. As disclosed in Note 13A to the financial statements the bank balances comprise Kshs.1,224,106 and Kshs.9,598 in recurrent and development accounts held in Central Bank of Kenya (CBK) and an amount of Kshs.19,484,955 in recurrent account held in Equity bank. However, the following irregularities and shortcomings were noted:

- i. The County Assembly did not maintain cash book and monthly bank reconciliations statements for the recurrent account number 1000193786 at CBK. Further, the reported balance of Kshs.1,224,106 shown in Note 3 differ with the bank statement balance of Kshs.22,361,653.10, resulting in an unreconciled difference of Kshs.21,137,547.10.
- ii. The recurrent account balance of Kshs.19,484,955 in Equity Bank differ with the cash book balance of Kshs.(467,778.40) resulting in unexplained nor reconciled variance of Kshs.19,952,733.40. Further, included in the bank reconciliation statement for Equity Bank account number 0270261206585 for the month of June 2018, are unrepresented cheques amounting to Kshs.306,854 that were already stale as at 30

June 2018 and had not been reversed in the cash book. No reason was provided for the failure to reverse the stale cheques in the cash book.

Consequently, the accuracy and completeness of the bank balances of Kshs.20,718,659 as at 30 June 2018 cannot be ascertained.

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 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 Conclusions on 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 other key audit matters to communicate in my report.

## **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 Conclusions on Lawfulness 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. Construction of County Assembly Cafeteria**

Included in acquisition of assets expenditure of Kshs.27,140,402 under Note 10 to the financial statements is an amount of Kshs.14,140,402 relating to construction of buildings, out of which Kshs.4,282,134.20 was paid to a company for construction of County Assembly cafeteria. According to records made available, the works were procured through restricted tendering method. However, only seven bids were issued out and evaluated instead of the mandatory ten bids stipulated in Regulation 54(3) of the Public Procurement and Asset Disposal Regulations, 2006. Therefore, the procurement may not have been done in a competitive manner as provided for by the legislation.

#### **2. Purchase of Goods By Use of Low Value Procurement Method**

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Included in other operating expenses of Kshs.43,273,154 is an expenditure of Kshs.1,443,238 incurred on purchase of various goods by use of low value procurement method. However, the value of goods and services exceeded the maximum expenditure of Kshs.30,000 allowed for class "A" entities as provided for in Section 90 of the Public Procurement and Asset Disposal Act, 2015.

Further, supporting documents such as goods received notes, inspection reports and delivery notes were not provided for audit review.

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 matter described in the Basis for Conclusions 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 governance were not effective.

### **Basis for Conclusion**

#### **Lack of Risk Management Policy**

Regulation 158(1) of the Public Finance Management (County Government) Regulations, 2015, states that the Accounting Officer shall ensure that a County Government entity develops risk management strategies, which include fraud prevention mechanism, and that the County Government entity develops a system of risk management and internal control that builds robust business operations. However, during the year ended 30 June 2018, the Assembly did not have in place proper mechanism to address the financial risks facing it and articulate ways of dealing with risks it is exposed to and a managerial forum to address the identified risks.

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 Assembly's 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 way.

Those charged with governance are responsible for overseeing the Assembly's 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 Laikipia 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 Laikipia County Assembly 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 Laikipia 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 Laikipia 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**

**27 February 2019**