

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF LAIKIPIA FOR THE YEAR ENDED 30 JUNE, 2019

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 22, which comprise the statement of financial assets and liabilities as at 30 June, 2019, 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 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 Laikipia as at 30 June, 2019, 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

The financial statements for the year ended 30 June, 2019 reflects various amounts and balances which are at variance with other underlying records as outlined below:

1.1. Statement of Receipts and Payments

The expenditure figures reflected in the statement of receipts and payments are at variance with IFMIS report expenditure figures as tabulated below:

Item(s)	IFMIS Report Balances (Kshs.)	Statement of Receipts and Payments Balances (Kshs.)	Difference Kshs.
Expenditure/Payments			
Compensation of Employees	218,142,935	218,142,935	0
Use of Goods and Services	214,082,638	209,272,938	4,809,700

Transfers to Other Government Units	492,400	28,271,323	(27,778,923)
Other Grants and Transfers	1,650,066	492,400	1,157,666
Social Security Benefits	10,000,000	10,000,000	0
Acquisition of Assets	29,980,404	1,709,081	28,271,323
Total Payments	474,348,443	467,888,677	6,459,766

No reconciliations or explanation have been provided for the above variances.

1.2. Statement of Assets and Liabilities

The account balances reflected in statement of financial assets and liabilities as at 30 June, 2019 also differs with IFMIS report balances as summarized below:

Item(s)	Financial Statements Balances Kshs.	Balances as Per IFMIS Report Kshs.	Variance Kshs.
Accounts Payables - Deposits	-	1,555,419,540	(1,555,419,540)
Bank Balances	1,992,646	678,238,451	(676,245,805)
Cash Balances	-	1,911,328,906	(1,911,328,906)
Fund Balance Brought Forward	22,397,359	(319,512,031)	341,909,390
Prior year adjustments	(22,397,359)	-	(22,397,359)

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

Consequently, the accuracy and completeness of the figures reflected in the financial statements for the year ended 30 June, 2019 could not be confirmed.

2. Unsupported Foreign Travel and Subsistence

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.209,272,938 under use of goods and services which includes an expenditure of Kshs.34,455,993 relating to foreign travel and subsistence allowances. The amount of Kshs.34,455,993 includes subsistence allowances of Kshs.5,036,010 paid to eighteen (18) members of the County Assembly and three (3) members of staff while attending the 2nd County Assemblies Integrity forum held in Arusha, Tanzania between 27 January, 2019 and 3 February, 2019.

Examination of the imprest surrender vouchers revealed that five imprest holders issued with imprests amounting to Kshs.953,768 did not submit copies of their passports as a proof of travel to Arusha and back. It was therefore not possible to ascertain whether the members actually travelled or not.

Further, all the members who travelled to the Arusha forum were each issued with a transport allowance of Kshs.50,000. However, five members who received a total of Kshs.250,000 did not attach any expenditure receipts to the surrender vouchers to

account for the transport allowance. It was similarly not clear whether they had travelled or not.

3. Misallocation of Budget Provisions

The statement of receipts and payments reflects social security benefits payments amounting to Kshs.10,000,000 for the year ended 30 June, 2019. However, a review of payments charged to the expenditure item revealed the following unrelated expenditure items:

Item	Kshs.
Domestic travel and subsistence allowance	8,413,600
Medical Insurance CASA Games	1,586,400
Total	10,000,000

The management did not give satisfactory explanation for the above mis-allocation of budgetary provisions.

4. Irregular Issuance of Imprests

Included in domestic travel and subsistence expenditure of Kshs.43,281,154 for the year ended 30 June, 2019 is an amount of Kshs.4,500,000 issued to Ward staff as imprests to cater for various public participation events held across the county during the financial year under review. The ward staff are not employees of the Assembly and the expenditure was therefore irregularly incurred.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Laikipia Management in accordance with ISSAI 130 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.

Other Matters

Overall Budget Performance

During the year under review, the approved final budget of the County Assembly of Laikipia was Kshs.476,170,301 with Kshs.469,271,323 (98.55%) allocated to recurrent expenditure and Kshs.6,896,978(1.45%) development expenditure. Further, the statement of comparison of budget and actual amounts for recurrent and development combined reflects an overall under absorption of Kshs.8,279,624 or 1.7% as tabulated below:

Item	Budgeted Amount 2018/2019 Kshs.	Actual Amounts 2018/2019 Kshs.	Over/(Under) Absorption Kshs.	Over/(Under) Absorption %
Development	6,896,978	1,709,081	(5,187,897)	(75.2)
Recurrent	469,271,323	466,179,596	(3,091,727)	(0.7)
Total	476,168,301	467,888,677	(8,279,624)	(1.7)

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

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. 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 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

Doubtful Procurement Process for Hotel and Conference Facilities

Disclosed in Note 5 to the financial statements under supply of goods and services is an expenditure of Kshs.27,664,000 in respect of hospitality supplies and services for the year ended 30 June, 2019. Included in the amount are payments totalling Kshs.1,147,372 for hotel and conference facilities for Members of County Assembly (MCAs) and staff. However, the procurement process used to identify the hotels and conference facilities was not indicated or clarified. As a result, it could not be confirmed whether the services were procured in accordance with requirements under Sections 91 and 92 of the Public Procurement and Asset Disposal Act, 2015 or lawfully.

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 effectiveness of internal control, 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 overall governance were not effective.

Fixed Assets Register

Annex 4 to the financial statements reflects a summary of fixed assets register balance of Kshs.75,505,574 as at 30 June, 2019. However, examination of records presented for audit revealed that the Assembly has not update the fixed assets register during the year under review. The assets register maintained did not indicate the category of assets, date of acquisition and current condition of the assets. Consequently, the completeness and accuracy of the fixed assets register and balances as at 30 June, 2019 could not be confirmed.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Assembly's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting

unless Management is aware of intention to liquidate the County Assembly or to cease operations.

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 financial reporting process, reviewing the effectiveness of how the Assembly 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 overall 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 overall 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 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 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

19 October, 2020