

# REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF NAKURU FOR THE YEAR ENDED 30 JUNE 2017

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of set out on pages 1 to 18, which comprise the statement of financial assets and liabilities as at 30 June 2017, 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 matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Assembly of Nakuru as at June 30, 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 comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### Basis for Qualified Opinion

#### Transfer to Other Government Entities

The statement of receipts and payments reflects transfer to other government entities figure of Kshs.4,712,316 which was explained under note 5 to be transfer to County Treasury (sale of motor vehicle) and transfer to County Assembly Car and Mortgage Fund of Kshs.1,426,800 and Kshs.3,285,516 respectively. The County Assembly did not prepare and submit the 2016/2017 financial statements for the Mortgages and Car Loan fund as provided for in Section 167 of the Public Finance Management Act, 2012. A report containing information on the financial and non-financial performance of the Fund was also not produced for audit. In the circumstance, it has not been possible to confirm if all the monies transferred was used for the intended purpose.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Nakuru 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 matter described in the Basis for Qualified Opinion and Other Matter sections, I have determined that there are no Key Audit Matters to communicate in my report.

## **Other Matter**

### **1. Committee Sitting Allowance**

Committee expenses (sitting allowances) as reflected in note 4 of the financial statements decreased by Kshs.19,160,424 from Kshs.78,869,329 in 2015/2016 to Kshs.59,708,905 in 2016/2017. The County Assembly uses a biometric system to identify and monitor attendance to various committee meetings. Analysis of the system revealed that some committee members were being paid sitting allowances despite not attending meetings. In other instances, members signed in and within a few minutes signed out. Cases where members just clocked in without evidence of clocking out were noted. The audit also observed that despite the installation of the biometric system, in most cases attendance to meetings continued to be recorded manually. This defeats the purpose of investing heavily in the biometric system which was meant to curtail weaknesses of the manual system that included manipulation of attendance. The use of biometric system as a control tool while attending meeting is not being enforced and leads to payment of sitting allowances for meetings not attended. This is a waste of public funds and a breach of the financial regulations.

### **2. Purchase of Assorted Seats**

Note 6 to the financial statements reflects chambers configuration figure of Kshs.8,035,675. Included in this figure is Kshs.6,000,000 paid on 30 June 2017 to Kenya Prisons Service for supply of seventy eight (78) office desks, single speakers' seat and fifty (50) public gallery seats. The supporting documents to this payment including quotation for furniture, contract agreement, and invoice no.2257 were all prepared on the 11 April 2017. According to the 2016/2017 procurement plan, these assorted seats were to be procured through national open tender method. The method was, however, not used but the seats were single sourced from Kenya Prisons Service. In addition, contrary to the requirements of direct procurement, the County Assembly did not demonstrate that the acquisition price was fair and reasonable and compares well with known prices of assorted seats. Further, Kenya Prison Service sent two quotations. The first quotation, referenced NAV/IND/7/13/VOLII/68 and dated 11 April 2017, was not stamped to have been received by the County Assembly while the second quotation referenced was received after the payment had already been made. The signed contract agreement did not state the delivery period/timelines and the contract sum. The County Assembly irregularly issued two LPOs; number 212 dated 31 August 2017 for Kshs.3,575,000 and number 1027 dated 13 April 2017 for Kshs.6,000,000 for supply of the same items without adequate explanations or even cancelling one. Despite full payment, physical verification revealed that, out of the items ordered only fifty-eight (58) office desks had been delivered. Furthermore, there is

no clause in the contract agreement that binds the supplier for failure to deliver or for delayed deliveries.

### 3. Routine Maintenance-Vehicles and Other Transport Equipment

Included under use of goods and services is Kshs.3,694,595 in respect to routine maintenance-vehicles and other transport equipment which decreased by Kshs.2,904,301 from Kshs.6,598,896 in 2015/2016. The approved budget provided Kshs.4,000,000 hence budget under-utilization of of Kshs.305,405. Examination of sampled payment vouchers amounting to Kshs.2,111,304.30 revealed that the repairs and maintenance records were not maintained, therefore repairs undertaken could not be confirmed. There were no pre and post inspection reports to confirm the state of the vehicles before and after the repairs. In addition, motor vehicle defects were not recorded in the work tickets as required. Further, it was noted that M/s Bhogals Autoworld and M/s Africa Commercial Motor Group Ltd carried out service and repairs to vehicles registration 32CG055A and 32CG010A respectively. The two companies were, however, not among the prequalified suppliers of motor vehicles repairs. It was therefore difficult to confirm the propriety of Kshs.3,694,595 spent on routine maintenance-vehicles and other transport equipment.

### 4. Budgetary Control

During the financial year under review, the County Assembly budgeted receipts of Kshs.1,085,307,568 but received Kshs.998,121,311 leading to an under-funding of Kshs.87,186,257 i.e. 8% underfunding. In addition, the County Assembly spent Kshs.891,344,821.14 which implies a budgetary utilization capacity of 82% and budget variance of Kshs.193,962,746.86 as shown below.

<b>Payments</b>	<b>Budget (Kshs)</b>	<b>Actual (Kshs)</b>	<b>Variance (Kshs)</b>
Compensation of Employees	304,200,592.00	303,470,432.00	730,160.00
Use of goods and services	517,982,677.00	476,612,885.14	41,369,791.86
Transfers to Other Government Entities	43,285,516.00	4,712,316.00	38,573,200.00
Acquisition of Assets	219,838,783.00	106,549,188.00	113,289,595.00
<b>Total</b>	<b>1,085,307,568.00</b>	<b>891,344,821.14</b>	<b>193,962,746.86</b>

The above variance of Kshs.193,962,746.86 implies that programmes or budgeted items were not implemented or not paid for.

Further, out of the Kshs.998,121,311 funds received only Kshs.891,344,821.14 was spent leading to an actual under expenditure of Kshs.106,776,489.86.

### 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.

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 County 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**

**28 June 2018**