REPORT OF THE AUDITOR-GENERAL ON THE COUNTY ASSEMBLY OF NAKURU FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the County Assembly of Nakuru set out on pages 1 to 24 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 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 the County Assembly of Nakuru 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 County Government Act, 2012 and the Public Financial Management Act, 2012.

Basis for Qualified Opinion

1. Misstatement of Financial statements

1.1 Differences between IFMIS and Financial Statements

The statement of comparison of budget and actual amounts, recurrent and development combined reflects a final budget amount of Kshs.1,312,102,482 which includes Kshs.926,374,999 relating to use of goods and services, transfers to other government agencies and acquisition of assets which however, differs with Kshs.956,584,055 recorded in IFMIS vote book by Kshs.30,209,056 which has not been reconciled or explained as shown below:

Description	IFMIS Final Budget Amount Kshs	Financial Statements Final Budget Amount Kshs	Variance Kshs
Use of goods and services	592,312,940	488,153,984	94,158,956
Transfer to other government entities	-	103,658,956	(103,658,956)
Acquisition of assets	364,271,115	334,562,059	29,709,056
Total	**956,584,055**	**926,374,999**	**30,209,056**

Further, the statement of comparison of budget and actual amounts: recurrent and development combined reflects an actual total expenditure of Kshs.1,046,321,040 on comparable basis which differs with IFMIS leger balance of Kshs.910,235,865 by a difference of Kshs.136,085,175 as shown below:

Description	IFMIS Total Payments and Commitments Kshs	Statement of Budget and Actual Kshs	Variance Kshs
Compensation of employees	254,551,817	302,476,219	47,924,402
Use of goods and services	510,311,155	449,439,421	(60,871,734)
Transfer to other government entities	-	134,131,722	134,131,722
Acquisition of assets	145,372,893	160,273,678	14,900,785
Total	**910,235,865**	**1,046,321,040**	**136,085,175**

In the absence of a reconciliation between the two sets of records, the accuracy and completeness of the financial statements could not be confirmed.

1.2 Non-Disclosure of Legal Costs

The financial statements under Annexure II reports pending bills of Kshs.23,772,648.45 which excludes the legal cost of fifteen (15) pending legal cases whose amounts were not determined and disclosed therefore understating the total amount of pending bills. Consequently, the accuracy and total balance of pending bills for the year 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 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 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. There were no other Key Audit Matters to report in the year under review.

Other Matter

1. Budget Performance

The statement of comparison of budget and actual amounts reports final budget amount of Kshs.1,312,102,482 against actual expenditure of Kshs.1,046,321,040 on a comparable basis resulting to budget underutilization of Kshs.265,781,442. In addition however, the supplementary budget uploaded in IFMIS reflects a final budget of Kshs.1,414,102,481 which differs with the amount shown in the statement of comparison of budget and actual amounts of Kshs.1,312,102,482 resulting to a difference of Kshs.101,999,999 as shown in the table below:

Description	IFMIS Approved Budgeted Amount Kshs	Statement of Comparison of Budget and Actual Amounts Kshs	Expenditure Reported Figure in Financial statements Kshs	Variance Kshs
Compensation of employees	457,518,426	311,309,369	302,476,219	155,042,207
Use of goods and services	592,312,940	480,403,984	449,439,421	142,873,519
Transfer to other government entities	-	133,868,013	134,131,722	(134,131,722)
Acquisition of assets	364,271,115	386,521,116	160,273,673	203,997,442
	1,414,102,481	**1,312,102,482**	**1,046,321,035**	**265,781,457**

In the absence of the two sets of records, agreeing the accuracy and completeness of the final budget amounts is doubtful. Further, failure to utilise approved budget may lead poor service delivery and low implementation of the programmed activities.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the effect of the matters described in the Conclusion on Compliance and Effectiveness section of my report, I confirm that, nothing else 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 conclusion

1. Use of Goods and Services

1.1 Unauthorised Trainings

The statement of receipts and payments reports use of goods and services expenditure of Kshs.449, 439,421 which includes training expenses of Kshs.17,787,317 as disclosed in Note 4 to the statements. Included in Kshs.17,787,317 is Kshs.13,092,018.00 incurred on overseas training whose course content were not approved by in accordance with Public Service Recruitment and Training Policy or the County Assembly Service Board.

In addition, the courses are readily available locally and at a lower cost and as such it was not clear for what reason the training had to be undertaken overseas and therefore the propriety of the expenditure could not be confirmed.

1.3 Unjustified Payments for Committee Sittings and Report Writing Sessions

The statement of receipts and payments reports a total goods and services expenditure of Kshs.449,439,421 which includes Kshs.53,625,576 incurred on domestic travel and subsistence.

Included in Kshs.53,625,576 is Kshs.9,965,901.00 incurred on committee meetings held outside the County Assembly of Nakuru offices without any reasonable justification since the assembly has adequate office space. Had the committee sitting and report writing sessions been held in the county assembly offices, a saving of similar amount would have been recorded. Therefore, the propriety of the expenditure could not be confirmed

1.3 Cash Withdrawals and Payments

The statement of receipts and payments reports a total expenditure on goods and services of Kshs.449,439,421 which includes various cash payments totalling to Kshs.10,273,420 made in respect of cash procurements and per diem facilitations. However the cash was withdrawn on diverse dates from the County Assembly of Nakuru Imprest Account No.018000071948 during the year without being included in the annual procurement plan and various cash procurements made in excess of the approved threshold set by the procurement rules and regulations. Therefore, the expenditure was irregular and its authenticity could not be confirmed.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance as to 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.

A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance than an audit. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this compliance review.

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, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the procedures performed, except for the effects of the matter described in the Conclusion on Effectiveness of Internal Controls 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 overall governance were not effective.

Basis for conclusion

1. Internal Control Weaknesses

1.1 Non Constitution of the Audit Committee

During the audit of financial year 2017/2018, the County Assembly of Nakuru did not constitute the Audit Committee in breach of the Public Financial and Management Act Regulations 2016 requirements.

In addition, the assembly's internal audit was manned by two officers during the year and functionally reported to the Accounting Officer instead of the Audit Committee thereby undermining its operational independence and the overall governance structure of the assembly. Further, there were no internal audit reports produced to show that internal controls were continuously reviewed to enforce compliance with laws and regulations during the period under review.

Therefore, in the absence of a functional Audit Committee and internal audit reports the effectiveness of the internal controls could not be confirmed.

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 effective 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.

In preparing the financial statements, management is responsible for assessing the County Assembly ability to continue 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 the County Assembly liquidate or 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the County Assembly 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 review is planned and performed to express a conclusion with limited assurance as to 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 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 review 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 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 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 sustain its services.

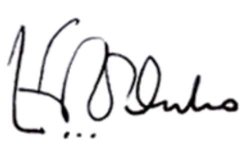
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- 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
<u>AUDITOR-GENERAL</u>

Nairobi

28 January 2019