

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

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer Opinion

I have audited the accompanying financial statements of the County Assembly of Nandi set out on pages 1 to 35, which comprise the statement of financial assets as at 30 June 2017, the statement of receipts and payments, statement of cash flows and statements of comparison of budget and actual amounts: recurrent, development and combined for the year then ended and 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of the report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion these financial statements.

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate evidence to confirm that public money has been applied lawfully and in an effective way.

Basis for Disclaimer of Opinion

1.0 Transfers from the County Treasury/Exchequer Releases

The statement of receipts and payments for the year ended 30 June 2017 reflects County Treasury/Exchequer Releases of Kshs.619,900,000 which is at variance with the figure of Kshs.669,900,000 as indicated in the report of the Controller of Budget for the same period, comprising of recurrent exchequer of Kshs.550,000,000 and development exchequer releases of Kshs.118,900,000 and therefore resulting in unexplained or unreconciled difference of Kshs.49,000,000.

Consequently, the validity, accuracy and completeness of the County Treasury/Exchequer Releases of Kshs.619,900,000 reflected in the statement of receipts and payments for the year ended 30 June 2017 could not be confirmed.

2.0 Acquisition of Assets

2.1 Construction of County Assembly Building

The statement of receipts and payments reflects acquisition of assets figure of Kshs.64,768,145 as disclosed under note 10 to the financial statements. The amount includes Kshs.55,235,423 for the construction of County Assembly chambers, offices and auxiliary amenities and Kshs.9,532,722 for consultancy services pertaining to architectural design and drawings. Available information indicated that, a construction company was awarded the contract to construct the County Assembly building at a cost of Kshs.469,469,934 and payments totaling Kshs.55,235,423 had been made during the year under review. However, the management did not provide the bill of

quantities of the building, architectural drawing of the building, and certificates of inspection and acceptance committee.

Under the circumstances, it was not possible to confirm the accuracy and validity of the amount of Kshs.64,768,145 expended for acquisition of assets for the year ended 30 June 2017.

2.2 Construction of the Perimeter Wall at the County Assembly

As reported in the previous year 2015/2016, the County Assembly entered into a contract with two construction firms to put up a perimeter wall in the year 2014/2015 at a contract sum of Kshs.4,165,317. The contract was to commence on 3 February, 2015 and be completed in 12 weeks on 8 July 2015. As at 10 November 2015, approximately 70% of the work had been completed. An inspection of the project during the year under review indicated that the construction of the perimeter wall stalled due to non-payment of the contractor since there was no budgetary allocation for the works. Further, management did not provide the reason why it entered into a contract for the works without a budgetary allocation contrary to Section 26(6) of the Public Procurement and Disposal Act, 2005.

Consequently, the objectives of the project have not been achieved and the Assembly may not have obtained value for money on the expenditure of Kshs.4,165,317 on the perimeter wall.

3.0 Use of Goods and Service

3.1 Unsupported Domestic Travel and Subsistence

The statement of receipts and payments as at 30 June 2017 reflects use of goods figure of Kshs.193,260,382 which includes an expenditure of Kshs.55,416,813 in respect of domestic travel and subsistence as disclosed in note 5 to the financial statements. Records made available for audit review revealed that out of the expenditure of Kshs.55,416,813, an amount of Kshs.32,955,697 was issued to various staff of the County Assembly in respect of domestic travelling and subsistence. However, the expenditure was not supported with the relevant documents such as copies of approved imprest requisitions, imprest warrants, letters of invitation, workshop and activity programs, evidence of means of travel and attendance register.

Under the circumstances, the propriety of the expenditure of Kshs.32,955,697 on domestic travelling and subsistence for the year ended 30 June 2017 could not be confirmed.

3.2 Foreign Travel and Subsistence

Included also in the use of goods and services figure of Kshs.193,260,382 as disclosed in note 5 to the financial statements is an amount of Kshs.9,368,555 in respect of foreign travel and subsistence. However, an amount of Kshs.8,533,808 out

of the balance of Kshs.9,326,555 was not supported by documents, such as approved imprest requisitions, imprest warrants, invitation letters, photo copies of boarding passes, reports for tabling and adoption in the Assembly and attendance registers.

Consequently, the propriety of the foreign travel and subsistence expenditure of Kshs.8,533,808 for the year ended 30 June 2017 could not be confirmed.

3.3 Insurance Costs

Included in the use of goods and services figure of Kshs.193,260,382 as disclosed in note 5 to the financial statements is a figure of Kshs.25,584,259 for insurance costs. Available records revealed that management reallocated an amount of Kshs.5,914,600 for insurance costs to training expenditure item through virement of funds which was then used for a workshop in Mombasa for Members of the County Assembly as indicated below.

No	Payment Voucher No.	Payment Date	Details	Amount Kshs
1	30002318	22.6.2017	Payment for eight night outs and transport for MCAs training in Mombasa	3,257,000
2	30002319	22.6.2017	Payment for eight night outs and transport for MCAs training in Mombasa	1,397,000
3	30002320	22.6.2017	Payment for eight night outs and transport for MCAs training in Mombasa	1,260,600
	Total			5,914,600

However, this expenditure has been wrongly charged to the insurance item instead of training item. Further, documents in support of these payments such as workshop invitation letters, attendance register, evidence of means of transport and reports for tabling and adoption in the Assembly were not availed for audit verification.

Consequently, the propriety of the training expenditure of Kshs.5,914,600 for the year ended 30 June 2017 could not be confirmed.

3.4 Other Operating Expenses

Included also in the use of goods and services figure of Kshs.193,260,382 under note 5 to the financial statements is a balance of Kshs.56,748,159 for other operating expenses which includes Kshs.23,640,100 paid to various county staff in respect of night outs while attending meetings. However, the payment vouchers were not supported by copies of approved imprest requisitions, imprest warrants, letters of invitation, workshop and activity programs, evidence of means of travel and attendance register.

Under the circumstances, the propriety of the expenditure of Kshs.23,640,100 on night outs while attending meetings for the year ended 30 June 2017 could not be confirmed.

4.0 Inaccuracies in the Financial Statements

4.1 Variances in Sets of Financial statements

The County Assembly availed first set of financial statements for audit review. However, after audit verification, a second set of financial statements was availed resulting to unexplained or unreconciled variances of Kshs.22,919,048 as indicated below.

Item	Financial statements - Set I (Kshs)	Financial Statements - Set II (Kshs)	Variance (Kshs)
Compensation of Employees	352,655,298	329,144,924	23,510,374
Use of Goods and Services	197,509,002	193,260,382	4,248,620
Social Security	-	3,815,594	(3,815,594)
Acquisition of Assets	63,743,793	64,768,145	(1,024,352)
Totals	613,908,093	590,989,045	22,919,048

Consequently, the accuracy and completeness of the financial statements for the year ended 30 June, 2016 could not be confirmed.

4.2 Summary statement of appropriation

Note VII to the financial statements reflects a figure of Kshs.701,188,748 for the final approved budget for the year ended 30 June 2017. However, the approved budget indicated a figure of Kshs.719,188,748 comprising of Kshs.600,288,748 for recurrent expenditure and Kshs.118,900,000 for development expenditure resulting to unexplained or unreconciled variance of Kshs.18,000,000.

5.0 Car Loan and Mortgage

As reported in the previous year, scrutiny of the records made available for audit review revealed that loan repayments totaling Kshs.199,797,030 had been made by the Members of the County Assembly since 2014 out of which only Kshs.47,831,267 had been banked in the fund account leaving Kshs.151,965,763 unbanked. Further as reported, the cars purchased through the car loan scheme were not jointly registered in the name of the County Assembly and the beneficiary as required in the loan application form contrary to Regulation 11 (c) of the Public Finance Management (Nandi County Assembly Car loan and Mortgage Scheme fund) Regulations, 2014 which stipulate that a loan granted shall be subject to such other conditions as may be in the application form or may be prescribed by the Salaries and Remuneration Commission or any lawful Authority. Further, the County

Assembly did not prepare and submit the Fund's financial statements for audit. In addition, no records were provided for audit review to show how much was recovered during the year and the outstanding balance as at 30 June 2017. It was therefore not possible to ascertain how much money the County Assembly was owed by the Members of the County Assembly not re-elected back.

Under the circumstances, the validity of the car loan and mortgage recoveries amounting to Kshs.151,965,763 from salaries and allowances of Members of the County Assembly not banked and the fund balance as at 30 June 2017 could not be confirmed.

6.0 Failure to Observe One Third Rule in Staff Establishment

A review of the personnel records availed for audit review revealed that as at 30 June 2017, the County Assembly of Nandi had a total of seventy (70) employees in its payroll all of whom were from one dominant community contrary to Section 65(1) (e) of the County Government Act, 2012 which requires that Public Service Board in selecting employees to consider the need to ensure that at least thirty percent (30%) of the vacant posts at the entry level are filled by candidates for appointments who are not from the dominant ethnic candidates.

Consequently, the County Assembly is in therefore in breach of the County Government Act, 2012 on staff establishment as a means of promoting national unity.

7.0 Budgetary Control and Performance

7.1 Budgeting Process of the Entity

Examination of the County Assembly documents and records availed for audit review indicated that, the Assembly had an approved budget of Kshs.701,188,748 for the year under review. The figure for the approved budget was comprised of Kshs.600,288,748 for recurrent expenditure and Kshs.118,900,000 for development expenditure. However, management did not avail documentary evidence pertaining to the budgeting process for audit review as required by Sections 137(1) and 128 of the Public Finance Management Act, 2012 which requires that, a county government shall establish a forum to be known as the Nandi County Budget and Economic Forum and the purpose of the forum is to provide a means for consultation by the county government on specific issues highlighted in Section 137(3) of the Act.

Under the circumstances, it was not possible to confirm whether the due process of budgeting was followed in the year under review.

7.2 Budget Performance (Absorption)

During the year 2016/2017, the County Assembly of Nandi had a total budget of Kshs.701,188,748 comprising of recurrent budget of Kshs.600,288,748 and

development budget of 100,900,000. Further, the total budget reflected overall under absorption of Kshs.86,256,300 or 12% as summarized below:

No	Vote	Approved budget figure	Actual expenditure figure	Under absorption	% of Under absorption
		Kshs	Kshs	Kshs	
1	Development	100,900,000	64,768,145	36,131,855	42%
2	Recurrent	600,288,748	550,164,300	50,124,448	58%
	Total	701,188,748	614,932,445	86,256,303	12%

The under absorption of the approved budget is an indication that activities and projects planned for were not implemented by the County Assembly and is likely to have a negative effect on the delivery of goods and services of the County. There is need for the management to relook at its budgetary mechanism with a view to focusing on priority areas to enhance service delivery to the citizens of Nandi County.

7.3 Development Budget

During the year under review, the County Assembly of Nandi allocated an amount of Kshs.100,900,000 towards development projects out of which it spent Kshs.64,768,145 resulting in under expenditure of Kshs.36,131,855 or 36.3% of the budget. It is clear that the County Assembly did not utilize all the funds allocated for development and hence the objectives may not have been achieved and this may hamper service delivery to the people of Nandi County due to lack of the prerequisite infrastructure.

8.0 Audit Committee

The County Assembly of Nandi has not established an audit committee contrary to Regulation 167(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires each county government entity to establish an audit committee. The County Assembly is therefore in breach of the law.

Management's Responsibility for the Financial Statements 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 responsive for overseeing the County Assembly's reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit of the County Assembly's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of the County Assembly of Nandi 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

16 July 2018