

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Nandi set out on pages 1 to 33, 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, development and 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 Nandi 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. Cash and Cash Equivalents

The statement of financial assets and liabilities as at 30 June 2018 reflects cash and cash equivalents balance of Kshs.109,484. However, the cash flow statement shows a comparative amount of cash and cash equivalents balance of Kshs.28,975,330 which has not been taken into account as beginning cash balance is reflected as nil. The balance is further collaborated by note 13A which indicates a bank balance of Kshs.28,975,330 which also differs with note 16 that shows a balance of Kshs.64,373. No explanation or reconciliation has been provided for the variances between the two sets of figures that are normally similar.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.109,484 as at 30 June 2018 could not be ascertained.

2. Accounts Payables – Deposits and Retentions

The statement of financial assets and liabilities as at 30 June 2018 reflects net financial assets figure of Kshs.109,484 with a nil balance on accounts payable- deposits and retentions. Information made available indicates that the County Assembly recovered an amount of Kshs.16,489,008 from one of the contractors which has not been disclosed in the financial statements. Further, Annex 3 indicates deposits and retention

monies on construction of County Assembly Offices of Kshs.15,021,129 which is not supported by any note to the financial statements or bank account balance as at 30 June 2018.

Consequently, the accuracy and completeness of the nil balance accounts payable-deposits and retentions as at 30 June 2018 could not be confirmed.

3. Transfers from County Treasury/Exchequer

The statement of receipts and payments for the year ended 30 June 2018 reflects transfers from County Treasury/Exchequer figure of Kshs.709,064,899 which is at variance with the statement of comparison of budget and actual amounts computed figure of Kshs.640,658,724 resulting in unexplained or unreconciled difference of Kshs.68,406,175. Further, the total recurrent receipts of Kshs.519,540,064 differs with the recurrent transfers of Kshs.587,946,136 by an unexplained difference of Kshs.68,406,072.

4. Under the circumstances, the accuracy of the transfers from County Treasury/Exchequer figure of Kshs.709,064,899 for the year ended 30 June 2018 could not be confirmed.**Presentation and Disclosure**

The financial statements for the year ended 30 June 2018 presented for audit review include unpopulated notes to the financial statements starting with note 2,3,6 to 9, 11,12,14,15,5.10.1 to 5.10.4. Inclusion of non-informational notes to the financial statements contradicts the financial template provided by the Public sector Accounting Standards Board and the requirements of IPSAS.

As a result, the presentation and disclosure of the financial statements could not be confirmed.

5. Fixed Assets Acquisition

Note 10 to the financial statements indicates acquisition of non-financial assets figure of Kshs.143,443,989. Included in this amount is Kshs.19,039,750 and Kshs.3,285,579 in respect of purchase of office furniture and general equipment and purchase of ICT equipment and software respectively.-However, Annex 4 shows different figures for office equipment, furniture & fittings of Kshs.25,637,368 and ICT equipment and software of Kshs.13,830,750. Further, the overall fixed assets are understated by Kshs.25,637,368 to reflect Kshs.283,176,103 instead of Kshs.308,813,471 as at 30 June 2018.

In view of the foregoing, the accuracy and completeness of the fixed assets acquired and total balance as at 30 June 2018 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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. 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 section, 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 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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing 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

1.0 Un-Accounted for Domestic Travelling and Subsistence Expenses

Included in the use of goods and services figure of Kshs.287,890,490 is an expenditure of Kshs.66,842,995 in respect to domestic travel and subsistence. Examination of the payment vouchers supporting the expenditure revealed that an amount totaling Kshs.33,167,647 were advanced out as night outs/per diems to various officers of the County Assembly to carry out various activities concerning the County Assembly. However, it was observed that officers were advanced cash which was immediately expensed rather than being recognized as temporary imprest. Further, the officers were not issued imprest warrants. In addition, examination of the payment vouchers for domestic travel and subsistence revealed that payments were not fully supported to account for the expenditure. Officers would be advanced with cash to travel but on return did not surrender the cash so advanced by providing such documents as minutes of deliberations, resultant reports, work tickets or bus/taxi tickets, signed schedules for cash advanced, authority to travel, list of sport teams and the sport activities they were to participate in and authorities to travel out of their duty stations.

Consequently, the propriety of domestic travel and subsistence amount of Kshs.33,167,647 for the period ended 30 June 2018 could not be confirmed.

2.0 Construction of County Assembly offices

The statement of receipts and payments reflects acquisition of assets figure of Kshs.143,443,989 which includes construction of buildings-Nandi County Assembly Offices figure of Kshs.94,975,871. Information made available indicates that the contract was awarded to a firm under contract number NCA/AGMNT/08/2014-2015-01

at a contract sum of Kshs.469,469,934. However the bill of quantities, contract agreement, design/drawings of the structure were not availed for audit verification. It was therefore not possible to confirm whether payments were made as per the bill of quantities and contract agreement.

Consequently, the regularity of the expenditure of Kshs.94,975,871 on construction of buildings for the year ended 30 June 2018 could not be confirmed.

3.0 Failure to Observe One Third Rule for Staff Establishment

A review of personnel records availed for audit revealed that during the year, the County Assembly recruited nine (9) staff 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 (30%) of the vacant posts at the entry level are filled by candidates who are not from the dominant community.

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

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, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter(s) 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 has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

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 controls, risk management and governance.

In preparing the financial statements, management is responsible for assessing the County Assembly of Nandi ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the County Government intends to cease operations of the County Assembly, or has 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 County 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 County Assembly's 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's ability to continue sustaining 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 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 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

18 February 2019