

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF NANDI 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 Nandi set out on pages 10 to 42, 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: 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 the County Assembly of Nandi 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 and the County Governments Act (2012).

Basis for Qualified Opinion

1. Unaccounted for Retention Monies

The statement of financial assets and liabilities reflects a nil balance in respect to accounts payable-deposits and retentions. However, expenditure records presented for audit indicated that the County Assembly set aside Kshs.25,302,745 from payments made to a contractor during the year under review. In addition, although the County Assembly operates a bank account for deposits at the Central Bank of Kenya, there were no retention monies deposited in the account and therefore it is not clear how the sum of Kshs. 25,302,745 was accounted for.

No plausible explanation has been provided by Management for failure to disclose the deposit in the financial statements.

Consequently, the accuracy and completeness of the nil accounts payable-deposits and retentions balance reflected in the statement of assets and liabilities as at 30 June, 2019 has not been confirmed.

2. Unconfirmed Fixed Assets

The summary of fixed assets register reflected in Annex 4 to the financial statements reflects assets totaling Kshs.387,471,305. However, Management did not avail an assets register with detailed analysis of each category of assets as required by Section 136 of the Public Finance Management Regulations, 2015. Similarly, title deeds for the

parcels of land as well as log books for three (3) of the motor vehicles owned by the County Assembly, were not availed for audit.

In the circumstances, the ownership and valuation of the parcels of land and the three (3) motor vehicles has not been confirmed.

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 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.

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 of my report, 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 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 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

1. Failure to Observe Diversity in Recruitment of Staff

A review of personnel records availed for audit indicated that during the year under review, the County Assembly recruited five (5) employees all of whom were from the dominant community in the County. This was contrary to Section 65(1)(e) of the County Governments Act, 2012 which requires every County Public Service Board to ensure that at least thirty percent (30%) of the vacant posts at the entry level are filled by candidates who are not from the dominant community in the respective County.

Consequently, the Management of Nandi County Assembly breached provisions of the County Governments Act, 2012 on promotion of diversity in public service employment.

2. Irregular Loan Recoveries and Share Capital Contributions

Examination of imprest records indicated that several Members of the County Assembly(MCAs) were paid travel and subsistence imprests totaling Kshs.5,593,328 during the year under review. The imprests were paid net of share contributions and loan deductions remitted to the Nandi County Assembly Savings and Credit Co-operative Society (SACCO) to which the MCAs made monthly share contributions and owed loans.

Apparently, Management had allowed the MCA's to take excessive loans from the Sacco which had resulted in salary deductions in excess of the two-thirds of salary limit prescribed in Section 19(3) of the Employment Act.

No plausible explanation was provided by Management for the irregular use of imprests to pay off loans advanced to the MCAs.

In the circumstance, the County Assembly flouted conditions on issuance of imprests and provisions of the Employment Act.

3. Non-Adherence to Regulations on Issuance of Temporary Imprests

The statement of financial performance reflects use of goods and services expenditure amounting to Kshs.285,974,904 which in turn includes domestic travel and foreign travel and subsistence expenditure amounting to Kshs.63,410,879.10 and Kshs.28,047,700 respectively, as further disclosed in Note 5 to the financial statements.

Examination of expenditure records indicated that in place of temporary imprests, Management issued cash to several officers of the County Assembly assigned to carry out various duties and activities away from their duty stations. The cash advances, were expensed directly without sufficient supporting documents contrary to Section 91 of Public Finance Management (County Governments) Regulations, 2015 which requires such expenditures to be funded through temporary imprests.

No plausible explanation has been provided by Management for disregarding regulations on use of public funds.

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 SYSTEMS

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, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public

Resources, Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance 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.

Basis for Conclusion

Lack of ICT Steering Committee and Other Internal Controls

Audit review of the Information and Communication Technology (ICT) system deployed by the County Assembly indicated that Management had not formulated an ICT Policy and framework to promote and guide effective and efficient use of the County Assembly's ICT resources. Further, the County Assembly did not have an ICT Steering Committee to provide oversight on the activities of the ICT Department as well as leadership in formulating relevant policies.

Further, system security plans including means to recover data in the event of unfavorable events were not documented.

No plausible explanations were provided by Management for these omissions.

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 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, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the ability of the County Assembly to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to dissolve the County Assembly, or 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 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 noncompliance. 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 applicable 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 ability of the County Assembly 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 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

17 December, 2020