

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF NAROK 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 Narok set out on pages 1 to 6, 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 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 County Assembly of Narok 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

Misstatement of Comparative Cash and Cash Equivalent in the Statement of Cash Flows

The statement of cash flows reports an opening cash and cash equivalent balance of Kshs.5,587,941.40 which does not agree with the closing amount of Kshs.151,502,091.40 reported in the previous period, resulting to a difference of Kshs.145,914,150 which has not been explained or reconciled.

In addition, note 16 to the financial statements that is meant to make additional disclosures on the cash and cash equivalent balance of Kshs.5,587,941.40 differs significantly with details in the financial statements and as such the accuracy and completeness of the statement of cash flow could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Narok 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

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the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Budget Performance - Over expenditure

The statement of receipts and payments reports expenditure of goods and services of Kshs.150,473,332 which includes unauthorized over expenditure of Kshs.57,829,408.85 as a result of failure by the Accounting Officer to obtain the relevant approvals from the County Assembly as shown below:

Particulars	Actual Expenditure (Kshs)	Approved Budget (Kshs)	Over Expenditure (Kshs)
Domestic travel & Subsistence	97,819,558	43,540,000	54,279,558
Specialized Materials	2,501,725	1,190,000	1,311,725
Maintenance other assets	2,618,126	380,000	2,238,126
Total	102,939,409	45,110,000	57,829,409

In addition, the statement of receipts and payments reflects transfers to other government entities of Kshs.7,832,327 as 30 June 2018 which includes Kshs.3,543,656.30 reallocated from the recurrent to development vote without relevant approvals from county assembly.

Further, the amount was not recorded in the reallocation register in accordance with the Public Financial Management Act, Regulations 2015. No reasons were provided as to why the Accounting Officer utilized and reallocated funds without the approvals of the County Assembly in breach of the regulations.

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 matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section 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. Wasteful Expenditure on Training Workshop

The statement of receipts and payments reports a total expenditure on use of goods and services of Kshs.145,313,332 which includes Kshs.97,819,558.25 incurred on domestic travel and subsistence. Included in Kshs.97,819,558.25 is Kshs.8,743,700 incurred on a *Report of the Auditor-General on the Financial Statements of County Assembly of Narok for the year ended 30 June 2018*

training workshop for MCA's out of which Kshs.3,078,332.80 was a nugatory payment as the MCA's did not attend some training sessions yet payments were made to the hotel. In addition, Kshs.500,000 was paid as out of pocket allowance yet the attendees were on full board during the workshop.

In the circumstances, the expenditure could not be confirmed as a proper charge to public funds.

2. Irregular and Unsupported Contract

Examination of payments vouchers and other documents revealed that the assembly contracted a building and construction company to construct extension offices for the County Assembly of Narok at a contract sum of Kshs.11,634,494.30. The amount was paid vide payments vouchers No's 593 of Kshs.5,817,247 and 594 of Kshs.5,818,247 respectively.

However, the following anomalies were noted:

- a) Procurements documents for the extension of offices were not availed to confirm that the contract sum of Ksh.11,634,494.30 was arrived at competitively.
- b) There were no minutes for site meetings to ascertain the works supervision and progress of work done
- c) There were no certificates of measurements of completed works, reconciled to the rates indicated in the Bills of Quantities (BQs) and as such it was not possible to verify that the amounts billed and paid agreed with the actual quantity of work done.

It was therefore not possible to confirm that Kshs.11,634,494 purported to have been incurred on putting up extension offices was a proper charge to public funds in the absence of engineer or inspection and acceptance committee certificates.

3. Unsupported Pending Accounts Payable

The financial statements under Note 5.10 other disclosures reports pending payables of Kshs.68,937,474 as at 30 June 2018 which though analyzed were not supported by procurement and accounting documentation.

Therefore, the accuracy and completeness of the outstanding pending accounts payable could not be confirmed.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

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Conclusion

As required by Section 7(1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance 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

Failure to Constitute an Audit Committee

During the financial year 2017/2018, it was established that County Assembly of Narok continued to operate without an audit committee in breach of the Public Financial Management Act Regulations 2016. Although an Internal Audit was in existence to oversee the governance mechanism, promote transparency and accountability, it operated without a formal internal audit charter showing its scope, responsibilities and service levels.

Further, the department did not have an annual work plan for its activities during the year and reported functionally to the Accounting Officer instead of the Audit Committee thereby undermining its operational independence and the overall governance structure of the assembly during the year under review.

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, risk management and governance.

In preparing the financial statements, management is responsible for assessing the ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the County Assembly either intends 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 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 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 ability to continue as a going concern or 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 of Narok 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