

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Nyandarua set out on pages 14 to 37, which comprise the statement of financial assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows, statement of comparative budget and actual amounts; recurrent and development combined and budget execution by programmes and sub-programmes 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 Nyandarua as at 30 June 2017, 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.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, nothing 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 Qualified Opinion

1.0 Compensation of Employees

Note 4 to the financial statements for the year ended 30 June 2017 reflects compensation of employees figure of Kshs.244,482,858 which includes personal allowances paid as part of salary expenditure of Kshs.83,939,073. The balance of Kshs.83,939,073 includes an amount of Kshs.31,073,600 paid as sitting allowances to Members of the County Assembly. These allowances were processed outside the Integrated Payroll and Personnel Data (IPPD) system. The management has not given reasons for the failure to process the benefits through IPPD payroll system. Further, no documentary evidence was provided in support of the payments.

Consequently, the accuracy and validity of compensation of employees expenditure of Kshs.244,482,858 for the year ended 30 June 2017 could not be confirmed.

2.0 Use of Goods and Services

The statement of receipts and payments for the year ended 30 June 2017 reflects use of goods and services expenditure of Kshs.245,991,582. The following observations were made on the expenditure:

2.1 Domestic Travel and Subsistence

Note 5 to the financial statements for the year ended 30 June 2017 reflects domestic travel and subsistence expenditure of Kshs.126,465,268 out of which an amount of Kshs.4,865,000 was in respect to subsistence allowance to Members of the County Assembly Committee of the whole house for committee meetings organized to review and scrutinize the Annual Development Plan for 2017/2018 at Lake Naivasha Resort between 26 and 30 September 2016. However, a similar payment had been made to the County Assembly Committee on Trade, Industrialization, Co-operatives and Enterprise Development by the County Executive in which the same MCAs are also members and received the allowances. Further, scrutiny of the sitting allowance register revealed that some members were paid sitting allowances for separate sittings held within the same period when they were supposed to be in Naivasha. It was not explained how a Member could be in two meetings running concurrently in different places. In addition, such routine activities would have been more prudently held within the County Assembly offices and premises.

Consequently, the propriety, validity and value for money of the domestic travel expenses of Kshs.4,865,000 incurred during the year ended 30 June 2017 could not be confirmed

2.2 Lack of Prudence in Use of Public Funds

2.2.1 Daily Subsistence Allowance

Included in the figure of domestic travel and subsistence of Kshs.126,465,268 for the year ended 30 June 2017 as disclosed in Note 5 to the financial statements is Kshs.16,502,100 in respect to various County Assembly committee activities during the year conducted in locations away from the County Assembly premises. The activities included writing reports, scrutinizing pending bills and discussing Auditor General's report in the seminars, workshops and retreats or reviewing budget implementation among others which could have been done economically and prudently from County Assembly offices and premises established for such routine activities so as to save on subsistence allowances and hotel charges.

Therefore, it has not been possible to confirm that the County Assembly obtained value-for-money on domestic travel and subsistence expenditure of Kshs.16,502,100 for the year ended 30 June 2017.

2.2.2 Hospitality Supplies and Services

Included in the use of goods and services figure of Kshs.245,991,582 as disclosed in Note 5 to the financial statements is hospitality supplies and services expenditure of

Kshs.40,517,739. The figure of Kshs.40,517,739, includes an expenditure of Kshs.7,608,910 towards hire of conference facilities for various County Assembly committee activities. As indicated above, the activities included writing reports, scrutinizing pending bills and discussing Auditor General's report in seminars, workshops and retreats. The meetings were held away from the Nyandarua County Assembly premises instead of doing so from the County premises established for such activities. The hire of facilities appears excessive and prone to abuse.

Consequently, it has not been possible to confirm that the County Assembly obtained value-for-money from the meetings and conferences.

3.0 Fuel and Lubricants

Note 5 to the financial statements reflect an amount of Kshs.5,946,077 in respect of fuel and lubricants for the year ended 30 June 2017. Records presented for audit indicate that the amount was paid to two companies contracted to supply fuel in bulk to the County Assembly during 2016/2017 financial year. However, the County Assembly did not maintain fuel registers to record fuel purchased, consumption and running balances at any given time.

Under the circumstances, the propriety of fuel and lubricants expenditure of Kshs.5,946,077 for the year ended 30 June 2017 could not be confirmed.

4.0 Payment to County Assemblies Forum

Note 5 to the financial statements reflects payments totaling Kshs.15,305,884 in respect of other operating expenses. Included in the balance is payment of Kshs.2,500,000 towards the County Assemblies forum. However, the payment was not based on policy or regulations approved by the County Assembly to govern such contributions. Consequently, the propriety of the expenditure of Kshs.2,500,000 incurred during the year ended 30 June 2017 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 Nyandarua 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 and Other Matter sections of my report, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1.0 Overall Budget Performance

1.1 Combined Budget

During the financial year ended 30 June 2017, Nyandarua County Assembly had an approved budget of Kshs.810,500,445 comprising of Kshs.603,706,532 (77%) allocated to the recurrent vote and Kshs.206,793,913 (23%) to development vote. The summary statement of appropriation; recurrent and development combined reflected overall expenditure totaling Kshs.747,634,205 or 92% absorption rate as follows:

Vote	2016/2017 Budgeted Amount-Kshs.	2016/2017 Actual Expenditure Kshs.	Under Absorption- Kshs.	% Under Absorption
Development vote	206,793,913	175,419,014	31,374,899	15
Recurrent vote	603,706,532	572,215,191	31,491,341	5
Total	810,500,445	747,634,205	62,866,240	8

As the table indicates, the County Assembly did not utilize Kshs.62,866,240 or 8% of its budget, which negatively impacted on service delivery to the public.

1.2 Recurrent Budget

Nyandarua County Assembly had a recurrent budget of Kshs.603,706,532 and it spent Kshs.572,215,191 resulting in under expenditure of Kshs.31,491,341 or 5% of the budget as follows:

Item	2016/17 Budget Kshs.	2016/2017 Actual Expenditure- Kshs.	Under expenditure Kshs
Compensation of Employees	251,963,483	244,482,858	7,480,625
Use of Goods and Services	268,274,176	245,991,582	22,282,594
Transfer to other Government entities	43,413,763	43,413,763	0
Social security benefits	16,049,978	16,049,978	0
Acquisition of Assets	24,005,132	22,277,010	1,728,122
Total	603,706,532	572,215,191	31,491,341

The under-expenditure implies that planned projects were not implemented thereby curtailing services to the residents of Nyandarua County.

2.0 Acquisition of assets

2.1 Proposed Completion of Facilities at the County Assembly Office Provisional Sums

Included in the acquisition of assets figure of Kshs.197,696,024 is construction of buildings worth Kshs.175,419,014 as disclosed in Note 10 to the financial statements, out of which Kshs.46,869,935 was paid to a construction company for completion of facilities at the existing Nyandarua County Assembly premises. Records indicate that tender ref. No. NCA/T/2/2016–2017 was awarded on 24 November 2016 to a construction company at a contract sum of Kshs.70,000,000. The scope of works included boardroom partitioning (2nd Floor), painting and decorations, floor finish, timber decking, wall finish, acoustic padding to walls, fire hose reel system and supply of furniture. However, included in the contract sum, is provisional sums in respect of preliminaries (Kshs.2,343,000), extra furniture requirements (Kshs.1,000,000) and contingencies (Kshs.10,000,000) totaling Kshs.20,143,000 or 29% of the total contract sum. These absolute provisional sums therefore were not competitively tendered for by the bidders. No explanation was provided for the failure to procure the works through a competitive process.

Further, the contract signed on 24 November 2016 did not indicate timelines for completion and milestones to be achieved in the contract. It was also noted that a performance security was not provided by the winning bidder as security for contract performance. A site visit carried out in February 2018 revealed that the works were incomplete while an amount of Kshs.46,869,635 had been paid representing about 70% of the contract sum.

Initial Contracts

Information available indicates that phase one of the initial contract for the construction of the County Assembly premises was awarded in 2013/2014 period for Kshs.22,960,205. Further, records of tender committee and award minutes revealed that the second phase of the completion of the building was awarded to a construction company in 2015 at a contract sum of Kshs.104,796,920 and the total contract sum had been paid as at 30 June 2016. However, bills of quantities and drawings in support of the works carried out in phase one and phase two of the contracts were not provided for audit verification. It has not been possible therefore to confirm the scope of works executed in the two phases to avoid possible duplication and overlap of works and payments.

Consequently, the propriety of the expenditure of Kshs.46,869,635 incurred on construction of buildings during the year could not be confirmed.

2.2 Completion of Boundary Walls and Entrance Gate

Included in the acquisition of assets figure of Kshs.197,696,024 as disclosed in note 10 to the financial statements is construction of buildings of Kshs.175,419,014 out of which Kshs.27,902,341 was paid to a construction company during the year under review for construction of a boundary wall and entrance gate at the County Assembly. Records of the County Assembly indicate that contract No. NCA/T/3/2016-2017 was awarded to the company on 24 November 2016 at a contract sum of Kshs.34,915,266. However, bill of quantities issued by the County Assembly for tendering contained absolute provisional sums of Kshs.7,337,000 or 21% of the contract sum which were not quantified for valuation and

therefore was not competitively procured. Further, contract agreement, interim and completion certificates, progress reports and structural drawings for the construction were not made available for audit review. A physical verification of the project in the month of February 2018 revealed that the works were incomplete and the contractor was not on site.

Consequently, the propriety and regularity of the expenditure of Kshs.27,902,341 so far paid to the firm for the year ended 30 June 2017 could not be confirmed.

2.3 Completion of External Works

Included in the acquisition of assets figure of Kshs.197,696,024 as disclosed in note 10 to the financial statements is construction of buildings of Kshs.175,419,014 out of which Kshs.35,285,077 was paid to a contractor for construction of driveway and parking, paved areas and soft landscaping of the County Assembly ground. The contract reference No. NCA/4/2016–2017 was awarded to the company at a contract price of Kshs.42,827,200 on 15 December 2016.

Similarly and as indicated above, the signed contract contained provisional sums amounting to Kshs.7,100,000 (16 % of contract sum) which was not competitively tendered for. Further, the construction works was to take seven weeks commencing 15 December 2016 and was therefore expected to be completed on 4 February 2017. An inspection carried out in February 2018 confirmed that the project was incomplete while the contract period had expired. Although as at the time of this audit the contractor was still on site, it is not clear whether an extension of the contract period was granted.

As a result, the propriety of expenditure of Kshs.35,285,077 for the year ended 30 June 2017, could not be confirmed.

3.0 Pending Bills

Note 18.1 and 18.2 to the financial statements reflect pending accounts payable and pending staff payables balance of Kshs.55,323,875 and Kshs.7,366,706 respectively. However, a list attached to these financial statements of pending bills in respect of pending accounts payables total Kshs.62,826,126 against reflected balance of Kshs.55,323,875 resulting in unexplained and unreconciled variance of Kshs.7,502,251.

Further, had the bills been paid and the expenditure charged to the accounts for the year under review, the surplus of Kshs.1,582,558 reflected in the statement of receipts and payments would have decreased to a deficit of Kshs.61,297,568 an indication that the management entered into financial commitments for which no resources were available contrary to Section 135 (1) of the Public Finance Management Act, 2012 which requires the County Assembly not to spend money that has not been appropriated. The bank balances of Kshs.16,477,576 as at 30 June 2017 is also inadequate to cover the pending bills.

Consequently, the propriety, accuracy and completeness of the pending bills as at 30 June 2017 could not be ascertained.

Responsibilities of Management 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 responsible for overseeing the County Assembly's financial reporting process.

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

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.

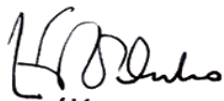
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Assembly's 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 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 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

28 June 2018