

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF NYANDARUA 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 Nyandarua set out on pages 14 to 44, 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 Nyandarua 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. Unsupported Cash Balances**

Cash and cash equivalent was reported at Kshs.16,919,356 compared to Kshs.16,477,576 as at 30 June 2017. Analysis of the recurrent cashbook (excel) revealed total payments of Kshs.597,970,286.72 against total receipts of Kshs.582,903,001 leading to an overdraft of Kshs.15,067,285.72. Although the management indicated payments totalling Kshs.15,095,345 were voided in the month of May 2018, no reversal of the same was made in the cashbook. The only supporting document provided was a schedule of the items in the cashbook but not in the bank statement for the period 20 September 2017 to 15 May 2018 was presented.

In addition the deposit account which had a balance of Kshs.16,833,646 as at 30 June 2018 was not supported by a cashbook, bank statements and confirmation certificates.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of 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 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 matter described in the

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

## Other Matter

### 1. Budget Performance

The Assembly's approved budget was Kshs.837,301,000 and an overall budget utilisation of 87.88% was realised as shown below:

| Item                      | Budget<br>(Kshs)   | Actual<br>(Kshs)   | Under/(Over)<br>Expenditure<br>(Kshs) | % of<br>Utilisation |
|---------------------------|--------------------|--------------------|---------------------------------------|---------------------|
| Compensation to employees | 261,688,314        | 232,746,171        | 28,942,143                            | 88.94               |
| Operations                | 277,220,657        | 272,889,740        | 4,330,917                             | 98.44               |
| Staff car and mortgage    | 37,301,000         | 37,301,000         | -                                     | 100.00              |
| Non-financial Assets      | 16,228,569         | 16,951,139         | (722,570)                             | 104.45              |
| Acquisition of Assets     | 244,862,460        | 175,920,228        | 68,942,232                            | 71.84               |
| <b>Total</b>              | <b>837,301,000</b> | <b>735,808,278</b> | <b>101,492,722</b>                    | <b>87.88</b>        |

The Assembly did not utilise Kshs.101,492,722 of the approved budget which may have a negative impact on the service delivery and all programmes are likely not to be implemented.

### 2. Use of Goods and Services

#### a) Legal Matters - Pending Legal Matters

Other operating expenses was reported at Kshs.17,325,067 from Kshs.15,345,488 in 2016/2017, an increase by Kshs.1,979,579. Included in this component is legal fees expenditure of Kshs.5,835,366.50. Despite these payments, the Assembly did not clearly link each payment to the case(s) being handled and stating how much was charged per case and the corresponding value in dispute. Although a list of cases being handled was presented, details of fee notes/invoices raised and the corresponding payments were not provided. The Assembly did not produce evidence to confirm they sought for and were granted approval by the Attorney General to engage the services of a consultant to render any legal services contrary to section 17 of Office of the Attorney General Act No 49 of 2012. Further, the County Assembly Public Service Board was sued by the former clerk to the Assembly for wrongful dismissal. In a ruling of 24 January 2018, the County Assembly was to pay the claimant Kshs.2,403,240 being compensation for unfair dismissal. The Assembly through Mirugi Kariuki & Company Advocates filed on 15 February 2018 an appeal Ref: Nakuru ELRC No.33 of 2016 for stay of execution pending appeal. Despite the issue clearly being contingent in nature, it was not disclosed in the financial statements under explanatory notes. In the absence of a clear basis on how the legal fees is charged, the audit could not establish the reasonableness of the amounts charged.

#### b) Subscriptions to Various Bodies

Included under other operating expenses is Kshs.2,700,000 and Kshs.723,630 payment to County Assemblies Forum and Society of Clerks at the Table respectively. The Assembly did not state the authority or policy that was used to incur this expenditure. In addition, these payments were not appropriately supported by indicating the rates per subscription to each body, the invoices and the official acknowledgement receipts.

**c) Domestic Travel**

Domestic travel was reported at Kshs.132,318,270 compared to Kshs.126,465,268 in 2016/2017, an increase by Kshs.5,853,002. Examination of the expenditure records including the cashbook, payment vouchers, imprest registers among others revealed the following observations;

**i. Induction of New Members of County Assembly**

The Assembly spent Kshs.8,164,700 on the induction of new Members of County Assembly. Examination of these payments revealed that eighty (80) participants, that is forty-one MCAs and thirty-nine (39) staff attended the induction held in Naivasha. Further, there was no proof of travel through work tickets or any other means by staff to Naivasha. The County Assembly Public Service Board approved Kshs.5,000 transport refund to Naivasha but MCA's were paid transport refund of Kshs.20,000 each. Although the management indicated that recovery of the excess refund was made, documentary evidence was not presented for audit.

**ii. Allowances During CASA Games at Machakos**

The MCA's and staff of the assembly were paid Kshs.6,982,900 allowances for participating in casa games in Machakos. A list of participants in various games categories was presented, however there was no evidence of travelling for the games to Machakos. Further there was no programme of activities and schedule of games to show specific games and dates they were taking place. The presented certificate of participation was for Nyandarua County and not specific to Nyandarua County Assembly.

**d) Expenditure on Fuel**

The Assembly budgeted and spent Kshs.5,000,000 on fuel, oil and lubricants which was reported in the financial statements. However, the fuel LSOs were being issued several months after consumption of fuel, yet detail orders were being issued. For example, payment voucher dated 30/01/2018 for Kshs.1,000,000 was supported by LSO number 1112 dated 24 January 2018 and fuel statement for the months August, September and October 2017. Implying that LSO was raised after the consumption of the fuel. In certain cases, the fuel drawn as indicated in the fuel register is not recorded in the work-tickets and vice-versa, thus leading to inconsistencies between these records. The assembly made a payment of Kshs.500,000 to M/s Fifa Holdings Ltd through payment voucher number 120 on 13 June 2018 but this payment was not supported by detail orders, supplier statements and invoices only LSO number 1240 dated 13 June 2018 was attached.

**e) Routine Maintenance and Repairs of Motor Vehicles**

The Assembly spent Kshs.7,385,877 on repair and service of motor vehicles. Analysis of sampled payments revealed that the Assembly did not ensure pre and post inspection of vehicles and the respective reports were not presented to confirm the nature of repairs or spare parts to be fitted. There was no evidence of competitive sourcing of services through request for quotations from prequalified suppliers, only quotations from the supplier(s) engaged to offer the services were attached. The LSO's were issued after completion of the service which is then followed by an invoice contrary to the required procedure of raising an LSO, the service is undertaken then an invoice is raised. Included in the payment to M/s Karson Motor Engineering of Kshs.457,572 paid vide payment voucher number 055/03/2018 of 14/03/2018 for the repair of vehicle 18CG042A is Kshs.26,551 advocates fee. It is not clear what this fee was meant for or why it was paid through the supplier.

#### **f) Unsupported Expenditure on Training**

Training expenditure was reported at Kshs.19,197,249 compared to Kshs.7,251,267 in 2016/2017 an increase by Kshs.11,945,982. Analysis of sampled payments revealed that there was no evidence of travel, no work tickets / bus tickets presented to show that the participants actually travelled to attend the trainings. Training programs were not presented and signed attendance sheets to show that the nominated staff participated in the trainings were not provided. There was no evidence that the management carried out training needs assessment. In view of the above inconsistencies, the genuineness and accountability of this expenditure was doubtful.

### **3. Purchases of ICT Equipment and Accessories**

The Assembly purchased tonners, mobile phones, tablets and photocopier machine worth Kshs.11,107,948. However, tonners were not taken on charge in the store ledger for accountability and proper issuance to the users. The mobile phones were purchased from M/s Greenway International Company Limited on 31 May 2018. The delivery notes and receipt voucher for this supply did not indicate the respective mobile phone serial numbers. It was therefore not possible to confirm that the serial numbers appearing in the issuance register were for the phones ordered and delivered. Further, the issuance register did not specify designation of those issued and date of issue.

### **4. Disclosure of Pending Bills**

The Assembly disclosed pending bills of Kshs.2,142,681.16 from Kshs.55,323,875 reported in 2016/2017. The balance was not properly supported because the transactions details in the ledger appears inconsistent with the LSO/LPO. For example, the presented pending bills schedule indicated LSO/PSO 1247 and 1074 for M/s Royal Gardens at Kshs150,000 and Kshs.118,320 respectively but they could not be traced to the presented pending bills ledger. The movement of prior year figure of Kshs.55,323,875 to the reported figure of Kshs.2,142,681 was not shown through proper analysis showing each suppliers' opening balance, additions, payments made during the year and closing balance. Therefore, the accuracy and completeness of the reported pending bills could be confirmed.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

### **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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources/ Qualified Opinion 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**

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

### **Conclusion**

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 Conclusion on Effectiveness of Internal Controls, Risk Management and Governance/Qualified Opinion 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**

#### **1. Internal Control Weaknesses**

During the audit of financial year 2017/2018, County Assembly of Nyandarua had not performed formal risk assessments on all key financial risk areas such as expenditure, fraud etc. This implies that the management is not in a position to identify individual risks, significance / likelihood of identified risks and the risky areas. Further, the management lacks a disaster recovery plan / business continuity plan, therefore crucial information may not be recovered in case a disaster occurs. It was noted that the assembly maintained manual cashbooks as well as excel (soft copy) cashbook. A comparison of the two cashbooks revealed several inconsistencies in terms of transactions recorded and the reported balances.

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.

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 and using the applicable basis of accounting unless the management either intends to liquidate the County Assembly or 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 money is applied in an effective manner.

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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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.

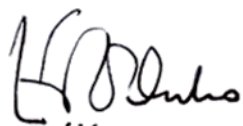
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 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 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 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**

**11 February 2019**