

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF NYANDARUA 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 Nyandarua set out on pages 1 to 20, which comprise the statement of financial assets and liabilities as at 30 June, 2019, and statement of receipts and payments, statement of cash flows and the statement of comparison of budget and actual amounts - recurrent and development 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 Nyandarua 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.

Basis for Qualified Opinion

1. Accuracy of the Financial Statements

1.1. Non-Disclosures of Bank Accounts

The County Assembly operates twenty-five (25) bank accounts with commercial banks through which standing imprest for the operations of Ward offices' are paid. The bank accounts were however, not disclosed in the financial statements as required by the International Public Sector Accounting Standards (IPSAS). Further, bank circularization undertaken in seven (7) out of the Assembly's twenty-five (25) bank accounts revealed balances totalling Kshs.370,185 as at 30 June, 2019.

1.2. Failure to Reconcile Bank Balances

As disclosed under Note 7A to the financial statements, the statement of financial assets and liabilities reflects a bank balance of Kshs.29,904,445 (2018: Kshs.16,919,356). Included in this balance is Kshs.27,608,760 reported as held at the deposit retention bank account at the Central Bank of Kenya. However, the certificate of bank balance on confirmation reflects a nil balance as at 30 June, 2019. Further, there is no cashbook being maintained for the account contrary to the provision of clause 6.11 of the County Financial Accounting and Reporting Manual.

Further, the recurrent and development bank account reflects balances of Kshs.795,012 and Kshs.1,500,673 respectively. The amounts however, differed significantly with the respective cashbook balances as tabulated below: -

Account Name	Cashbook Balance (Kshs.)	Financial Statement (Kshs.)	Variance (Kshs.)
CBK-Recurrent	757,002.70	795,012	38,009.30
CBK-Development	6,415,482.97	1,500,673	4,914,809.97
Total	7,172,485.67	2,295,685	4,952,819.27

In addition, the banks reconciliation statements in support of the two account balances as at 30 June, 2019 had long outstanding reconciling items totalling to Kshs.125,926,692 that remained unresolved as tabulated below: -

Account Name	Amount outstanding (Kshs.)	Date
Recurrent	43,232,369	31.8.2018
Development	82,694,323	18.3.2019
Total	125,926,692	

Management has not rendered satisfactory explanation why the reconciling items continue to remain unresolved.

Consequently, the accuracy of the reported bank balances of Kshs.29,904,446 as at 30 June, 2019 could not be confirmed.

2. Unsupported Ward Expenses

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflects payments under use of goods and services of Kshs.300,240,100 (2018: Kshs.272,889,740). The figure includes other operating expenses of Kshs.32,568,186. Of this amount, a balance of Kshs.9,975,000 relates to payments for the operations in 25 Wards offices. However, the expenditure was not supported with Electronic Tax Register (ETR) receipts casting doubt on their authenticity. Further, no cashbooks were maintained at the Wards for the control of the imprest bank accounts transactions.

Consequently, the validity of other operating expenses amounting to Kshs.32,568,186 for the year ending 30 June, 2019 could not be confirmed.

3. Pending Accounts Payables (Pending Bills)

Annex 1 to the financial statements indicates that the County had pending accounts payables of Kshs.75,369,634 in respect of amounts owed to contractors and service providers as at 30 June, 2019. Included in this balance is an amount owed to two separate law firms of Kshs.7,407,200 and Kshs.6,380,800. However, verification of

correspondences from the firms indicate that the County Assembly owes the law firms Kshs.5,827,200 and Kshs.6,061,244 resulting into overstatement of Kshs.1,580,000 and Kshs.319,556 respectively.

Had the bills been paid and expenditure charged to the respective accounts, the statement of receipts and payments would have reflected a deficit of Kshs.73,073,949 and not the surplus of Kshs.2,295,685 now shown.

Consequently, the accuracy of the pending bills balance of Kshs.75,369,634 as at 30 June, 2019 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Nyandarua Management 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. I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Budget Under Absorption

The statement of comparison of budget and actual amounts: recurrent and development combined reflects final expenditure budget and actual on comparable basis of Kshs.839,574,296 and Kshs.768,982,402 respectively, resulting in an under-absorption of Kshs.70,591,894 or 8%.

The under absorption mainly occurred under acquisition of assets which had a budgeted allocation of Kshs.217,384,500 against expenditure of Kshs.149,430,077 resulting to under absorption of Kshs.67,954,423 or 31%. The underutilization indicates that some activities, predominantly development, planned for the year were not undertaken. This may have impacted negatively on service delivery for the residents of Nyandarua County.

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 and basis for Qualified Opinion 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. Unlawful Subscriptions to County Assemblies Forum (CAF)

Note 3 to the financial statements discloses other operating expenses of Kshs.32,568,186 which includes payments of an amount of Kshs.5,000,000 to the County Assemblies Forum (CAF) for annual subscription fees. The payment is unlawful and contrary to Section 149(1)(a) of the Public Finance Management Act, 2012.

2. Pending Settlement of Court Award

The Speaker of the first County Assembly declined to swear in a nominated Member of the County Assembly, on the grounds of suitability in the year 2013. The aggrieved member sought redress in court which ruled in his favour by way of award. According to the ruling, the unpaid amount attracts interest at the rate 14% per annum, effective 30 July, 2017. By 30 June, 2019, the County Assembly had settled an amount of Kshs.1,650,000 leaving a balance of Kshs.12,208,000. There was no budget provision during the financial year to settle the obligation.

Consequently, the County Assembly is incurring avoidable cost by way of accrued interest.

3. Lack of Risk Management Policy

The management does not have an approved risk management policy in place to guide the assessment and evaluation of risk and development of strategies to mitigate them. This is contrary to Regulation 158(1) of the Public Finance Management (County Government) Regulations, 2015 which requires the accounting officer to ensure that the county government entity develops risk management strategies, which include fraud prevention mechanism; and a system of risk management and internal control that builds robust business operations.

Consequently, the Assembly is in breach of law to the extent.

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 SYSTEMS, AND GOVERNANCE

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 Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

Inadequate Fixed Asset Register

Annex 3 to the financial statements discloses a summary of fixed assets valued at Kshs.581,989,806 as at 30 June, 2019. However, the amount excludes undetermined value of the land parcel on which the construction of the Assembly Office Block is ongoing.

Consequently, the ownership, rights and obligations of the fixed asset with a value of Kshs.581,989,806 could not be confirmed.

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 overall 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 County Assembly's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to dissolve the County Assembly or to 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 County Assembly 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 overall 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 overall 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 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

19 October, 2020