

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF NYERI 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 Nyeri set out on pages 1 to 21, which comprise the statement of financial assets and liabilities as at 30 June 2017, 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 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 Nyeri 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, except for the matter described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, I confirm that, 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

The statement of receipts and payments for the year ended 30 June 2017 reflects compensation of employees figure of Kshs.206,431,358. The expenditure however excludes an amount of Kshs.30,668,794 which was wrongly charged on Boards, Committees, conferences and seminars (code 221802) item. Had this expenditure been charged to the correct code of compensation of employees, the total expenditure would have been Kshs.237,100,152 instead of Kshs.206,431,358 now shown against budget provision of Kshs.208,343,301 resulting in an over expenditure of Kshs.28,756,851 or 13.8% of the budget.

As a result, the accuracy and completeness of compensation of employees' figure of Kshs.206,431,358 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 totaling Kshs.329,263,644 as detailed in Note

5 to the financial statements. The following observations were made in respect of the expenditure:

2.1.0 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.128,538,597. However, supporting schedules and vote book presented for audit indicated a figure of Kshs.129,402,055 resulting in unexplained variance of Kshs.863,458.

In the circumstances, the accuracy of domestic travel and subsistence figure of Kshs.128,538,597 for the year ended 30 June 2017 could not be confirmed.

2.1.1 Unsupported Subsistence Allowances

Note 5 to the financial statements reflects domestic travel and subsistence figure of Kshs.128,538,597 which includes an amount of Kshs.17,738,153 in respect of members of County Assembly and staff allowances during various workshops, meetings, retreats and seminars held outside the precincts of the County Assembly. However, the payments were not supported by appropriate documentation such as invitation letters, programme of the seminars and reports emanating from the meetings held. Further, the meetings would have been economically and conveniently conducted within the County Assembly's offices designated for such meetings.

Consequently, the propriety and accuracy of the domestic travel and subsistence figure of Kshs.128,538,597 for the year ended 30 June 2017 could not be confirmed.

2.2 Training Expenses

Included in the Use of Goods and Services and as further disclosed in Note 5 to the financial statements is training expenditure totaling Kshs.26,771,534. However, records maintained by the County Assembly reflect a total expenditure of Kshs.27,192,334 resulting in unexplained and unreconciled difference of Kshs.420,800. Consequently, the accuracy and completeness of training expenses of Kshs.26,771,534 for the year ended 30 June 2017 could not be confirmed.

2.3 Office and General Supplies and Services

Note 5 to the financial statements further reflects expenditure of Kshs.8,345,492 in respect of office and general supplies and services for the year ended 30 June 2017. However, expenditure schedule extracted from Integrated Financial Management and Information System (IFMIS) indicated an amount of Kshs.2,192,590 resulting in unreconciled difference of Kshs.5,440,516.

Consequently, the accuracy and completeness of office and general supplies and services figure of Kshs.8,345,492 for the year ended 30 June 2017 could not be confirmed.

3.0 Summary of Fixed Assets Register

Annex 4 summary of fixed assets register reflects assets totaling Kshs.162,244,529 as at 30 June 2017, an increase by Kshs.17,495,637 as compared to 2015/2016

balance of Kshs.144,748,892. However Note 10 to the financial statements reflects acquisition of assets expenditure of Kshs.13,720,710 in respect of cost of assets acquired during the year. The resultant difference of Kshs.3,774,927 has not been reconciled or explained. Further, the summary of fixed assets register indicates that the value of land reduced by Kshs.26,000,000 from Kshs.45,700,000 as at 30 June 2016 to Kshs.19,000,000 while the cost of other machinery, plant and equipment reduced by Kshs.6,737,168 from a figure of Kshs.10,077,580 to Kshs.3,340,412 as at 30 June 2017. Similarly, the management has not provided explanation or details of disposed assets that led to the reduction in the assets values.

As a result, the accuracy and completeness of summary of fixed assets register balance of Kshs.162,244,529 as at 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 County Assembly of Nyeri 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 Budgetary Control

1.1 Overall Budget Performance

During the financial year 2016/2017, the County Assembly had a final budget of Kshs.706,236,872 comprising of recurrent vote Kshs.644,116,905 and development allocation of Kshs.62,119,967. The statement of comparison of budget and actual amounts for the year ended 30 June 2017 reflects exchequer releases of Kshs.603,879,689 (86% of budget), out of which payments totaling Kshs.587,879,019 were made, resulting in an overall under absorption of budget by Kshs.62,119,967 or 12% as shown below;

Vote	Approved Budget 2016/2017 Kshs.	Actual Expenditure 2016/2017 Kshs.	Under Absorption Kshs.	% Under Absorption
Recurrent	644,116,905	583,291,295	60,825,610	9

Development	62,119,967	4,587,724	57,232,243	92%
Total	706,236,872	587,879,019	62,119,967	12%

The under-expenditure of budget provisions implies that planned projects were not implemented thereby affecting service delivery to the residents of Nyeri County.

1.2 Development Budget Absorption

During the year under review, the County Assembly allocated Kshs.62,119,967 for recurrent expenditure but spent Kshs.4,587,724 thus resulting in an overall under expenditure of Kshs.57,232,243 as detailed below;

Expenditure Item	2016/2017 Budgeted Amount Kshs.	2016/2017 Actual Expenditure- Kshs.	Under Absorption Kshs.	Under Absorption %
Budgetary Reserves	10,673,232	3,170,990	7,502,242	70%
Refurbishment of Non-Residential Buildings	51,446,735	1,416,734	50,030,001	97%
Total	62,119,967	4,587,724	57,232,243	92%

It is clear that the County Assembly did not utilize Kshs.57,232,243 of funds allocated for development and improvement of infrastructure and therefore did not implement or complete the planned projects. However, the management has not provided any explanation for the under expenditure.

2.0. Acquisition of Assets - Renovation and Refurbishment of Unity Hotel and Additional Ablutions for the County Assembly

Included in construction and civil works figure of Kshs.18,367,784 as disclosed in Note 10 to the financial statements is an amount of Kshs.3,297,306 in respect of renovation and refurbishment of Unity Hotel and additional ablutions for the County Assembly. Records indicate that the tender was awarded to a construction company on 2 September 2016 at a contract sum of Kshs.6,853,326. Although the bidder was the lowest evaluated, the tender sum had an arithmetical error of Kshs.303,369 which was not corrected as per tender evaluation minutes. The contract price was not adjusted by the tender evaluation committee citing section 82 (c) of the Public Procurement and Asset Disposal Act, 2015 thus resulting in overpricing and lost savings had the contract been revised.

Further, records maintained for the project revealed that the contract period was to run for fifty-two (52) weeks commencing from 3 September 2016 to 2 August 2017. However, audit inspection carried out in February 2018 revealed that the project was already behind schedule with only about 30% of works done while the contract period had lapsed and the contractor was not on site at the time of the audit. No

explanation was provided for the failure to complete the project within the stipulated time.

Consequently, the propriety of the expenditure of Kshs.3,297,306 so far paid to the firm for the year ended 30 June 2017 could not be confirmed.

3.0 Other Payments

Included in the other payments expenditure of Kshs.31,346,121 as disclosed in Note 12 to the financial statements is fringe benefits tax amount of Kshs.6,431,976. The amount was in respect of accrued fringe principal benefit tax under the car loan issued to members of the County Assembly at interest rate below the market rate. Records indicate that an assessment carried out by Kenya Revenue Authority (KRA) revealed tax payable of Kshs.10,296,306 comprising of principal of Kshs.6,431,976, tax penalty of Kshs.1,607,993.32 and accrued interest of Kshs.2,256,336.66. The accrued interest and penalty totaling Kshs.3,864,330.58 would not have been incurred had the County Assembly paid the taxes on or before the due date. Further, the unpaid tax liability in respect of interest and penalty was not disclosed in these financial statements.

Consequently, the accuracy and validity of fringe benefits tax of Kshs.6,431,976 for the year ended 30 June 2017 could not be confirmed.

4.0. Failure to Observe One-Third Rule on Staff Establishment

A review of human resource records revealed that, during the year under review, the County Assembly had fifty (50) permanent employees out of which forty-six (46) or 92% of the staff were from one dominant community contrary to the requirements of the Section 7(2) of the National Cohesion and Integration Act, 2008 and Section 65 (e) of the County Governments Act, 2012 which requires that at least 30% of the employees should be from other ethnic communities.

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 continue sustaining 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.

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:

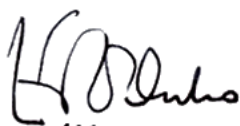
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 County 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

16 July 2018