REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF NYERI 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 Nyeri set out on pages 1 to 24, which comprise the statement of financial assets and liabilities as at 30 June, 2019, 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 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 Nyeri 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 and the County Governments Act, 2012.

Basis for Qualified Opinion

1. Unconfirmed Accuracy of Compensation of Employees Expenditure

The statement of receipts and payments for the year ended 30 June, 2019 reflects compensation of employees' expenditure totalling Kshs.195,315,153. However, supporting schedules presented for audit reflected expenditures totalling Kshs.190,651,752 resulting in an unexplained difference of Kshs.4,663,401.

Further, analysis of expenditure trends showed that the County Assembly's expenditure on employees rose by Kshs.31,598,847 or 19.3 % from Kshs.163,716,306 in the previous financial year to Kshs.195,315,153 in the year under review. Management has not provided any plausible explanation for the 19.3% escalation experienced in a single year.

In view of the anomalies, the accuracy and validity of the compensation of employees' expenditure totalling Kshs.195,315,153 reflected in the statement for receipts and payments for the year ended 30 June, 2019 have not been confirmed.

2. Unconfirmed Wage Payments to Temporary Employees

Included in the compensation of employees payments totalling Kshs.195,315,153 reflected in the statement of receipts and payments for the year ended 30 June, 2019 is Kshs.25,486,948 incurred in respect of basic wages of temporary employees. However, examination of the payment records indicated that manual payment vouchers were used to pay the wages and not the Integrated Payroll and Personal Data (IPPD) System, as expected. Further, the expenditure was not supported by signed master rolls and therefore the occurrence of the payments could not be confirmed.

Consequently, the occurrence and validity of the expenditure totalling Kshs.25,486,948 incurred on payment of wages to temporary workers have not been confirmed.

3. Unexplained Variances Between Various Financial Statement and IFMIS Report Balances

As in the previous year, the financial statements for the year under review reflect various balances which, however, differ with identical account balances reflected in the Integrated Financial Management Information System (IFMIS) report as at 30 June, 2019 as detailed below:

3.1 Statement of Receipts and Payments

The statement of receipts and payments reflects receipts and payments totalling Kshs.655,982,249 and Kshs.655,980,450 respectively which , however, differ from the balances amounting to Kshs.636,616,791 and Kshs.656,366,168, respectively reflected in the IFMIS report for the year under review, as tabulated below:

Details	Amounts as Per Financial Statements Kshs.	Amount as Per IFMIS Report Kshs.	Difference Kshs.
Receipts			
Receipts-Transfers from County Treasury/Exchequer	**655,982,249**	**636,616,791**	**19,365,458**
Payments			
Compensation of Employees	195,315,153	202,957,525.55	(7,642,373)
Use of Goods and Services	413,147,798	413,212,793.30	(64,995)
Transfer to Other Government Entities	20,200,000	0	20,200,000
Social Security Benefits	7,321,650	13,920,636	(6,598,986)
Acquisition of Assets	6,075,213	26,275,213	(20,200,000)
Other Payments-Gratuity to MCAs	13,920,636	0	13,920,636
Total Payments	**655,980,450**	**656,366,168**	**(385,718)**

No reconciliations have been provided for the differences between the balances shown in the two sets of records.

3 .2 Statement of Financial Assets and Liabilities

Further, the balances reflected in the statement of financial assets and liabilities as at 30 June, 2019 do not tally with the IFMIS report balances, as summarized below:

Details	Amount as Per Financial Statements Kshs.	Amount as Per IFMIS Report-Kshs.	Difference Kshs.
Bank Balances	818,314	503,299,961	(502,481,647)
Cash Balances	0	2,347,825,734.80	(2,347,825,735)
Accounts Receivables-Outstanding Imprests	0	13,001,765.30	(13,001,765)
Accounts Payables-Deposits and retentions	816,516	2,228,284,630	(2,227,468,114)
Fund Balance brought forward	0	(355,604,722.00)	355,604,722

No explanation or reconciliations have been provided for the differences between the two sets of records.

In view of these anomalies, the accuracy and completeness of the financial statements for the year under review have not been confirmed.

4. Errors in the Statement of Cash Flows

The statement of cash flows for the year under review, shows a nil balance against adjustments in accounts payables, deposits and retentions while the statement of financial assets and liabilities as at 30 June, 2019 reflects a net decrease of Kshs.44,883 in respect to the item. Similarly, the statement of cash flows reflects a nil cash and cash equivalent balance at the beginning of the year while the statement of financial assets and liabilities as at 30 June, 2018 shows a balance of Kshs.861,399, which is the opening balance for the year under review.

5. Unconfirmed Fixed Assets Balance

Annex 4, summary of fixed assets register, attached to the financial statements for the year ended 30 June, 2018 reflects assets totalling Kshs.182,396,624 as at 30 June, 2019. As similarly reported in the previous year, the closing assets balance for the year under review does not include assets of unknown aggregate value inherited from the defunct Municipal Council of Nyeri. These include three motor vehicles of unknown value and a piece of land L.R No. Aguthi/Gaaki-677 valued at Kshs.19,000,000. As a result of the omission, the accuracy and completeness of the summary of fixed assets register balance of Kshs.182,396,624 as at 30 June, 2019 has not been confirmed

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

Other Matter

Unresolved Prior Year Audit Matters

The following issues were raised during the 2017/2018 financial year but have remained unresolved to date.

1. Unexplained Variances Between the Financial Statement and IFMIS Report Balances

The financial statements for the year ended 30 June, 2018 reflected several balances which differed with identical account balances shown in the IFMIS report for the year, as highlighted in the table below:

Details	Amounts as per Financial Statements Kshs.	Amounts as per IFMIS Report Kshs.	Variance Kshs.
Payments	642,757,625	647,514,630.95	(4,757,006)
Bank Balances	861,399	(504,587,710.70)	505,449,110
Cash Balances	0	1,633,739,140.95	(1,633,739,141)
Accounts receivables	0	9,461,605.70	(9,461,606)
Account Payables - Deposits and Retentions	861,399	1,569,994,909.80	(1,569,133,511)
Fund Balance Brought Forward	0	(396,572,898.50)	396,572,899
Surplus/Deficit for the year	44,883	(50,809,645.95)	50,854,529

Management did not provide any reconciliations to explain the two sets of records.

2. Unexplained Fund Balances

The statement of assets and liabilities as at 30 June, 2018 reflected a closing surplus fund balance amounting to Kshs.44,883 and a brought forward 2016/17 balance for the account amounting to Kshs.16,000,671 against Kshs.1,495,641 and Kshs.1,288,591 reflected in the Notes to the financial statements respectively.

The differences between the respective balances were not explained by Management and as a result the accuracy of the fund balance was not confirmed.

3. Unconfirmed Validity of Transfers to Car Loan and Mortgage Scheme

The statement of receipts and payments for the year ended 30 June, 2018 reflected transfers to other Government entities (mortgage fund) amounting to Kshs.125,000,000.

Records made available for audit indicated that the amount was transferred to the Mortgage Fund Account to establish a Car Loan and Mortgage Fund for the Members of the County Assembly (MCAs.) However, confirmation that the County Assembly gave approval for the Fund to be set up was not presented for audit review. Consequently, the validity of the transfers totalling Kshs.125,000,000 made to the Fund was not confirmed.

Management has not provided plausible explanations why these anomalies highlighted in the County Assembly report for the year ended 30 June, 2018 have not been resolved.

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 Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in use of Public Resources 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. Non-Compliance with Ethnic Diversity

Examination of the human resource records revealed that during the year under review, the County Assembly had fifty-four (54)permanent employees out of whom forty-two equivalent to 96% of all staff members employed since the 2013/14 financial year were from the dominant community in the County. As reported previously, this was contrary to the provisions of Section 65(e) of the County Government Act, 2012 which requires County Governments to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county.

2. Avoidable Expenditure on Domestic Travel and Subsistence

Disclosed under Note 5 to the financial statements is expenditure totalling Kshs.164,743,040 incurred on domestic travel and subsistence during the year under review. Included in this expenditure are payments totalling Kshs.38,861,111 made to Members of the County Assembly (MCAs) and staff for attending various meetings in facilities located outside the County Assembly premises. The meetings could have been conveniently held at a lesser, or no cost , within the areas of County Assembly designated for such meetings.

Therefore, the expenditure totalling Kshs.38,86111 reflects lack of prudent use of resources by Management.

3. Irregular Posting of Expenses

Disclosed in Note 5 to the financial statements under use of goods and services are expenditures totalling Kshs.164,743,040 incurred in respect of domestic travel and subsistence. However, a review of payment records revealed that domestic travel and subsistence expenses totalling Kshs.25,616,762 were charged to hospitality supplies(Kshs.6,856,220) and training(Kshs18,760,542) accounts respectively. However, contrary to Section 154(2) of the Public Finance Management Act, 2012, the County Treasury did not approve the charges.

Had the mis-posted expenses been charged to the domestic travel and subsistence account, the total expenditure on the item would have increased to Kshs.190,359,802 resulting in an over-expenditure of Kshs.25,359,802 against the approved budget for the year amounting to Kshs.165,000,000. No plausible reason has been provided by Management for the irregular action.

4. Delayed Completion of Projects

As previously reported, Management in July, 2016 awarded two(2) contracts valued at Kshs.10,672,231 to construct a gate at the County Assembly and refurbish a hotel for use by the County Assembly at Kshs.3,818,905 and Kshs.6,853,326 respectively. The works were to be completed in February and August, 2017 respectively. However, the respective contracts lapsed before the works were completed. At the time of the audit in October, 2019 all payments due had been made to the contractors and the works were almost complete, as outlined in the table below:

By	Contract Sum Kshs.	Commencement Date	Expected Completion Date	Proportion of Works Completed	Proportion of Contract Sum Paid
Renovation and Refurbishment of Unity Hotel	6,853,326	03 September, 2016	02 August, 2017	98%	100%
Nyeri Assembly Gate	3,818,905	06 September, 2016	02 February, 2017	90%	21%
Total	**10,672,231**				

The contractors were, however, not on site at the time of the audit inspection. No explanation was provided for the failure to complete the projects more than two years after their contracted completion dates. As a result of the delay, and in spite of funds totalling Kshs.10,672,231 invested in the projects, the services they were expected to provide to the County Assembly have not been realized.

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 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 Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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

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

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 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 applicable 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 of the County Assembly 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 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

12 November, 2020