

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of County Assembly of Tharaka Nithi set out on pages 1 to 35, which comprise the statement of 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the County Assembly of Tharaka Nithi 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 do not comply with the Public Finance Management Act, 2012 and the County Government Act 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1.0 Accuracy of the Financial Statements

1.1 Cash and Cash Equivalents

Note 13 to financial statements reflects Kshs.36,551,222 in respect to cash and cash equivalents held in the County Assembly's three bank accounts as at 30 June 2017. However, the statement of financial assets and liabilities reflects a cash and cash equivalents balance of Kshs.36,556,441 resulting into an unexplained and unreconciled difference of Kshs.5,219.

Further, the County Assembly operated an additional fifteen (15) ward bank imprest accounts in Equity bank whose balances were not disclosed in the financial statements. In addition, the County Assembly did not provide for audit review the certificate of bank balances for the CBK Recurrent Bank Account No.1000199393 and the bank statements for the Equity Bank Imprest Account No. 0210261489799 which were reflected as having balances of Kshs.33,702,612 and Kshs.1,848,610 respectively.

In addition, the outstanding imprests of Kshs.1,616,848 as at 30 June 2017 reflected in the imprest register was omitted in the balance of cash and cash equivalents as at 30 June 2017.

Also, the statement of cash flow reflects cash and cash equivalents at the end of year of Kshs.17,436,029 while statement of financial assets and liabilities reflects cash and cash equivalents of Kshs.36,556,441 resulting to an unexplained difference of Kshs.19,093,412.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.36,556,441 as at 30 June 2017 could not be ascertained.

1.2 Accuracy and Completeness of the Financial Statements

1.2.1 Variations Between the Financial Statements, Ledger and Votebook

The financial statements for the year under review reflected a balance of Kshs.319,974,936 in respect to Thirteen (13) expenditure items. However, the respective IFMIS ledger and vote book reflected a balance of Kshs.151,840,409 and Kshs.207,296,929 respectively for the same items resulting to unexplained and unreconciled variances between financial statements versus IFMIS ledger and vote book of Kshs.168,154,527 and Kshs.112,678,007 respectively as follows;

No	Item	Financial Statements (A)	IFMIS Ledger (B)	Vote Book (C)	A – B	A – C
		Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
1	Utilities supplies & services	154,578	110,201	154,578	44,377	-
2	Hospitality supplies & services	5,442,626	2,640,493	5,482,689	2,802,133	(40,063)
3	Office & general supplies	1,186,149	1,182,798	-	3,351	1,186,149
	Other operating expenses	12,878,975	8,979,669	12,878,975	3,899,306	-
4	Insurance costs	17,297,300	5,368,834	17,297,300	11,928,466	-
5	Purchase of vehicles & other transport equip	4,400,000	4,945,500	4,400,000	(545,500)	-
6	Purchase of office furniture & general equipment	1,617,590	183,400	539,050	1,434,190	1,078,540

7	Purchase of ICT equipment, software & other ICT assets	1,541,220	1,153,304	1,510,898	387,916	30,322
8	Compensation of Employees	183,518,487	65,823,877	83,405,292	117,694,610	100,113,195
9	Domestic Travel and Subsistence	50,017,751	20,197,877	46,790,458	29,819,874	3,227,293
10	Printing Advertising, and Information Supplies & Services	15,928,295	24,910,961	16,046,953	(8,982,666)	(118,658)
11	Routine Maintenance- Motor Vehicles	1,442,155	1,035,569	1,442,155	406,586	-
12	Routine Maintenance- Other Assets	505,300	84,600	-	420,700	505,300
13	Training Expenses	17,414,216	12,314,315	13,807,375	5,099,901	3,606,841
14	Foreign Travel and Subsistence	6,630,294	2,889,011	3,541,206	3,741,283	3,089,088
	Total	319,974,936	151,820,409	207,296,929	168,154,527	112,678,007

1.2.2 Variations Between Financial Statements Balances and Balances in the Respective Notes to the Financial Statements

The financial statements as at 30 June 2017 reflected balances that were at variance with the balances reflected in the respective notes to the financial statements as follows;

Item	Note Number	Financial Statements Balance	Notes Balance	Variation
		Kshs.	Kshs.	Kshs.
Bank Balances	13A	33,702,613	36,551,222	2,848,609
Cash Balances	13B	2,848,461,	-	2,848,461
-	13B	5,367	-	5,367
Accounts Receivables	14	164,581	-	164,581
Accounts Payables	15	-	17,463,785	17,463,785
Finance Cost	11	29,648	-	29,464

Further, note 10 to the financial statements reflects Kshs.4,400,000 in respect to purchase of Double Cab Pick Up while supporting records reflect an expenditure of Kshs.4,797,600 resulting to unexplained understatement of Kshs.397,600.

In addition, Kshs.545,000 paid to Kinsmin Logistics for purchase of tyres had been charged to purchase of motor vehicles and no authority for reallocation of the expenditure has made been seen.

In the circumstances, the accuracy and completeness of the financial statements balances as at 30 June 2017 could not be ascertained.

2.0 Irregular Foreign Travel Expenditure

Note 5 to the financial statements reflects Kshs.6,630,294 in respect to foreign travel and subsistence as at 30 June 2017. However, included in the Kshs.6,630,290 expenditure was Kshs.2,587,049 in respect to four foreign trips to Chicago, Botswana and twice to South Africa which had the following anomalies.

2.1 The 8th PALU Annual Conference

Two legal officers and a member of Assembly Service Board were paid each Kshs.198,540 all totaling Kshs.595,620 being five days' quarter per diem to attend the 8 Pan African Lawyers Union Annual Conference in Durban, South Africa from 5 to 8 July 2017. However, no records were availed to confirm that the member of Assembly Public Service Board was a member of the Law Society of Kenya (LSK). Further, Kshs.39,200 was paid in respect to one (1) night out in Nairobi which has remained unaccounted for.

In the circumstances, the propriety of the, Kshs.198,540 and Kshs.39,200 both totaling to Kshs.237,740 as at 30 June 2017 could not be ascertained.

2.2 Public Budget and Fiscal Management Seminar in Dubai, South Africa

An amount of Kshs.1,122,919 was paid to Speaker of County Assembly and One Member of County Assembly (MCA) to attend Public Budget and Fiscal Management seminar in Dubai, South Africa from 8 to 15 April 2017. However, although the invitation was only for the speaker of the County Assembly or his officer/representative, the County Assembly sent two officers to the seminar and no reason was given for this anomaly.

Further, copies of passport, certificates of attendance and back to office report were not made available for audit verification. In addition, a firm, Fare Connect Travel and Tours was paid Kshs.157,200 for travel agency services without competitive procurement contrary to Section 106 (2)(b) of the Public Procurement and Asset Disposals Act, 2015.

In view of the foregoing, the propriety of the expenditure of Kshs.1,122,919 as at 30 June 2017 could not be confirmed.

2.3 State Legislative Summit in Chicago

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The Clerk to County Assembly was paid Kshs.528,500 to attend the National Conference of State Legislature Summit in Chicago from 7 to 11 August 2016

The officer left Kenya on 6 August 2016 and returned on 15 August 2016. However, the officer was supposed to have returned on 12 August 2016 as the summit ended on 11 August 2016, thereby overstaying his travel with three days. No explanation was given for the extra three days stay in Chicago which resulted into an irregular expenditure of Kshs.176,167.

Further, two night outs while in Nairobi of Kshs.33,600 and Kshs.4,000 for local transport all totaling Kshs.37600 remains un accounted for.

In view of the foregoing, the propriety of the expenditure of Kshs.213,767 as at 30 June 2017 could not be confirmed and nor could it be ascertained that the expenditure was a proper charge for public funds.

2.4 Livestock Management Workshop in Gabarone, Botswana

An amount of Kshs.340,010 was paid to two MCAs for attending Livestock Management Workshop in Gabarone from 3 to 7 October 2016. However, the surrenders were not supported by copies of passports extracts, boarding passes, invitation letters and back to office report.

In addition, Equip Africa Institute was paid Kshs.300,000 for travel agency services without competitive procurement contrary to Section 106 (2) (b) of the Public Procurement and Asset Disposals Act, 2015.

As a result, the propriety of the expenditure of Kshs.640,010 as at 30 June 2017 could not be confirmed.

3.0 Un-accounted for Training Expenses

Note 5 to financial statements reflected Kshs.17,414,216 in respect to training expenses as at 30 June 2017. However, scrutiny of sampled payment vouchers totaling to Kshs.5,643,946 for training revealed the following anomalies;

- i. No evidence of travel to the training or workshop venues in form of work tickets, or bus tickets.
- ii. No evidence of attendance of the seminars, workshops or trainings in form of attendance registers, activity programs, or certificates of participation.
- iii. The conference facilities were irregularly paid for in cash although the costs were over and above the allowed cash payments of Kshs.30,000.
- iv. The service providers / facilitators were irregularly single sourced and were not in the list of registered Assembly's suppliers.

In the circumstances, it was not possible to ascertain the propriety of the Kshs.17,414,216 training expenses and that the expenditure was a proper charge to public funds.

4.0 Irregular Cash Procurements

4.1 Fuel

During the year under review, the County Assembly procured fuel worth Kshs.2,500,000 through cash payments as follows;

Date	PV No.	Imprest Warrant No.	Amount (Kshs)
22/6/17	980/16-17	2942558	200,000
30/6/17	1029/16-17	2942578	200,000
22/5/17	860/16-17	2942532	200,000
8/2/17	518/16-17	2745111	200,000
13/3/17	642/16-17	2745206	200,000
24/10/16	185/16-17		200,000
6/12/16	297/16-17	2745026	100,000
16/12/16	331/16-17		200,000
16/01/17	390/16-17	2745050	200,000
25/4/17	753/16-17	2745238	200,000
24/8/16	053/16-17		200,000
20/9/16	103/16-17		200,000
28/8/16	006/16-17		200,000
		Total	2,500,000

However, the procurement of fuel using cash was in disregard to the Legal Notice No. 106 of the Public Procurement and Disposal (Amendment) Regulations, 2013 which limits cash procurement to a maximum of Kshs.30,000.

Further, the services were single sourced contrary to Sections 103 (1) and 124(12) of the Public Procurement and Assets Disposal Act, 2015.

In consequence, value for money for the Kshs.2,500,000 fuel expenditure as at 30 June 2017 could not be ascertained including whether the expenditure was a proper charge to public funds.

4.2 Catering Services

During the year under review, the County Assembly procured catering services worth Kshs.1,087,000 through cash payments as follows:

Committee	Date	CB No.	Service Provider	Amount (Kshs.)

Committee on Early Childhood and Vacation Training	27-Feb-17	595/16-17	OWOODs Lodge Annex, Box 1148, Embu	74,000
Budget and Appropriation Committee	27-Feb-17	594/16-17	Kenya School of Monetary Studies	208,000
Implementation Committee & Paul Thirika	8-Feb-17	517/16-17	Owoods Lodge Annex, Box 1148- Embu - vide invoice no. 3650 dated 20/2/2017 receipt no. 339	210,000
Finance Committee & Mary Kendi	9-Feb-17	519/16-17	Owoods Lodge Annex, Box 1148- Embu-invoice no. 3740 dated 11/2/2017 - receipt no. 648	61,000
Justin Mugambi	15-Dec-16	329/16-17	Family Even Planners, Box-315, Chuka.	294,000
MCA's & Staff	6-Feb-17	498/16-17	Owoods Lodge Annex box-1148- 60100, Embu. Invoice No. 3685 dated 13/2/17 and receipt no. 016 - no ETR	105,000
Committee on Budget and Appropriation	25-Jan-17	437/16-17	Owoods Lodge Annex, Embu. Receipt no. 040 dated 30/01/2017 Imprest no. 1932049.	135,000
Total				1,087,000

However, the procurement of catering services using cash was in disregard to the Legal Notice No. 106 of the Public Procurement and Disposal (Amendment) Regulations, 2013 which limits cash procurements to a maximum of Kshs.30,000.

Further, the services were single sourced contrary to Sections 103 (1) and 124(12) of the Public Procurement and Assets Disposal Act, 2015.

In view of the above, value for money for the Kshs.1,087,000 catering services expenditure amounting to as at 30 June 2017 could not be ascertained.

5.0 Missing Payroll Data

Note 4 to the financial statements reflected Kshs.183,518,487 in respect to compensation of employees as at 30 June 2017. However, included in Kshs.183,518,487 was Kshs.45,075,558 salaries for the months of July 2016 to October 2016 whose payroll reports were not availed for audit review. It was alleged that Anchor Information Payroll System that was in use had crashed and all data lost.

Further, a firm, Tumot Ltd of Box 1348 -10400, Nanyuki was paid Kshs.540,000 for data recovery services vide payment voucher number 904/16-17 dated 27 June 2017. However, although the ICT Officer confirmed that the data had been recovered through a letter dated 27 June 2016, the recovered data which included the above Kshs.45,075,558 payroll reports was not made available.

In the circumstance, the Kshs.540,000 data recovery expenditure was not a proper charge to public funds and it did not have any value for money and further, the accuracy and propriety of Kshs.183, 518,487 employees' compensation as at 30 June 2017 could not be ascertained.

6.0 Unsupported Daily Subsistence Allowance

Note 5 to the financial statements reflects Kshs.50,017,751 in respect to domestic travel and subsistence as at 30 June 2017. However, included in Kshs.50,017,751 was Kshs.5,412,000 which was not supported by signed attendance registers to seminars, approved rates of payments, invitation letters to meetings and back to office reports.

As a result, the propriety of the Kshs.5,412,000 subsistence allowances expenditure as at 30 June 2017 cannot be ascertained.

7.0 Irregular Payment of Allowances

7.1 Airtime and Fuel Allowance

During the year under review, fifteen (15) staff were paid airtime allowance amounting to Kshs.330,000 as follows;

No.	Staff	November 2016	February - May 2017	Total
		Kshs.	Kshs.	Kshs.
1	Martin Kariuki	15,000	20,000	35,000
2	Peter Muniu	15,000	20,000	35,000
3	Kenneth N. Cheri	6,000	8,000	14,000
4	Eric Nthumbi	15,000	20,000	35,000
5	Catherine Njeri	12,000	16,000	28,000
6	Mary Kendi	6,000	8,000	14,000
7	Paul Thirika	6,000	8,000	14,000
8	Christine Nyaga	6,000	8,000	14,000
9	Festus Kinoti	6,000	8,000	14,000

10	Purity K. Njeru	9,000	12,000	21,000
11	Monicah Ndungu	6,000	8,000	14,000
12	Eric M. Kaburu	6,000	8,000	14,000
13	Justin Mugambi	15,000	20,000	35,000
14	Robert Mutwiri	15,000	20,000	35,000
15	Edward Nyaga	-	8,000	
	Total	138,000	192,000	330,000

Further, Kshs.896,000 was paid to members of staff as fuel allowance while driving their own cars on assignments of the County Assembly.

However, there was no internal policy guideline on the payment of airtime and fuel allowances to the staff of County Assembly of Tharaka Nithi.

Under the circumstances, the legality of the expenditure of Kshs.330,000 for air time and Kshs.896,000 for fuel allowance all totaling to Kshs.1,226,000 as at 30 June 2017 could not be ascertained.

7.2 Double Payment of Per diem and Transport Allowance

During the year under review, four (4) MCAs were paid three (3) days per diem to attend the opening of the refurbished Kilifi County Assembly Chambers on 4 November 2016. However, the respective supporting documents revealed that the four MCAs were double paid for the three days using two different payment vouchers - voucher number 236/16-17 dated 7 November 2016 and voucher number 194/16-17 dated 27 November 2016 of Kshs.206,400 and Kshs.188,400 respectively both totaling to Kshs.394,800 as follows;

Payee	Voucher No. 236/16			Voucher No. 194/16			Total Payment
	Transport	Per diem-Daily Rate	3 days Per diem plus transport	Transport	Per diem-daily rate	3 days-Per diem plus transport	
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
John Mbabu	-	16,800	50,400		16,800	50,400	100,800
Wilson Nyaga	10,000	14,000	52,000	4,000	14,000	46,000	98,000
Albano Nyaga	10,000	14,000	52,000	4,000	14,000	46,000	98,000
Wilfred Kirimi	10,000	14,000	52,000	4,000	14,000	46,000	98,000
Total			206,400			188,400	394,800

In the circumstance, the Kshs.394,800 expenditure as at 30 June 2017 was not a proper charge to public funds and had no respective value for money.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Tharaka Nithi 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 adverse 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 Adverse Opinion section of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1.0 Internal Control Effectiveness

1.1 Weak Internal Control System

The County Assembly's did not have the following five ingredients that would have been a back bone of a strong and effective internal control system;

- i. Audit committee and internal audit charter.
- ii. Risk based audit assessment and strategic plan for the internal audit department.
- iii. IT strategic plan and security policy.
- iv. Corrective actions taken by management on the internal audit reports.
- v. Post audit by Internal Audit section on payment vouchers, cashbooks, procurement process and all other Assembly processes.

In view of the above, it was not possible to ascertain that the Assembly had a strong and effective internal control system that was able to effectively safeguard the assets and public funds of the County Assembly.

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 to sustain its 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 judgment 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