

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF THARAKA NITHI FOR THE YEAR ENDED 30 JUNE 2018

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 37 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, 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 County Assembly of Tharaka Nithi 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 do not comply with the Public Finance Management Act 2012 and County Government Act, 2012.

Basis for Adverse Opinion

1.0 Accuracy of the Financial Statements

1.1 Variations Between the Financial Statements Balances and the Ledger Balances

The financial statements for the year under review reflected balances on seven (7) components which were at variance with the respective general ledger balances as follows;

Item	Note	Financial Statement Balances (Kshs)	Ledgers Balances (Kshs)	Variance Under (Kshs)	Variance Over (Kshs)
compensation to employees	4	185,977,600	168,355,327	-	17,622,273
use of goods and services	5	107,852,188	117,099,666	9,247,478	-
Acquisition of Asset	10	17,255,650	16,768,259	0	487,391
other payments	12	0	15,000,000	15,000,000	-
Accounts receivable (outstanding imprests)	14	3,954,890	9,827,340	5,872,450	-
Fund balance	16	24,488,319	31,533,701	7,045,382	-
Cash and cash equivalents	13A& B	4,921,624	4,921,604	0	20

Item	Note	Financial Statement Balances (Kshs)	Ledgers Balances (Kshs)	Variance Under (Kshs)	Variance Over (Kshs)
Total		344,450,271	363,505,897	37,165,310	18,109,684

The variances had not been reconciled as at 30 June 2018. Further, the statement of receipts and payments for the year ended 30 June 2018 reflected a balance of Kshs.107,852,188 in respect to use of goods and services. However, note 5 to the financial statements reflected Kshs.125,968,291 resulting to un reconciled difference of Kshs.18,116,103.

In the circumstances, the accuracy, of the financial statements balances as at 30 June 2018 could not be confirmed.

1.2 Fund Balance Brought Forward

The statement of financial assets and liabilities for the year ended 30 June 2018 reflected Kshs.24,488,319 in respect to fund balance brought forward from the previous financial year. However, the 2016/2017 audited financial statements reflected fund balance carried forward of Kshs.36,721,022 resulting to unexplained or un reconciled difference of Kshs.2,232,703.

In the circumstances, the validity and accuracy of the fund balance brought forward as reflected in the statement of financial asset and liabilities as at 30 June 2018 could not be ascertained.

1.3 Statement of Cash Flows

The statement of cash flows for the year ended 30 June 2018, reflected an overdrawn balance of Kshs.10,690,201 while the statement of financial position reflect a balance of Kshs.4,921,624 resulting into an unreconciled and unexplained variance of Kshs.15,611,825.

In the circumstances, the validity and accuracy of the Assembly's statement of cash flows for the year ended 30 June 2018 could not be ascertained.

2.0 Cash and Bank Balances

Notes to the financial statements 13A reflect cash at bank of Kshs.4,921,604 and cash at hand in Note 13B of nil balance. However, the statement of financial assets and liabilities reflects Note 13A with a balance of Kshs.4,889,577 and Note 13B with Kshs.32,046 resulting to inconsistencies in the amounts in the notes and in the statement of assets and liabilities.

In addition, note 13A to the financial statements reflected Kshs.4,921,604 in respect to bank balances for the year ended 30 June 2018 which included Kshs.4,889,558 in Central

Bank of Kenya (CBK) recurrent account and whose cash book, bank confirmation certificate and details of the un-presented cheques totaling to Kshs.15,725,376 in the bank reconciliation were not made available for audit review.

Further, Note 13A reflected Kshs.19,239 in respect to bank balance in imprest account number 0210261489699 in Equity Bank. However, the cashbook reflected a balance of Kshs.31,739, again resulting in an unreconciled balance of Kshs.12,500. In addition, bank balance confirmation certificate for this bank account was also not availed for audit review.

In the circumstances, the validity and accuracy of the cash and bank balances of Kshs.4,921,624 reflected in the financial statements as at 30 June 2018 could not be confirmed.

3.0 Acquisition of Assets

Note 10 to the financial statements reflected Kshs.17,255,650 in respect to acquisition of assets which included Kshs.10,236,047 on purchase of vehicles and other transport equipment whose supporting documents including payment vouchers, Local Purchase Orders (LPOs), tender documents, invoices, contracts and delivery notes were not availed for audit review.

In the circumstances, it has not been possible to ascertain the propriety of Kshs.10,236,047 on the acquisition of vehicles and transport equipment for the year ended 30 June 2018.

4.0 Compensation of Employees

Note 4 to the financial statements reflected Kshs.185,977,600 in respect of compensation of employees which included Kshs.143,150 comprising of Kshs.60,900 on personal allowances paid as part salary and Kshs.82,250 on basic salaries to permanent employees whose supporting documents including payment vouchers and details of the payees were not availed for audit review. Further, included in the Kshs.185,977,600 was Kshs.23,137,000 in respect to personal allowances paid as part salary which further included Kshs.1,463,100 in respect to committee sitting allowances whose Hansard reports to support the meetings were not availed for audit review.

In the circumstances, the propriety of Kshs.1,606,250 expenditure reflected in the financial statements as at 30 June 2018 could not be confirmed.

5.0 Use of Goods and Services

5.1 Unsupported Expenditure

The statement of receipts and payments for the year ended 30 June 2018 reflected Kshs.107,852,188 in respect to use of goods and services which included Kshs.28,536,455 as shown below whose supporting documents including utilities bills, work tickets, inspection reports, quotations, Local Purchase Orders/Local Services Orders (LPOs/LSOs), invoices, delivery notes, and training invitation letters were not availed for audit review.

Expenditure Component	Amount (Kshs)
Training expenses	1,444,758
Domestic travel and subsistence	18,364,919
Utility, Supplies, and Services	27,380
Routine Maintenance-Vehicles & other transport	1,138,605
Hospitality Supplies and Services	2,156,840
Foreign travel and subsistence	5,403,953
Total	28,536,455

In the circumstances, the accuracy of Kshs.107,852,188 expenditure reflected in the financial statements as at 30 June 2018 could not be confirmed.

5.2 Foreign Travel and Subsistence

Note 5 to the financial statements for the year ended 30 June 2018 reflected Kshs.125,968,291 in respect to use of goods and services which further included Kshs.12,976,347 in respect to foreign travel and subsistence which further included Kshs.9,535,342 paid to Members of the County Assembly (MCAs) and staff for various seminars, workshops and trainings held in foreign countries as shown below;

Payment Voucher Number	Pv. Date	Amount (Kshs)	Destination
789/17-18	09.06.18	619,330	Rwanda
788/17-18	08.05.18	690,242	Singapore
833/17-18	15.05.18	317,515	Denmark
609/17-18	07.03.18	709,464	Rwanda
790/17-18	10.05.18	764,406	Zambia
834/17-18	14.05.18	202,510	Zambia
571/17-18	05.03.18	814,291	Uganda
725/17-18	13.04.18	898,291	Uganda
450/17-18	24.01.18	1,735,344	Uganda
791/17-18	11.05.18	348,268	Tanzania
795/17-18	08.05.18	436,384	Singapore
1012/17-18	24.06.18	1,368,400	Dubai
806/17-18	09.05.18	630,897	Tanzania
Total		9,535,342	

However, the payments were made as reimbursements through temporary imprests after returning from the foreign trips contrary to Section 93(3) of the Public Financial Management (PFM) County Regulations which states that temporary imprest shall be issued mainly in respect of official journeys and are intended to provide officers with funds with which they can meet travelling, accommodation and incidental expenses.

Further, included in the Kshs.9,535,342 foreign travel was Kshs.6,577,976 whose supporting documents including copies of visas, air tickets and boarding passes were not provided for audit review. In addition, certificates of participation/signed attendance register and back to office reports were not made available for audit review. The following anomalies were also noted;

- i. The seminars, workshops and trainings were organized by a firm which was not a prequalified supplier of training services for the County Assembly in the period under review.
- ii. Kshs.317,515 was paid to the deputy speaker for a travel to Denmark from 30 May to 5 June 2018, for a workshop while plenary records showed that she attended plenary sittings at the same period.
- iii. Kshs.814,291 was paid to five (5) MCAs and a staff member for a workshop on effective house leadership in Uganda. However, an additional Kshs.898,291 was paid to the same members in respect to unauthorized additional per diems for an unexplained extension of their stay in Uganda by 4 days.

In the circumstances, the accuracy, validity and value for money for the Kshs.12,976,347 expenditure reflected in the financial statements as at 30 June 2018 could not be ascertained.

5.3 Insurance Cost

Note 5 to the financial statements reflected Kshs.2,497,973 in respect to the insurance cost for the year ended 30 June 2018 and whose supporting documents including signed insurance policies, original invoice, and valuation certificate for motor vehicle insurance were not availed for audit review.

In the circumstances, the accuracy and propriety of the Kshs.2,497,973 expenditure reflected in the financial statements as at 30 June 2018 could not be confirmed.

5.4 Printing, Advertising, and Information Supplies and Services

Note 5 to the financial statements reflected Kshs.7,576,981 in respect to printing, advertising, and information supplies and services for the year ended 30 June 2018 which included Kshs.1,130,130 and whose supporting documents including receipts, original invoices and Local Service Orders (LSO) were not availed for audit review.

In the circumstances, the accuracy and propriety of Kshs.1,130,130 expenditure on printing, advertising, and information supplies and services reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

5.5 Domestic Travel and Subsistence

Note 5 to the financial statements reflected Kshs.63,674,355 in respect to domestic travel and subsistence for the year ended 30 June 2018 which included Kshs.32,741,490 paid to Members of the County Assembly (MCAs) and staff for various domestic travel and subsistence which were made as reimbursements through temporary imprests contrary to Section 93(3) of the Public Finance Management (County Regulations), 2015.

Further, included in Kshs.32,741,490 was Kshs.2,116,600 in respect to travel and subsistence paid to MCAs while the plenary attendance records indicated that the MCAs were attending plenary sittings at the County headquarters in Kathwana at the same time as follows:

Payee	Details	PV No	Date	Amount (Kshs)	Remarks
MCAs KYISA Games	Per Diem in Makueni	771	19-04-18	1,614,200	The members claimed per diem while in Makueni attending KYISA games between 14 to 22 April 2018. However, attendance register for the plenary sitting indicated that the members attended the plenary on 17 April 2018.
Trade Committee	Per diem while attending retreat in Embu	755	19-04-18	249,300	The members were in Embu between 16 to 18 April 2018, However, All the five MCAs who claimed the per diem attended Plenary sitting on 17 April 2018
MCAs & staff	Per diem while in Embu	887	18-06-18	253,100	Three members attended the meeting in Embu but the attendance register showed that they attended plenary sitting in Kathwana at the same time.
				2,116,600	

In addition, analysis of the records relating to the above domestic travel and subsistence expenditure revealed the following anomalies;

- i. There were no signed attendance registers for meetings and seminars including participating certificates to confirm attendance.
- ii. There was no evidence to show that the members travelled to the venues of the workshops and seminars.
- iii. No back to office reports, Hansard reports and activity budgets were availed for audit review.

In the circumstances, the accuracy, validity and value for money for the Kshs.32,741,490 expenditure on domestic travel and subsistence for the year ended 30 June 2018 could not be confirmed.

5.6 Other Operating Expenses

5.6.1 Other Operating Expenses

Note 5 to the financial statements for the year ended 30 June 2018 reflected Kshs.7,718,335 in respect of Other Operating Expenses which included Kshs.5,675,000 paid for activities relating to the County Assembly Forum (CAF) as shown below:

Payee	Details	Pv No.	Amount (Kshs)
County Assemblies forum	Annual county assembly forum subscriptions	96	775,000
County Assemblies forum	Annual county assembly forum subscriptions	388	2,700,000
county Assemblies forum	Annual county assembly forum subscriptions	828	1,700,000
Society of Clerks	Annual subscriptions	650	200,000
Society of Clerks	Annual subscriptions	154	300,000
	Total		5,675,000

However, no evidence was availed for audit review that the expenditure was budgeted for in line with Section 31 (a) and 50 (2 &3) of Public Finance Management -County Government Regulations, 2015 Further, no evidence was availed for audit review that the amount was received by CAF. In addition, the payment was not supported by any legal provision.

5.6.2 County Ward Expenses

Further, included in other operating expenses of Kshs.7,718,335 is Kshs.1,219,500 paid by the County Assembly in respect of ward expenses as shown below;

Payee	Details	PV No.	Amount
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			(Kshs)
Administrative officer	Ward expenses for February 2018	733	484,500
Administrative officer	ward expenses for July 2018	2	250,000
Administrative officer	ward Expenses	770	485,000
Total			1,219,500

However, no accountable records including payment vouchers were maintained at the ward offices to monitor and account for these funds.

In the circumstances, the accuracy, propriety and value for money for the Kshs.6,894,500 expenditure reflected in the statement of receipts and payments as other operating expenses for the year ended 30 June 2018 could not be ascertained.

5.6.3 Legal Fees

Note 5 to the financial statements reflected Kshs.7,718,335 in respect to Other Operating Expenses which included Kshs,1,837,575 paid to a law firm whose supporting documents including contract, LSO's and fee notes were not availed for audit review. Further, the firm was single sourced without justification contrary to Section 91 (1) of the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, the propriety and value for money for the expenditure on legal fees for the year ended 30 June 2018 could not be ascertained.

5.7 Training Expenses

Note 5 to the financial statements for the year ended 30 June 2018 reflected Kshs.17,634,742 in respect to training expenses which further included Kshs.16,367,060 paid to MCAs and staff as per diems and other training expenses. However, the County Assembly did not have an annual training plan and no supporting documents were made available in support of the expenditure including back to office reports. Further, there was no evidence availed for audit review in support of competitive procurement of training institutions amounting to Kshs.7,966,080 contrary to Section 55 and 71 of the Public Procurement and Asset Disposal Act 2015.

In the circumstances, the propriety and value for money for Kshs.16,367,060 on training expenses for the year ended 30 June 2018 could not be confirmed.

5.8 Routine Maintenance – Vehicles and Other Transport Equipment

Note 5 to the financial statements for the year ended 30 June 2018 reflected Kshs.1,162,139 in respect to Routine maintenance – vehicles and other transport equipment which further included Ksh1,160,069 spent in respect of repair and fueling motor vehicles. However, fuel register, motor vehicle repairs records and logbooks were not availed for audit review.

In the circumstances, the propriety of Kshs.1,160,069 on routine maintenances expense reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly 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 matter(s) described in the Basis for Adverse Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1.0 Budgetary Control and Performance

1.1 Receipts

1.1.1. Recurrent Receipts

The combined statement of comparison of budget and actual amounts for the year under review reflected a nil balance in respect to budgeted receipts while actual receipts reflected an amount of Kshs.295,476,383 resulting in a budget shortfall of Kshs.(295,476,383) (100%) as shown below:

Summarized Recurrent Receipts Analysis				
Item	Final Budget (Kshs)	Actual Receipts (Kshs)	Over/Under (Kshs)	%
Transfer from the County Treasury/Exchequer Releases	0	295,476,383	(295,476,383)	-100%
Proceed from sales of assets	0	0	0	-
Other Receipts	0	0	0	-
Totals	0	295,476,383	(295,476,383)	-100%

However, the integrated financial management information system (IFMIS) reflected a recurrent receipts budget of Kshs.384,900,000 and no explanation was given as to why the same was not reflected in the statement of comparison of budget and actual amounts. In the circumstances, the accuracy of the combined statement of comparison of budget and actual amounts for the year ended as at 30 June 2018 could not be ascertained.

1.1.2. Development Receipts

The Assembly's development receipts budget for the year under review amounted to Kshs.100,000,000 while there was no expenditure during the year resulting to 100% under absorption as summarized below.

Summarized Development Receipts Analysis				
Item	Final Budget (Kshs)	Actual Receipts (Kshs)	Over/Under (Kshs)	%
Transfer from the County Treasury/Exchequer Releases	100,000,000	0	-100,000,000	-100%
Proceed from sales of assets	0	0	0	-
Other Receipts	0	0	0	-
Totals	100,000,000	0	-100,000,000	-100%

The under- realization of receipts may be an indication of improper planning on its budget making process and may have negatively impacted on service delivery by the County Assembly of Tharaka Nithi to the citizens of Tharaka Nithi County.

1.2. Expenditure

The statement of comparison of budget and actual amounts - recurrent and development combined reflected approved expenditure budget of Kshs.355,400,000 and actual expenditure of Kshs.311,088,188, resulting to under absorption of Kshs.44,311,812 or 12% as detailed below:

Summarized Expenditure Analysis				
Item	Final Budget (Kshs)	Actual Expenditure (Kshs)	Over/Under (Kshs)	%
Compensation of Employees	145,807,952	185,977,600	40,169,648	28%
Use of goods and services	155,222,948	107,852,188	-47,370,760	-31%
Subsidies	0	0	0	0%
Transfers to Other Government Entities	0	0	0	0%
Other grants and transfers	0	0	0	0%
Social Security Benefits	0	0	0	0%
Acquisition of Assets	54,369,100	17,255,650	-37,113,450	-68%
Finance Costs	0	2,750	2,750	
Other Payments	0	0	0	0%

Summarized Expenditure Analysis				
Item	Final Budget (Kshs)	Actual Expenditure (Kshs)	Over/Under (Kshs)	%
Totals	355,400,000	311,088,188	-44,311,812	-12%

The under absorption of Kshs.44,311,812 may have negatively impacted on service delivery by the County Assembly of Tharaka Nithi as well as an indication of improper budget planning process.

Further, the statement of comparison of budget and actual amounts reflected an expenditure of Kshs.311,088,188 against actual receipts of Kshs.295,476,383 resulting in over expenditure of Kshs.15,611,805. No approval in form of a supplementary budget was made available for the Kshs,15,611,805 over expenditure in line with Section 31 (a) and 50 (2 &3) of Public Finance Management -County Government Regulations, 2015. In addition, there was no evidence of public participation during the development of the annual budget contrary to Section 6(2) of the Public Finance Manual (PFM) County regulations 2015, that requires the County Treasury to arrange for an effective public participation during the development of the annual budget estimate. In the circumstances, the County Assembly was in breach of the law.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Procurement of Goods and Services from Unregistered Suppliers

1.1 Purchase of Office Furniture and General Equipment

Note 10 to the financial statements reflected Kshs.3,946,390 in respect to purchase of office furniture and general equipment which included Kshs.1,200,000 and Kshs.874,190 paid to two firms respectively. However, both firms were not registered suppliers with the County Assembly in the financial year 2017/2018 contrary to Section 57 (1) and (2) of the Public Procurement and Assets Disposal (PPAD) Act 2015.

The Assembly was therefore in breach of law.

1.2 Purchase of Information and Communications Technology (ICT) Equipment, Software and other ICT Assets

Note 10 to the financial statements reflected Kshs.637, 500 in respect to purchase of ICT equipment, software and other ICT assets which included Kshs180, 000 paid to a firm in respect to ICT networking and communication equipment. However, the firm was not registered as a supplier with the County Assembly in the financial year 2017/2018 contrary to Section 57 (1) and (2) of the PPAD Act 2015.

The Assembly was therefore in breach of the law.

1.3 Hospitality Supplies and Services

Note 5 to the financial statements reflected Kshs.6,334,232 in respect to Hospitality Supplies and Services which included Kshs.771,400 paid to various hotels as shown below:

S/No	Date	P.V No	Amount (Kshs)
1	2/2/18	-	89,700
2	16/1/18	507	61,650
3	3/5/18	920	104,000
4	19/6/18	-	62,000
5	7/9/17	20003932	371,250
6	16/5/18	20006339	82,800
	Totals		771,400

However, the hotels were not registered suppliers with the County Assembly in the financial year 2017/2018 contrary to Section 57 (1) and (2) of the PPAD Act 2015.

In the circumstances, the assembly was in breach of the law.

2.0 Lack of Motor Vehicle Ownership Documents

Note 10 to the financial statements reflected Kshs.10,986,000 in respect to purchase of vehicles and other transport equipment which included a motor vehicle, Ford Ranger 4x4 double cabin with registration number 13CG030A whose logbook was not made available for audit verification.

Consequently, the ownership of the Ford Ranger could not be confirmed as at 30 June 2018.

3.0 Account Receivables

Note 14 to the financial statements for the year ended 30 June 2018 reflected Kshs.3,954,890 in respect to account receivables which comprised of government imprest issued to County Assembly staff. However, the applicants were issued with more than one imprest at the same time contrary to Section 93(4)(b) and 93(5) of PFM County Regulations 2015 which require that an applicant should not be issued with additional

imprest if the outstanding imprest has not been surrendered and that the imprest should be accounted for within 7 days after return to the duty station.

The County Assembly was therefore in breach of the law.

4.0 Unspent Balances in the Bank

Note 13A to the financial statements reflected Kshs.4,921,604 in respect to bank balances which included Kshs.4,889,558 in respect to the County Assembly's Central Bank of Kenya (CBK) recurrent bank account which should have been transferred to County Revenue Fund (CRF) as at 30 June 2018. However, the funds were not transferred contrary to Section 136 (2) Public Finance Management Act of 2012 which require that any unspent balances should be transferred to the CRF immediately after the lapse of the financial year.

In the circumstances, the County Assembly was in breach of the law.

5.0 Employees Earning Less than a Third of their Basic Salary

Note 4 to the financial statements reflected Kshs.185,977,600 in respect to compensation to employees which included Kshs.132,931,852 reflected as basic salaries of permanent employees. However, analysis of the County Assembly's payroll revealed that thirty-three (33) County Assembly officers had deductions that were more than 2/3 of their salary contrary to Section 19(3) of the employment Act 2007.) The County Assembly was therefore in breach of the law.

Further, four (4) County Assembly officers who had negative net salary amounting to Kshs.23,192 were paid Kshs.102,972 through their banks in unclear circumstances. The difference of Kshs.126,164 which was an irregular payment had not been recovered as at 30 June 2018.

In the circumstances, the validity and accuracy of Kshs.414,590 basic salaries of permanent employee reflected in the financial statements for the year ended 30 June 2018 could not be ascertained.

6.0 Presentation of Financial Statements

The statement of receipts and payments at pages 1 and 2 of the financial statements for the year under review was not signed and dated as required by the International Public Sector Standards (IPSAS) Cash Basis financial statement preparation format. Further, progress on follow-up of the auditor's recommendation on previous financial year's audit issues were not disclosed in the financial statements as required by IPSAS (Cash Basis) financial preparation format.

In the circumstance's, the presentation of the financial statements did not comply with the standards.

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

Issues on Effectiveness of Internal Controls

As required by Section 7 (1) (a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for conclusion

1.1 Weak Internal Control System

A review of the Assembly's internal control systems revealed that there was no audit committee and audit charter, risk assessment framework, internal audit operation plans and program of work and internal reports. In addition, there was poor record keeping and accountable documents were not pre-numbered or filed serially. Further, cashbooks were not posted with referenced documents and there were no systematic references of records posted in the IFMIS system. In addition, not all payment vouchers and cashbooks were examined by the County's examination section as a means of internal check. In view of the above, the internal control system and governance of the County Assembly was weak and the effectiveness of the internal audit section as a custodian of the County Assembly's internal controls was doubtful for the year ended 30 June 2018.

1.2 Information and Communications Technology (ICT) Internal Control Weakness

Review of the Assembly's ICT environment revealed there was no formal approved ICT policy in place as at 30 June 2018 which included data security policy and disaster recovery plans, ICT Environmental policy, ICT Continuity and ICT strategic plan. Further, the ICT organization structure was not provided for audit review.

In the circumstances, the integrity, security and reliability of the Assembly's financial data including its Management Information System could not be ascertained for the year ended 30 June 2018.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards requires 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, risk management and governance.

In preparing the financial statements, management is responsible for assessing the County Assembly's ability to continue 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 resources are applied in an effective way.

Those charged with governance are responsible for overseeing the County Assembly's 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 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 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 County Assembly's policies and procedures may deteriorate.

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.
- 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 as a going concern or 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 as a going concern or 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

28 January 2019