

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF TRANS NZOIA FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the County Assembly of Trans Nzoia set out on pages 1 to 18, 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, except for the effects of the matter 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 Trans Nzoia 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 comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Use of Goods and Services

1.1 Routine Maintenance of Motor Vehicles

Included in the use of goods and services expenditure figure of Kshs.201,925,132 is an amount of Kshs.729,950 paid to two local motor vehicle garages in respect of purchase of spares and repair of motor vehicles. However, the payments were not supported by pre-service and post service inspection reports from the Chief Mechanical Engineer of the State Department of Roads and Public Works as required. The payments were also not supported by the minutes of tender evaluation and tender award and invoices.

1.2 Irregular Charge of Expenditure - Rentals of Produced Assets

Use of goods and services figure of Kshs.201,925,132 for the year ended 30 June 2018 includes rental of produced assets figure of Kshs.17,976,000 which in turn includes an amount of Kshs.2,646,000 paid to twenty one (21) Members of the County Assembly (MCAs) as per diem allowances to enable them attend KICOSCA/CASA games in Machakos County. However, the expenditure was correctly chargeable to domestic travel and subsistence but authority authorizing re-allocation of funds was not availed for audit review.

1.3 Foreign Travel and Subsistence

Included in the use of goods and services figure of Kshs.201,925,132 reflected under note 5 is foreign travel and subsistence expenditure of Kshs.6,438,792 out of which Kshs.5,395,192 in respect of foreign travel by the officials of the County Assembly were not

properly supported by copies of authority to travel outside the country as well as boarding passes as required.

In the circumstances, it was not possible to ascertain propriety and accuracy of the use of goods and services incurred during the year under review.

2. Accounts Receivables

The staff advances balance of Kshs.996,926 was due from ten (10) members of staff as at 30 June 2018. However, the advances register was not availed for audit review to indicate when such advances were applied for and the due accounting date.

Consequently, the accuracy of the staff advances balance of Kshs.996,928 as at 30 June 2018 could not be confirmed.

3. Variances Between the Financial Statements Figures and the IFMIS Report

Audit review of the financial statements submitted for audit revealed variances with the IFMIS report in both receipts and payments. The financial statements reflected total exchequer releases amounting to Kshs.530,452,425 while the IFMIS report reflected nil balance. The financial statements further reflected total payments amount of Kshs.533,890,996 as compared to IFMIS report figure of Kshs.437,724,300 resulting to a variance of Kshs.96,166,696 as detailed below:

Item	IFMIS Report Actual Kshs.	Financial Statements Kshs.	Variance Kshs.
Receipts			
Exchequer releases	-	530,452,425.00	(530,452,425.00)
Payments			
Compensation of Employees	247,120,556.45	285,295,376.00	(38,174,819.55)
Use of goods and Services	172,345,995.10	201,925,132.00	(29,579,136.90)
Social Security Benefits	18,417,573.00	30,223,779.00	(11,806,206.00)
Acquisition of Assets	(159,825.00)	11,897,550.00	(12,057,375.00)
Other payments	-	4,549,159.00	(4,549,159.00)
Total	437,724,299.55	533,890,996.00	(96,166,696.45)

Although the two records are supposed to be in agreement, no reason or reconciliation has been provided for the variances arising between the two sets of record.

Consequently, the accuracy of 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 of Trans Nzoia 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 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, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Budget Control and Performance

During the year under review, the County Assembly had an approved budget of Kshs.604,438,969 as compared to the actual expenditure of Kshs.533,890,996 resulting to an under expenditure of Kshs.70,547,973 or 12% of the budget as below:

Item	Approved Budget 2017/2018 (Kshs)	Actual Expenditure 2017/2018 (Kshs)	Variance (Kshs)	% of Utilization Difference to Final Budget
Compensation of Employees	285,303,353	285,295,376	7,977	100%
Use of goods and services	202,979,479	201,925,132	1,054,347	99%
Social Security Benefits	30,269,593	30,223,779	45,814	100%
Acquisition of Assets	85,886,544	11,897,550	73,988,994	14%
Other Payments	-	4,549,159	- 4,549,159	
Total	604,438,969	533,890,996	70,547,973	88%

The under-expenditure was recorded mainly on acquisition of assets on which an expenditure of Kshs.11,897,550 representing 14% of the budget of Kshs.85,886,544 was recorded, resulting to an under expenditure of Kshs.70,547,973 representing 86%.

Further, the County Assembly recorded an expenditure of Kshs.4,549,159 on other payments although the same was not provided for in the approved budget.

The under-absorption of the approved budget is an indication that some activities and projects in the annual plan were not implemented by the County Assembly. This is likely to have negative effects on delivery of goods and services to the residents of Trans Nzoia County. There is therefore need for the management to re-look at its budget implementation mechanisms with a view to focus on priority areas that will enhance service delivery to the residents.

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 matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section 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

Public Participation

The County Assembly of Trans Nzoia incurred an expenditure of Kshs.1,048,000 to organize public participation on budget estimates for 2017/2018 on 25 April, 2017 held in various places within Kitale town. The event was organized and attended by the Members of the County Assembly and secretariat staff where they engaged the citizens in discussing the budget estimates for the year under review. However, the same exercise had earlier been done by the County Executive and submitted to the Assembly for approvals. Consequently, the expenditure of Kshs.1,048,000 incurred by the Assembly on public participation amounts to nugatory payment.

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

Basis for Conclusion

1. Governance Framework

1.1 Failure to Establish an Audit Committee

By the time of audit, the County Assembly had not established an audit committee contrary to Section 167(1) of the Public Finance Management (County Government) Regulations, 2015 which require each county government entity to establish an audit committee. The County Assembly was therefore in breach of the law.

1.2 Lack of Independent Internal Audit Function

Although, the Assembly has established an internal audit unit, the audit function reports both administratively and functionally to the Clerk of the County Assembly instead of an audit committee contrary to Regulation 155(1) of the Public Finance Management (County Government) Regulations 2015, which states that the head of internal audit unit in a County Government entity shall enjoy operational independence through the reporting structure by reporting administratively to the Accounting Officer and functionally to the audit committee. In addition, the internal audit function operated without an approved internal audit charter detailing the scope, responsibilities and purpose of internal audit function as required. Consequently, the unit lacks the operational independence to execute its mandate of overseeing governance mechanisms and promoting transparency and accountability in management of the County Assembly.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 Assembly's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the basis of accounting unless the management either intends to liquidate the 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 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 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 scepticism throughout the audit. I also:

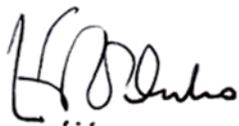
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting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

24 January 2019