

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF EMBU FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Embu set out on pages 16 to 38, which comprise the statement of financial assets and liabilities as at 30 June, 2020 and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, the financial position of the County Assembly of Embu as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS Cash) and comply with the Public Finance Management Act, 2012 and the County Governments Act, 2012.

Basis for Qualified Opinion

1. Presentation of Financial Statements

The financial statements reflect the following anomalies:

- i) The statement of budget execution by programme and sub-programme does not show revenue and expenditure item balances contrary to the reporting format prescribed by the Public Sector Accounting Standards Board (PSASB).
- ii) The statement of cash flows reflects a prior year comparative balance for acquisition of assets totalling Kshs.5,910,020. However, the 2018/2019 financial statements had reflected the sum as a net credit balance.
- iii) Annex 1 to the financial statements reflects pending accounts payables totalling Kshs.117,462,816. However, the Annex does not reflect comparative balances for the previous (2018/2019) financial year contrary to IPSAS 1 which requires that comparative prior period information to be presented for all amounts shown in the financial statements and the Notes to the financial statements.
- iv) Contrary to the reporting format prescribed by the PSASB, the other disclosures section of the financial statements does not contain a report on Management's follow-up on issues raised in the audit report for the previous year.
- v) The statement of financial assets and liabilities as at 30 June, 2020 reflects a debit (negative) fund balance amounting to Kshs.13,727 brought forward from the previous (2018/2019) financial year. However, the balance was reflected as a credit balance in the audited financial statements as at 30 June, 2019.

In view of these issues, the financial statements have not been prepared in accordance with IPSAS and the format prescribed by the PSASB.

2. Unconfirmed Balances

2.1 Receipts and Payments Variances

The statement of comparison of budget and actual amounts - recurrent and development combined reflects budgeted receipts totalling Kshs.692,504,588. However, the statement of comparison of budget and actual amounts: recurrent and statement of comparison of budget and actual amounts: development reflect Kshs.592,518,588 and Kshs.100,000,000 for the same item respectively or Kshs.692,518,588 in total, resulting to an unexplained variance of Kshs.14,000 between the aggregate balance and that reflected in respect to the account in the statement of comparison of budget and actual amounts - recurrent and development combined.

Similarly, the statement of comparison of budget and actual amounts combined reflects payments totalling Kshs.556,424,206 for the previous year. However, the statement of budget execution by programmes and sub-programmes reflects payments totalling Kshs.556,551,826 resulting to an unexplained variance of Kshs.127,620.

In the circumstance, the accuracy of the three statements could not be confirmed.

2.2 Use of Goods and Services

The statement of receipts and payments reflects payments for use of goods and services totalling Kshs.235,073,234. Examination of records on the payments revealed the following unconfirmed expenses:

2.3 Training Expenses

Training expenses totalling Kshs.3,850,800 equivalent to 87% of the total Kshs.4,383,520 spent on the item during the year were not supported with relevant records such as the training needs assessment report, approvals from the Training Committee, invitation letters to course participants, attendance lists, and back to office reports. As a result, the occurrence of the training courses and propriety of the reported expenditure could not be confirmed.

2.4 Domestic Travel and Subsistence

Similarly, supporting documents for payments totalling Kshs.3,194,800 spent on domestic travel and subsistence were not provided for audit review. In the circumstance, the propriety and accuracy of the payments totalling Kshs.3,194,800 could not be confirmed.

3. Insurance Premiums

Insurance policy documents on Kshs.349,935 paid for premiums for two vehicles for the duration 24 July, 2019 to 20 July, 2020 were also not provided for audit. In addition, the payment for the premiums was made on 08 July, 2019 which was 12 days before the expiry of the contracted policy. As a result, the County Assembly had no binding claim against the insurance company in regard to the two vehicles between 24 July, 2019 to

07 July, 2020. As a result, the occurrence and propriety of the expenditure totalling Kshs.349,935 could not be confirmed.

4. Pending Accounts Payables

Annex 1 to the financial statements reflects Kshs.117,462,816 in respect to pending accounts payables as at 30 June, 2020. Included in the balance are bills totalling Kshs.19,749,953 that were not supported with any records, including payment vouchers.

In addition, Note 1 of other disclosures to the financial statements reflects opening pending accounts payables totalling Kshs.3,733,185. However, the closing pending accounts payables reflected in the audited 2018/2019 financial statements amounted to Kshs.2,053,075. The variance amounting to Kshs.1,680,110 between the two sets of records was not explained.

In view of these issues, the accuracy, validity and completeness of the pending accounts payables balance totalling Kshs.117,462,816 as at 30 June, 2020 could not be confirmed.

5. Fixed Assets

Annex 3 – Summary of Fixed Assets Register reflects historical costs of assets totalling Kshs.107, 229, 010. Included in the balance is Information Communication Technology (ICT) equipment costed at Kshs.13,789,47. However, the balance has a typographical error and should instead read as Kshs.13,789,470. It therefore has a variance of Kshs.12,410,523.

In addition, a bus purchased in the year under review at Kshs.9,747,304 was not included in the assets register and its logbook was not provided for audit review. As a result, its ownership by the County Assembly could not be confirmed.

Further, as similarly reported in the previous year, valuation of the land on which the County Assembly is located had not been carried out as at 30 June, 2020. Therefore, the nil value for land reflected in Annex 3 to the financial statements is not fairly stated.

Management explained that the valuation of the land and other assets taken over from the defunct County Council of Embu was ongoing.

In view of these issues, the fixed assets balance totalling Kshs.107,229,010 as at 30 June, 2020 reflected in the summary of fixed assets is not fairly stated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Embu Management 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. I have determined that there were no Key Audit Matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

1.1 Receipts

The statement of comparison of budget and actual amounts-recurrent and development combined - reflects budgeted receipts totalling Kshs.692,504,588 and actual receipts totalling Kshs.556,551,826 resulting to a revenue shortfall of Kshs.135,952,762.

1.2 Expenditure

The statement of comparison of budgets and actual amounts – recurrent and development combined reflects budgeted expenditure totaling Kshs.692,504,588 for the year ended 30 June, 2020 whereas actual expenditure totalled Kshs.556,424,206 resulting to net under-expenditure totalling Kshs.136,080,382 as shown below:

	Items	Budget (Kshs.)	Actual (Kshs.)	Under (Kshs.)	Under- Absorption Ratio (%)
1.	Compensation of Employees	238,685,352	234,722,082	3,963,270	2%
2.	Use of Goods and Services	302,607,122	235,073,234	67,533,888	22%
3.	Social Security Benefits	30,991,235	25,791,236	5,199,999	17%
4.	Acquisition of Assets	120,220,879	60,837,654	59,383,225	49%
	Total	692,504,588	556,424,206	136,080,382	

The under-absorption of Kshs.136,080,382 appears to have largely resulted from the revenue shortfall of Kshs.135,952,762 reported in the year and denoted as goods and services planned for, that were not obtained.

Failure to implement planned activities and programmes may constrain the capacity of the County Assembly to fulfill its oversight and legislative mandate.

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 on Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing has else 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. Irregularities in Procurement of Goods and Services

Examination of expenditure records on goods and services indicated several instances of irregular procurement and payments which resulted in imprudent use of public resources:

1.1 Hire of Transport Services

Payments totalling Kshs.8,200,600 for rentals of produced assets include Kshs.2,052,000 spent on hire of transport services from various companies through framework agreements. However, review of the register for prequalified suppliers revealed that only five (5) companies had been prequalified and registered to provide framework agreement services to the County Assembly. Therefore, award of the framework contracts contravened Section 114(1)(c) of the Public Procurement and Asset Disposal Act, 2015. The law provides that a procuring entity may enter into a framework agreement through open tender only if a minimum of seven (7) alternate vendors are included for each category.

In the circumstance, the regularity and value for money on Kshs.2,052,000 spent on hire of transport in the year under review could not be confirmed.

1.2 Payments for Hospitality Supplies and Services

Expenditure records indicated that payments totalling Kshs.2,127,500 were made for hire of conference facilities for meetings held outside Embu County. However, no satisfactory reasons were provided by Management for holding the meetings outside Embu County contrary to Treasury Circular No. 20/2015 of 4 November, 2015 which requires all Accounting Officers to hold all workshops and retreats within the precincts of the duty station where the majority of participants work.

In the circumstance, the expenditure totalling Kshs.2,127,500 may have been incurred irregularly.

2. Insufficient Records on Procurement of Security Surveillance System

Examination of expenditure records further indicated that a sum of Kshs.995,475 was spent on supply, installation, testing and commissioning of closed-circuit television (CCTV) surveillance system in the County Assembly. However, records on the contract

including manuals, service agreement, test report and Bills of Quantities were not provided for audit verification.

Further, the payment for the equipment was supported by a delivery note that did not indicate the serial numbers for the items supplied. As a result, it was not possible to confirm that the items delivered conformed to the supply contract and that value for money was obtained on the expenditure totalling Kshs.995,475 spent on the items.

3. Irregular Procurement of Ward Offices

Expenditure records indicated that Kshs.3,598,600 was spent on rent payments for Ward offices in the year under review. However, the offices were directly procured contrary to Section103(2) (a) of the Public Procurement and Asset Disposal Act, 2015. The law allows for use of the method in specified conditions but no records were provided for audit to confirm existence of any special conditions.

In the circumstance, procurement of the Ward Offices was irregular and uncompetitive and as a result, value for money may not have been obtained on rent payments totalling Kshs.3,598,600 incurred on the contract.

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 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 were not operating in an effective way.

Basis for Conclusion

1. Lack of Audit Committee

As reported in the previous year, the County Assembly had not established an Audit Committee as at 30 June, 2020, as required by Regulation 42(1)(e) of the Public Finance Management (County Governments) Regulations, 2015. The law requires the Accounting Officer to ensure the County Government entity has an Audit Committee in place to perform oversight and other roles provided for in the Regulations.

In the circumstance, Management did not adhere to the law. Further, in the absence of oversight by an Audit Committee, the County Assembly's internal control and governance systems were not properly set up and as a result, the risk of ineffective use of public resources may have been elevated.

2. Lack of Information, Communication and Technology (ICT) Policy

Review of the County Assembly's use of information Communication Technology (ICT) indicated, as in the previous year, that contrary to Regulation 110(1) of the Public Finance Management (County Governments) Regulations, 2015, there was no approved policy to guide investment in and use of the technology.

As a result, use of ICT by the County Assembly, including procurement of assets and security and the reliability of the electronic data, may not be effective.

3. Failure to Report on Risk Management

As similarly reported in the previous year, the County Assembly did not have a risk management policy contrary to Section 158(1) of the Public Finance Management (County Governments) Regulations, 2015. In addition, the Internal Audit Unit did not assess and report on the state of risk management as required in Regulation 153 1(b) of the Regulations.

In the circumstance, Management may have lacked objective means to identify, measure and mitigate operational and other risks faced by the County Assembly.

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 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 its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless 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 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 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 County Assembly's ability 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 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

24 December, 2021