REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF KIRINYAGA 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 Kirinyaga set out on pages 1 to 29, 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, in all material respects, the financial position of the County Assembly of Kirinyaga 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 (Cash Basis) and comply with the Public Finance Management Act, 2012 and the County Governments Act, 2012.

Basis for Qualified Opinion

1.0 Unconfirmed Balances

1.1 Variances Between the Financial Statements and Integrated Financial Management Information System (IFMIS) Balances

The financial statements reflect an aggregate balance of Kshs.570,628,835 in respect to four (4) accounts, whereas Integrated Financial Management System (IFMIS) records reflect Kshs.570,764,950 against the accounts as shown in the table below:

Item	Note	Balance in Financial Statements (Kshs.)	Balance in IFMIS Records (Kshs.)	Variance (Kshs)
Compensation of Employees	4	242,170,171	257,596,491	(15,426,320)
Use of Goods and Services	5	292,008,119	276,670,874	15,337,245
Social Security Benefits	9	20,710,829	21,622,842	(912,013)
Acquisition of Assets	10	15,739,716	14,874,743	864,973
Total		**570,628,835**	**570,764,950**	**(136,115)**

No explanation has been provided by Management for the variances between the two sets of records.

In the circumstance, the accuracy of the four accounts' balances reflected in the financial statements was not been confirmed.

1.2 Unexplained Variance in Accounts Receivables Comparative Balance

The statement of financial assets and liabilities reflects an accounts receivable brought forward balance amounting to Kshs.5,054,286, as disclosed in Note 14 to the financial statements. However, the certified 2018/2019 financial statements reflected Kshs.488,765 in respect to the account. The increase in the balance by Kshs.4,565,521 from the previous year has not been explained. As a result, the accuracy of the statement of assets and liabilities has not been confirmed.

1.3 Misstatement of Pending Bills

Note 7.10.1, other important disclosures, reflects a Nil pending bills balance as at 30 June, 2020 and at the beginning of the year on 1 July, 2019; and nil additions or payments in the year. However, the audited financial statements for 2018/2019 financial year reflected pending bills totaling Kshs.5,223,399 as at 30 June, 2019 which sum should have been reflected as the opening balance in the statements for the year under review. Further, Annex 1- analysis of pending accounts payable - reflects pending bills totalling Kshs.3,602,250.

In addition, in spite of the pending accounts payables balance totalling Kshs.3,602,250 reflected in the financial statements, the vote book status report as at 30 June, 2020 reflects nil outstanding commitments on both the development and recurrent votes. Therefore, the said bills may have been incurred without reference to the approved budget contrary to Regulation 50 (2) of the Public Finance Management (County Governments) Regulations, 2015 which prescribes that expenditure commitments may only be made against allocations in approved budgets.

Further, contrary to the provisions of Section 54(1)(c) of Public Finance Management (County Governments) Regulations, 2015, the Accounting Officer did not submit to the County Treasury, the Controller of Budget and the Auditor-General monthly financial and non-financial reports, including ageing analysis of pending payments outstanding for over ninety days.

In view of the anomalies in the disclosure and presentation of the pending bills balance, the value of the pending bills and accounts payables owed by the County Assembly as at 30 June, 2020 was not confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kirinyaga County Assembly 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. There were no key audit matters to report in the year under review.

Other Matter

1.0 Budget Control and Performance

The summary statement of appropriation: recurrent and development combined for the year ended 30 June, 2020 reflects final receipts budget and actual on comparable basis totalling Kshs.690,254,050 and Kshs.570,764,950 respectively, resulting to an under-funding of Kshs.119,489,100 or 17% of the budget. Similarly, the County Assembly spent Kshs.570,650,061 against an approved budget of Kshs.690,254,050 resulting to an under-expenditure of Kshs.120,674,868 or 17% of the budget. The revenue shortfall appears to have constrained implementation of projects and activities planned for execution during the year.

2.0 Inadequate Disclosure on Follow-up of Previous Years Issues

The progress on follow-up of auditor recommendations report in Note 8 - other disclosures - of the financial statements asserts all five issues raised in the report for the prior year had since been resolved. However, no evidence was cited or provided to confirm the assertion made by Management. In view of the omission, the report does not fulfil the requirements set by the Public Sector Accounting Standards Board (PSASB).

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for 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

1.0 Personal Allowances and Salaries Payment Outside the Integrated Payroll and Personnel Database (IPPD) System

Examination of personnel records indicated that payments of personal allowances totalling Kshs.91,169,834 included a sum of Kshs.901,462 paid manually without reference to the Integrated Payroll and Personnel Database (IPPD) system. The payments were made to five (5) officers who were recruited during the year under review. In addition, records on advertisements for the vacancies and the processes followed in appointing the officers to the posts were not provided for audit review.

Management breached the law by making the payments outside of the IPPD which is the system prescribed for payment of salaries for public servants. In addition, it was not possible to confirm that the officers were recruited in a lawful way.

2.0 Irregular Expenditure on Security Services

Examination of expenditure records on purchase of goods and services indicated that a sum of Kshs.1,268,000 was paid to a private firm for security services provided to the County Assembly. However, the payment was not supported with the contract agreement signed with the firm.

In the circumstance, the validity of the expenditure totalling Kshs.1,268,000 paid to the firm could not be confirmed.

3.0 Lack of Approved Staff Establishment

During the year under review, the County Assembly did not have an approved staff establishment for its 130 employees, contrary to Section B 5(2) and Section B 6(3) of the County Public Service Human Resource Manual 2013. The provision requires each County Government entity to maintain optimum staffing levels derived from an authorized establishment and organization structure.

Consequently, it was not possible to confirm whether the staffing and the organization structure of the County Assembly were optimized.

4.0 Failure to Observe Ethnic Diversity in Recruitment

Examination of personnel records indicated that the County Assembly had one hundred and thirty (130) employees as at 30 June, 2020 out of whom five (5) staff were recruited during the year under review. However, contrary to Section 65 1(e) of the County Governments Act, 2012, all the new employees were from the dominant ethnic community in the County. The provision requires at least thirty percent of the vacant posts at entry level to be filled by candidates who are not from the dominant ethnic community in the County.

In the circumstance, the Management is in breach of the law.

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 comply, 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

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Lack of Information, Communication Technology (ICT) Plans

Review of internal control and risk management system indicated that the County Assembly did not have a Disaster Recovery Plan and documented emergency procedures prescribed in Regulation 158(1)(b) Public Finance Management (County Governments) Regulations, 2015. The provision requires the Accounting Officer in each public entity to develop a system of risk management and internal control that builds robust business operations.

Consequently, continuity of operations and recovery of vital data and information in the system may not be possible should unexpected events occur.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the 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 comply 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 overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of 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 continue as to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Assembly to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the County Assembly to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

28 October, 2021