

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF LAIKIPIA 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 Laikipia set out on pages 1 to 33, 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 effects 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 Laikipia 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. Inaccuracies in the Financial Statements

The financial statements for the year ended 30 June, 2020 reflect various balances which differ with the underlying records as shown below:

Item	Financial Statements Balances (Kshs.)	IFMIS Report Balance (Kshs.)	Variance (Kshs.)
Transfers to Other Government Units	20,000,000	60,000	19,940,000
Other Grants and Transfers	60,000	0	60,000
Acquisition of Assets	54,722,985	74,722,985	(20,000,000)
Bank Balances	622,182	478,582,577	(477,960,395)
Cash Balances	-	(235,620,450)	235,620,450
Accounts Payables - Deposits	603,399	252,216,235	(251,612,836)
Fund Balance brought forward	1,992,646	(9,272,892)	11,265,538
Prior Year Adjustments	1,992,646		1,992,646
Surplus/Deficit for the Year	228,783	1,992,646	(1,763,863)

No satisfactory explanations or reconciliations have been provided for the variances.

In absence of any reconciliation between the two sets of records, the accuracy and completeness of the figures reflected in the financial statements for the year ended 30 June, 2020 could not be confirmed.

2. Unsupported Acquisition of Assets

As disclosed in Note 10 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.54,722,985 under acquisition of assets, which constitutes an amount of Kshs.29,496,778 relating to construction of buildings. The amount of Kshs.29,496,778 includes payments amounting to Kshs.3,290,480 made to two firms without any supporting documents such as payment vouchers and tender documents to establish the purpose and valuation or nature of the asset(s) procured.

Consequently, the propriety and validity of the expenditure of Kshs.3,290,480 incurred in acquisition of assets during the year ended 30 June, 2020 could not be confirmed.

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

Other Matter

1. Pending Bills

Disclosure 7.10.1 and Annexure 1 to the financial statements shows that pending accounts payables totalling Kshs.33,420,673, relating to construction of buildings and supply of goods were not settled during the year under review but were carried forward to 2020/2021. Management has not explained why the bills were not settled during the year when they occurred. The County Assembly is at risk of incurring significant interest costs and penalties with the continued delay in payment.

Failure to settle bills during the year to which they relate distorts the financial statements for that year and adversely affects the provisions for the subsequent year to which they have to be charged.

2. Prior Year Unresolved Issues

In the report of the previous year, several issues were raised under Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Control, Risk Management and Governance. However, although the Management has indicated that some have been resolved the matters

remained unresolved as the Senate and County Assembly are yet to deliberate on the Report for 2018/2019.

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 sections 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. Doubtful Procurement Process

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.223,299,567 under supply of goods and services which constitutes an amount of Kshs.15,690,858 relating to hospitality supplies and services. Included in the expenditure are two payments amounting to Kshs.1,463,678 made to two hotels for conference facilities for Members of County Assembly (MCAs) and staff. The two service providers were not among the prequalified suppliers of the County Assembly during the year ended 30 June, 2020 and the procurement process used to identify the hotels was not indicated or clarified. It could not therefore, be confirmed whether the services were procured in accordance with the requirements of the Public procurement and Assets Disposal Act, 2015.

In the circumstances, Management is in breach of the law

2. Delayed Construction of Ward Offices

As disclosed in Note 10 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.54,722,985 in respect of acquisition of assets which constitutes an amount of Kshs.29,496,778 relating to construction of buildings. The balance includes a balance of Kshs.24,894,200 spent on construction of fifteen ward offices. Examination of documents revealed that the contract was awarded to a local construction firm on 06 May, 2020 at a contract sum of Kshs.52,462,287 for a contract period of 10 weeks, with a scheduled completion date of 17 July, 2020.

Physical inspection on the site at the time of the audit in November, 2020 revealed that the ward offices had not been completed. The progress of works was about 70% level of completion against an elapsed contract period of 36 weeks (or about 212%). No explanation was provided for the delay. Further, ownership documents for the parcels of land on which the ward offices were being constructed were not provided for audit verification.

As a result, it has not been possible to confirm that the residents will obtain value for money on the expenditure so far incurred on the project.

3. Non-Compliance with Ethnic Diversity

Examination of the human resource records revealed that during the year under review, the total number of employees of County Assembly had sixty-eight (68) permanent employees out of whom fifty-one (51) representing 75% were from the one community in the County. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, “all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community”.

In the circumstances, 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 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 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

1. Unupdated Fixed Assets Register

Disclosed in Annex 4 to the financial statements, the summary of fixed assets register reflects a balance of Kshs.130,228,559 (2018/2019 Kshs.75,505,574). However, as previously reported, review of records revealed that the Management did not update the register with the additional assets procured during the year and did not indicate the category of assets, date of acquisition and current condition or status of the assets. Further, two parcels of land on which the County Assembly offices and the Speaker's residence are located with estimated values of Kshs.92,660,000 and Kshs.8,740,000 respectively, were excluded from the summary of fixed assets.

Consequently, Management has not instituted proper systems to safeguard the County Assembly's assets.

2. Internal Audit Function

The County Assembly has established an Internal Audit Unit to carry out independent assessment of systems and controls to promote transparency and accountability of management of the County Assembly's resources. The Unit has, however, only one officer which hampers any segregation in the allocation of duties. According to the draft annual work plan, the unit was to carry out fourteen audit assignments, however, no report was presented for audit review.

In the circumstances, faces challenges in internal control systems and overall governance.

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 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 overall governance.

In preparing the financial statements, Management is responsible for assessing County Assembly's ability to sustain 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 or to cease operations.

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 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 to 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

02 November, 2021