

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of County Assembly of Nyandarua set out on pages 1 to 21, which comprise the statement of financial assets and liabilities as at 30 June, 2020, and statement of receipts and payments, statement of cash flows and the statement of comparison of budget and actual amounts - recurrent and development combined 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 the County Assembly of Nyandarua as at 30 June, 2020, and 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.

### **Basis for Adverse Opinion**

#### **1. Inaccuracies in the Financial Statements**

The financial statements as prepared and presented for audit had the following inaccuracies:

- 1.1. The statement of receipts and payments reflects payments amounting to Kshs.820,111,974 however a recasting of the balances reflected in the statements indicates an amount of Kshs.819,257,184 resulting to an unexplained variance of Kshs.854,790.
- 1.2. The statement of cashflows reflects cash and cash equivalents at beginning of the year of Kshs.27,608,760 instead of the prior year cash and bank balances of Kshs.29,904,445 resulting to an unexplained variance of Kshs.2,295,685.
- 1.3. Prior year adjustment totalling to Kshs.2,295,685 were omitted in the cashflows statement.
- 1.4. The statement of receipts and payments reflects use of goods and services of Kshs.285,587,511 whereas disclosure Note 3 to the financial statements reflects an amount of Kshs.286,442,301 resulting to a variance of Kshs.854,790 which has not been reconciled nor explained.
- 1.5. The statement of financial assets and liabilities reflects comparative accounts payables balance of Kshs.27,608,760 while the corresponding disclosure Note 11

to the financial statements is nil, leading to a variance of Kshs.27,608,760 which has not been reconciled nor explained.

1.6. Summary statement of appropriation - recurrent reflects final budget of Kshs.664,666,930 on both total receipts and total payments, recast of the figures reflects Kshs.672,542,930 resulting to unexplained variance of Kshs.7,876,000 on total budget.

1.7. The statement of financial assets and liabilities reflects accounts receivable-outstanding imprest of Kshs.854,790. However, the imprest register in support reflects a balance of Kshs.10,206,457, resulting to an unexplained variance of Kshs.9,351,667.

1.8. Further, the statement of financial assets and liabilities reflects accounts payable of Kshs.38,714,724 being retention amounts on contractor payments. However, the deposits ledger provided reflects a balance of Kshs.40,996,713, resulting to an unexplained variance of Kshs.2,281,989.

Consequently, the accuracy and completeness of the financial statements for the year ended 30 June, 2020 cannot be confirmed.

## **2. Unexplained Variance on Bank Balances**

As disclosed in Note 6A to the financial statements, the statement of financial assets and liabilities reflects bank balances of Kshs.38,714,724. However, examination of records provided for audit reflects the following anomalies: -

- i. Development bank account statements for the months of October, 2019 and June, 2020 had payments amounting to Kshs.23,021,177, with no details of the payees.
- ii. Cashbook for the recurrent account for the month of June, 2020 reflected reversal of payments amounting to Kshs.5,780,218 for the period 20/8/2019 - 10/6/2020 which have not been explained.
- iii. Recurrent Account bank reconciliation statement as at 30 June, 2020 shows payments in the cashbook but not in the bank of Kshs.3,468,811 of which two payments totalling to Kshs.411,400 have been outstanding for periods exceeding six months. No explanation has been provided why the payments have not been paid by CBK despite its payments being on real time gross settlement.
- iv. The deposit account cashbook balance of Kshs.38,714,724 differs with the certificate of bank balance of Kshs.4,626,366. No bank reconciliation statement has been provided to explain the discrepancy.
- v. The reported bank balances exclude the amounts held in the bank accounts for the Twenty-five ( 25) wards that constitute the County. Details of the outstanding bank balances, cashbooks, bank statements and bank reconciliations have not been provided for audit review.

Consequently, the accuracy, completeness and validity of the bank balances of Kshs.38,714,724 as at 30 June, 2020 cannot be confirmed.

### **3. Unsupported/Unaccounted for Use of Goods and Services**

As disclosed in Note 3 to the financial statements, the statement of receipt and payments reflects an expenditure of Kshs.285,587,511 in respect of use of goods and services. The following unsatisfactory observations were noted: -

#### **3.1. Irregular Payments on Domestic Travel Expenditure**

The balance includes an expenditure of Kshs.93,536,135 on domestic travel and subsistence. This amount includes claims amounting to Kshs.3,809,800 that were paid to various staff while on trips made outside the County. However, the amounts should have been charged under foreign travel expenditure. Further, the claims were unsupported by way of work tickets or bus tickets indicating mode of travel.

#### **3.2. Unsupported Foreign Travel and Subsistence**

Included also in the amount is Kshs.21,432,861 that was spent on foreign travel and subsistence. Of the amount, Kshs.5,786,271 was paid to twenty-six (26) officers on various dates to undertake foreign trips. The balance was not unsupported by way of stamped passports, flight boarding passes and invitation letters to confirm whether the officers travelled outside the country.

#### **3.3. Unsupported for COVID - 19 Expenditure**

Included in the amount is Kshs.56,220,915 spent on hospitality supplies and services. This includes Kshs.7,894,450 spent on COVID-19 related activities at various forums during national celebrations and consultative meetings. However, the money was issued to individuals in form of imprests but no surrender returns have been provided to confirm the funds utilization.

Further imprest amount of Kshs.10,293,532 comprising Kshs.3,977,873 paid to seven (7) officers and Kshs.6,315,659 paid to various hotels and supermarkets to facilitate conferences and seminars was not supported by way of attendance lists, invoices for the venues, meeting reports and certificates of participation.

#### **3.4. Unaccounted for Expenditure for Professional Services**

In addition, the balance includes an amount of Kshs.33,749,980 in respect of other operating expenses. The amount includes Kshs.321,250 paid to a law firm for legal services and Kshs.500,000 for contracted professional services, all totalling to Kshs.821,250. However, no payment vouchers with the supporting documents such as fee note and delivery note have been provided for audit verification.

#### **3.5. Unaccounted for Training Expenses**

The balance also includes expenditure amounting to Kshs.12,144,199 on training expenses. However, vouchers in support of the expenditure amounting to Kshs.3,482,360 paid to various institutions of learning and individuals were unsupported by way of Local

Service Orders (LSOs), invoices, invitation letters, certificates of participation, signed attendance sheets and training programmes. A further expenditure of Kshs.3,732,200 made to various banks in respect of training activities was unsupported by way of beneficiary schedule indicating details of the training activities.

### **3.6. Unaccounted for Fuel, Oil and Lubricants**

Included in the is an amount of Kshs.6,000,000 that was spent on fuel, oil and lubricants. However, examination of documents provided for audit revealed that fuel valued at Kshs.200,589 was reflected in a supplier's statements but not recorded in the work tickets. Further, fuel valued at Kshs.578,657 was reflected as drawn by the County Assembly's vehicles in the statement of the supplier based at Ol Kalou while the vehicles work tickets indicated they were at a different locality.

From the foregoing, the accuracy and completeness of the reported expenditure on use of goods and services of Kshs.285,587,511 for the year ended 30 June, 2020 cannot be confirmed.

### **4. Unexplained Variance on Acquisition of Assets**

As disclosed in Note 5 to the financial statements, the statement of receipt and payments reflects a balance of Kshs.168,722,632 in respect of acquisition of assets which includes an amount of Kshs.156,207,263 spent on construction of buildings. However, the ledger in supporting the expenditure reflects a balance of Kshs.155,062,763, resulting to an unexplained variance of Kshs.1,144,500.

Further, the expenditure on the construction of buildings constitutes an amount of, Kshs.137,937,603 which relates to payment made to a contractor for the construction of the Assembly's office block. However, it was noted that one payment certificate number 20 was used to make two separate payments of Kshs.46,189,205 and Kshs.35,099,644 on 11 July, 2019 and 28 January, 2020 respectively, vide payment vouchers numbers 6 and 8 respectively. Other certificates number 19 and 25 were missing in the serials were not provided for audit.

Consequently, the accuracy and value for money on acquisition of assets amounting to Kshs.168,722,632 for the year ended 30 June, 2020 cannot be confirmed.

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

Other Matter

### 1. Pending Bills

Annexes 1 to the financial statements discloses pending bills balances of Kshs.14,223,890 and were not supported by way of supplier delivery notes, invoices and fee notes as summarized out below:

Item	Opening Balances (Kshs.)	Additions During the Year (Kshs.)	Paid During the Year (Kshs.)	Balance (Kshs.)
Construction of Buildings	55,451,105.00	156,199,949.60	211,651,055	nil
Supply of Goods	1,075,750.00	23,138,140.97	21,579,389	1,558,752
Supply of Services	18,842,779.87	66,447,136.79	65,836,778	12,665,138
<b>Total</b>	<b>75,369,635</b>	<b>245,785,227</b>	<b>299,067,222</b>	<b>14,223,890</b>

Management has not explained why the bills were not settled during the year when they occurred

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

Consequently, the accuracy of the pending bills of Kshs.14,223,890 as at 30 June, 2020 cannot be confirmed.

### 2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: The National Treasury and Planning letter reference No. AG.4/16/3 Vol.1(9) dated 24 June, 2020.

# 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. Delay in Appointment of Clerk to the County Assembly**

The Clerk to the County Assembly resigned from the position effective 1 January, 2019 and an officer was appointed to serve in an acting capacity. However, as at the time of finalizing the audit in October, 2020, the position had not been substantively filled, 22 months after the resignation. This is contrary to Clause 2.7.4 of the Human Resource Management Manual of the County Assembly of Nyandarua which states that employees may be appointed to temporarily take on responsibilities of a higher job grade to support a specific business need for a period not exceeding six (6) months.

Consequently, Management is in breach of the law.

### **2. Variation of Construction Works**

During the year under review, the County Assembly awarded a contract for the construction of buildings at a contract cost of Kshs.178,826,470. However, examination of payment certificates relating to construction of buildings payments reflects variation orders that have resulted in the works that had originally been quoted at a cost of Kshs.178,826,470 rising to Kshs.268,074,460, an escalation of Kshs.89,247,990 or 49.9%, per certificate number 26 of 7 April, 2020. This is contrary to the Section 139 (4) (e) of the Public Procurement and Assets Disposal Act, 2015 which states that the cumulative value of all contract variations does not result in an increment of the total contract price by more than twenty-five per cent (25%) of the original contract price.

Consequently, Management is in breach of the law.

### **3. Delay in Completion of Office Block**

The construction of the office block commenced in October, 2017 and with expected completion date of 9 April, 2019, a period of 78 weeks. As at the time of audit site verification in October, 2020, the work was incomplete despite 80 weeks having lapsed after the initial expected completion date and the granted extension of 42 weeks which may lead to the risk of cost escalations. There was also no evidence of approval for the extension granted having complied with Section 139(1) (a) of the Public Procurement and Assets Disposal Act, 2015 that requires the variation or amendment to a contract shall be approved in writing by the respective tender awarding authority within a procuring entity.

Further, the monthly site meeting reports for the period December, 2019 to October, 2020 were not provided for audit.

Consequently, the project is behind schedule on its implementation and the value for money has not been realized with the continued delay.

#### **4. Irregular Subscriptions under Other Operating Expenses**

As disclosed in Note 3 to the financial statements, the statement of receipts and payments reflects use of goods and services balance of Kshs.285,587,511 which includes other operating expenses amounting to Kshs.33,749,980. Included in the payments are expenditures to the County Assembly Forum and Society of clerks-at-the-table of Kshs.5,000,000 and Kshs.500,000 respectively. The expenditure was charged to Membership Fees, Dues and Subscriptions to Professional and Trade Bodies. However, the two groups are neither professional nor trade bodies.

The payments were contrary to Section 37 of the Intergovernmental Relations Act, 2012 which provides that the operational expenses in respect of the structures and institution established by the Act shall be provided for in the annual estimates of the revenue and expenditure of the National Government.

Consequently, Management is in breach of the law.

#### **5. Direct Procurement of ICT Equipment**

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects acquisition of assets expenditure balance of Kshs.168,722,632 which includes purchase of ICT equipment cost of Kshs.4,498,813. Of this amount, Kshs.2,080,500 was incurred in the purchase of computers and printers from a supplier. However, the acquisition was made using direct procurement with no evidence of bids having been sought from several bidders as required contrary to Section 74 (2) of the Public Procurement and Disposal Act, 2015 which states that in preparation of an invitation to tender, the accounting officer shall ensure that all tender documents are sent out to eligible bidders by recorded delivery.

Consequently, Management is in breach of the law.

#### **6. Non-Compliance with Laws on Statutory Deductions**

Review of Human Resource records revealed that nine (9) interns were contracted by the Assembly for five months between February to June, 2020, and were paid Kshs.446,895, gross amounts without deduction of the mandatory statutory deductions to National Hospital Insurance Fund (NHIF) and National Social Security Fund (NSSF). This is contrary to Section 19 of the Employment Act which states an employer may deduct from the wages of his employee any amount due from the employee as a contribution to any provident fund or superannuation scheme or any other scheme approved by the Commissioner for Labour to which the employee has agreed to contribute.

Consequently, 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, 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. Lack of Capacity of the Internal Audit Department**

According to the staff establishment list for the year 2019/2020, the internal audit department had an authorized establishment of 5 officers. However, the current number in post is only 3, resulting in a shortage of 2. Further, the Department did not have access to the Integrated Financial Management Information System (IFMIS) and the Integrated Personnel and Payroll Database (IPPD) systems.

Consequently, the internal audit department may not make an impact in its role to review the effectiveness of the financial and non-financial performance management systems of the entities.

#### **2. Lack of Risk Management Policy**

During the year under review, County Assembly of Nyandarua did not have a risk management policy in place and therefore, had no approved processes and guidelines on how to mitigate operational, legal and financial risks. Consequently, the Management did not perform formal risk assessments on all key financial risk areas such as cash, revenue and expenditure. Additionally, it was noted that the Management lacks a disaster recovery plan and therefore crucial information may not be recovered in the event of a disaster.

In the absence of a risk management policy, the Management is not in a position to identify individual risks, significance areas, likelihood of occurrence of identified risks and the appropriate control measures.



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 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 financial reporting process, reviewing the effectiveness of how the County Assembly 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 overall 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 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 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 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 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**