

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of the County Executive of Nyandarua set out on pages 1 to 64, which comprise the statement of assets and liabilities as at 30 June, 2020, and statement of receipts and payments, statement of cash flows and the summary statement of appropriation - 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 Executive of Nyandarua as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and do not comply with the County Governments Act, 2012 and the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Inaccuracies in the Financial Statements

A review of the financial statements presented for audit revealed the following unsatisfactory and inaccuracies:

- i. The statement of receipts and payments reflects compensation of employees cost of Kshs.1,853,386,089 which comprises remuneration to staff made through the Integrated Personal and Payroll Database (IPPD), manual PayFlex payroll system and vouchers. However, analysis of the summaries of these payments reflects Kshs.1,852,249,499, resulting to an unexplained variance of Kshs.1,136,590,
- ii. As disclosed in Note 17 to the financial statements, the statement of receipts and payments also reflects acquisition of assets cost of Kshs.2,173,486,455 Included in this figure is expenditure of Kshs.1,366,154,497 on construction and civil works. However, the amount excludes payments to contractors and suppliers of Kshs.14,999,329 that was excluded from the supporting schedules to the financial statements,
- iii. The statement of cashflows reflects cash and cash equivalents opening balance and closing balance of Kshs.1,600,023,593 and Kshs.305,347,513 respectively, being the net financing assets instead of the actual cash and bank balances as reflected in the books of account.
- iv. Adjustment for increase/(decrease) on receivable and payables in the statement of cashflows have not reflected,

- v. The statement of receipts and payments for the year ended 30 June, 2020 reflects nil returned County Revenue Fund (CRF) issues. However, the statement of financial assets and liabilities reflects prior year cash and cash equivalents balance of Kshs.1,626,359,238, being balances in various bank accounts and cash balances. However, the bank and cash balances were not transferred to the County Revenue Fund Account after the closure of the financial year.
- vi. Summary statement of appropriation - recurrent and development combined reflects total budget utilization difference on total receipts and payments of Kshs.2,529,549,379 and Kshs.1,234,873,301 respectively. A recast of the figures reflects balances of Kshs.2,331,085,197 and Kshs.1,228,933,300 resulting to an unexplained variance of Kshs.198,464,182 and Kshs.5,940,001 respectively.

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

2. Unsupported Expenditure - Use of Goods and Services

As disclosed in Note 12 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.1,223,530,224 under use of goods and services. However, examination of records revealed several items whose expenditure were not supported as tabulated below:

Item	Total Payments (Kshs.)	Amount not Supported (Kshs.)	Nature
Domestic Travel and Subsistence	218,360,177	2,777,547	No cash sale receipts, payment schedules and work tickets.
Hospitality Supplies and Services	185,715,754	2,147,160	Payment vouchers have not been provided for audit review.
Insurance Costs	102,727,934	15,053,842	Insurance policy documents and list of assets and services
Specialised Materials and Services	222,145,853	20,706,076	No evidence of receipt and delivery of the items
Routine Maintenance – Vehicles and other transport equipment	25,139,655	2,851,211	Payment vouchers were unsupported with invoices
	754,089,373	43,535,836	

Management has not given any explanations for failure to provide the necessary documentations.

Further, the balance includes other operating expenses amounting to Kshs.162,592,559. Included in the expenditure is Kshs.14,258,418 paid to 15 firms in form of legal fees for service rendered during the previous years. However, the bills were not listed under pending bills of the respective periods and no documentary evidence was provided to confirm that the bills were proper charge for the prior period(s).

From the foregoing, the accuracy and validity of use of goods and services expenditure amounting to Kshs.57,794,254 for the year ended 30 June, 2020 cannot be confirmed.

3. Unsupported Expenditure on Other Grants and Payments

As disclosed in Note 15 to the financial statements, the statement of receipts and payments reflects other grants and payments of Kshs.678,324,685. Included in the amount is other current transfers (Hospital Transfers) amounting to Kshs.185,501,062. Of the amount, remittances to health centres and two local non-health facilities was Kshs.28,259,353. However, returns and payment vouchers indicating the purpose for the payments were not provided for audit verification.

Consequently, the propriety and validity of other grants and payments of Kshs.28,259,353 for the year ended 30 June, 2020 cannot be confirmed.

4. Acquisition of Assets

As disclosed in Note 17 to the financial statements, the statement of receipts and payments reflects acquisition of assets balance of Kshs.2,173,486,455. However, the following observations were made: -

4.1 Unsupplied and Uninstalled Transformers

The balance includes purchase of specialised plant, equipment and machinery of Kshs.280,359,523. Included in the expenditure is Kshs.8,205,000 paid to Rural Electrification and Renewable Energy Corporation (REREC) for acquisition and installation of transformers. However, the partnership or contract agreement between the County Government and the Corporation, detailing responsibilities of each entity were not provided for audit review.

Further, the County Government had made similar payments to the Corporation in the 2018/2019 financial year amounting to Kshs.33,073,000 in two equal instalments. However, no transformers had been supplied nor installed at the time of finalizing the audit in November, 2020.

4.2 Irregular Expenditure on Civil Works

Further, the balance includes construction and civil works balance of Kshs.1,366,154,497 which includes Kshs.59,517,687 paid to thirty-eight (38) firms for civil works carried out in the prior years. However, the bills were not listed under pending bills in the respective periods and there is no evidence of the bills having been authenticated for payment.

4.3 Unsupported Hire of Road Construction Equipment

In addition, the balance includes construction and civil works balance of Kshs.1,366,154,497. Included in the construction and civil works is Kshs.13,611,200 paid to a firm, for hire of road construction equipment for the period between 3 June, 2014 to 7 June, 2014. However, no contract documents were provided to confirm the basis for the billing and the equipment daily utilization (EDU) sheets or equivalent confirming the duration the equipment was operational were not provided for verification.

4.4 Unconfirmed Purchase and Distribution of Seedlings

The balance also includes purchase of certified seed, breeding stock and live animals amounting to Kshs.10,189,934 which includes a balance of Kshs.2,896,300 spent on purchase of 11,230 assorted seedlings for onward distribution and planting. The procurement of the seedlings was done through request for quotation dated 22 June, 2020 and the payments made on 25 June, 2020 and 26 June, 2020 respectively. However, the distribution of the seedlings took place before the commencement of the procurement process between 5 May, 2020 and 9 June, 2020 while the counter receipt vouchers (S13) were undated making it difficult to confirm the actual date of receipt of the tree seedlings. The distribution list reflected 23,750 seedlings, which was in excess of the procured quantity by 12,520 that has not been explained.

From the foregoing, the accuracy, validity and value for money on acquisition of assets amounting to Kshs.2,173,486,455 cannot be confirmed.

5. Bank Balances

The statement of assets and liabilities reflects bank balances of Kshs.360,833,079 as disclosed under Note 21A to the financial statements. However, the following unsatisfactory issues were noted: -

5.1 Unreconciled Bank Balance - Special Purpose Account (SPA)

The balance includes Special Purpose Account (SPA) - Health Account held at Central Bank of Kenya of Kshs.11,669,770. However, the cashbook reflects a balance of Kshs.22,495,295 resulting to an unreconciled variance of Kshs.10,789,525

5.2 Unconfirmed Bank Accounts for Sub Counties and Health Centres

Further, the balance excludes unconfirmed bank balances from six (6) Sub-county imprest accounts and seventy-seven (77) health centres operated in various commercial banks. The reconciliation statements, cashbook and bank certificates indicating the balances therein as at the year-end were not provided for review.

5.3 Unconfirmed Bank Reconciliation Statements

In addition, the balance includes an amount of Kshs.2,302 being bank balance held in a recurrent account at the Central Bank. However, the bank reconciliation statement in support of the balance reflects payments in cashbook not in the bank of Kshs.345,089,004 and receipts in the cashbook not recorded in the bank of Kshs.207,921,882 for which are unsupported by detailed schedules indicating the dates of the respective transactions.

Consequently, the accuracy, completeness and presentation and disclosure of bank balances of Kshs.360,833,079 as at 30 June, 2020 cannot be confirmed.

6. Unsupported - Outstanding Imprest and Clearance

As disclosed in Note 22 to the financial statements, the statement of assets and liabilities reflects accounts receivable - outstanding imprest and clearance accounts of Kshs.3,756,347. However, the imprest register provided does not show the imprest warrants against which imprest were issued. Further, included in the balance is long outstanding multiple imprests of Kshs.980,000 and Kshs.103,000 held by two officers.

Consequently, the accuracy and completeness of the accounts receivables – outstanding imprests and clearance balance of Kshs.3,756,347 as at 30 June, 2020 cannot be confirmed.

7. Irregular Acquisition of Land

The statement of receipts and payments for the year ended 30 June, 2020 reflects acquisition of assets of Kshs.2,173,486,455, out of which Kshs.31,398,694 was spent for acquisition of land. Included in the expenditure is Kshs.28,136,700 used to acquire eighteen (18) parcels of land for social amenities and roads. However, there was no evidence of requisitions from user departments and whether citizen participation to confirm need analysis for the parcels of land was done. Further, the titles of ownership for eight (8) parcels of land bought for social amenities valued at Kshs.11,555,000 have not been provided for audit.

Consequently, the propriety on the expenditure amounting to Kshs.28,136,700 could not be ascertain.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Executive 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.

Emphasis of Matter

Pending Accounts Payables

Note 9 to the financial statements on other important disclosures - Pending accounts payables reflects amounts owed to suppliers of Kshs.689,426,038 as at 30 June, 2020 for construction of buildings, civil works and the supply of goods and services. However, a third-party confirmation exercise for sampled creditors reflected discrepancies resulting to a net understatement of Kshs.86,379,161 between the reported and confirmed balances as detailed out below: -

Creditor	Financial Statements Balances (Kshs.)	Creditor's Confirmation (Kshs.)	Variance (Kshs.)
Kenya Power Company	246,000	34,638,007	(34,392,007)
Robkam Building Contractors	14,035,765	61,159,157	(47,123,392)
Gouanzhaou Construction Co. Ltd	1,915,786	7,780,312	(5,864,526)
Muiruri Wachira & Co Advocates	5,000,000	5,566,420	(566,420)
Mutonyi Mbiyu & co Advocates	2,451,000	2,682,088	(231,088)
Laschicas Investments Ltd	12,036,204	10,237,932	1,798,272
Total	35,684,755	122,063,916	86,379,161

Further, the County Government does not maintain the pending bills register or creditors control accounts.

Further, the balances includes bills amounting to Kshs.263,682,647 owed by six departments. However, the pending bills were not adequately supported as detailed below:-

Department	Pending Bills Amount (Kshs.)	Observation Missing Documents
Lands, Housing and Physical Planning	28,582,921	Requisition from user departments, LSOs, invoices, certificates of practical completion.
Transport, Energy and Public Works	66,006,587	Completion certificates for 19 contracts did not indicate the commencement and completion dates, and were neither signed nor dated. 10 contracts had no invoices. 19 contracts had invoices with no dates. No completion certificates.
Transport, Energy and Public Works	105,707,833	Files for 31 contracts were not provided. Therefore, invoices and completion certificates could not be verified.
Sports, Youth and Arts	15,215,153	LPOs/LSOs/, delivery notes, invoices, counter receipt vouchers (S13)
Water, Environment, Tourism and Natural Resources	38,861,002	Invoices, completion certificates
Health Services	9,309,151	LPOs/LSOs/, fee notes/ invoices
Total	263,682,647	

Consequently, the validity, accuracy, completeness and presentation and disclosure of the pending accounts payable balances of Kshs.689,426,038 as at 30 June, 2020 cannot be confirmed and Management has not explained the above discrepancies or given reasons why the bills were not settled during the year when they occurred.

Failure to settle bills in the year to which they relate adversely affect the implementation of the subsequent year's budgeted programs as the pending bills form a first charge.

My opinion is however not modified on the effects of the above matter.

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. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget of Kshs.7,983,710,937 and actual on comparable basis of Kshs.5,454,161,558 resulting to a shortfall of Kshs.2,529,549,379 or 32%. Similarly, the statement reflects a budgeted expenditure of Kshs.7,983,710,937 and actual expenditure of Kshs.6,748,837,636 resulting to a under expenditure of Kshs.1,234,873,301 or 15% of the approved budget.

The shortfall was mainly due to non-release on exchequer receipts and low realization of the county generated receipts of Kshs.1,243,616,687 and Kshs.250,519,370 respectively while the under expenditure mainly occurred in acquisition of assets where an amount of Kshs.1,216,246,323 or over 36% of the approved budget was not utilised.

This is an indication that some of the programmes and activities that had been planned were not implemented. This may be an indicator of improper budget making process or revenue leakages especially from the own generated funds that would otherwise have improved service delivery of goods and services to the residents of Nyandarua County.

2. Management of Projects

2.1. Incomplete Project

During the year under review, the approved development budget was Kshs.2,881,619,740 against an absorption of Kshs.2,535,754,945. Physical verification of sampled projects with a total contract sum of Kshs.78,165,859 were noted to be incomplete as detailed below: -

Project Description	Contract Amount (Kshs.)	Audit Observation
1. Levelling of Mirangine Market	1,496,362	There was interference from third parties and the contractor was unable to do the work.
2. Construction of a Toilet in Mirangine	1,200,000	There was interference from third parties and contractor left the site. Contract sum paid in full but work done is about 80%.
3. Proposed levelling works at Kasuku Market	997,416	Contractor was paid full contract sum but work is incomplete, estimated at 10%.
4. Maran borehole	3,400,000	Project complete but water yet to be distributed to homesteads.
5. Kianda borehole	3,999,704	Project serving the community from only a single tap point, with potential for several distribution points.
6. 225m ³ masonry tank at Nyakania	2,999,130	Complete but not put to use for the benefit of the community.
7. Kangubiri Dispensary	12,965,697	Contractor had abandoned site after completing only 5% of work. No evidence of any payment for work done.
8. VIP Dias at Olkalou Stadium	51,107,550	Contractor not on site, but has received 88% of the contract sum against 75% of the work done
Total	78,165,859	

From the foregoing, the value for money from the contracts valued at Kshs.78,165,859 cannot be confirmed.

Further, physical verification carried out on 12 November, 2020 revealed that projects with a contract sum of Kshs.8,325,734 were completed and put to use but had not branded.

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, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Lack of Managed Equipment Service Lease Contract

As reported previously, the County Government and the Ministry of Health of the National Government signed a Memorandum of Understanding (MOU) for the provision of medical equipment and related services, otherwise referred to as the Managed Equipment Services (MES) on 10 February, 2015. The medical equipment were to be provided in seven (7) to two (2) hospitals in the County, namely, J. M. Kariuki (OI Kalou) Hospital, which is a Level 4 hospital and Engineer SDH, a Level 3 facility, on a 7-year lease arrangement.

According to the annual County Allocation of Revenue Act (CARA), in the five years that the MES programme has been in operation, the County has paid lease rentals amounting to Kshs.619,148,937. It was noted that the lease rentals is reflected in the CARA as a conditional grant for leasing of medical equipment. However, the amount is not remitted to the County Government, but is retained at the Ministry of Health.

Examination of records revealed that the basis of the amounts of annual lease rentals cannot be determined and the County Government does not have a register for recording the delivered MES assets.

Further, Lots 3 and 4 of the MES equipment have not been supplied despite the fact that the County Government has constructed two laboratories for the items while the Intensive Care Unit, ICU equipment which are under Lot 6, is reserved for level 5 hospitals has not been provided since the County Government does not have such a facility.

Consequently, it has not been possible to confirm whether the County residents have received value for money from the expenditure on Managed Equipment Services (MES) programme.

2. Non-Compliance with Ethnic Composition

Note 11 to the financial statements reflects compensation of employees balance of Kshs.1,853,386,089. Review of the payroll records reflects that all the 74 staff members recruited in the year under review were from the dominant community. This is contrary to Section 65 (1) of the County Governments Act of 2012 which states that in selecting candidates for appointment, the County Public Service Board shall consider the need to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant community in the county.

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

3. Acquisition of Assets

As disclosed in Note 17 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.2,173,486,455 in respect of acquisition of assets which includes construction and civil works amounting to Kshs.1,366,154,497. However, examination of records revealed the following unsatisfactory matters: -

3.1. Failure to Deduct and Remit Withholding Tax

The expenditure includes an amount of Kshs.746,729,322 paid to various contractors for undertaking civil works during the period. However, 3% withholding tax amounting to Kshs.19,361,965 was not deducted and remitted to the Commissioner of Domestic Taxes pursuant to Section 34(1)(a) of the Income Tax Act, 2010.

3.2. Irregular Procurement of Works, Goods and Services

Further, examination of records indicates that the Departments of Agriculture, Finance, Health Services and Water procured works, goods and services amounting to Kshs.64,290,284 during the year under review. However, the process used was non-competitive as limited number of bidders were invited as detailed below : -

Procuring Department	Amount (Kshs.)	Remarks
Department of Agriculture	999,933	One bidder for construction of a Horticultural Grading Shed.
Department of Agriculture	1,498,500	One bidder for construction of Agricultural Training Center Njabini Machinery Shed.
Department of Agriculture	1,799,600	One bidder for supply and delivery of assorted seeds.
Department of Finance	5,796,597	Single sourcing for Insurance Cover.
Department of Health Services	5,076,874	Single sourcing for purchase of Medical Equipment.
Department of Water	49,118,780	Tender splitting for 26 minor works.
Total	64,290,284	

This is contrary to Article 227(1) of the Constitution of Kenya which provides that when a state organ or any other public entity contracts for goods or services, it shall do so in accordance with a system that is fair, equitable, transparent, competitive and cost-effective.

Consequently, Management is therefore in breach of the law.

4. Failure to Use the E-Procurement System

During the year under review, the County Government procured fuel worth Kshs.1,250,000 from a local company two (2) of its vehicles using 8 Local Purchase Orders (LPO) outside the e-procurement system. This is contrary to Part IV(B) of Executive Order No. 2 of 2018 which requires that effective 1 January, 2019, all public procuring entities to undertake all their procurement through the e-procurement module in IFMIS,

Consequently, Management is in breach of the law.

5. Recruitment of Chief Officers

As disclosed in Note 11 to the financial statements, the statement of receipts and payments reflects compensation of employees' balance of Kshs.1,853,386,089. During the year under review, the County Executive vide advertisement number 1/2019 published in a local daily newspaper, invited applications for the position of fifteen (15) Chief Officers. Among the requirements, an applicant must be a member of a professional body in the relevant field. However, review of the files of five of the successful applicants indicated that there was no evidence of membership to a professional body. The recruitment process of the Chief Officers was irregular and the County Government did not adhere to the set application criteria and the County Public Service Board violated its own rules.

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.

1. Illegal Possession and Encroachment of County Land

As was reported in the prior year, the assets register maintained by the Department of Agriculture, Livestock and Fisheries indicated that the Agricultural Mechanization Services, (AMS) Department had two parcels of land measuring 5.51 and 7.23 acres in Nyahuru Municipality. The two parcels of land are not registered under the Department and private companies and individuals have irregularly taken possession of approximately 2.5 acres of the land. Approximate 0.919 hectares consisting of 8 blocks of land each measuring approximately 0.0465 hectares have been hived off from one of the parcels and certificate of leases issued. The two parcels of land also do not have complete perimeter fences while large sections have been left idle with no development.

Further, an approximated 1.5 acres of the other parcel has been encroached on and illegally fenced off by private developers. Copies of certificates of official search presented for audit reflects six (6) private developers as having encroached while the rest were unknown. One of the private developers has since given a notice dated 20 August, 2018 of an intention to enter legal suit against the Department. Although Management has

notified the Nyandarua County Coordinator in charge of National Lands Commission, no response had been received or action taken by the Commission by the time of the audit. To date the County has not obtained ownership documents of the parcels of land. In the circumstances, it has not been possible to determine whether the Management has instituted strong and effective internal control systems to safeguard and secure the land under the County Executive held in trust for the people of the Nyandarua County.

2. County Fixed Assets

2.1 Assets Register

Annex 4—summary of fixed assets register reflects historical costs balance of Kshs.9,037,128,338.05. However, the assets register indicates that during the financial year 2014/2015 to 2018/2019, the County Government acquired 46 parcels of land valued at Kshs.88,508,954. However, the handing over report from the Supply Chain Management Officer to the Department of Lands, Housing and Physical Planning, reflected seventy-eight (78) parcels valued at Kshs.80,549,700, leading to a variance of 32 parcels of land with a value of Kshs.7,959,254. Further, the asset register does not provide for land registration numbers, acreage and use for 20 parcels of land valued at Kshs.31,398,694.

Further, and as previously reported, the County Government inherited assets and liabilities including land and buildings from the defunct County Council of Nyandarua. However, the assets are yet to be incorporated into the County Government fixed assets and their respective values attached.

2.2 Grounded Motor Vehicles

As previously reported, Annex 4 to the financial statements on the summary of fixed assets register also includes forty-eight (48) grounded motor vehicles whose value could not be confirmed as at 30 June, 2020. One of the vehicles, Land Cruiser Prado which was to be repaired at a cost of Kshs.80,000, has been held in a garage in Nyahururu for the last 10 years and has accrued storage charges to the tune of Kshs.515,000. The continued cost accruing from holding grounded vehicles should be evaluated against the disposal of the vehicle.

Consequently, it has not been possible to establish whether the Management has proper management policy and mechanism to safeguard its assets.

3. Lack of Capacity of the Internal Audit Department

According to the staff establishment list for the year 2019/2020, the Internal Audit Department had only ten (10) against an authorized establishment of twenty-five (25) officers. The Department does not have access to the Integrated Financial Management Information System (IFMIS) and the Integrated Personnel and Payroll Database (IPPD) systems. Consequently, the Department may not make an impact in its role to review the effectiveness of the financial and non-financial performance management systems of the County.

Consequently, the existence of an effective internal audit function to review the financial and non-financial performance management systems of the County Government cannot be confirmed.

4. Lack of Risk Management Policy

During the year under review, the County Executive did not have a risk management policy or strategy in place. It had no approved processes and guidelines on how to mitigate operational, legal and financial risks. As a result, there is no evidence that Management performed 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 such as fire, breakages or wanton destruction by natural catastrophes.

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 Executive's ability to continue 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 County Government 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 Executive 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 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 Executive'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 Executive 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 Executive 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

02 November, 2021