

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF BARINGO FOR THE YEAR ENDED 30 JUNE 2018**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of County Assembly of Baringo set out on pages 1 to 16, which comprise of the statement of financial assets and liabilities as at 30 June 2018 and the statement of receipts and payments, statement of cash flows and 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 matter discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of County Assembly of Baringo as at 30 June 2018, 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 do not comply with the Public Finance Management Act, 2012.

### **Basis for Adverse Opinion**

#### **1.0 Accuracy and Presentation of Financial Statements**

##### **1.1. Presentation and Disclosure**

The financial statements prepared and submitted for audit did not include progress on follow up of Auditor recommendations from the previous year as required by the financial reporting template recommended by the Public Sector Accounting Standards Board. No explanation has been given for failure to include the progress report.

##### **1.2. Inaccurate Statement of Cash Flows**

The statement of cash flows for the year ended 30 June 2018 reflects cash and cash equivalents at end of year of Kshs.26,027,362. However, cash and cash equivalents at the beginning of the year of Kshs.21,619,348 was not indicated and consequently, the net increase in cash and cash equivalents of Kshs.4,408,014 has not been reflected. In the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

##### **1.3. Understatement of Outstanding Imprest**

The statement of financial assets and liabilities reflects outstanding imprest of Kshs.13,140,910.00 for the year ended 30 June 2018. However, examination of the imprest register disclosed a balance of Kshs.15,129,810 and therefore the reported balance was understated by Kshs.1,988,900 .

Although the management has indicated the imprest register has been reconciled and the figure of Kshs.13,140,910 agreed with the figure of outstanding imprest in the statement of financial assets and liabilities, no documentary evidence has been provided to confirm the reconciliation was done.

In the circumstances, the accuracy and completeness of the statement of financial assets and liabilities for the year ended 30 June 2018 could not be confirmed.

#### **1.4. Understated Summary of Fixed Assets**

The County Assembly of Baringo did not attach an annexure of the summary of fixed assets in the 2017/2018 financial statements in accordance with the revised financial reporting template dated 30 June 2018. Instead, an assets register was attached which only disclosed the total value of the assets acquired during the year of Kshs.7,957,380 which differed with the acquisition of assets balance of Kshs.8,344,526 reflected in the statement of receipts and payment for the year ended 30 June 2018 by Kshs.387,146. The variance between the two sets of records has not been explained.

In the absence of the summary of fixed assets, it was not possible to verify the assets acquired by the County Assembly since inception.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Baringo in accordance with ISSAI 30 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. Except for the matter discussed in the Basis for Adverse Opinion section, I have determined that there are no other key audit matters to communicate in my report.

### **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY**

#### **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. Irregular Issuance of Imprest – Domestic Travel and Subsistence**

Examination of imprest surrender documents disclosed that the County Assembly has been issuing imprest to some officers for subsequent distribution to other officers to cater for various activities. It was noted that an expenditure of Kshs.29,217,270 was incurred during the period under review but it was not clear why the beneficiaries of the amount did not individually apply for the imprest as required by the regulations

Further, it was observed that the surrender schedules lacked personal or Identification numbers of the payees and it was therefore not possible to confirm the authenticity of the expenditure.

In the circumstances, the propriety of the expenditure of Kshs.29,217,270 could not be confirmed.

### **2. Uneconomical Expenditure- Domestic Travel and Subsistence**

An expenditure of Kshs.13,889,380 was incurred under domestic travel and subsistence out of the total expenditure of Kshs.75,938,667 reflected under Note 3 to the financial statements. It was observed that the expenditure was incurred by members of the County Assembly and staff while attending to various meetings outside the County. It was however noted that there was no justification for holding the meeting outside Baringo County as the activities listed could have been held locally.

In the circumstances, it was not possible to confirm the expenditure of Kshs.13,889,380 as a proper charge to public funds.

### **3. Lack of Valuation Reports-Insurance Costs**

An expenditure of Kshs.328,472 was incurred in respect of insurance premiums for two County Assembly motor vehicles during the period under review. It was observed that the Insurance Company was paid Kshs.328,472 being premiums for motor vehicle registration numbers 30 CG 049A Toyota Fortuner and 30 CG 054A Toyota double cabin. Examination of the two motor vehicles records disclosed that vehicle No.30 CG 049A was purchased in year 2014 for Kshs.6,900,000 and insured at Kshs.6,880,000 while 30CG054A was purchased in the year 2013 at a cost of Kshs.4,736,974 and insured at Kshs.4,000,000. However, it was noted that no valuation of the motor vehicles was carried out to determine the current value of the motor vehicles before the premiums were paid and it was therefore not possible to ascertain how the sum insured of Kshs.328,472 was arrived at.

No explanation has been provided for failure to have the motor vehicles inspected.

#### 4. Irregular Payment of Salaries- Compensation of Employees

Examination of the IPPD payroll disclosed that eight (8) officers were drawing net salary less than a third of their basic salary contrary to the provision of Section C.1 (3) of the Government of Kenya Human Resource Manual, 2015 which provides that public officers shall not over commit their salaries beyond two thirds (2/3) of basic salary.

No explanation has been provided for failure by the accounting officer to adhere to the Government of Kenya Human Resource Manual 2015.

#### 5. Irregular Expenditure- Communication, Supplies and Service

An expenditure of Kshs.298,000 was incurred in procurement of air time for members of staff and the payment was made to Bidii Africa Investment Company Limited through payment voucher number 1394 dated 3 May, 2018. However, examination of the documents in support of the payment disclosed that, Local Purchase Order number 1252219 was issued to Anvicks Enterprise but the payment was made to Bidii Africa Investment Ltd who was not among the pre-qualified suppliers of air time. It was not clear at what point it was decided Anvicks Enterprise was to supply the airtime without following the laid down procurement regulations.

So far no explanation has been provided for the irregularity.

#### 6. Incomplete Project- County Assembly of Baringo Offices

A construction company was awarded a contract of Kshs.40,000,000 for extension of County Assembly of Baringo Offices through tender No.BCA/T/009/2014/2015. The contract agreement was signed on 21 November, 2014 and the commencement date was 21 November 2014 and the expected date of completion was 27 August, 2015. However, physical verification of the project on 20 November 2018 revealed the project has not been completed despite the expiry of the contract period on 25 August 2015 and the following works had not been done: -

| Item                                     | Amount<br>(Kshs)        |
|--|-------------------------|
| a) P.A.B.X and MDF –E.P.A.B.X.           | 2,350,520               |
| b) Structured cabling installation works | 1,390,225               |
| c) CCTV Surveillance installation        | 705,300                 |
| d) 8 passenger lift Installation         | <u>4,500,000</u>        |
| <b>Total</b>                             | <b><u>8,946,045</u></b> |

Although the contractor had requested for extension of the contract period from 27 August, 2015 to 30 April 2016 through a letter dated 21 November 2015, no documentary evidence was provided to confirm the extension period sought was officially granted and communicated to the contractor. In addition, no explanation has been given for failure by the contractor to complete the project or indicated why no action has been taken against the contractor for breach of contract.

Further, examination of the project expenditure records revealed the contractor had been paid Kshs.31,820,906.41 as at 30 June 2018 as follows- certificate 01 - Kshs.6,373,758.04, certificate 02 - Kshs.5,448,754.32, certificate 03- Kshs.2,426,902.70, certificate 04 – Kshs.5,730,082.45, certificate 05- Kshs.2,577,301.80, certificate 06 - Kshs.9,264,107.10. It was however not clear why the project which started way back in year 2014 has not been completed.

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, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

### **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. Internal Control weaknesses**

During the audit of financial year 2017/2018, County Assembly of Baringo had not performed formal risk assessments on all key financial risk areas as no risk management policy was in place. This implies that the management is not in a position to identify individual risks, significance / likelihood of identified risks and the risky areas. Further, the management lacks an IT Strategic Committee to provide advice on ICT investment priorities, mobilization of resources, ICT strategies, policies and standards in the County Assembly. It was also noted that no operational plan was in place and it was therefore not clear how various activities were implemented.

#### **2. Failure to Establish Audit Committee**

Examination of the internal audit reports indicated that the County Assembly has not established an audit committee. This contravenes the prevailing regulations which stipulate that all County Government entities should constitute an audit committee to scrutinize and make recommendations on both internal and external auditors' reports.

Although, the internal audit reports are addressed to the County Assembly Clerk, no action appear to have been taken to implement the recommendations of the internal audit hence the need for establishment of the audit committee. So far no explanation has been given for failure to establish an audit committee.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion. .

### **Responsibilities of Management and Those Charged with Governance**

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

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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the County Assembly of Baringo 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 of Baringo 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 going concern 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 of Baringo ability to continue as a going concern or 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 of Baringo to cease to continue as a going concern or 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 of Baringo 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.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**18 February 2019**