

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of County Assembly of Kajiado set out on pages 1 to 30, which comprise the statement of financial assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows, statements of comparison of budget and actual amounts: recurrent, development and combined and budget execution by programmes and sub-programmes for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of County Assembly of Kajiado 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 comply with the County Government Act, 2012 and the Public Finance Management Act, 2012 .

### **Basis for Qualified Opinion**

#### **1. Presentation and Disclosure of the Statement of Comparison of Budget and Actual Amounts**

The statement of comparison of budget and actual amounts reflects a final budget of Kshs.755,153,111 for receipts and payments. The statement also reflects actual receipts and payments totaling Kshs.704,967,233 and Kshs.695,735,709 respectively resulting in a surplus of Kshs.9,231,524. The projected receipts were under realized by 7% while under expenditure of 25% was realized in respect of acquisition of assets. However, and contrary to the provisions of section 164(2) of the Public Finance Management Act, 2012 and paragraph 1.9.8 of IPSAS Cash Basis of Accounting Financial Reporting Framework, no disclosures have been made in the notes to the financial statements in respect of the reasons for material variances between the approved budget and actual amounts.

As a result, the statement of comparison of budget and actual amounts was not prepared in accordance with the financial reporting framework.

## **2. Cash and Bank Balances**

The statement of assets and liabilities as at 30 June 2018 reflects cash and cash equivalents balance of Kshs.11,517,387. However, the entries in the cash book were picked from the bank statements, an indication that the management did not maintain proper cash books as required but depended on the bank statements to record the County Assembly's transactions. It was also noted that the County Assembly maintained cash books for three bank accounts in an MS-Excel and did not demonstrate controls that have been put in place to deter arbitrary manipulation of financial entries.

In addition, the management did not provide a comprehensive list of bank accounts operated as required under Regulation 87(4) of the Public Finance Management (County Government) Regulations, 2015.

Further, the accounting officer did not submit regularly monthly bank reconciliation statements to the County Treasury with a copy to the Auditor-General as required under Regulation 90 of the Public Finance Management (County Government) Regulations, 2015.

Consequently, the accuracy and completeness of the financial statements' balance of cash and cash equivalents could not be confirmed.

## **3. Unsupported Expenses - Utilities, Supplies and Services**

The statement of receipts and payments reflects an amount of Kshs.266,036,959, in respect of use of goods and services out of which Kshs.4,625,411 relate to utilities, supplies and services as detailed in Note 5 to the financial statements. This amount however differs with the amount of Kshs.6,225,411 reflected in the availed supporting schedules by Kshs.1,600,000.

As a result, the accuracy and regularity of the amount relating to utilities, supplies and services could not be confirmed.

## **4. Failure to Update the Fixed Assets Register**

The statement of assets and liabilities reflects an amount of Kshs.126,509,543 under acquisition of assets. Annex 4 to the financial statements also indicates that the County Assembly incurred an expenditure of Kshs.126,509,543 on additions of fixed assets. However, and as required by the Public Finance Management Regulations, 2015 the fixed assets register was not updated to include the additions during the year.

In the circumstances, it was not possible to confirm that the County Assembly's assets were secured and taken charge of.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Executive of Kajiado 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 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. Except for the matters described in the Basis for Qualified Opinion section of my report, I have determined that there are no other key audit matters to communicate in my report.

## Other Matter

### 1. Budgetary Performance

The statement of comparison of budget and actual amounts reflects a final budget of Kshs.755,153,111 for receipts and payments. The statement also reflects actual receipts and payments totaling Kshs.704,967,233 and Kshs.695,735,709 respectively resulting in a surplus of Kshs.9,231,524.

Further, a review of actual expenditure against the approved budget revealed that expenditure on the following items exceeded the approved estimates in the financial year ended 30 June 2018.

Item	Final Approved Budget Kshs	Actual Kshs	% of Utilization	Absolute Variance Kshs	% Variance
Other payments	-	3,500,000	-100%	3,500,000	-100%
Insurance costs	25,050,000	29,883,597	84%	-4,833,597	-19%
Legal fees	3,300,000	6,500,000	51%	-3,200,000	-97%

Consequently, the budgetary provisions were not adhered to and public resources were not utilized effectively.

### 2. Differences Between Financial Statements' Figures and IFMIS Records

There were variances noted between the IFMIS records and the financial statements' figures. The variances affected the following components:

<b>Details</b>	<b>Financial Statements Figure (A) Kshs</b>	<b>Balance as per IFMIS Records (B) Kshs</b>	<b>Variance (B-A) Kshs</b>
Compensation of Employees	246,173,216	250,160,392	3,987,176
Use of Goods and Services	266,036,959	240,273,111	(25,763,848)
Acquisition of Assets	126,509,543	134,289,410	7,779,867
Other Payments	3,500,000	35,466,634	31,966,634

There was no evidence that the two sets of records were reconciled.

### **3. Failure to Maintain Creditors' Ledgers/ Register- Pending Accounts Payable**

Annex 1 to the financial statements reflects analysis of pending accounts payables amounting to Kshs.19,518,504 as at 30 June 2018. It was noted that, the County Assembly did not maintain individual creditor's ledgers/Register for all the outstanding liabilities in order to show the movement of payables. Further, goods and services that had been planned and budgeted for were not settled during the year. Failure to settle the bills in the year to which they relate adversely affects the following year's provision to which they have to be charged. Had the pending bills been paid and the expenditure charged to the accounts for financial year 2017/2018, the statement of receipts and payments would have reflected a deficit of Kshs.8,001,117ead of the net surplus of Kshs.11,517,387 now shown.

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

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Irregular Payments in Respect to Construction of the County Assembly Chambers**

The County Assembly awarded a tender to a construction company at a contract price of Kshs.557,973,400 on 27 March 2017. The letter of award was dated 20 January 2017 and specified that the contract was to be signed within 30 days. However, the contract agreement was signed on 27 March 2017, which was later than the specified 30 days

hence contravening Section 135(3) of the Public Procurement and Asset Disposal Act, 2015.

A review of payment records shows that the management had paid a total of Kshs.115,363,451 to the contractor as at 30 June 2018. However, out of this amount, a total of Kshs.28,228,560 was not supported by corresponding certificates of work done. Details of the payments are as follows:

<b>Date</b>	<b>Payee</b>	<b>Gross Amount as Per Payment Voucher (Kshs)</b>	<b>Remarks</b>
21-Feb-18	Bayan Construction Company Ltd	16,500,398	Advance payment
2-Mar-18	Bayan Construction Company Ltd	3,228,560	Details not availed
18-Jun-18	Bayan Construction Company Ltd	8,499,602	Advance payment
		<b>28,228,560</b>	

Out of this amount, Kshs.25,000,000 was an advance payment made after the County Assembly Service Board, management, the consultant, contractor and the County Assembly's project implementation committee resolved to review the contract terms to give a provision to make advance payments to the contractor. Although the reasons cited for this were that the contractor was facing financial difficulties, there was no evidence that the contractor requested for the advance.

A new contract was signed on 25 January 2018 which was less than one year after signing of the initial contract agreement. This contravenes Section 139(4) of the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, it was not clear how the advance payments were made without a formal request by the contractor and why the terms of the contract were varied against provisions of Section 139(4) of the Public procurement and disposals Act, 2015.

## **2. Irregular Award of Comprehensive Medical Cover**

The County Assembly advertised for a medical cover vide tender No.KCA/001/2017-2018 on 4 September 2017 and the tenders were received and opened on 19 September 2017. Nine insurance companies responded to the advertisement. After preliminary and technical evaluations, four firms qualified for final detailed financial evaluation. The second lowest bidder won the tender at the quoted price of Kshs.23,376,820.00. The notification of award dated 1 October 2017 was received by the company on 17 October 2017 showing the same quoted amount inclusive of 16% VAT. However, the following was noted:

- i) It was noted that in their reply to the County Assembly's letter, which also served as a letter of acceptance, Jubilee Insurance quoted a revised proposal changing

the original tendered price of Kshs.23,376,820 to Kshs.26,402,496, an upward adjustment by Kshs.3,025,676.

- ii) Contract documents were signed on 15 December 2017 at Kshs.27,141,628.78. This resulted in a difference of Kshs.3,764,808.78 between the original tendered figure and contract agreement figure.
- ii) Clause 2.5.1 of the tender documents stated clearly that at any time prior to the deadline for submission of tenders, the procuring entity for any reason, whether at its own initiative or in response to a clarification requested by a prospective tender, may modify the tender documents by issuing an addendum. However, that was not done before the submission of tenders.

Consequently, the County Assembly paid Kshs.3,764,809 over and above the quoted amount due to failure to adhere to the requirements of Section 82 of Public Procurement and Disposal Act, 2015.

### **3. Issue of Multiple Imprests**

Records availed for audit review revealed that there were several cases where officers were issued with multiple cash imprest totalling Kshs.85,901,354 before surrender of the previous ones. This contradicts Regulation 93(8) of the Public Finance Management (County Government) Regulations, 2015.

### **4. Officers Acting in Vacant Positions Beyond the Stipulated Period**

It was noted that the Clerk to the County Assembly and the Principal General Administrative Officer have been on acting capacity since 29 March, 2018 and 3 April, 2018 respectively. The position of the Principal General Administrative officer has not been declared vacant and neither has the officer been confirmed in the position. Review of records in their personal files and payroll shows that the officers have benefitted from acting allowances to date, which is more than six months and three months - the maximum periods- as stipulated in the County Assembly of Kajiado Human Resource manual.

The management is therefore in breach of the Human Resource Procedures.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

## **Conclusion**

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

## **Basis for Conclusion**

### **IT Internal Controls**

A review of the County Assembly's IT internal controls for the period ended 30th June 2018, revealed that the IT department lacked the basic controls to enable the department function properly. The following weaknesses were noted:

- The installed anti-virus is expired
- There is no IT strategic Committee
- The County Assembly does not have an active IT steering committee
- There is no approved IT policy to ensure data confidentiality, integrity and availability
- There is no approved disaster recovery plan
- There's no documented emergency procedure in place
- There are no fire extinguishers and fire suppression systems in place

This was contrary to the requirements of Regulation 110 (1) of the Public Finance Management (County) Regulations which provides that "The Accounting Officer for a county government entity shall institute appropriate access controls needed to minimize breaches of information confidentiality, data integrity and loss of business continuity"

Lack of these basic controls can lead to:

- Data loss.
- Data being accessed by unauthorized persons and hence compromising on data security and integrity

- Possible cyber-attacks.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 governance.

In preparing the financial statements, management is responsible for assessing the County Assembly's ability to continue sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the County Government intends to cease operations of the County Assembly, or have no realistic alternative but to do so.

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 noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the County Assembly's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the 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'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 sustaining 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.



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

**Nairobi**

**18 February 2019**