

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF NAROK FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Narok set out on pages 1 to 30, which comprise of the statement of financial assets and liabilities as at 30 June, 2019, 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, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Assembly of Narok as at 30 June, 2019, 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 Governments Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

Examination of records supporting the financial statements for the year ended 30 June, 2019 revealed the following discrepancies.

1.1 Statement of Receipts and Payments

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects expenditure amounting to Kshs.323,758,726 under use of goods and services. However, the ledger provided in support of the expenditure, reflects Kshs.329,253,866 resulting to a variance of Kshs.5,495,140. Further, expenditure amounting to Kshs.19,274,000 spent on domestic and subsistence allowances was charged to foreign travel and subsistence allowances instead of domestic travel. This has the effect of overstating the foreign travel and subsistence allowances expenses while understating the domestic travel and subsistence allowances expenses.

1.2 Statement of Assets and Liabilities

Further, the statement of financial assets and liabilities reflects nil balance on Fund balance brought forward while Note 16 to the financial statements reflects Fund balance brought forward of Kshs.2,760,447 resulting to variance of Kshs.2,760,447. Management did not reconcile the variances.

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June, 2019 could not be confirmed.

2. Unsupported Payments – Use of Good and Services

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.323,758,726 under use of goods and services. A review of payment vouchers revealed that Management paid Kshs.5,875,200 as travel and subsistence allowances to MCAs and Staff of the Assembly. A further payment of Kshs.10,331,351 was made to officers all totalling to Kshs.16,206,551.

In the circumstances, the accuracy and completeness of the use of goods and services of Kshs.323,758,726 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

3. Unsupported Receipt Vouchers

Recurrent Cashbook reflects Kshs.766,973,520 as remittance from Narok County Executive County Revenue Fund. However, actual receipt vouchers as required in accordance with Section 167(1) of the Public Finance Management (County Governments) Regulations, 2015 were not availed, by Management, for audit review.

In the circumstances, it is not possible to confirm the accuracy of remittance of Kshs.766,973,520 for the year ended 30 June, 2019.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Narok Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1. Pending Bills

During the year under review, the County Assembly had an outstanding pending bills amounting to Kshs.66,784,272 as at 30 June, 2019. 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.

2. Prior Year Matters

In the audit report of the previous year, several paragraphs 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, although the Management has indicated that the issues have been resolved, the matters have remained unresolved as the Senate has to deliberate on the same.

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. Compliance with the Public Finance Management (County Governments) Regulations, 2015

Examination of the payroll revealed that the County Assembly of Narok incurred net salary of Kshs.150,249,096 out of which Kshs.85,728,516 (57%) was paid outside the Integrated payroll and personnel Database, IPPD System and no sufficient reasons were provided why some employees salary was processed outside the IPPD System, contrary to Regulation 42(1)(d) of Public Finance Management (County Governments) Regulations, 2015.

Consequently, Management is in breach of the regulation.

2. Lack of Documents on Ethnic Composition

The Management did not provide records showing the ethnic composition of the staff of County Assembly for audit review. This is contrary to Section 9(1)(e) of the Public Audit Act, 2015. It was therefore not possible to confirm whether County Assembly is compliant with the ethnic composition as per Section 65(1)(e) of the County Governments Act, 2012.

Consequently, the Management is in breach of the law.

3. Irregular Procurements of Legal Services

Management contracted a law firm to provide legal opinion on a matter to the County Assembly of Narok Service Board in a case filed in a Nakuru Court. The contracted firm acted on behalf of the Board and was subsequently paid an amount totalling to Kshs.3,323,620. However, the firm was not enlisted as a prequalified supplier contrary to Section 71(1) of the Public Procurement and Asset Disposal Act, 2015.

Consequently, the Management is in breach of the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the 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

Lack of Audit Committee

During the year under review, Management did not provide documents supporting existence of an Audit Committee at the County Executive. Therefore, the duties and responsibilities of audit committee to offer oversight and guidance was deficient.

Consequently, I am unable to confirm effectiveness of the overall governance at the Assembly.

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 policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Assembly's ability to 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.



CPA Nancy Gathungu CBS
AUDITOR-GENERAL

Nairobi

23 April, 2021