

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the County Assembly of Trans Nzoia for the year ended 30 June, 2019, set out on pages 1 to 19, which comprise 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 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 the County Assembly of Trans Nzoia 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 Public Finance Management Act, 2012 and the County Governments Act, 2012.

Basis for Qualified Opinion

1. Inaccuracy of the Financial Statements

1.1 Errors in the Financial Statements

The Statement of comparison of budget and actual amounts: recurrent and development combined for the year ended 30 June, 2019 reflects transfers from the County Treasury/ Exchequer Releases totalling Kshs.648,670,500 which however differs by Kshs.44,000 with the balance reflected in the statement of receipts and payments for the year totalling Kshs.648,714,500.

In addition, Note 5.10(1) of other disclosures reflects pending accounts payable totalling Kshs.8,648,026 whereas Annex I to the financial statements reflects a sum of Kshs.31,943,468.40 on the account resulting to an unexplained variance of Kshs.23,295,442.40.

1.2. Overstatement of Cash and Cash Equivalentents

The statement of financial assets and liabilities as at 30 June, 2019 reflects cash and cash equivalentents bank balance totalling Kshs.222,683,786, as further disclosed under Note 8 to the financial statements. Included in the balance is Kshs.20,427,050 closing bank balance for the County Assembly's Staff Car Loan and Mortgage Fund. However,

the Fund is a separate entity and the Management should therefore have prepared separate financial statements for audit.

Similarly, the bank balance includes Kshs.200,546,681 transferred from the County Government of Trans Nzoia to the County Assembly to operationalize the Car Loan Fund and Mortgage Fund for Members of the County Assembly. Therefore, the balance is incorrectly presented as being part of the cash balance of the County Assembly as at 30 June, 2019. As a result, the bank balance is overstated by Kshs.220,973,731.

In view of these anomalies, the accuracy and completeness of the financial statements for the year ended 30 June,2019, has not been confirmed.

2. Unconfirmed Fixed Assets Balance

The statement of receipts and payments for the year under review reflects acquisition of assets totalling Kshs.29,459,149 made during the year. When added to the balance brought forward from 2017/2018 amounting to Kshs.13,102,330, the fixed assets as at 30 June, 2019 amounts to Kshs.42,561,479, as disclosed in Annexure 2 to the financial statements. However, the Management did not present the County Assembly's asset register for audit. As a result, the existence, ownership and completeness of the assets totalling Kshs.42,561,479 reflected in the financial statements for the year under review has not been confirmed.

The audit as conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Trans Nzoia 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

Budget Control and Performance

The statement of comparison of budget and actual amounts: recurrent and development combined for the year under review reflects an approved revenue budget totalling Kshs.754,078,431 and actual on comparable basis receipts totalling Kshs.649,216,368 resulting to a revenue shortfall of Kshs.104,862,063 or 14% of the budget.

The statement further reflects an expenditure budget for the year amounting to Kshs.754,078,431 and actual expenditure totalling Kshs.622,253,392 resulting in under-expenditure of Kshs.131,825,039 equivalent to 13% of the budget.

Management explained the under-expenditure as having resulted from a shortfall in exchequer releases received during the year. In view of the revenue shortfall, projects and activities planned for the year were not done.

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 Qualified Opinion, 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. Car Loan and Mortgage Scheme Funds

1.1 Non-Submission of Financial Statements

Available records indicate that Management in March, 2014 entered into a Memorandum of Understanding with K-Rep Bank (since renamed Sidian Bank) to manage the Car Loan and Mortgage Scheme for Members of the County Assembly (MCAs) in accordance with the Trans Nzoia County Assembly Car Loan and Mortgage Scheme Regulations 2014. For this purpose, Kshs.200,000,000 was transferred to the Bank to be held as security for outstanding loans issued to the MCAs.

Section 15(1)(c) and (d) of the Car Loan Scheme Fund Regulations, 2014 and Section 18(1)(c) and (d) of the Mortgage Scheme Fund Regulations, 2014 require the Administrator of the Fund to submit its financial statements to the Auditor-General not later than three (3) months after the end of each financial year. However, contrary to these regulations, Management has failed to submit the financial statements to the Auditor-General since the inception of the two Funds during the 2013/2014 financial year.

Therefore, Management has not observed the Regulations of the Funds as well as Section 81 of Section 47(1) of the Public Audit Act, 2015 which requires public entities to prepare annual financial statements for audit by the Auditor-General.

1.2 Unaccounted for Interest

In addition, the Car Loan and Mortgage Scheme Fund Regulations provide that loans issued by the Fund shall earn interest at 3% per annum with the interest credited to the capital of the Fund. However, examination of bank statements and records presented for audit indicated that as at 30 June, 2019, earnings on interest charged on loans since inception of the Fund totalled Kshs.33,805,446.

However, no evidence was presented for audit to show how the earnings were accounted for. Consequently, there is no confirmation that Management has adhered to the Fund's regulations on accounting and use of interest earned on the Fund's loans.

3. Outstanding Imprests and Advances

The statement of financial assets and liabilities as at 30 June, 2019 reflects accounts receivables balance totalling Kshs.6,927,854, as further disclosed under Note 9 to the financial statements. The balance is comprised of temporary imprests totalling Kshs.5,527,588 and staff advances totalling Kshs.1,400,266. The imprests ought to have been surrendered within seven(7) days of the Officers returning to their duty stations as required in Regulation 93(5) of the Public Finance Management (County Governments) Regulations, 2015. In addition, twelve (12) officers held more than one imprest contrary to Regulation 93(4b) which does not allow issue of new imprests to Officers with old balances.

Clearly, Management does not manage the temporary imprests in accordance with regulations.

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 matters described in the Basis for Qualification, Basis for Lawfulness and Effectiveness in Use of Public Resources, Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections 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

1. Weak ICT Control Environment in Data Management

As similarly reported in the previous year, Management did not have a business recovery plan for disasters, or an Information and Communication Technology(ICT) Committee to oversee investment and use of ICT resources. In addition, controls on use of the resources were weak. For instance there was no policy on back up of data, or

documented and approved user management standards and procedures, including on user access rights.

In view of these omissions, internal control and risk management on the ICT function of the County Executive was weak.

2. Weak Internal Audit Function

Regulation 155(1) and 167(1) of the Public Finance Management (County Governments) Regulations, 2015 requires establishment of an Internal Audit Committee to oversee the internal audit function in every public entity. However, as reported in the previous year, the Internal Audit Unit at the County Assembly of Trans Nzoia reports to the Clerk of the County Assembly who is the Accounting Officer. As a result, the authority and independence of the Unit is not properly established. In addition, the internal audit function has no Charter detailing its purpose, scope, and responsibilities. Further, contrary to expectations, there was no evidence of work done by the Internal Audit Unit, such as audit reports issued, during the year under review.

In view of these shortcomings, the internal control and governance system in the County Assembly is not effective and is a source of risk to the financial and other operations of 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 cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the County Assembly monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

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

12 November, 2020