

# **REPORT OF THE AUDITOR-GENERAL ON MUNICIPALITY OF ELDORET FOR THE YEAR ENDED 30 JUNE, 2021**

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## **PREAMBLE**

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient, and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of Municipality of Eldoret set out on pages 23 to 50, which comprise the statement of financial position as at 30 June, 2021, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts 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 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 the Municipality of Eldoret as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Urban Areas and Cities Act, 2011 and the Municipal Charter and the Public Finance Management Act, 2012.

## **Basis for Qualified Opinion**

### **1. Lack of a Policy on Depreciation and Amortization**

The statement of financial performance for the year ended 30 June, 2021 reflects depreciation and amortization amount of Kshs.2,813,322. However, the Management has applied the depreciation rate at 2% on the civil works over a life span of 50 years, without any approved policy.

Consequently, the accuracy of the property, plant and equipment balance of Kshs.137,852,766 as at 30 June, 2021 could not be confirmed.

### **2. Cash and Cash Equivalents**

The statement of financial position reflects cash and cash equivalents balance of Kshs.777,566,430 which, as disclosed in Note 4 to the financial statements, is made up of Kshs.610,640,513, Kshs.3,685,549 and Kshs.163,240,368 being balances in three (3) local banks. However, the Board of Survey Report supporting the cash and cash equivalents balance was not provided for audit review. Further, the Municipality of Eldoret did not provide separate cashbooks for the three bank accounts.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.777,566,430 for the year ended 30 June, 2021 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Municipality of Eldoret 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 judgement, 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**

## **Budgetary Control and Performance**

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis totalling to Kshs.1,566,335,314 and Kshs.1,521,714,085 respectively, resulting to an underfunding of Kshs.44,621,229 or 28 % of the budget. Similarly, the Fund spent Kshs.285,199,074 against an approved budget of Kshs.1,565,365,314 resulting to an under expenditure of Kshs.1,280,166,240 or 82% of the budget.

The underfunding and under performance affected the planned activities and may have impacted negatively on service delivery to the public.

## **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. Failure to Submit Financial Statements of Municipality of Eldoret**

Review of records provided for audit revealed that the Municipal Charter was granted to the Municipality of Eldoret on 17 December, 2018 as per Gazette Notice No.460, Vol. CXXI - No.9 dated 18 January, 2019 and functions transferred to the Municipality with effect from 01 June, 2019 as per Kenya Gazette Notice No.4724, Vol. CXXI - No.68 of 31 May, 2019. The records further indicate that the Eldoret Municipality Board Members were appointed on 26 June, 2019. However, the Board did not submit financial statements of Municipality for the year ended 30 June, 2020 to the Auditor-General as required under Section 46 of the Urban Areas and Cities Act, 2011.

The Municipality Management was in breach of the law.

#### **2. Independence of the Entity**

The Municipality of Eldoret was granted Municipal Charter on 18 August, 2020 which was supposed to grant operational independence from the County Government of Uasin Gishu. However, review of the operations of the Municipality revealed lack of autonomy as detailed below: -

- (i) The Municipality's budget was prepared and controlled by the County Executive and there was no budget approval by the Municipality Board.

- (ii) Except from project accounts with joint signatories from the County Treasury, the Municipality's expenditure was controlled by the County Treasury and did not have independent operations account.
- (iii) The County Government has continued to perform a number of functions which were transferred to the Municipality.

This is in contravention of Section 9(1) of the Urban Areas and Cities Act, 2011, which states that the County Governor may, on the resolution of the County Assembly, confer the status of a Municipality on a town that meets the criteria set out in Subsection (3), by grant of a charter in the prescribed form. In addition, it contravenes Section 12(1) of the Urban Areas and Cities Act, 2011, which states that the Management of a city and municipality shall be vested in the County Government and administered on its behalf by a Board, a Manager appointed pursuant to Section 28 and such other staff or officers as the County public service may determine.

The Municipality Management was in breach of law.

### **3. Expenditure on Hospitality Services**

The statement of financial performance for the year ended 30 June, 2021 reflects use of goods and services amount of Kshs.11,684,941 which includes hospitality supplies and services amount of Kshs.1,924,080. Included in the latter balance is a payment of Kshs.832,400 spent on catering services from various service providers. However, Electronic Tax Receipts for all cash purchases made within the year under audit, were not attached to the payment vouchers contrary to Regulation 93(2) of the Public Procurement and Asset Disposal Regulations, 2020. In addition, low value method of procurement was used without recommendation from the Head of Procurement Unit. Further, evidence of a market survey was not provided as required by Regulation 92 of the Public Procurement and Asset Disposal Regulations, 2020.

The Municipality Management was in breach of the law.

### **4. Delayed Project Completion**

The statement of financial position as at 30 June, 2021 reflects a balance of Kshs.270,574,932 under non-current assets. Included in this balance is an amount of Kshs.80,998,626 spent on six (6) projects undertaken under the Kenya Urban Support Programme during the year. Physical verification carried out in December, 2021 revealed that four (4) projects which had payments totalling to Kshs.76,567,298 had delayed in their completion.

In the circumstances, the public may not receive value for money and benefits from the incomplete projects.

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

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 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 the Board Members**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards - Accrual 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 controls, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the Municipality'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 terminate the Municipality 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.

The Board Members are responsible for overseeing the Municipality's financial reporting process, reviewing the effectiveness of how the Management 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 controls 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 Municipality'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 Municipality 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 Municipality 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**

**26 July, 2022**