

REPORT OF THE AUDITOR-GENERAL ON NANDI COUNTY EMERGENCY FUND FOR THE YEAR ENDED 30 JUNE, 2021

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

Disclaimer of Opinion

I have audited the accompanying financial statements of Nandi County Emergency Fund set out on pages 1 to 38, which comprise of 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Failure to Submit Financial Statements for 2019/2020 Financial Year

The financial statements for 2019/2020 financial year were not submitted to the Auditor-General for audit as required under Section 47 of the Public Audit Act, 2015.

In the circumstances, the accuracy and completeness of the opening balances reflected in the financial statements for the year ended 30 June, 2021 could not be confirmed.

2. Errors in the Statement of Cash Flows

The statement of cash flows is entitled 'statement of cashflow as at 30 June 2020' instead of 'statement of cash flows for the year ended 30 June 2021'.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.31,990 as at 30 June, 2021 could not be confirmed.

3. Unsupported General Expenses

The statement of financial performance and the disclosure in Note 7 of the financial statements reflects an amount of Kshs.161,323,566 with respect to general expenses. However, the supporting ledger shows an amount of Kshs.98,528,280 resulting to an unexplained variance of Kshs.62,795,286.

Further, examination of records revealed that an amount of Kshs.10,683,000 relating to domestic travelling, accommodation and lunch allowances were incurred by members of staff between July and September, 2020. However, this expenditure was not supported with necessary documents such as authority to travel, proof of travel, attendance sheets and receipts for conference facilities.

In addition, imprest amount of Kshs.3,796,150 was issued to members of staff. Although copies of imprest warrants were attached to the payment vouchers, no supporting documents were attached to show the purposes for which the imprests were issued and the imprests had not been surrendered. Similarly, the general expenses included an expenditure of Kshs.3,313,127 with respect to fuel, oil and lubricants. However, the original contract and fuel statements were not provided for audit.

In the circumstances, the accuracy and completeness of the general expenses could not be confirmed.

4. Unconfirmed Cash and Cash Equivalents

The statement of financial position and the disclosure in Note No. 10 to the financial statements reflects a cash and cash equivalents balance of Kshs.31,990. This balance is supported by both the certificate of bank balance and bank statement for June, 2021.

However, scrutiny of the cash book revealed a negative balance of Kshs.1,456,868 as at 30 June, 2021 resulting to an unexplained and unreconciled variance of Kshs.1,488,858.

Further, examination of bank reconciliation statement for the month of October, 2020 revealed that there were nil receipts in bank while the bank statement indicated a credit of Kshs.2,680,000 received on 13 October, 2020. In addition, a credit of Kshs.126,300 received on 19 December, 2020 was not included in the bank reconciliation for December, 2020.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.31,990 could not be confirmed.

5. Presentation of the Financial Statements

Review of the financial statements revealed that the headers have erroneously been underlined and pages (1) to (3) do not have headers. Further, the report of the Fund Administrator has not disclosed the physical progress based on outputs, outcomes and impacts and has no comments on each of the programs implemented and how they have been achieved. Similarly, the report did not have comments on value-for-money achievements, list of the implementation challenges of strategic objectives, the entity's future outlook and key risk management strategies.

In addition, the financial statements do not have analysis of capital risk and gearing was not disclosed. Similarly, related party transactions and balances were not disclosed and inter-entity transfers were not countersigned by the finance officers of the issuing and receiving entities.

In the circumstances, the financial statements have not been presented in the format prescribed by the Public Sector Accounting Standards Board.

6. Budget Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.161,361,688 indicating 100% collection. Similarly, the Fund spent Kshs.161,329,697 against a budget of Kshs.161,361,687 resulting to variance of Kshs.31,990 indicating 99% utilization. However, the approved budget was not provided for audit.

In the circumstance, the accuracy and completeness of the final budget of Kshs.161,361,687 could not be confirmed.

7. Unsupported Withdrawals from the Fund

The statement of receipts and payments reflects general expenses amount of Kshs.161,323,566. However, no documentary evidence was provided to confirm that there was an emergency or any urgent and unforeseen circumstance or event. Further, there was no legislative authority as required under Sections 112(1) of the Public Finance Management Act, 2012 and Sections 6 and 7 of the Nandi County Emergency Fund Act, 2020.

In addition, no documentary evidence was provided to confirm that the Chief Executive County Member for Finance notified the County Assembly after payments were made from the emergency fund as required under Section 114(1) of the Public Finance Management Act, 2012 and 10(1) of the Nandi County Emergency fund act, 2020 which requires the county Executive Committee Member to notify the County Assembly in writing within two months after payment is made out of the Fund.

8. Lack of Risk Management Policy

The Nandi County Emergency Fund does not have a Risk Management Policy contrary to Section 158 (1) of the Public Finance Management (County Governments) Regulations, 2015 which requires each county government entity to develop risk management strategies and a system of risk management.

In the circumstance, the effectiveness of risk management strategies could not be confirmed and Management was in breach of the law.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit 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 (Accrual Basis) and for maintaining effective internal controls 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 Fund's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to terminate the Fund 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 Fund'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

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion on lawfulness and effectiveness in use of public resources, and on effectiveness of internal controls, risk management and governance.

I am independent of Nandi County Emergency Fund 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

19 September, 2022