

REPORT OF THE AUDITOR-GENERAL ON UASIN GISHU 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 control, 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 Uasin Gishu County Emergency Fund set out on pages 16 to 55, 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 the 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 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 Uasin Gishu County Emergency Fund 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 Public Finance Management (Uasin Gishu County Emergency Fund) Regulations, 2015 and the Public Finance Management Act, 2012

Basis for Qualified Opinion

1. Irregular General Expenses

The statement of financial performance reflects general expenses of Kshs.72,685,979, which as disclosed in Note 7 to the financial statements, includes payments of legal fees, renovation of offices and installation of office furniture of Kshs.1,790,423. The payments did not meet the threshold of an emergency response and is not therefore a proper charge to the County Emergency Fund. This is contrary to Section 110 (2) of the Public Finance Management Act, 2012 which states that the purpose of an Emergency Fund is to enable payments to be made in respect of a County when an urgent and unforeseen need for expenditure for which there is no specific legislative authority arises.

in the circumstances, the regularity of general expenses of Kshs.1,790,423 could not be confirmed.

2. Irregular Procurements of Works

The statement of financial performance for the year ended 30 June, 2021 reflects general expenses amounting to Kshs.72,685,979 which includes payments totalling to Kshs.14,683,826 relating to road works incurred through imprests issued to officers of the Fund.

However, the following anomalies were noted:

- i. The general expenses incurred on construction and civil works were not recognized as items of property, plant and equipment and capitalized using the criteria provided under paragraphs 14(a) and (b) of IPSAS 17 - Property, Plant and Equipment.
- ii. Management did not provide certificates countersigned by the County Executive Committee Member for Finance to support the expenditure by the Chief Officer confirming that the works met the criteria under Section 112(1) of the Public Finance Management Act, 2012 which states that subject to Section 113, the County Executive Committee member for finance may make payments from the County Government's Emergency Fund only if he or she is satisfied that there is an urgent and unforeseen need for expenditure for which there is no legislative authority and shall be in accordance with operational guidelines made under regulations approved by Parliament and the law relating to disaster management.
- iii. Procurement for the works was done directly using imprests issued to various officers. This is contrary to Section 106(2) of the Public Procurement and Asset

Disposal Act, 2015, which gives the procedure through which a procuring entity shall deal with the request for quotations.

In the circumstances, the accuracy and regularity of general expenses of Kshs.14,683,826 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Uasin Gishu 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Matters

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

Other Matter

1.0 Budgetary Control and Performance

The summary statement of appropriation reflects final receipts budget and actual on comparable basis of Kshs.175,985,650 and Kshs.160,375,998 respectively resulting to under-funding of Kshs.15,609,651 or 9% of the budget. Further, the Fund incurred total expenditure of Kshs.72,714,944 against an approved budget of Kshs.176,255,649 resulting to an under-expenditure of Kshs.103,540,705 or 59 % of the budget.

The underfunding and underperformance affected the planned activities of the Fund and may have impacted negatively on service delivery to the public.

2.0 Unresolved Prior Year Matters

In the report of the previous year, several issues were raised under Report on the Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, review of the progress on follow up of Auditor's recommendations showed that the Management had not resolved the issues. Management did not give reasons for the delay in resolving the issues.

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. Unauthorized Internal Borrowing

Review of the Fund's cash book revealed that the Fund had advanced Kshs.18,192,129 to the County Executive on various dates. The County Executive refunded the borrowed funds, which was recorded in the cash book as having been received on 30 June, 2021 although, the funds were credited in the fund bank account on 12 July, 2021. The borrowing by the County Executive is not supported by the County Assembly approval and acknowledgement of funds by the County Treasury contrary to Section 142 (1) and (3) of the Public Finance Management Act, 2012 which states that the County Assembly may authorize short term borrowing by County Government entities for cash management purposes only and a County Government entity that has any such borrowing shall ensure that the money borrowed is repaid.

In the circumstances, Management was in breach of the law.

2. Irregular Payments from the Emergency Fund

The statement of financial performance reflects total expenditure of Kshs.72,714,944. However, no evidence was provided to show that the County Executive Committee Member for Finance sought approval from the County Assembly for the payments out of the Fund as required by Regulation 11(1), (2) and (3) of the Public Finance Management (County Government of Uasin Gishu Emergency Fund) Regulations, 2015. Further, no evidence was provided to show that the County Executive Committee Member for Finance caused a draft of the Appropriation Bill to be introduced in the County Assembly for the appropriation of the money paid for replenishment of the County Emergency Fund to the extent of the amount of the payment.

In the circumstances, Management was 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

Fund Administration

The Public Finance Management (Uasin Gishu County Emergency Fund) Regulations, 2015 established for the purposes of regulating the operation of the Fund have vested powers of the management of the Fund on the Officer Administering the Fund who is the CEC Member for Finance. However, the Regulations have not provided for the Chairperson and Fund Administration Committee/Trustee to oversee the operations of the Fund.

In the circumstances, the Fund activities and operations lack oversight due to lack of an adequate governance structure to oversee its operations.

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 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 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 Fund'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 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 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 Funds 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 Fund'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 Fund 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 Fund 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 controls 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

08 September, 2022