

REPORT OF THE AUDITOR GENERAL ON MUNICIPALITY OF KITALE 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

Qualified Opinion

I have audited the accompanying financial statements of Municipality of Kitale set out on pages 1 to 16, 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 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 the Municipality of Kitale as at 30 June, 2021, and 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 Act, 2012 and Urban Areas and Cities Act, 2011.

Basis for Qualified Opinion

1. Property, Plant and Equipment

1.1 Unsupported Work-In-Progress

The statement of financial position and as disclosed in Note 8 to the financial statements reflects a balance of Kshs.392,376,681 in respect of property, plant and equipment which includes a balance of Kshs.390,958,729 relating to work-in-progress, for the construction of a multi storey business complex. However, the construction was undertaken on a parcel of land whose ownership documents were not in the name of the Municipality.

The contract for the works was awarded to a local construction company at a contract sum of Kshs.874,280,383. The contract period was seven hundred twenty-eight (728) days commencing 10 June, 2019, and expected completion date was 10 June, 2021. As at 30 June, 2021, the contractor had been fully paid the contract amount of Kshs.390,958,729.

Review of records revealed that the works were sub-contracted to various sub-contractors. However, contract agreements between the main contractor and sub-contractors were not provided for audit review.

Further, bills of quantity and engineers' estimates were not provided for audit review while site meeting minutes provided were not signed. It was, therefore, not possible to confirm the scope of works and the contract sums for each sub-contractor.

In the circumstances, the accuracy, ownership and valuation of the property, plant and equipment balance of Kshs.392,376,681 could not be confirmed.

1.2 Inaccuracies in the Property, Plant and Equipment Schedule

The statement of financial position and as disclosed in Note 8 to the financial statements reflects a balance of Kshs.392,376,681 in respect of property, plant and equipment which includes a balance of Kshs.299,950 and Kshs.1,118,000 relating to furniture and fittings and computers respectively. However, depreciation charges for the year and the net book values were not indicated.

In the circumstances, the accuracy, completeness and fair value of the property, plant and equipment balance of Kshs.392,376,681 could not be confirmed.

2. Undisclosed Bank Accounts

The statement of financial position reflects cash and cash equivalents balance of Kshs.274,110,366 which as disclosed in Note 6 to the financial statements comprises of Kshs.459,060 and Kshs.273,651,306 relating to recurrent and development accounts respectively maintained at Equity Bank.

However, review of records revealed that the Municipality maintains two (2) other bank accounts, KUSP (Kenya Urban Support Program) special account and its corresponding GOK counterpart account with unknown balances, which have not been disclosed in the financial statements. Further, bank reconciliation statements for the two accounts were not provided for audit.

In addition, cash books for the four (4) bank accounts maintained by the Municipality Board were not signed monthly by the officer maintaining them and checked by an officer senior to the person maintaining them.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.274,110,366, could not be confirmed.

3. Incorrect Recognition of Development Grants

The statement of financial performance reflects, revenue from non-exchange transactions amount of Kshs.299,106,900 which as disclosed in Note 1 to the financial statement relates to urban development grants received from the World Bank. However, according to International Public Sector Accounting Standards (IPSAS) 1, this item is supposed to be reported in the statement of financial position under net assets.

Consequently, the presentation of the financial statements was not in conformity with the requirements of the Accounting Standards.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Municipality of Kitale 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 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 our professional judgment, are of most significance in the audit of the financial statements of the current year. 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 actual receipts of Kshs.307,917,900 against the actual expenditure of Kshs.24,578,028 resulting to under-expenditure of Kshs.283,339,872 or 92% of the actual receipts.

The under-expenditure affected the planned activities and might 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. Non-Compliance with the Public Sector Board in the Presentation of the Financial Statements

The financial statements presented for audit for the financial had the following anomalies;

- i. The financial statements were not signed by the Chairman and Secretary to the Board.
- ii. The statement of changes in net assets is not prepared in the format prescribed in the financial reporting template. Further, an additional column has not been included on capital development grants while the rows do not reflect movement of balances from one year to another, showing opening balances, additions during the year and closing balances.
- iii. The statement of comparison of budget and actual amounts submitted for review did not reflect the figures under performance differences and percentage.

In the circumstances, presentation of the financial statement do not conform to the requirements of the Public Sector Accounting Standards Board.

2. Late Submission of Financial Statements

The financial statements of the Municipality of Kitale for the year ended 30 June, 2021, were submitted for audit on 25 October, 2021, contrary to Section 47(1) of the Public Audit Act, 2015, which states that financial statements should be submitted to the Auditor-General for audit within three months after the end of the fiscal year to which the accounts relate.

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

3. Long Outstanding Sundry Debtors

The statement of financial position reflects a balance of Kshs.700,000 which as disclosed in Note 7 to the financial statements relates to imprest balance brought forward from 2019/2020 financial year. However, no explanation was provided for the failure to recover the long outstanding imprest, contrary to Regulation 93(5) of the Public Finance Management (County Governments) Regulations, 2015, which states that a holder of a temporary imprest shall account for or surrender the imprest within seven (7) working days after returning to duty station.

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

4. Non-Compliance with the Law on Staff Ethnic Diversity

Review of records revealed that during the year under review, the Board was made up of nine (9) members out of which, seven (7) members or 78% were from the dominant community. This is contrary to Section 65(1)(e) of the County Governments Act, 2012, which provides that at least 30% of the staff establishment in a County Government entity be filled by staff from communities other than the dominant local community.

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, 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 processes and systems of internal controls, 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 (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 control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Municipality's ability to continue to sustain services, disclosing as applicable, matters related to sustainability of services and using 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.

Those charged with governance are responsible for overseeing the Municipality'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 controls 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 controls would not necessarily disclose all matters in the internal controls 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 controls.
- 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 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 Municipalities' 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 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 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

13 October, 2022