

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF NAKURU FOR THE YEAR ENDED 30 JUNE, 2022

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 the 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 County Assembly of Nakuru set out on pages 1 to 36, which comprise of the statement of financial assets and liabilities as at 30 June, 2022, statement of receipts and payments, statement of cash flows and 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 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 County Assembly of Nakuru as at 30 June, 2022 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 Public Finance Management Act, 2012 and County Governments Act, 2012.

Basis for Qualified Opinion

1. Variance Between Financial Statements and Integrated Financial Management Information System (IFMIS)

Review of balances disclosed in the financial statements and the supporting Integrated Financial Management Information System (IFMIS) ledger balances revealed several variances on components as itemized below:

Component	Financial Statements Kshs.	IFMIS Trial Balance Kshs	Variance Kshs
Exchequer Receipts	1,530,183,125	1,517,993,555	12,189,570
Compensation of Employee	418,654,509	387,549,633	31,104,876
Use of Goods and Services	703,490,776	681,878,114	21,612,662
Social Security Benefits	0	35,333,415	(35,333,415)
Acquisition of Assets	286,482,136	292,130,020	5,647,884
Recurrent Bank Account	15,007	0	15,007
Development Bank Account	20,518,749	23,016,381	(2,497,632)

In the circumstances, the completeness and accuracy of balances reflected in the financial statements for the year ended 30 June, 2022 could not be confirmed.

2. Transactions After Cut-off Date

The statement of receipts and payments reflects transfers from County Treasury/Exchequer releases balance of Kshs.1,530,183,125 which, as disclosed in Note 1 to the financial statements includes an amount of Kshs.186,164,265 that was received after the cutoff date of 30 June, 2022. Further, the statement of receipts and payments reflects total payments balance of Kshs.1,512,210,197 which includes amount of Kshs.171,530,758 comprising of Kshs.65,373,227 and Kshs.106,157,531 in respect of recurrent and development expenditure respectively, which were made after the financial year cutoff date of 30 June, 2022. This is contrary to Regulation 97(4) of the Public Finance Management (County Governments) Regulations, 2015 which provides that actual cash transactions taking place after 30 June, shall not be treated as pertaining to the previous financial year even though the accounts for that year may be open for end of year procedures and adjustments.

In the circumstances, the accuracy and completeness of statement of receipts and payments for the year ended 30 June, 2022 could not be confirmed.

3. Unapproved purchase of Goods and Services

Review of the County Assembly IFMIS records revealed that Management voided payments totalling to Kshs.45,507,756 which had been approved for payments in the Integrated Financial Management Information System, IFMIS. Instead, Management made payment to payees other than those in the approved schedule in the system. The reasons for voiding the payees in the approved list and payment to unapproved payees have not been provided. Further, supporting documents for goods or services rendered and not approved were not provided for audit review.

In the circumstances, the accuracy and propriety of payments amounting to Kshs.45,507,756 for the year ended 30 June, 2022 could not be confirmed.

4. Inaccuracy in Acquisition of Assets

The summary of non-current asset register in Annex 4 to the financial statements reflects assets at a historical cost of Kshs.1,148,484,472. However, the balance excludes the value of land on which the County Assembly offices are situated. Further, the balance includes transport equipment valued at Kshs.76,542,873 which differs with the supporting scheduled amount of Kshs.79,242,873 resulting to unexplained variance of Kshs.2,700,000.

In the circumstances, the accuracy of the value of assets balance of Kshs.1,148,484,472 as at 30 June, 2022 could not be confirmed.

5. Inaccuracy in Bank Balances

The statement of financial assets and liabilities reflects a bank balance of Kshs.32,723,327. However, the balance was supported by a certificate of bank balance as at 8 July, 2022 which is after the financial year cutoff date.

In the circumstances, the accuracy of the bank balance of Kshs.32,723,327 could not be confirmed.

6. Pending Bills Misstatement

The financial statement under Annex 1 reflects pending accounts payable balance of Kshs.39,315,327. However, the vote book reflects an outstanding commitment balance of Kshs.5,860,594 resulting to a variance of Kshs.33,454,733 which has not been unexplained or reconciled.

In the circumstances, the accuracy of pending bills balance of Kshs.39,315,327 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Nakuru 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 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.

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. Unlawful Subscriptions to Professional Bodies

The statement of receipts and payments reflects subscriptions to professional and trade bodies balance of Kshs.7,665,610 which, as disclosed in Note 5 to the financial statements includes annual subscription fees of Kshs.750,000 and Kshs.6,700,000 paid to Society of Clerks-At-The Table in Kenya Legislatures (SOCATT) and County Assembles Forum (CAF) respectively.

However, the two organizations do not draw their mandate from the Constitution of Kenya or an Act of Parliament and the basis of the payments made to this institutions is not legally supported and is contrary to Regulations 105 (1) of the Public Finance Management (County Governments) Regulations, 2015 which explains that an Accounting Officer may authorize payment vouchers provided such expenditure is in respect of and within the provision of the services in a County Treasury Warrant and in accordance with the law and regulations.

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

2. Excess Transfer to the County Assembly

As disclosed in Note 1 to the financial statements, the statement of receipts and payments reflect transfers from the County Treasury/Exchequer releases balance of Kshs.1,530,183,125. Review of records indicates that the disburseable amount should have been Kshs.1,165,846,996 resulting to over disbursements of Kshs.364,336,130. This is contrary to Regulation 25(1)(f) and (h) of the Public Finance Management (County Governments) Regulations, 2015 which sets the threshold to seven percent (7%) of County revenue or twice the personnel emoluments of that County Assembly whichever is lower.

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

3. Delay in Finalization and Assenting to County Assembly Bills

Records provided for audit revealed that the Assembly's Bills Tracker indicate that out of sixty-five (65) bills proposed, only four (4) were assented to by the Governor, seven (7) bills were withdrawn while status of the remaining fifty-four (54) bills was not provided.

In the circumstances, the effectiveness of the County Assembly in the legislation of laws could not be established.

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 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

1. Lack of a Risk Management Policy and Disaster Recovery Plan

The County Assembly did not have in place a Risk Management Policy. The Management has not developed a risk management policy and fraud management policy to guide its Management on risk management assessment and fraud preventive mechanisms for both its financial, human resource and operations systems.

In the absence of a risk management policy, it was not possible to confirm whether the internal controls built within the financial and operational systems were functioning as intended.

2. Understaffing of the Internal Audit Department

Records provided for audit indicate that the internal audit department had an authorized establishment of five (5) officers but only one (1) officer was deployed resulting to a shortage of four (4) officers. Further, the internal audit personnel did not have access to the County Assembly's Integrated Financial Management Information System (IFMIS) and the Integrated Personnel and Payroll Database (IPPD) systems.

In the circumstances, the existence of an effective internal audit function could not be confirmed.

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 (Cash 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 County Assembly's ability to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the County Government is aware of intention to dissolve the County Assembly 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 County Assembly'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 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 County Assembly's 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 the appropriate 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 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 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 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

14 March, 2023