

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

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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 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 Kitui set out on pages 1 to 51, which comprise of the statement of financial assets and liabilities as at 30 June, 2022, and the statement of receipts and payments, 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 County Assembly of Kitui 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 the Public Finance Management Act, 2012, and the County Governments Act, 2012.

## **Basis for Qualified Opinion**

### **1. Misstatement of Expenditure**

The statement of receipts and payments reflects an amount of Kshs.917,705,807 in respect of total expenditure incurred by the Assembly in the year under review. Included in this amount is Kshs.27,121,021 incurred in the month of July, 2022. This is in contravention to regulation 97(1) of The Public Finance Management (County Governments) Regulations, 2015, which states that, 'Accounts of County Governments entities shall record transactions which take place during the financial year from 1 July to 30 June and section 97(4) that stipulates that, actual cash transactions taking place after 30 June, shall not be treated as pertaining to the succeeding year.

In the circumstances, the expenditure for the period ended 30 June, 2022 is over stated by the total amount of Kshs.27,121,022.

### **2. Cash and Bank Balances**

The statement of financial assets and liabilities and as disclosed in Note 13A reflects an amount of Kshs.30,455 being cash and cash equivalents as at 30 June, 2022. However, the bank reconciliation statement as at 30 June, 2022 for Central Bank of Kenya account reflects a bank balance of Kshs.27,888 while the certificate of balances provided for audit reflects an amount Kshs.27,148,909 resulting to unexplained difference of Kshs.27,121,021.

In the circumstances, the accuracy of the cash and cash equivalents amount of Kshs.30,455 could not be confirmed.

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

## **Emphasis of Matter**

### **1. Pending Bills**

Annex 1 to the financial statements on budgetary analysis of pending accounts payable indicates that the County Assembly had pending bills amounting to Kshs.6,107,508.

Failure to settle pending bills in the year to which they relate adversely affects the implementation of the subsequent year's budgeted programs as the pending bills form the first charge.

## **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.

## **Other Matter**

### **1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts recurrent and development combined reflects final receipts budget and actual on comparable basis amount of Kshs.1,061,357,431 and Kshs.917,736,262 respectively resulting to an under-funding of Kshs.143,621,169 or 14 % of the approved budget. Similarly, the County Assembly expended Kshs.917,705,807 against an approved budget of Kshs.1,061,357,431 resulting to an under-expenditure of Kshs.143,651,624 or 14 % of the budget.

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

### **2. Prior Year Matters**

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. The issues remained unresolved.

## **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. Ethnic Composition**

During the year under review, the assembly had seventy-eight (78) employees out of which seventy-four (74) or 95% were from one dominant ethnic community in the County. This is in contravention to Section 7(2) of the National Cohesion and Integration Act, 2008 which requires that no public establishment shall have more than one third (1/3) of its employees from the same ethnic community.

Further, Section 65(1)(e) of the County Government Act 2012 states that in selecting candidates for appointment, the County Public Service Board shall consider the need to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county.

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

### **2. Non-Compliance with a Third of the Basic Salary Rule**

During the year under review, thirty-five (35) employees earned a net salary of less than a third of the basic salary contrary to Section C.1 (3) of the Public service Commission (PSC) Human Resource Policies, 2016. The management has not given explanations for failure to comply with the policy.

In the circumstances, the County contravened Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016 and may expose the staff to pecuniary embarrassment.

### **3. Delayed-Construction of Speakers Residence**

The Kitui County Assembly invited a tender for the purchase of land for the construction of the Speaker's official residence within Kitui town through a restricted tender posted in the website and supplier portal Tender No CAKITUI/1/02/2020/2021.

Through a statement of professional opinion dated 29 March, 2021, the Accounting officer approved the process to proceed to the next stage. The minutes of the tender evaluation committee for purchase of land for construction of Speaker's official residence held on 30 April, 2021 (negotiation process) recommended that following the unsuccessful negotiation, the tender be re-advertised, which has not been actualized.

Delayed construction of the Speaker's residence may hinder effective delivery of service by the speaker.

### **4. Irregular Payment to the County Assembly Forum and Clerks Society**

Note 5 to the financial statements on use of goods and services reflects an amount of Kshs.38,036,249 relating to other operating expenses. Included in this amount are payments of Kshs.4,800,000 and Kshs.750,000 respectively in respect to subscriptions

paid to County Assemblies Forum and Society of Clerks respectively. However, it was noted that these entities are not established in law and therefore the payment amounting to Kshs.5,550,000 was irregular

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

## **5. Non-Compliance with Fiscal Responsibility-Exceeded Wage Bill Limits**

The statement of receipts and payments showed that Kitui County Assembly collected revenue totalling to Kshs.917,736,262 while expenditure relating to wages and benefits for the County public staff amounted to Kshs.379,943,613 which is approximately 41% of the total revenue collected. This exceeded the recommended rate of 35% as stipulated in Section 25(1) of the Public Finance Management (County Governments) Regulations 2015.

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 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 governance were not effective.

### **Basis for Conclusion**

#### **1. Lack of a Risk Management Policy**

Audit revealed that the County Assembly does not have in place a Risk Management Policy and there was also no evidence to show that formal risk assessment was undertaken. This is in contravention of the provisions of Regulation 158 (1)(a) of the Public Finance Management (County Governments) Regulations 2015 which requires the Accounting Officer to develop risk management strategies, which include fraud prevention mechanism and develop a system of risk management and internal controls that build robust business operations.

In the circumstances, the County Assembly is exposed to losses and interruption of operations in the event a disaster occurs.

## **2. Lack of a Disaster Recovery and Business Continuity Plans**

During the year under review, the County Assembly operated without Disaster Recovery and Business Continuity plans contrary to the provisions of section 99 of the Public Finance Management Act, 2012. The Act stipulates that the role of a Disaster Recovery Plan is to secure the County Government's ability to meet its obligations to provide basic services or its financial commitments, identify the financial problems and be designed to place the County Government in a sound and sustainable financial condition as quickly as possible in case of disaster.

In the circumstances, the County Assembly is exposed to interruption of operations and loss of critical information in case of disaster.

## **3. Use of Manual Payroll**

As previously reported, the County Assembly of Kitui operates two parallel payrolls, an excel format payroll and Integrated Payroll and Personnel Database (IPPD). It was not clear why a spreadsheet payroll was operated parallel to IPPD instead of having all the staff managed in the recommended database platform. Further, use of spreadsheet as the basis for maintaining payroll is not sanctioned by law and is prone to changes and manipulation with no audit trail.

In the circumstances, the County Payroll Management is prone to errors.

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 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 (Cash 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 County Assembly's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting

unless Management is aware of intention to dissolve the County Assembly or to cease to continue its 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 the entity 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 control 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 of Kitui 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 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 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 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 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**

**06 February, 2023**