

**Analysis of the Auditor General's Reports
on the
Financial Statements
of the
Executive and County Assembly
of
Nandi County**

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1. Introduction

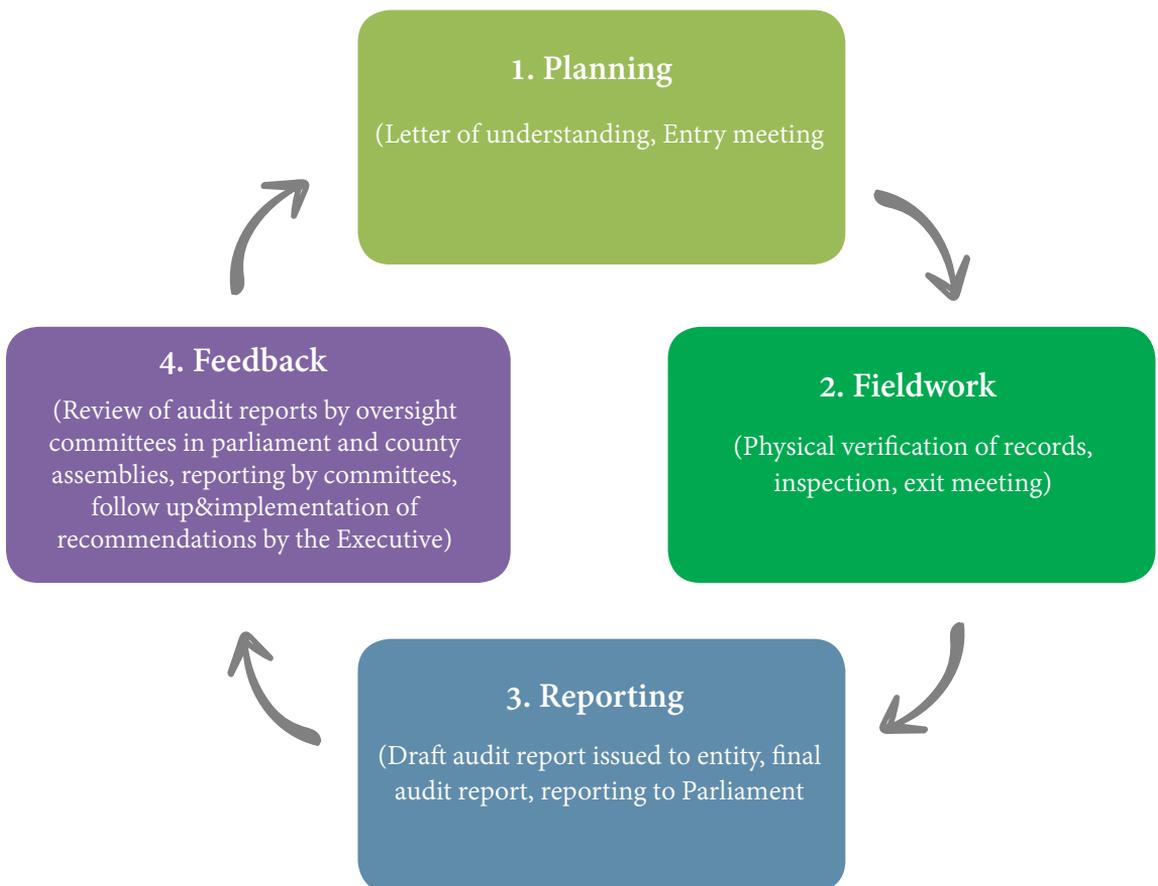
Each year the government sets aside funds for the performance of different functions. Execution of these functions is carried out by the three arms of government and various public-funded agencies. The Office of the Auditor General is established under Article 229 of the Constitution of Kenya 2010, to undertake audits and confirm all public funds are spent **lawfully** and **effectively**.

What is an Audit?

- An audit is the independent examination of an entity’s spending to confirm fairness and accuracy of transactions
- Audits are conducted to confirm whether public funds are spent lawfully and effectively

How is the Public Audit Process Conducted in Kenya?

The public audit process is illustrated below:



2. Possible Audit Reports

An audit report is the written opinion of the Auditor, regarding an entity's financial statements¹. The following are the four opinions that can be issued by the Auditor:

Opinion	Meaning
Unqualified	This is a clean opinion. It means the financial statements represent a true and fair view of the entity's spending
Qualified	This opinion is issued where the Auditor finds the statements contain some errors ² which are significant ³ but not widely spread ⁴
Adverse	This opinion is issued where there are errors; both significant and widely spread across the financial statements.
Disclaimer of Opinion	This is issued where the Auditor is unable to form an opinion because sufficient audit evidence was not provided. The lack of evidence implies statements could contain errors both significant and widely spread.

What is an Audit Query?

An audit query is a question posed by the Auditor regarding unlawful transactions identified during an audit.

What does an Audit Query include?

It highlights the **nature of the unlawful spending**, the **amount questioned** and the **consequences** of the action.

¹The term financial statements are defined under key terms on page 14

²Often referred to in audit language as misstatements

³In audit terms-significant errors are said to be material

⁴This refers to the pervasiveness of the misstatements

3. Nandi County Executive

What was the audit report/opinion of the Nandi County Executive for the FY 2016/17 and 2017/18?

The table below summarises the audit opinion for Nandi County Executive

Financial Year	Audit Opinion
2016/2017	Disclaimer of Opinion
2017/2018	Qualified Opinion

What were some key audit queries for the County Executive of Nandi FY 2016/17?

The table highlights some of the key audit queries for Nandi County Executive for the Financial Year 2016/17.

No.	Queries	Details	Amounts Queried in KES.
1.	Variances between financial statement balances and supporting schedules	The financial statements for the year ended 30 June 2017, reflects balances of KES 3,435,994,359 which is at variance with supporting schedule figure of KES 3,309,674,240.	126,320,119
2.	Summary statement of appropriation	Recurrent and development expenditure combined, reflects a total final receipt of KES 5,842,719,186 against total payments final budget of KES 6,903,603,501.	1,060,603,501
3.	Compensation of employees	Included in the compensation is the gratuity for the county executive employees but no supporting documents.	21,469,890
4.	Domestic travel and subsistence	No relevant supporting documents like work ticket, boarding passes, reports, invoices etc.	43,086,827
5.	Fuel, oil and lubricants	Lack of supporting documents for amount incurred on fuel, oil and lubricants.	28,800,564
6.	Hospital supplies	No supporting document for expenditure like payment voucher, user requisition, copy of the advertisement, tender minutes, etc.	85,475,763.40
7.	Routine maintenance - vehicle and other transport equipment	Unsupported expenditure; no relevant documents like engineer estimates, work ticket, quotations, evaluation and award minutes.	22,605,310
8.	Construction of buildings	Lack of supporting documents like payment voucher, user requisition, copy of the advertisement, or tender processing minutes.	99,958,093
9.	Construction of roads	Lack of supporting documents like payment voucher, user requisition, copy of the advertisement, or tender processing minutes.	86,365,298

10.	Purchase of specialized plans, equipment and machinery	Lack of supporting documents like payment voucher, user requisition, copy of the advertisement, tender processing minutes, invoices, and delivery notes.	91,255,496
11.	Waterworks	Lack of relevant documents in support of the expenditure.	94,431,206

Nandi County Executive (FY 2017/18)

The table highlights some of the key audit queries for Nandi County Executive for the Financial Year 2017/18.

No.	Queries	Details	Amounts Queried in KES.
1.	Accounts payable	The statement of assets and liabilities as at 30/06/2018 reflects net financial assets figure of KES 1,292,348,205 which includes accounts payable figure of KES 743,727,329 described as pending bills.	1,292,348,205
2.	Deposit and retention money	The statement of assets and liabilities net financial asset figure of KES 1,292,348,205 does not include deposits and retention money from contractors.	1,292,348,205
3.	Statement of cash flow	The statement of cash flows reflects a net increase in cash and cash equivalents figures of KES 236,511,053 which is at variance with the computed net cash flow figure of KES 507,216,276.	270,705,223
4.	Construction of ECD centres	Lack of documents to support the expenditure on building materials i.e. procurement records.	16,968,889
5.	Irregular payment to the Water Services Trust Fund (WSTF)	The county signed an MOU to contribute 30% for development of water dams and water supply projects. But the county still transferred money despite waiver of charges.	27,473,230
6.	Procurement of fuel, oil and lubricants	Two firms were not in the list of the pre-qualified suppliers yet still supplied the county. Fuel drawn for various vehicles was not recorded in the work ticket.	37,056,401

What was the amount queried in relation to total expenditure?

- **2016-2017** : 78% of the total expenditure was queried; equivalent to KES 4 billion
- **2017-2018**: 71% of the total expenditure was queried; equivalent to KES 3.5 billion



4. What could have been the best use of the questioned amount? (Opportunity Costs)

Any misappropriated funds could have been put into meaningful use to give the people of Nandi County better services and achieve greater value for money.

The following are examples of funds that could have given the population better value:

a) Construction of ECDE Centres in Nandi county

In the financial year 2017/18, physical verification of ECDE projects revealed the construction of 39 ECDE centres had not started despite an expenditure of KES 16,968,889 for materials procured for construction of 60 ECDE Centres, two in each ward. The materials were supplied directly to construction sites without anybody on the site to receive and verify the quality and quantity supplied. The accuracy and propriety of the expenditure could not be verified.

If the money had been put into proper use and ECDE centres constructed on time, it would have benefitted 1,800 students. That is each class holding thirty students with a total of 60 classes constructed.

b) Construction of Roads

In the 2016/17 FY, the KES 674,453,068.50 was allocated for road construction. However, supporting documents in the form of payment vouchers, user requisitions, copy of the advertisement, tender processing minutes, contracts, tender opening registers, letter of awards, certificates of inspection, acceptance and completion for the expenditure of KES 86,365,298.50 were unavailable.

The cost of maintenance per kilometre of routine maintenance of earth surface road and gravel surface road is KES 1 million. If the money was put into proper use, the resources would have catered for 86.4 km of road in Nandi County. This, in turn, would improve the economic potential and outcomes for the people of Nandi County.

5. Nandi County Assembly

What was the audit report/opinion for Nandi County Assembly for the FY 2016/17 and 2017/18?

Nandi County Assembly

Financial Year	Audit Opinion
2016/17	Disclaimer of Opinion
2017/18	Qualified Opinion

What were some key audit queries for the County Assembly of Nandi for the FY 2016/17?

The table highlights some of the key audit queries for Nandi County Assembly for the Financial Year 2016/17.

No.	Queries	Details	Amounts Queried in KES.
1.	Unsupported domestic travel and subsistence	Expenditure was not supported with relevant documents such as copies of approved imprests requisitions, imprests warrants, letters of invitation, workshop and activity programmes.	32,955,697
2.	Construction of perimeter wall at the County Assembly	Management failed to provide a reason why it entered into a contract of works without budgetary allocation.	4,165,317
3.	Construction of County Assembly Buildings	Management did not provide a bill of quantities of the building, architectural drawing of the building and certificates of inspection and acceptance from the respective committee.	64,768,145
4.	Unreconciled/unexplained variances	Statement of receipts and payments varied with amounts indicated in the Controller of Budget report for the 2016/17 financial year.	49,000,000
5.	Foreign travel and subsistence	The expenditure was not supported by the documents such as imprests, imprests warrants, invitation letters, photocopies of boarding passes, reports for tabling and adoption in the Assembly and attendance registers.	8,533,808
6.	Insurance costs	Management reallocated insurance costs to training funds which were used in Mombasa for the training of MCAs.	5,914,600
7.	Inaccuracies in the financial statements	The Assembly availed two sets of financial statements with unexplained and unreconciled variances.	22,919,048
8.	Under absorption of budget	The approved budget and actual budget reflected an under absorption of 12%.	86,256,303
9.	Car loan and mortgage	County Assembly did not prepare funds financial statements for audit, and there were unbanked loan repayments.	151,965,763

10.	Failure to establish Audit Committee	The County Assembly of Nandi did not establish an audit committee contrary to PFM County Government Regulations,2015.	Breach of section 167(1) of the PFM regulations 2015
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Nandi County Assembly FY 2017/18

The table highlights some of the key audit queries for Nandi County Assembly for the Financial Year 2017/18.

No.	Queries	Details	Amounts Queried in KES.
1.	Cash and cash equivalents	Cash flow statements amount not captured as beginning cash balance.	28,975,330
2.	Accounts payables – deposits and retentions	Some of the amount recovered by the Assembly from the contractors was not disclosed in the financial statements. Deposits and retention monies on construction of the county assembly offices which had not been supported by any note to financial statements.	16,489,008 15,021,129
3.	Transfers from county treasury/ Exchequer	The statement of receipts and payments is in variance with the statement of comparison of budget and actual amounts computed.	68,406,175
4.	Fixed asset acquisition	There was a difference between the financial statements and Annex 4 figures on the purchase of office equipment; furniture and fittings, and ICT equipment and software.	25,637,368
5.	Unaccounted for domestic travel and subsistence expenses	Amounts advanced to officers as night out/ per diem was expensed immediately and not recognised as temporary imprests as required.	33,167,647
6.	Construction of the County Assembly offices	The bill of quantities, contract agreement, design/ drawing of the structure were not availed for audit verification.	94,975,934

What was the amount questioned in relation to the total spending by the Assembly?

- **2016/2017:** 66.2% of the total expenditure queried; equivalent to KES 410 million
- **2017/2018:** 33.5% of the total expenditure queried; equivalent to KES 237 million



6. What could have been the best use of the questioned amount? (Opportunity Costs)

The following are examples of funds that could have given the population better value if properly accounted for:

- a) The total amounts queried in 2016/17 if properly used, would have funded 78% of the salaries and wages of all County Assembly Staff and goods and services purchased by the Assembly.
- b) The total amounts queried in 2017/18 would have funded 84% of the budget for the purchase of goods and services in that financial year.

The services promised by county assembly would have brought better outcomes had the money been put into proper use.

7. Which channels can citizens use to hold the responsible leaders to account?

1. The Constitution and various Acts of Parliament provide for the avenues for public participation, in the planning and budget cycle. From budget formulation to oversight (audit) process.
2. Some legal channels available for the public to hold leaders to account include:
 - a. Petitions to Parliament; written, must demonstrate effort of trying to resolve;
 - b. Submissions both oral and written (Memorandum) during public hearings;
 - c. Parliament and Assembly Committee inquiries;
 - d. Engagement during vetting and approval of nominees for appointments to county public offices as may be required by law; and
 - e. Engagement during impeachments/removal of state officers like the governor, Speaker, County Executives and County Public Service Board.
3. The following bodies are further mandated to provide oversight. Citizens can use the available public participation processes within the agencies, to lodge formal complaints or request for inquiries into corrupt practices:
 - a. Ethics and Anti-Corruption Commission;
 - b. Director of Public Prosecutions;
 - c. Director of Criminal Investigation;
 - d. Office of the Auditor General; and
 - e. National Treasury.

Definition of Key Terms in Audit Reports

Financial Statements	These are formal records of the financial activities and position of an entity. The structure and contents of financial statements are governed by various laws and regulations, including international financial reporting standards.
True and fair	‘True and fair’ is a concept concerning a set of financial statements that implies there are no significant errors and misrepresentations in the records. Financial statements will not be ‘true and fair’ unless the information they contain is adequate in terms of both quality and quantity to satisfy the reasonable expectations of users of the financial statements.
Internal control systems	This refers to the processes designed, implemented and maintained by those charged with governance and management. This provides reasonable assurance about the achievement of an entity’s objectives concerning the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
Unsupported expenditure	This is spending that lacks adequate documentation, such as approvals, authorizations, receipts and vouchers etc. A transaction is also unsupported where some goods and services cannot be verified as received.
Excess/Unauthorized expenditure	This refers to overspending without authorization. In this case, spending is above the budget for a particular programme, but there is no supplementary budget or other authorization to exceed the spending limit in law. .
Irregular expenditure	This is spending incurred in violation of the relevant legislation, including the Public Finance Management Act, 2012, County government Public Finance Management Regulations, 2015, Public Procurement and Asset Disposal Act, 2015 or any other Act of Parliament.
Value for money	The economic (spending less), efficient (spending well) and effective (meeting objectives) utilization of resources.
Pending Bills	These are monies or arrears yet to be paid to suppliers for goods delivered or services rendered to a given entity.

