

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF BOMET FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Bomet set out on pages 1 to 45, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows, statements of comparison of budget and actual amounts: recurrent, development and combined and budget execution by programmes and sub-programmes 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 County Assembly of Bomet as at 30 June 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards and comply with the County Governments Act, 2012.

In addition, as required by Article 229 (6) of the Constitution, based on the procedures performed, I confirm that, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Bank Balances

The statement of assets and liabilities as at 30 June 2017 reflect bank balances of Kshs.380,839. However, the County Assembly did not prepare bank reconciliation statements in IFMIS for all the bank accounts it operates. Instead the bank reconciliations were prepared out of IFMIS which was the main system for payments. In the circumstance, the accuracy and validity of the bank balance of Kshs.380,839 could not be confirmed.

2. Compensation of Employees

The statement of receipts and payments for the year ended 30 June 2017 reflects compensation of employees figure of Kshs.227,557,004 against a budget of Kshs.249,530,338. The expenditure of Kshs.227,557,004 against total expenditure of Kshs.486,462,727 represents forty-seven (47%) percent. The ratio of forty-seven (47%) of total expenditure may not be tenable in the future unless strict controls are instituted.

3. Use of Goods and Services

The statement of receipts and payments for the year ended 30 June 2017 reported use of goods and services expenditure of Kshs.247,185,910 against a budget of Kshs.277,005,396. The following observations were made.

3.1 Domestic Travel and Subsistence

The budget for domestic travel and subsistence was Kshs.91,066,328 against the reported expenditure of Kshs.90,957,699. However, it was observed that officers travelling on official duties were not issued with safari imprest as required but were instead allowed to travel and make claims upon return. It was therefore difficult to confirm whether actual travel took place. In addition, there were no signed attendance lists for workshops attended and it is not clear whether the workshops took place. Further, actual payment vouchers produced for audit verification in support of the expenditure totaled Kshs.74,150,150 resulting in an overstatement of Kshs.16,807,199. In the circumstance, the expenditure of Kshs.90,957,699 on domestic travel and subsistence for the year ended 30 June 2017 could not be confirmed as fairly stated.

3.2 Foreign Travel and Subsistence

The budget for foreign travel and subsistence was Kshs.18,686,089 comprised of foreign travel of Kshs.4,321,372 and accommodation of Kshs.14,364,717 against reported actual expenditure of Kshs.18,677,631 in note 5 to the financial statements. Examination of this expenditure revealed that cash safari imprest amounting to Kshs.22,363,369 were issued to officers without signed imprest warrants and recording in the imprest register. In addition, the Accounting Officer did not assess whether the objective of the foreign journeys could be achieved locally by any other cheaper means as required by law. Further, payment vouchers produced for audit review totaled Kshs.29,009,707 resulting in understatement of the amount by Kshs.10,332,076. Additionally, the expenditure of Kshs.29,009,707 was in excess of the approved budget by Kshs.10,323,618. In the circumstance, the expenditure of Kshs.18,677,631 on foreign travel and subsistence for the year ended 30 June 2017 could not be confirmed as fairly stated.

3.3 Training Expenses

The training budget for the year was Kshs.42,092,062 comprising of travel cost Kshs.23,320,000, remuneration of instructors Kshs.2,946,130, hire of training facilities Kshs.15,322,062 and tuition fees of Kshs.493,870 against the reported expenditure of Kshs.38,099,087. However, it was observed that these training were carried out without a training needs assessment being done by the County Assembly's Human Resources Department and the participants subsequently approved by the training committee. In addition, audit examination of the payment vouchers supporting expenditure revealed a total of Kshs.23,443,658 and as such the reported expenditure of Kshs.38,099,087 is overstated by Kshs.14,655,429. In the circumstance, the reported expenditure of Kshs.38,099,087 on training could not be confirmed as stated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Bomet in accordance with ISSAI 30 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 that, in my professional judgement were of most significance in the audit of the financial statements of the current year. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1.0 Budget Performance

The County Assembly of Bomet had budgeted to spend Kshs.655,921,412 but ended up spending Kshs.484,805,178 resulting in under expenditure of Kshs.171,116,234 or 26% of the total budget. Audit verification of the figures from expenditure schedules revealed a figure of Kshs.484,408,178 against Kshs.486,462,727 reflected in the statement of receipts and payments giving rise to unreconciled difference of Kshs.2,054,549. The following table gives analysis of budget implementation by the County Assembly.

Item	Budget Kshs.	Actual Kshs.	Variance Kshs.
Compensation of Employees	249,530,338	227,557,004	21,973,334
Utilities and Supplies	1,432,000	775,600	656,400
Communication Supplies	5,433,579	3,101,369	2,332,210
Domestic Travel	91,066,328	90,957,699	108,629
Foreign Travel	18,686,089	18,677,631	8,458
Printing and Advertising	8,208,750	6,681,381	1,527,369
Rental of Produced Assets	780,000	780,000	0
Training Expenses	42,092,062	38,099,087	3,992,975
Hospitality Supplies	4,912,033	4,494,835	417,198
Insurance Costs	19,900,000	19,760,000	140,000
Office and General Supplies	5,033,460	3,717,615	1,315,845
Fuel and Lubricants	3,647,791	3,510,029	137,762
Bank Charges	80,000	74,002	5,998
Specialized Materials	16,016,212	5,634,899	10,381,313
Routine Maintenance Vehicles	4,653,172	1,447,245	3,205,927
Routine Maintenance Other Assets	0	1,592,860	(1,592,860)
Members Subscription	3,552,000	2,385,200	1,166,800
Administration and Security	2,200,000	2,200,000	0
Assets and Supplies	4,413,800	2,635,400	1,778,400
Security Equipment's	200,000	15,000	185,000

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Mortgage and Car Loan	1,000,000	0	1,000,000
Other Operating Expenses			
Board Expenses	5,825,120	5,692,960	132,160
Public Participation	16,368,000	16,173,200	194,800
Ward Expenses	21,505,000	21,504,300	700
Asset Inventory	1,900,000	0	1,900,000
Annual Report	300,000	0	300,000
Motor Vehicle	4,650,000	4,650,000	0
Hansard Equipment	1,470,962	1,470,962	0
Office Furniture and Equipment	596,000	1,216,900	(620,900)
Capital Expenditure	120,468,716	0	120,468,716
Total	655,921,412	484,805,178	171,116,234

The following issues were noted:

- (i) The County Assembly realized an overall under expenditure of Kshs.171,116,234 which was largely on capital expenditure. The capital expenditure was not utilized despite being budgeted for. No explanation has been given for the under absorption of funds.
- (ii) Compensation of employees reflects little movements although there was under spending of the budget by Kshs.21,973,334.

Use of goods and services reflects an increase from Kshs.215,139,421 in 2015/2016 to Kshs.247,185,910 in 2016/2017. There was an increase in domestic travel from Kshs.75,067,924 to Kshs.90,957,699. The increase of Kshs.15,889,775 represents 21%. There was also an increase in foreign travel from Kshs.10,137,539 in the previous year to Kshs.18,677,631. The increase of Kshs.8,540,092 represents 84% which is astronomical. Management needs to explain these increases.

2.0 Foreign Travel Payments in IFMIS Not Reflected in Financial Statement and Records

Audit examination of the Integrated Financial Management Information System (IFMIS) payment details for County Assembly of Bomet indicate that a total of Kshs.14,701,028 was paid out to individuals and companies in relation to foreign travel expenditure during the period under review. However, no supporting documentation was produced to validate these expenditures and as such it is not clear how these transactions were authorized, processed and recorded in the county assembly's books of account. The payments made and identification, selection and award of services to these individuals and companies is not clear.

3.0 Other Operating Expenditure

The budget for other operating expenses was Kshs.45,898,120 comprising of board expenses Kshs.5,825,120, ward expenses Kshs.37,873,000, asset inventory Kshs.1,900,000 and annual report expenses Kshs.300,000 against the reported expenditure of Kshs.45,570,460 in note 5 to the financial statements. It was observed that the ward expenses were incurred through issue of imprests to Members of the County Assembly (MCAs) who make returns to the accounting officer. However, the returns submitted by MCAs were supported by cash sale receipts that are not generated from Electronic Tax Registers recommended by Kenya Revenue Authority under the Value Added Tax Act. The expenses are equally not recorded in memorandum cash books at the ward offices and as such difficult to reconcile against the County Assembly records. In addition, differences were observed between the IFMIS payment details amount of Kshs.22,075,000 and actual payment vouchers produced of Kshs.34,964,950 resulting to unexplained difference of Kshs.15,798,000 against the budget of Kshs.37,873,000.

4.0 Legal Expenses

Expenditure records indicate that the County Assembly paid legal fees amounting to Kshs.7,162,000 and classified them as specialized materials and services. However, the description adopted to present these expenditures does not bring out the correct nature of transactions. In addition, the fees paid could not be related or reconciled to specific Advocates Remuneration order as the value of the subject matters were not given for audit review. In the circumstances, it was not possible to ascertain whether this expenditure was a proper charge to public funds.

5.0 Unsupported Expenditure on Office and General Supplies

The budget was Kshs.5,033,460 against the reported expenditure of Kshs.3,717,615. However, audit examination of the schedule in support of this expenditure revealed that payments totaling Kshs.2,338,667 were not supported by payment vouchers and the relevant support documentation. It is not clear on what basis these expenditures were included in the financial statements in the absence of the relevant documentation.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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 such 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.

In preparing the financial statements, management is responsible for assessing the County Assembly's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting.

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.

Those charged with governance are responsible for overseeing the County Assembly's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 of Kenya. 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 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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the County Assembly's 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 going concern 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 continue offering 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 continue offering 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

25 June 2018