

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the County Assembly of Bungoma set out on pages 1 to 30, 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 and statement of comparison of budget and actual amounts: recurrent and development combined 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, the financial statements present fairly, in all material respects financial position of County Assembly of Bungoma at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and on Other Matter section of my report, based on the procedures performed, I confirm that, 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. Inaccuracies of the Financial Statements

The compensation of employees total expenditure of Kshs.281,247,766 reported in the receipts and payments differ with the gross salary of Kshs.224,382,323 captured in the Integrated Payroll and Personnel Database (IPPD) ledger records resulting into unreconciled difference of Kshs.56,865,443.

In the circumstance, the accuracy and completeness of the financial statements could not be ascertained.

2. Acquisition of Assets

2.1. Delay in Construction of Office Block

Included in acquisition of goods figure of Kshs.87,635,324 is an amount of Kshs.43,376,821 paid to a local contractor for the construction of administration block

which commenced on 15 December 2016 for a period of eighteen (18) months at a contract sum of Kshs.447,768,217. However, a physical verification conducted in November 2017 revealed that, the contractor had completed the sub structure with the ground floor columns partially erected. In addition, no work was going on as the contractor had abandoned the site for almost five (5) months and there was no indication that works are about to resume, hence, the project implementation was behind schedule.

In the circumstances, the Assembly staff have continued to work under non-conductive work environment.

2.2. Supply of Intranet Portal

Included in acquisition of assets figure of Ksh.87,635,324 is Kshs.11,150,000 paid for supply and installation of internet portal. The contract agreement provided that the contract period was to last for 12 months, beginning 6 April 2016 and 5 April 2017 as anticipated completion date. As at the time of audit, the contracted company had been paid a total of Kshs 7,000,000. However, the following anomalies were noted;

- a) The intranet modules has not been rolled out and that the documentation of the entire system (both technical and user manuals) had not been done and the system had not been handed over to the Assembly.
- b) A section of Assembly's personnel had not been trained on all the proposed modules hence hindrance to intranet implementation.
- c) The contract period ended on April 2017 and as at the time of the audit in November 2017, there is no indication that the system was up and running. In addition, no evidence was provided indicating that the period was extended as the work remains incomplete six months after anticipated completion date.

In the circumstances, the propriety of Kshs. 50,376,821 under acquisition of goods could not be ascertained.

3. Use of Goods and Services

3.1. Medical Insurance Services

Included in use of goods and services of Kshs.437,421,767 is an amount of Kshs.37,201,987 being medical insurance service awarded to a local insurance company to offer medical services through tender no. CA/BGM/PUR4/2016-2017. However, the following anomalies were noted;

- a) The contract was signed between a local insurance company and the Assembly but an insurance brokerage firm signed on behalf of underwriting company and was subsequently paid hence irregular as the examination of the tender register shows that the brokerage firm was not among the bidders.

- b) A medical policy was not provided for audit scrutiny.
- c) Only one bidder qualified for the financial evaluations hence there were no competitive bids.

Consequently, the management was in breach of procurement rules and regulations hence the propriety of Kshs.37,201,987 could not be confirmed.

3.2. Car Loans and Mortgage Scheme Insurance Cover

An insurance brokerage firm was awarded a contract of Kshs.7,650,000 for provision of car loans and mortgage insurance cover. However, the tender evaluation minutes and letter awarding the contract were not availed for audit verification.

In the circumstances, it was not possible to ascertain propriety of Kshs.7,650,000 paid for insurance services.

3.3. Air Travel Tickets

Included in the use of goods and services figure of Kshs.437,421,767 the cost of air tickets amounting to Kshs.3,204,312 purchased on various dates from a local travel agency. However, some of the accounting documents were not fully supported by boarding passes as proof of actual travel.

Consequently, the propriety and completeness of Kshs.3,204,312 could not be confirmed.

3.4. Outsourcing of ICT Services

A local ICT firm was paid of Kshs.846,200 for routine service and maintenance of computers as highlighted below;

Date	Pv No.	Description	Amount (Kshs)
19-Oct-16	251	Maintenance of computers.	246,500
5-Jan-17	312	Computer maintenance	246,500
20-Apr-17	580	Computer maintenance & repair	210,500
20-Apr-17	561	Computer maintenance & servicing	52,000
28-Jun-17	557	Computer & Network servicing	90,700
		Total	846,200

However, the Assembly has a full fledge ICT department of around five staff who could have provided for this service instead of outsourcing the service.

In the circumstances, the Assembly could have saved a total of Kshs 846,200 had the services be carried out by the staff.

4. Compensation of Employees

Budget Variance Analysis for the year ended 30 June 2017				
Item	Budget 2016/2017 Kshs.	Actual Expenditure Kshs.	Actual Variance Kshs.	% in Variance
Basic salary- Permanent Employees	166,258,754	152,453,334	13,805,420	8%
Personal Allowance -Paid as Part of Salary	137,949,925	152,145,210	- 14,195,285	-10%
Employer Contributions to Compulsory National Social Security Schemes	5,898,409	5,852,409	46,000	1%
Utilities Supplies and Services	1,300,000	123,000	1,177,000	91%
Communication Supplies and Services	3,982,156	246,500	3,735,656	94%
Domestic Travel and Subsistence, and Other Transportation Costs	4,000,000	6,154,832	(2,154,832)	-54%
Foreign Travel and Subsistence, and other transportation costs	956,046	1,440,980	(484,934)	-51%
Printing , Advertising and Information Supplies and Services	6,280,044	3,729,802	2,550,242	41%
Rentals of Produced Assets	550,000	528,442	21,558	4%
Training Expenses	39,000,000	33,761,541	5,238,459	13%
Hospitality Supplies and Services	278,303,009	318,480,960	- 40,177,951	-14%
Insurance costs	8,460,441	10,435,451	(1,975,010)	-23%
Specialized Materials and Supplies	500,000	237,900	262,100	52%
Office and General Supplies and Services	4,642,000	3,574,175	1,067,825	23%
Fuel Oil and Lubricants	1,563,944	181,470	1,382,474	88%
Other Operating Expenses	56,275,669	48,422,341	7,853,328	14%
Routine Maintenance - Vehicles and Other Transport Equipment	2,131,482	1,572,212	559,270	26%
Routine Maintenance - Other Assets	3,600,000	743,489	2,856,511	79%
Supply for Credit	7,276,065	7,939,160	(663,095)	-9%
Government Pension and	25,437,647	9,211,618	16,226,029	64%

Retirement Benefits				
Purchase of Office Furniture and General Equipment	3,000,000	-	3,000,000	100%
Research, feasibility Studies	127,862	-	127,862	100%
Repayments of Principal from Domestic Lending	80,911,570	80,911,570	-	0%
TOTAL RECURRENT	838,405,023	838,146,395	258,628	0%
DEVELOPMENT PROJECTS				
Refurbishment nonresidential Buildings -	5,000,000	2,000,000	3,000,000	60%
Refurbishment nonresidential Buildings -	10,000,000	9,315,181	684,819	7%
Purchase of ICT networking and Communications Equipment	7,000,000	7,246,000	(246,000)	-4%
Supply for credit	8,339,592	8,200,752	138,840	2%
other infrastructure and civil works	116,583,662	60,873,391	55,710,271	48%
Dev. Totals	146,923,254	87,635,324	59,287,930	40%
GRAND TOTALS	985,328,277	925,781,719	59,546,558	6%

Included in the compensation of employees figure of Kshs.281,247,766 is an amount of Kshs.34,044,615 being the total salary incurred on the three staff deployed in ward offices in Bungoma County. However, a review of the ward files and monthly returns revealed the following anomalies;

- a) statutory deductions including NSSF and NHIF for some of the wards had not been effected and remitted.
- b) there were no engagement letters for most of the ward staff as they were mostly casual employees.
- c) the remuneration paid to the ward staff lacked uniformity with some being paid Kshs 25,000 while others were receiving as low as Kshs.3,000 per month for the same position.
- d) from the sampled test conducted, some wards lacked lease agreements between the Assembly and the respective landlords hence the accuracy of rent payable per ward could not be determined.

In view of the above, the propriety of Kshs. 34,044,615 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Bungoma County Assembly 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 matters that, in my professional judgements, are of most significance in the audit of the financial statements. I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

a) The budgetary analysis below shows instances where the budget was either over/under spent by more than +10% or -10%. Some expenditure items were not as per approvals while others were not budgeted for at all. Further, funds amounting to Kshs.115,926,700 were re-allocated and diverted for purposes which was not budgeted;

There were no evidence provided to confirm whether such reallocation of the budget were done procedurally.

b) The payments listed below totaling Kshs.6,436,937 were wrongly charged under credit supply despite been incurred during the year thus the initial allocation and purpose of the budget was not properly utilized.

Date	PVN	Description	Amount (Kshs.)
20-Mar-17	574	Air tickets	571,720
20-Mar-17	573	Air tickets	616,290
20-Mar-17	571	Air tickets	809,603
20-Apr-17	275	Computer maintenance & repair	210,500
20-Apr-17	522	Executive chairs & tables	2,050,000
28-Jun-17	582	Tonnors	2,020,000
28-Jun-17	396	Air tickets	158,824
			6,436,937

c) A total of Kshs.15,000,000 were refunded to the car loans and mortgage scheme without being budgeted for by the Assembly as they were paid for through Hospitality supplies and services hence irregular.

In view of the above, The Assembly may not have implemented the budget as stipulated and irregular payments may have been incurred through incorrect budget implementations.

1. Lack of Policies

The following policies and guidelines had not been developed and approved for adoption. Furthermore, there was no evidence that the risk management policy and framework is operational despite being in place and lastly, there is no approved organogram, scheme of service, job establishment and guidelines on establishment and abolition of offices in the County Assembly.

- a) Finance manual
- b) Internship policy and guidelines
- c) Engagement of Casual and temporary/contract staff
- d) Service charter
- e) Discipline manual
- f) Performance management and appraisal policy and guidelines
- g) Communications policy
- h) Overtime policy
- i) Whistle blowing policy and feedback
- j) Lack of departmental operational manuals
- k) Training policies and Guidelines
- l) Security policy
- m) Disaster management policy
- n) Records management policy

Therefore, the Assembly may not rationally manage resources and operates in absence of clear operating guidelines.

2. Usage of Imprests and its Control

The management failed to use imprest warrants while issuing out various imprests amounting to Kshs.84,857,477. In addition, the imprests were not entered into the imprest register hence leading to poor internal control in managing imprest. Further, as reported in the prior years, various suppliers of goods and services amounting Kshs.8,840,251 were paid though the imprest while exceeding the thresholds prescribed by Regulation no. 92 of the Public Finance Management Act, 2015 on usage of standing imprest, direct procurement without proper justification as guided by the Public Procurement and Assets Disposal act 2015.

In the circumstance, the Assembly contravened the financial laws and regulations governing usage of imprest.

3. Cash payment of MCA's Allowances

The Members of County Assembly and the Assembly staff were paid various temporary imprest allowance up to as high as Kshs.6,622,770 for devolution conference week and Kshs.9,966,000 during KICOSCA and CASA games in Kiambu among others during the year through cash payment instead of their bank account which is in contravention with the National Treasury and Government Accounting procedures on handling cash payments.

In the circumstances, handling of huge cash payment is risky to the staff involved considering security status in the environment.

4. Payments Made Outside IFMIS

The management in violation of the laid down procedures paid a total of Kshs.32,400,000 to clear outstanding suppliers in the credit supply budget line through KCB Imprest bank account which is a commercial bank instead of the CBK accounts through IFMIS as provided for by Regulation 82 and Regulation 109 of the Public Finance Management Regulations (County Government, 2015 and Section 12 (1) (e) and Section 109 of the Public Finance Management Act, 2012.

In the circumstances, the assembly contravened the laws and regulations governing payment expenditure through IFMIS system.

5. Pending Bills

The Assembly has an outstanding pending bills totaling to Kshs.28,479,903 comprising of recurrent vote of Kshs.17,633,503, development vote of Kshs.10,416,800 and staff expenses of 429,600 as at 30 June 2017. In addition, Kshs.88,930,460 due to the car loans and mortgage fund was not included as pending bills, in which case the total pending bills for the Assembly would have amounted to Kshs.117,410,363. It is not clear how the Assembly intends to clear the pending bills without affecting the current year's budget.

In the circumstances, pending bills of Kshs.28,479,903 is likely to affect service delivery where various service providers may not have been paid.

6. Borrowings from the MCA's Car Loans and Mortgage Fund by the Assembly

The Assembly has borrowed a total of Kshs.88,930,460 over the years from the car loans and mortgage scheme to finance operation activities and has not refunded the funds. It is not clear how the Assembly intends to payback the fund leaving the Assembly with huge borrowing and budget deficit and which constitute to irregular borrowings.

In the circumstances, the Assembly was in contravention of Section 116(4) of the Public Finance Management Act 2012.

7. Personnel Records and Payroll Management.

8.1. Non-conformity to the a Third Basic Rule Policy

From the sampled test in the payroll month of June 2017, 72 employees or (52%) out of 138 employees earned net salary less than one third (1/3) of their basic pay. Furthermore, 14 employees received nil salary meaning they were deducted in full.

In view of the above, the Assembly was in contravention of the Employment Act Cap 226 and its regulations.

a. Irregularities in New Appointments

During the year, a total of 14 employees were recruited by the Assembly in various categories as per the County Assembly Public Service Board minutes of 06/02/2017. Only one (1) recruit was from non-dominant community, representing 6.6% of the total number employed leaving 93.3 % from Luhya community against a limit of 70% which contravenes the County Government Act 2012, Section 65(1)(e) that County Assembly Public Service Board shall consider the need to ensure that at least 30% of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the count.

In view of the above, the Assembly was in breach of the County Government Act recruitment laws.

8.2. Irregular Payments to Employees Under Contract

Scrutiny of salary schedules revealed that a total of Kshs.1,631,510 was paid to contractual workers for the months of May and June, 2017 yet their contract period expired on 30 April, 2017 and hence leading to an irregularity. Consequently the Assembly was in breach of Employment Act Cap 226 and its regulations.

8.3. Non Recovery of Members of County Assembly (MCA's) Advances through IPPD.

The Assembly paid various advances to MCA's without recovery of the same through IPPD as they are recovered through cash receipt books resulting to poor internal controls in administering advances and its recovery.

Consequently the Assembly was in breach of payroll advances and deduction regulations.

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 applicable basis of accounting unless the management either intends to cease operations or have no realistic alternative but to do so.

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 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 continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities 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

16 July 2018