

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

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of the County Assembly of Homa Bay set out on pages 8 to 23, 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 summary statement of appropriation 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 and Section 35 of the Public Audit Act, 2015.

In my opinion, because of the significance of the matters discussed in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate evidence to confirm that public money has been applied lawfully and in an effective way.

Basis of Disclaimer of Opinion

1. Inaccuracies in Financial Statements

1.1. Receipts

Included in the statement of receipts and payments under Note 1 is are exchequer releases totalling Kshs.840million made to the County Assembly but the financial statements reflect Kshs.820 million under the account. Further, analysis of IFMIS records indicate that a total of Kshs.840 million was transferred to the County Treasury in the year under review and therefore t the amount disbursed to the County Assembly is less than the annual allocation of Kshs.955,145,660 by Kshs.115,145,660.

The reasons for the underfunding that constrained the County Assembly from implementing all its budgeted programmes have not been explained.

1.2. Statement of Comparison of Budget

The statement of comparison of budget and actual amounts reflects varying figures with supporting documents and schedules as analysed below:

Item	Final Budget 30 June 2017 Kshs.	Supported Schedules Balance 30 June 2017 Kshs.	Difference Kshs.
Development Expenditure	18,000,000	20,461,535	(2,461,535)
Recurrent Expenditures	937,145,660	935,259,340	1,886,320

Consequently, the accuracy and validity of the statement of comparison of budget and actual amounts for the year ended 30 June 2017 cannot be confirmed.

1.3. Prior Year Adjustments

Included under Note 8 to the financial statements, under Fund Balance brought forward is a prior-year adjustment of Kshs.1,222,700 being change in receivables. However, no supporting documents have been availed for audit to explain the adjustment.

Consequently, the accuracy and validity of prior-year adjustment figure cannot be confirmed.

1.4. Cash Flow Statement

The statement of cash flow reflects an opening cash and cash equivalents balance of Kshs.13,835,252 instead of Kshs.26,534,114. Further, the net increase in cash and cash equivalents of Kshs.(12,433,285) differs from a statement of receipts and payments deficit of Kshs.13,655,985. Consequently, the accuracy and validity of the cash flow statement cannot be confirmed.

2. Cash and Cash Equivalents Balance

Included under Note 6 to the financial statements under bank accounts is an amount of Kshs.4,549,786 held in Co-operative Bank Account No.01141456870100 as at 30 June 2017. However, the bank reconciliation statement as at 30 June 2017 reflected verified receipts in cash book not yet recorded in bank statement totaling Kshs.53,077,800 supported with, but the financial statements reflect a cash book balance of Kshs.1,401,966.97.

Consequently, it has not been possible to confirm that the cash and equivalents balance of Kshs.1,401,966.97 as at 30 June 2017 is fairly stated.

3. Acquisition of Assets

3.1. Purchase of Motor Vehicle and Generator

Included in acquisition of assets balance of Kshs.31,112,895 is a purchase of motor vehicle expenditure balance of Kshs.4,200,000. However, the supporting documents for vehicle purchases amounting to Kshs.1,500,000 out of the balance of Kshs.4,200,000 were not availed for audit verification.

Consequently, the accuracy and propriety of the expenditure of Kshs.1,500,000 cannot be confirmed.

3.2. Unsupported Expenditure

Included under Note 4 to the financial statements is acquisition of assets balance of Kshs.31,112,895 which includes purchase of computers and printers of Kshs.2,353,698 which in turn includes Kshs.1,657,722 for printers and Kshs.202,345 for installation of CCTV whose payment documentation were not availed for audit verification.

Consequently, the propriety of the expenditure of Kshs.1,860,067 cannot be confirmed.

3.3. Construction Works

Included in acquisition of assets balance of Kshs.31,112,895 is expenditure on construction works for – conference halls(Wing A) Kshs.7,400,000, Wing B-ablution block(Wing B) Kshs.4,900,000 and three offices(Wing C) Kshs.4,640,433. However, tender evaluation minutes, contract agreement, bills of quantities, certificates of completion, site meeting minutes and payment vouchers relating to construction of Wings A, B and C of the County Assembly and other minor construction works were not made available for audit review as the documents were said to have been taken by the Ethics and Anti-Corruption Commission. In addition, the project status report was also not provided for audit verification. Physical verification conducted in February 2018, revealed that some crucial works had not been completed.

Consequently, the propriety of the expenditure totaling Kshs.16,940,433 cannot be confirmed.

4. Compensation of Employees

4.1. Unsupported Payments

Compensation of employees reflects Kshs.471,290,158 while the respective payment schedules reflect Kshs.442,244,397 comprised of manual payroll's Kshs.11,344,032; (IPPD) payrolls of Kshs.333,306,564; gratuity contributions Kshs.22,571,892; casual payroll Kshs.5,888,600; and other payment schedules availed Kshs.69,133,309 resulting to an unexplained difference of Kshs.29,045,760.

Consequently, the propriety of the expenditure of Kshs.29,045,760 for the year ended 30 June 2017 cannot be confirmed.

4.2. Sitting Allowances for Members of County Assembly (MCAs)

Included in compensation of employees balance of Kshs.471,290,158 are sitting allowance for MCAs of Kshs.96,331,220. However, the committee registers and a summary of sittings for each member per month were not provided for audit review.

Consequently, the accuracy, validity and propriety of the expenditure of Kshs.96,331,220 for the year ended 30 June 2017 cannot be confirmed.

4.3. Unsupported Material Variance on Basic Wages of Temporary Employees

Included under compensation of employees balance of Kshs.471,290,158 are basic wages of temporary employees of Kshs.34,647,513. However, it was observed that basic wages of temporary employees in the year 2015/16 were Kshs.4,012,803 resulting to an unexplained increase by Kshs.30,634,710 (763%) in the year under review. In addition, the wages were not supported by payroll schedules, muster roll register, bank statements and cash book to account for the balance of Kshs.34,647,513.

Consequently, the accuracy and the propriety of the expenditure of Kshs.34,647,513 for the year ended 30 June 2017 cannot be confirmed.

5. Use of Goods and Services

5.1. Unsupported Utilities Expenses

Included in Use of Goods and Services balance of Kshs.206,663,387 is utilities, supplies and services expenditure of Kshs.9,684,605 which in turn includes utilities expenditure totalling to Kshs.5,347,000 but whose supporting documents were not availed for audit review.

Consequently, the propriety of the expenditure of Kshs.5,347,000 cannot be confirmed.

5.2. Domestic & Foreign Travel

Also included in Use of Goods and Services figure of Kshs.206,663,387 is domestic travel and subsistence expenditure totalling Kshs.40,120,550. However, payment documents for domestic travel expenditure amounting to Kshs.8,554,600 were not provided for audit review.

Consequently, the accuracy and propriety of the domestic travel expenses totalling Kshs.8,554,600 as at 30 June 2017 cannot be confirmed.

5.3. Unauthorized Reallocation of Travel and Salary Payments

Included in the use of goods and services figure of Kshs.206,663,387 is hospitality, supplies and services expenditure of Kshs.24,131,877. However, supporting schedules availed for audit review revealed payments totaling Kshs.8,316,600 related to salary arrears and travelling allowances which were incurred without authority for re-allocation. In addition, payment for salary arrears did not have details of the months or days they related to or authority for payment. .

Consequently, the Assembly breached the law by contravening Section 47(1) e and 2 of the Public Finance Management County Government (PFMCG) Regulation, 2015.

5.4. Unsupported Expenditures

Included in the use of goods and services balance of Kshs.206,663,387 is hospitality supplies and services expenditure of Kshs.5,506,768, training expenses of Kshs.5,718,090, contracted guards expenditure of Kshs.2,924,959 and other operating expenses of Kshs.2,036,100 whose supporting schedules and payment documents were however not availed for audit verification.

Consequently, the accuracy and propriety of the expenditure of Kshs.16,185,917 cannot be confirmed.

5.5. Unsupported Payments Foreign Travel to Mwanza by Members of the County Assembly (MCAs)

Also included in use of goods and services balance of Kshs.206,663,387 is foreign travel and subsistence of Kshs.16,744,266 which in turn includes Kshs.14,448,360 paid to MCAs to attend a strategic leadership and public private partnership workshop from 28 August to 2 September 2016 in Mwanza Tanzania. The workshop was organized by Lake Victoria Region Local Authorities and Counties Co-operation (LVRLACC) in partnership with Uongozi Institute to accelerate implementation of socio economic development and environmental projects in LVRLACC member counties. Payments were made through voucher No.4449 of 06 September 2016 for Kshs.7,772,560 and No.4510 of 7 September 2016 for Kshs.6,675,800 all totalling Kshs.14,448,360. However, the surrender claim vouchers availed for audit review totaled Kshs.13,140,280 resulting to an unexplained difference of Kshs.1,308,080 not accounted for. The details of the environmental projects under implementation in the County and how the workshop accelerated their execution were not provided for audit review.

In addition, approval by the Speaker and attendance register as evidence for participation were not made available and the committees findings were not tabled in the County Assembly.

Consequently, propriety and value-for-money on the expenditure incurred at the workshop and the unaccounted for of the balance of Kshs.1,308,080 cannot be confirmed.

5.6. Unsupported Consultancy Services

Included in the use of goods and services balance of Kshs.206,663,387 are consultancy services of Kshs.6,587,800 which in turn include legal services of Kshs.3,652,979 paid to a local legal firm. However, procurement documents were not made available to show how the firm was identified and awarded the contract to provide the legal services.

Consequently, the propriety of the expenditure of Kshs.3,652,979 cannot be confirmed and the Assembly may not have got value –for- money on this contract.

6. Other Payments

6.1. Unsupported Expenditure-Extra Claim on Mileage

Included in other payments of Kshs.144,589,545 is an expenditure on extra mileage claim of Kshs.4,214,913. However, a register has not been maintained to reflect how the claim was computed and incurred.

Consequently, the propriety of the expenditure of Kshs.4,214,913 cannot be confirmed.

6.2. Legislative Development Services

Included in other payments balance of Kshs.144,598,545 is legislative development services expenditure of Kshs.43,157,800 but supporting documents for expenditure totalling Kshs.6,966,000 were not availed for audit review.

Consequently, the accuracy and propriety of the expenditure of Kshs.6,966,000 for the year ended 30 June 2017 cannot be confirmed.

6.3. Understatements of Fringe Benefits and Withholding Taxes

Included in other payments of Kshs.144,589,545 are fringe benefits and withholding tax expenses of Kshs.17,070,690 which in turn include Kshs.5,278,815 that is not reconciled nor supported with journal entries.

Consequently, the accuracy and the validity of the withholding taxes of Kshs.5,278,815 cannot be confirmed.

6.4. Unsupported Balances in the Financial Statements

Included in other payments balance of Kshs.144,589,545 are staff car loan and mortgages of Kshs.65,170,142 out of which a balance of Kshs.15,170,142 is unsupported expenditure that lacks journal entries and supporting schedules.

Consequently, the propriety of the expenditure of Kshs.15,170,142 for the year ended 30 June 2017 cannot be confirmed.

7. Failure to Remit Pay as You Earn (PAYE) Deductions

Annex 1 to the financial statements reflects an accounts payable balance totaling Kshs.9,710,832. However, the balance does not include Integrated Payroll and Personal Data (IPPD) payroll deduction of Kshs.85,675,274 before deduction of Pay-As-You-Earn (PAYE) payment of Kshs.35,780,774, resulting to unremitted PAYE totalling Kshs.49,894,500 which has not been paid and is not included among the pending bills as at 30 June 2017.

Consequently, the correctness and validity of pending bills balance is in doubt and further, the outstanding Pay-As-You-Earn (PAYE) of Kshs.49,894,500 is likely to attract penalties and interest costs that are nugatory.

8. Unsupported Pending Bills

Included under Note 9.1 to the financial statements are pending bills amounting to Kshs.9,710,832. However, the management y did not avail for audit verification supporting documents namely, tender evaluation minutes, contract agreement, bills of quantities, certificates of completion, site meeting minutes, payment vouchers, invoices and ledger, for pending bills amounting to Kshs.7,912,279 out of the total balance of Kshs.9,710,832. . Consequently, the accuracy and propriety of the pending bills of Kshs.7,912,279 cannot be confirmed.

9. Budget Performance

9.1. Budget Analysis

During the year under review, the approved final budget for the County Assembly was Kshs.955,720,835 with Kshs.935,259,340 (98%) allocated to recurrent expenditure and Kshs.20,461,535 (2%) to development expenditures out of which pending bills (refurbishment of offices and Assembly hall) were allocated Kshs.7,999,573. However, management did not provide documentary evidence to show how the development funds were utilized, and as a result, the propriety of the expenditure cannot be confirmed.

In addition, the approved supplementary budget for the Assembly amounting to Kshs.955,720,835 differs with the financial statements' summary of comparison of budget and actual amounts recurrent and development combined where the final budget figure was Kshs.955,145,660 resulting to understatement of the budget by Kshs.575,275. . As a result, the accuracy of the budget balance reflected in the financial statements cannot be confirmed.

9.2. Development Expenditure

Comparison of budgeted and actual expenditure for the development vote in the year under review is shown below:

Item	Budget Kshs.	Actual Kshs.	Over Expenditure Kshs.	Under Expenditure Kshs.	Performance %
Construction of Wing A- Conference Halls	4,093,867	4,640,433	(546,566)		113
Construction of Wing B- Ablution Block	4,271,584	4,900,000	(628,416)		115
Construction of Wing C- Three offices	4,096,511	7,400,000	(3,303,489)		181

Pending bills (refurbishment of offices and Assembly hall)	7,999,573	0		7,999,573	
Total	20,461,535	16,940,433	4,478,471	7,999,573	83

As the data shows, the Assembly over-spent on three budget items namely Wing A - conference halls, Construction of Wing B- Ablution Block and Construction of Wing C - three offices, without approval.

9.3. Recurrent Expenditure

The comparison of budget to actual expenditure for the recurrent vote is shown below:

Item	Budget Kshs.	Actual Kshs.	Over Expenditure Kshs.	Under Expenditure Kshs.	Level of Absorption %
Basic Salaries of Permanent Employees	126,939,144	122,998,106		3,941,038	97
Basic Wages of Temporary Employees	33,875,080	34,647,513	(772,433)		102
Personal Allowance paid as part of Salary/ Leave Allowance	126,536,308	125,197,490		1,338,818	99
Personal Allowance Paid as Reimbursements	126,313,600	96,331,220		29,982,380	76
Pension And other Social Security Contribution	98,392,629	92,115,829		6,276,800	93
Utilities, Supplies and Services	0	9,684,605	(9,684,605)		
Communication, Supplies and Services	0	3,636,259	(3,636,259)		
Domestic Travel and Subsistence	40,200,000	40,120,550		79,450	100
Foreign Travel	22,125,024	16,744,266		5,380,758	76

and Subsistence					
Training Expenses	18,000,000	17,656,545		343,455	98
Hospitality Supplies and Services	25,200,000	24,131,877		1,068,123	96
Specialized Materials And Supplies	1,500,000	1,264,003		235,997	84
Insurance Costs	11,988,832	3,567,668		8,421,164	30
Public Participation/Report Writing	31,000,000	30,937,825		62,175	100
Other Operating Expenses	3,500,000	2,036,100		1,463,900	58
Medical Scheme	28,000,000	45,684,609	(17,684,609)		163
Consultancy Services (Legal, Research And Policy Services)	7,000,000	6,587,800		412,200	94
Contracted Guards	2,450,000	4,611,280	(2,161,280)		188
Purchase of Computer And Printers	2,500,000	2,353,698		146,302	94
Purchase of Exchange and Other Communication Equipment	2,000,000	1,271,024		728,976	64
Purchase of Vehicles and Other Transport Equipment	5,000,000	4,200,000		800,000	84
Purchase of Office Furniture and General Equipment	3,000,000	3,647,740	(647,740)		122
Purchase of Generator	3,000,000	2,200,000		800,000	73
Purchase of Household Furniture and Equipment	500,000	500,000	0		100
Staff Car Loan/Mortgage(T	112,325,661	50,000,000		62,325,661	45

ransfer To Mortgage Account					
Legislative Development Services	44,538,465	43,157,800		1,380,665	97
Cash Expenses	4,416,000	4,416,000	0		100
Ward Offices Operation Expenses	10,560,000	10,560,000	0		100
Extra Claim On Mileage	4,775,719	4,214,913		560,806	88
Fringe Benefits /Withholding Taxes	23,901,283	11,791,875		12,109,408	49
Financial Management Services	13,721,595	0	(13,721,595)		
Fuel Oil And Lubricants	1,000,000	0	(1,000,000)		
Assets Renewal Costs	500,000	0	(500,000)		
Speaker's Panel	500,000	0	(500,000)		
Total	935,259,340	816,266,595	50,308,521	137,858,076	

Analysis of the Assembly's recurrent budget against the actual expenditure revealed that the Assembly over spent on four budget items namely, basic wages of temporary employees, medical scheme, contracted guards, purchase of office furniture and general equipment without approval. No proper explanation was provided by management for the over-expenditures. In addition, the absorption rate for three budgeted items was below 50% and four budgeted items were nil, hence the Assembly over-budgeted or the correct information for the items were not received. Further, two items were not budgeted for namely; utilities, supplies and services and communication, supplies and services is contrary to Section 41(4) of Public Financial Management County Government Regulation, 2015.

In addition, the approved recurrent vote (supplementary) budget balance of Kshs.935,259,340 differs with the financial statements' comparison of budget and actual amounts final budget figure of Kshs.934,684,125 resulting to understating of the budget figure by Kshs.575,215. The statement of comparison of budget and actual amounts is Kshs.836,715,552 while the analysis figure is 816,266,595 resulting to a difference of Kshs.20,448,957

Consequently, the accuracy of the recurrent budget figure in the financial statements cannot be confirmed.

10. Fixed Assets Register

The Assembly failed to maintain an updated fixed assets register to show fixed assets held in each class and itemized in each location. Note 4 to the financial statements reflects an increase in acquired assets (excluding non-moving assets) of Kshs.14,172,462. However, annex 2 to the financial statements includes the summary of fixed assets register which reflects Kshs.28,319,174 for 2015/2016 and Kshs.31,112,395 or 2016/2017 being equivalent to an increase of Kshs.2,793,721 which however has not been explained. or

Consequently, the accuracy and validity of fixed assets register summary cannot be confirmed and the accountability for the assets may not be guaranteed.

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 ability of the County Assembly to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern accounting assumption.

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.

The 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards of Supreme Audit Institutions (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.

As part of an audit 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 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 Assembly's ability to continue as a going concern. 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.
- 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 of the entity 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

A handwritten signature in black ink, appearing to read 'E. O. Ouko', with three dots below the signature.

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

Nairobi

16 July 2018