

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF HOMA-BAY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements County Assembly of Homa-Bay set out on pages 7 to 31, which comprise the statement of financial assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts: recurrent, development and combined 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Cash and Cash Equivalents

The statement of financial assets and liabilities reflects a cash and cash equivalents balance of Kshs.82,796 for the commercial and recurrent bank accounts. However, the bank statements and bank reconciliation statements for the recurrent account No.1000239379 were not made available for audit review.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.82,796 as at 30 June 2018 could not be confirmed.

2. Statement of Comparison of Budget and Actual Amounts: Development

The statement of comparison of budget and actual amounts: development reflects acquisition of assets figure of Kshs.30,000,000 which differs from the total acquisition of assets figure of Kshs.46,140,431 in the statement of receipts and payments. The variance has not been explained.

Consequently, the accuracy of the statement of comparison of budget and actual amounts: development cannot be confirmed.

3. Inaccuracy of Office and General Supplies Expenditure

3.1 Wrongly Charged Rent and Ward Operations

The statement of receipts and payments reflects an amount of Kshs.288,283,542 under use of goods and services which includes Kshs.7,422,469 as payments on office and general supplies services. However, payments totalling Kshs.2,491,000 relating to rent and ward operations paid in the month of December 2017, January 2018 and March 2018 were charged to office and general supplies.

3.2 Fuel Expenditure Charged on Office and General Supplies

The figure of Kshs.7,422,469 on office and general supplies services also includes payments totalling Kshs.1,517,700 relating to purchase of fuel operations paid between September 2017 and April 2018 which was charged to office and general supplies.

In view of the foregoing, the accuracy and validity of the goods and services of Kshs.288,283,542 could not be ascertained.

4. Wrongly Classified Specialized Materials and Services Expenditure

The statement of receipts and payments reflects Kshs.288,283,542 on use of goods and services which includes Kshs.3,651,180 on specialized materials and services. However, the same payment records as vouchers and cheques were duplicated and posted under printing, advertising and information supply services resulting in double posting.

Consequently, the validity and accuracy of the expenditure of Kshs.3,651,180 cannot be confirmed as correct.

5. Mortgage and Car Loan Scheme Administration Expenses

Included under other payments figure of Kshs.320,116,275 is Kshs.248,131,817 being transfers from the County Assembly to the staff car loan and mortgage scheme. However, during the year under review, payments totalling Kshs.822,000 were charged on the County Assembly's operations as mortgage and car loan committee expenses instead of being charged to the Mortgage and Car Loan Scheme which is a separate fund from the County Assembly Operations..

Consequently, the accuracy of the figure of Ksh.320,116,275 in respect of other payments could not be confirmed.

6. Undisclosed Receipts

The statement of receipts and payments reflects Kshs.1,020,000,000 as receipts in the year under review. However, examination of records held by the County Executive revealed that Kshs.8,000,000 from development vote and Kshs.64,622,400 from recurrent vote was transferred to the County Assembly of Homa-Bay contrary to provisions of Section 154(1) of the Public Finance Management Act, 2012 which prohibits unapproved transfers of

budgeted funds from one County government entity to another. The receipts were not disclosed in the statement of receipts and payments.

In consequence, the accuracy and validity of Kshs.1,020,000,000 receipts as at 30 June 2018 could not be confirmed.

7. Unsupported Expenditure on Acquisition of Assets

The statement of receipts and payments reflects expenditure of Kshs.46,140,431 in respect of acquisition of assets. Included in this expenditure is are amounts in respect of refurbishment of buildings, purchase of office furniture and general equipment, purchase of household furniture and institutional equipment of Kshs.9,954,800, Kshs.3,000,000 and Kshs.8,617,432 respectively all totaling Kshs.21,572,232. However, the supporting documents on these items for expenditures amounting to Kshs.16,353,911 were not made available for audit verification.

Further, the expenditure of Kshs.46,140,431 in respect of acquisition of assets includes expenditure on construction of drainage and sewer system of Kshs.17,890,320. However, tender documents, bill of quantities and payment vouchers were not made available for audit scrutiny.

As a result, the accuracy and validity of the expenditures of Kshs.16,353,911 and Kshs.17,890,320 could not be confirmed.

8. Inaccuracy in Mileage Allowance Expenditure

The statement of receipts and payments reflects an amount of Kshs.320,116,275 under other payments which includes extra claim on mileage allowance of Kshs.5,278,458. However, the monthly payments for extra mileage for 14 eligible MCAs for the period under review totalled Kshs.1,351,700 hence resulting to an unexplained difference of Kshs.3,926,758.

Consequently, the accuracy of the extra mileage allowances of Kshs.5,278,458 cannot be confirmed.

9. County Assembly Service Board Allowances

The statement of receipts and payments reflects an amount of Kshs.320,116,275 under other payments which includes payments relating to the County Assembly Service Board (CASB) expenses of Kshs.7,416,000. The management provided payment vouchers in support of only Kshs.1,216,000 of the expenditure resulting in an unexplained difference of Kshs.6,200,000.

Further, in the month of December 2017, the management paid a total of Kshs.1,216,000 being sitting allowances for 32 sittings for 4 officers covering payments for two months. However, the audit noted that the officers were over paid by a total of Kshs.608,000. In addition income tax was not deducted from the allowances.

Under the circumstances, the accuracy and validity of Kshs.7,416,000 and Kshs.1,216,000 as CASB expenses cannot be confirmed as correct charge to public funds.

10. Unsupported Allowances Expenditure

The statement of receipts and payments reflects an amount of Kshs.366,778,923 under compensation of employees. However, in the month of January 2018, February 2018 and May 2018, the management paid travelling costs, subsistence allowances and sitting allowances to Members of the County Assembly (MCAs) totalling Kshs.71,569,534. However, supporting documents such as schedules, committee registers, training programs and details of the journeys were not provided for audit review. Further, the payment vouchers were not authorized by the accounting officer.

Consequently, the accuracy and validity of Kshs.71,569,534 paid as allowances could not be confirmed.

11. Compensation of Employees

The statement of receipts and payments reflects an amount of Kshs.366,778,923. However, no schedule was made available to support Kshs.117,502,972 paid as personal allowances as part of salary. Further, personal allowances paid in kind and as reimbursements of Kshs.11,587,260 and Kshs.67,896,000 were not supported. Under the circumstances, the validity and accuracy of Kshs.366,778,923 paid as compensation for employees could not be ascertained.

12. Pending Bills

Included under Note 4.10 to the financial statements are pending bills totalling Kshs.31,977,188. However, the management did not avail for audit verification supporting documents such as invoices, inspection and acceptance reports and delivery notes to support the balance of Kshs.31,977,188. Further, the cash and cash equivalents balance of Kshs.82,796 is not enough to pay for the pending bills and the management has not disclosed how it will pay the bills.

Consequently, the accuracy and validity of the pending bills balance of Kshs.31,977,188 could not be confirmed.

13. Routine Maintenance of Vehicles and Equipment

The statement of receipts and payments reflects Kshs.288,283,542 under use of goods and services which includes Kshs.6,054,160 on routine maintenance on vehicles and equipment. However, scrutiny of the ledger/schedule revealed that payments totalling Kshs.824,945 were not related to maintenance of vehicles and equipment.

As a result, the accuracy of the expenditure of Kshs.824,945 cannot be confirmed as correct.

14. Previous Year Matters

As in the previous year, the County Assembly did not indicate the status and follow up of audit issues reported in the previous years (2016/2017) financial statements as required in the reporting template prescribed by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

1. Budget Committees Allowance

On 20 June 2018, three members of the Budget Committee were paid a total of Kshs.910,000. The dates of the meetings were not indicated and how the rate of Kshs.310,000 for one member and Kshs.300,000 for the other two was determined.

Consequently, the validity of the payments of Kshs.910,000 could not be confirmed as

2. Transport Allowances to Members of the County Assembly

Payments totalling to Kshs.3,766,000 were made as transport allowance/refunds for travel expenditure incurred by MCAs in the months of October, November and December 2017. Most of the payments were described as travelling costs to Kisumu. The rates set were not supported by applicable Government transport policy or the County Assembly's transport policy as required.

Consequently, the management was in breach of the law.

3. Cash Purchases

The management engaged in cash purchases for standard goods and services that were readily available in the market contrary to the Public Procurement and Assets Disposal Act, 2015. The purchases were for curtains; Kshs.605,500 and refurbishment of the Clerk's office; Kshs.320,000. In addition, the works at the Clerk's office were not defined. The supporting records revealed that the purchases were financed through imprests issued after deliveries.

Consequently, the validity of the total expenditure of Kshs.925,300 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Conclusion of Internal Controls, Risk Management and Governance section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

1. Poor Book Keeping

The main cash books for the County Assembly were not balanced regularly as required. Other weaknesses involved several entries which were not balanced at the close of the year.

Consequently, the internal control over cash management was not effective.

2. Weak Internal Controls

Poor segregation of duties and lack of an effective risk management policy has resulted in management overriding controls.

3. Governance Frame Work

The Assembly has not established an audit committee contrary to Section 155 of the Public Finance Management Act, 2012 and Section 167(1) of the Public Finance Management (County Government) Regulations 2015 which require each County Government entity to establish an audit committee to oversee governance and promote transparency in the management of the Assembly's resources.

The management is therefore in breach of the law.

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 the management intends to cease operations of the County Assembly, 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.

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

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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. However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk

Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

I am independent of the County Assembly of Homa-Bay 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.



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

Nairobi

18 February 2019