

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF KISUMU FOR THE YEAR ENDED 30 JUNE 2018**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of County Assembly of Kisumu set out on pages 8 to 28, 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 summary statement of appropriation: recurrent and development 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 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of County Assembly of Kisumu as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the Public Finance Management Act, 2012.

### **Basis for Adverse Opinion**

#### **1. Cash and Cash Equivalents**

##### **1.1. Unreconciled and Incomplete Cash Books**

Included in the statement of financial assets and liabilities under bank balance (Note 5A) is a balance of Kshs.19,489. It was observed that the County Assembly of Kisumu cash books had inaccuracies, were poorly maintained and the cash books were not certified by the board of survey at the close of the financial year. Bank statements for the month of July were not availed for audit review.

Consequently, the accuracy, validity and completeness of the bank balance of Kshs.19,489 as at 30 June 2018 could not be confirmed.

##### **1.2 IFMIS Cash Payments**

An examination of payments in IFMIS reflected material payments totalling Kshs.197,473,729 out of the total payments in the statement of receipts and payment of Kshs.600,160,943. However, the purpose of cash payment is not supported and it is also not explained how cash payment of such magnitude can be paid through the counter to the County Assembly of Kisumu and Car & Mortgage Fund in contravention of the Public Finance Management Act, 2012 and County Financial Accounting and Reporting Manual section 6.7 on Petty Cash Management.

Consequently, the regularity of Kshs.197,473,729 expenditure could not be confirmed for the year ended 30 June 2018.

#### **2. Unsupported Use of Goods and Services Expenditure**

##### **2.1. Unaccounted for Ward Operation Funds**

Included in the statement of receipts and payments under use of goods and services expenditure of Kshs.344,633,365 is an amount of Kshs.45,742,285 relating to rentals of produced assets. Audit review of payment vouchers of the component revealed that various Ward offices were advanced a total of Kshs.4,600,000 for the operations and maintenance of their wards. However, the Wards did not account for the funds advanced to them with documentary evidence as to how they were utilized and no approved board minutes were also availed for audit review to confirm that each Ward was to receive Kshs.17,500 as office rent and Kshs.50,000 as office maintenance expenses per month.

Further, included in the schedule of rentals of produced assets was ward salary of Kshs.3,678,227 paid in the month of March 2018 vide cheque numbers 1826 and 1827 but no explanation and or evidence was adduced as to why the Ward salaries could be paid from the component of rentals of produced assets. In addition, a payment voucher of Kshs.4,080,857 paid to Shiloah Investments Limited was not availed for audit review.

Consequently, the propriety and validity of the Kshs.3,745,727, paid towards ward operations, ward salaries and Kshs.4,080,857 to Shiloah Investments could not be confirmed for the year ended 30 June 2018.

## **2.2 Domestic Travelling Claims**

Included in the statement of receipts and payments under use of goods and services expenditure of Kshs.344,633,365 is an amount of Kshs.97,327,280 relating to domestic travel and subsistence allowance. However, an expenditure of Kshs.19,723,700 for domestic travel and subsistence was not fully supported.

In view of the foregoing, the propriety and validity of the Kshs.19,723,700 expenditure could not be confirmed.

## **2.3 Non-Receipt of Specialized Materials and Services Delivered**

Included in the statement of receipts and payments under use of goods and services figure of Kshs.344,633,365 is specialised materials and services of Kshs.5,619,652 which in turn include materials totaling to Kshs.1,898,862 received by the store but not supported by goods received notes or delivery notes to confirm that goods were actually received.

As a result, the propriety and validity of Kshs.1,898,862 for good received could not be confirmed.

## **2.4. Irregular Issuance of Imprests**

Included in the statement of receipts and payments under use of goods and services figure of Kshs.344,633,365 were imprest warrants for the facilitation of Members of the Assembly and members of staff of the County Assembly of Kisumu to participate in the Chairman's Cup in Nakuru, totaling Kshs.425,700 which lacked the imprest holder's signature. It is thus difficult to confirm whether the funds were actually paid out to the payees and how the accounting officers accounted for the funds. Consequently, the propriety of the expenditure of Kshs.425,700 could not be confirmed.

## **2.5 Purchased-Routine Maintenance of Motor Vehicles and Transport Equipment**

The statement of receipts and payments under use of goods and services figure of Kshs.344,633,365, which includes an amount of Kshs.15,622,326 for routine maintenance of Motor Vehicles that in turn includes goods worth Kshs.384,600 procured through cash and similarly unsupported repairs of Kshs.2,680,196 paid to Rallytech Motors Ltd. Further, there was no proof of receipt of these goods into stores.

Consequently, the propriety and validity of the expenditure of Kshs.3,064,796 under use of goods and services for the period ended 30 June 2018 could not be confirmed

## **2.6 Unsupported Legal/Arbitration Fees Payments**

Included in the statement of receipts and payments under use of goods and services figure of Kshs.344,633,365 is other operating expenses of Kshs.40,894,758 which in turn include Kshs.10,145,000 captured in the Integrated Financial Management Information System (IFMIS) as legal fees/arbitration and compensation payments by County Assembly. However, no procurement records such local service orders, quotations, tender opening minutes, contract agreement and tender opening documents were provided for audit review. It is also not explained how payments to Commissioner of Income Tax and County Assembly of Kisumu can be categorized as legal fees and compensations. -review-----Under the circumstances, the propriety of the expenditure of Kshs.10,145,000 under legal fees, arbitration and compensation for the period ended 30 June 2018 could not be ascertained.

## **2.7 Understatement of Government Imprest**

Included in the statement of financial assets and liabilities under account receivables is a figure of Kshs.3,457,838 which includes Kshs.3,214,538 under Government imprests. Examination and compilation of the list of imprests holders from the IFMIS imprest register as at 30 June 2018 revealed that the figure reported was Kshs.3,374,090 instead of Kshs.3,214,538 resulting to understated or unreconciled difference of Kshs.159,552 between the two sets of records.

## **3. Overstatement of Transfers from National Treasury**

Included in the figure for transfers from National Treasury of Kshs.602,524,335 were figures of Kshs.35,121,244 and Kshs.55,000,000 which were actually received in the bank on 3rd and 4th of July 2018 respectively. The figure reported was overstated by Kshs.90,121,244 since the two amounts relate to a different financial year.

Consequently, the accuracy, validity and completeness of the transfers from National Treasury of Kshs.602,524,335 for the year ended 30 June 2018 could not be confirmed.

## **4. Un-surrendered House Hold Items**

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.39,989,889 is purchase of office furniture and general equipment figure of Kshs.15,434,422 which includes, the Assembly's house hold items procured worth

Kshs.4,051,488 for the former speaker rented house but only items worth Kshs.3,171,628 were recorded in the asset register. Further, when the former speaker vacated the office she never surrendered back the items to the Assembly. The Assembly has not explained why they have not recovered the items.

Consequently, the propriety of the expenditure of Kshs.4,051,488 under acquisition of assets for the period ended 30 June 2018 could not be confirmed.

## **5. Compensation of Employees**

### **5.1. Double Sitting Allowance**

Included in the statement of receipts and payments under compensation of employees figure of Kshs.215,537,689 is personal allowance paid as part of salary of Kshs.87,105,887 which in turn includes Assembly payment of Kshs.300,300 as sitting allowance to members for meetings which run concurrently. Although the attendance register showed that the members attended both meetings it is not clear how a member can attend two meetings concurrently.

Consequently, the propriety of the expenditure of Kshs.300,300 under personal allowance paid as part of salary for the year ended 30 June 2018 could not be confirmed.

### **5.2. Extraneous / Honorarium Allowance**

Included in the statement of receipts and payments under compensation of employees figure of Kshs.215,537,689 is personal allowance paid as part of salary of Kshs.87,105,887 out of which the Assembly paid a total of Kshs.6,809,625 to members of County Assembly as honorarium. No evidence was provided to confirm whether honorarium to MCAs had been approved by Salary and Remuneration Commission(SRC). Consequently, the propriety of the honorarium totaling Kshs.6,809,625 for the year ended 30 June 2018 could not be confirmed.

### **5.3 Committee Sitting Allowance**

Included in the statement of receipts and payments under compensation of employees figure of Kshs.215,537,689 is personal allowance paid as part of salary of Kshs.87,105,887 which in turn includes a total of Kshs.7,073,000 paid to members as committee sitting allowance. However, committee minutes were not made available for audit verification and those made available were not signed by the chairman and the secretary of the committee. Consequently, the propriety of the expenditure of Kshs.7,073,000 under personal allowance paid as part of salary for the year ended 30 June 2018 could not be confirmed

### **5.4. Quarter Per Diem Paid to Members of County Assembly**

Included in the statement of receipts and payments under compensation of employees figure of Kshs.215,537,689 is personal allowance paid as part of salary of Kshs.87,105,887 which in turn include amount to paid members of County Assembly of Kshs.531,400 as quarter per diem when they were on official duty during the vetting of the audit committee members. The Assembly has not availed any document authorizing

payment of the quarter per diem to members of County Assembly. Consequently, the propriety of the expenditure of Kshs.531,400 under personal allowance paid as quarter per diem for the year ended 30 June 2018 could not be confirmed

## **6. Use of Goods and Services**

### **6.1 Unreconciled Differences of Domestic Travel and Subsistence Balance**

Included in the statement of receipts and payments under use of goods and services figure of Kshs.344,633,365 is domestic travel and subsistence amount of Kshs.97,327,280. However, examination of a schedule availed showed a balance of Kshs.101,303,723 while the statement of receipts and payments disclosed figure of Kshs.97,327,280 thus leading to unreconciled or unexplained difference of Kshs.3,976,443.

Under the circumstances, the validity and accuracy of the expenditure of Kshs.97,327,280 under domestic travel and subsistence allowance for the year ended 30 June 2018 could not be confirmed.

### **6.2 Lack of Journal Entries**

Financial statements for the year ended 30 June 2018 submitted for audit on 1 October 2018 reflected a personal allowances paid as part of salary of Kshs.57,963,392, while the amended financial statements submitted on 14 December 2018 reflects an amount of Kshs.87,105,887 under the same head. No journal entries for the difference of Kshs.29,142,495 was provided. Consequently, the accuracy of the financial statements could not be confirmed

### **6.3 Unsupported Legal Fees**

Included in the statement of receipts and payments under use of goods and services figure of Kshs.344,633,365 is other operating expenses of Kshs.40,894,758 which in turn include a payment voucher in favor of Okong'o Wandago Advocates for Kshs.500,000 that was wrongly classified and unsupported under specialized materials and services

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Kisumu 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 adverse opinion.

## **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters discussed in the Basis for Adverse Opinion section, I have determined that there are no other key audit matters to communicate in my report.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY**

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*Report of the Auditor-General on the Financial Statements of County Assembly of Kisumu for the Year Ended 30 June 2018*

## **Conclusion**

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective

## **Basis for Conclusion**

### **1. Contractors not in the List of Pre-Qualified Firms**

#### **1.1 Hospitality Supplies**

Included in the statement of receipts and payments under use of goods and services figure of Kshs.344,633,365 is hospitality supplies and services figure of Kshs.11,465,725 which in turn include payment to Center Cafeteria service provider total amount of Kshs.2,124,794 despite not being in the list of pre-qualified suppliers, and also no supporting documents such as tender minutes from the board were provided to justify the payments. Consequently, the management breached the law.

#### **1.2. Insurance Costs**

Included in the statement of receipts and payments under use of goods and services figure of Kshs.344,633,365 was insurance cost of Kshs.32,574,301 out of which Kshs.2,124,794. was paid to an Insurance Agency for motor vehicle insurance cover. The agency was not in the list of pre-qualified suppliers, and no supporting documents such as tender minutes, advertisement, tender opening register to justify the transactions. Consequently, the propriety of the expenditure of Kshs.2,124,794 under insurance cost for the period ended 30 June 2018 could not be confirmed

#### **1.3. Others Suppliers**

Included in the statement of receipts and payments under use of goods and services figure of Kshs.344,633,365 are other tenders awarded totalling Kshs.26,495,790 to companies which were not listed among the prequalified suppliers:

- i. Contract No. CGK/CA/EDB/15-16/001 of Kshs4,996,120 (renovation of education block at the county assembly)
- ii. Contract No. CGK/CA/FLT/15-16/002 of Kshs.1,601,670 (construction of 3 door disability friendly toilet)
- iii. Contract no. CAK/OT/2015/2016/02 of Kshs19,898,000

The management breached the law.

### **2. Budget as a Control Tool**

#### **2.1 Compensation of Employees – Basic Salary**

Included in the statement of receipts and payments is compensation of employees figure of Kshs.215,537,689. However, the assembly budget for basic salary of permanent

employees in the financial year under review was Kshs.112,656,772 while the actual expenditure reflected in the financial statement was Kshs.136,129,516 leading to over expenditure of Kshs.23,848,353. The management breached the law.

## **2.2. Compensation of Employees – Personal Allowances**

Included in the statement of receipts and payments under compensation of employees figure of Kshs.215,537,689. However, the assembly budgeted for personal allowances paid as part of salary for the year under review Kshs.43,376,438 while the actual expenditure is Kshs.57,963,392 leading to an explained variance of Kshs.14,586,954. The management breached the law.

## **2.3. Foreign Travel and Subsistence Allowance**

Included in the statement of receipts and payments under use of goods and services figure of Kshs.344,633,365 is an amount of Kshs.38,627,501 relating to foreign travel and subsistence allowance. However, management had budgeted to spend in the vote of foreign travel and subsistence allowance of Kshs.23,105,200 but ended up spending Kshs.38,627,501 which was Kshs.15,522,080 over and above the approved budgeted amount. No supplementary budget or authority for virement was provided to cover the over expenditure. Consequently, the propriety and validity of the Kshs.15,522,080 could not be confirmed.

## **3. Failure to Recover Imprests**

Included in the statement of financial assets and liabilities under account receivables is imprest figure of Kshs.3,214,538 out of which Kshs.466,800 had been surrendered at the time of the audit on 26 October 2018. Therefore, a balance of Kshs.2,747,738 was still outstanding and no recovery had been made almost 4 months after the closure of the financial year. In the circumstances, the accuracy and recoverability of the outstanding imprest could not be ascertained.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS**

### **Conclusion**

As required by Section 7 (1) (a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

## **Basis for Conclusion**

### **1. Members Sitting Allowance**

The statement of receipts and payments under compensation of employees reflects a figure of Kshs.215,537,689. However, members sitting allowance for the month of July 2017 totaling to Kshs.1,409,200 has not been supported by attendance register and Committee minutes therefore the propriety of the expenditure cannot be confirmed.

### **2. Fixed Asset Register**

Included in the statement of receipts and payments is acquisition of assets figure of Kshs.9,989,889 which includes purchased assets worth Kshs.39,406,767, which were not recorded in the fixed asset register. The County Assembly does not maintain an updated assets register.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **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.

In preparing the financial statements, management is responsible for assessing the County Assembly of Kisumu ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the County Assembly of Kisumu or 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.

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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the County Assembly of Kisumu 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**

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 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.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems 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. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the County Assembly of Kisumu policies and procedures may deteriorate.

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.
- 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 of Kisumu ability to continue as a going concern or 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 of Kisumu to cease to continue as a going concern or to sustain its 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 of Kisumu 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**

**18 February 2019**