

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Kitui 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 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. 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 paragraph, the financial statements present fairly, in all material respects, the financial position of the County Assembly as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the County Government Act, 2012.

In addition, as required by Article 229(6) of the Constitution, except for the specific matters described in the Basis for Qualified Opinion and Other Matter sections 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

1.0 Accuracy and Completeness of the Financial Statements

The statement of financial assets and liabilities as at 30 June 2017 reflects a cash and cash equivalents balance of Kshs.25,287,067 which differs with the surplus of Ksh.31,549,579 reflected in the statement of receipts and payments by an unexplained variance of Kshs.6,262,513.

Further, the IFMIS ledger reflects total expenditure of Kshs.696,397,070 while the statement of receipts and payments for the year under review reflects an expenditure of Kshs.750,200,187 resulting to an unexplained variance of Kshs.53,803,118.

In the circumstances, the accuracy and completeness of the financial statement balances as at 30 June 2017 cannot be confirmed.

2.0 Ward Operating Expenses

The financial statements for the year under review indicate Use of Goods and Services balance of Kshs.288,452,987 which includes Other Operating Expenses balance of Kshs.37,583,458. Included in the later balance are ward operating expenses of Kshs.30,732,000 paid at Kshs.60,000 per month per ward. The initial monthly allocation to the wards was Kshs.15,000 which gradually increased to Kshs.25,000, then Kshs.40,000 and finally to the sum of Kshs.60,000 payable as at 30 June 2017. However, no documents or explanations have been made available by management to explain the increased monthly allocations.

Further, the County Assembly did not pass regulations for the management of the ward operations fund. In the absence of a regulatory framework the operations of the fund are irregular and prone to abuse.

An analysis of the major expenditures incurred in the wards in the year under review revealed that they related to hire of tents, chairs, public address systems, and purchase of milk, bread, beverages and newspapers. However, the cost of each of these items was found to be constant for each ward over the year which cast doubt as to the validity of the expenditures

In addition, the delivery receipts supporting the expenditures reflected consecutive serial numbers which raised doubt on the authenticity of the payments.

In the circumstances, the propriety and value-for-money of the expenditure of Kshs.30,732,000 as at 30 June 2017 cannot be confirmed.

3.0 Renovation of County Assembly Chambers

The County Assembly of Kitui on 4 May 2015 contracted Centurion Engineers and Builders Ltd to renovate the County Assembly Chambers at a contract sum of Kshs.247,827,105 executable over a contract period of 281 days commencing 23 May 2015 to 27 February 2016. The County Assembly Public Service Board approved an extension of the contract period to 3 December 2016. However, as at 30 June 2017, the project had not been completed, meaning the contract period had been exceeded by over seven(7) months without any approval for an additional extension.

Further, certificates numbers 1-8 (eight certificates) totaling to Kshs234,145,075 were certified by the consultant, out of which those valued at Kshs.186,602,678 were paid to the contractor leaving an unpaid balance of Kshs.39,026,742. Included in the outstanding payments in certificate No. 8 was Kshs.3,652,255 and Kshs16,497,000 both totaling Kshs.20,149,255 paid in respect of interest charges and losses due to stoppage of works respectively.. Management did not explain why the County Assembly delayed payments to the contractor resulting to the interest charges and the reason for the stoppage of work that resulted to the claim on related losses.

In the circumstances, the expenditure totaling Kshs.20,149,255 may have been avoided to prevent waste of public funds.

4.0 Irregularities in Domestic Travel and Subsistence Allowances

Note 5 to the financial statements reflects a balance of Kshs.128,335,538 in respect of domestic travel and subsistence as at 30 June 2017. Included in this amount were domestic travel and accommodation allowances totaling to Kshs.17,206,692 paid to Members of the County Assembly (MCAs) for official duties to various towns including Mombasa, Nairobi, Kilifi and Kwale. However, no supporting documents including work tickets, bus tickets, attendance registers, and imprest warrants were made available for audit verification. Further, the amounts were expensed without being accounted for through the imprest system as provided for in government financial regulations.

In addition, the County Assembly paid a total of Kshs.4,404,000 as transport allowances at a rate of Kshs.20,000 for Mombasa and Kshs.10,000 for Nairobi per member. However, no documents were provided to confirm the validity of the expenditure.

Under the circumstances, the propriety of the accommodation allowance and transport allowance both totaling to Kshs.21,610,692 cannot be confirmed.

5.0 Unsupported Payments to the County Assembly Forum

During the year under review, the County Assembly paid Kshs.2,700,000 to the County Assemblies Forum being subscriptions for the members of County Assembly for the year 2016/2017. However, no acknowledgement receipts for the payments made and evidence of attendance of the forum by the members of the County Assembly were availed for audit verification.

Consequently, the propriety of the Kshs.2,700,000 expenditure incurred on the subscriptions cannot be confirmed.

6.0 Human Resource Management

6.1 Staff Establishment

The County Assembly of Kitui Integrated Personnel and Payments Database (IPPD) for the Month of June 2017 reflected a total staff strength of 148. However, the County Assembly did not have an approved staff establishment that would show the positions of employment in the Assembly, the numbers filled and under or over establishments, if any, and plans to address these. In view of these discrepancies, it was not possible to ascertain how the 148 staff were held accountable for their jobs and whether the staffing was optimal.

6.2 Ward Office Holders

During the year under review, the County Assembly paid Kshs.31,670,108 as salaries to various ward office holders who included ward assistants, personal assistants, and messengers with each of the 40 wards having one staff member in each of these categories of office holders. Further, each of the 14 nominated members of the County Assembly had a personal assistant and a messenger without operating offices. Included in the of Kshs.31,670,108 expenditure was Kshs.3,024,000 (Kshs.18,000X14 X 12 Months) paid to the messengers appointed to serve the 14 nominated members of County Assembly. However, the recruitment of these officers, could not be confirmed due to lack of recruitment documents including advertisement, shortlisting, and interview records which situation therefore cast doubt on the regularity of the recruitment process.

Further, the salaries paid to these employees could not be confirmed to have been appropriately approved as no Salaries Remuneration Commission circular or advice was made available to support the payments.

In the circumstances, it has not been possible to confirm that the salaries totaling Kshs.31,670,108 paid to the ward officers were regular.[BNK1]

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

Other Matter

1.0 Budget and Budgetary Control

1.1 Over-expenditure

During the year under review, actual expenditure on six (6) items with an aggregate budget of Kshs.11,731,100 totaled Kshs.13,614,447 resulting to an over-expenditure of Kshs.1,883,347 as follows:

Component	Current year final budget figures Kshs.	Actual expenditure figures Kshs.	Variances Kshs	% Budget absorption
Maintenance of Office Furniture and Equipment	150,000	276,952	(126,952)	185
Membership Fees, Dues and Subscriptions to Professional and Trade Bodies	3,300,000	4,868,386	(1,568,386)	148
Building Insurance	100,000	124,318	(24,318)	124
Electricity	400,000	424,509	(24,509)	106
Hire of Training Facilities and Equipment	1,363,100	1,396,200	(33,100)	102
Telephone, Telex, Facsimile and Mobile Phone Services	6,418,000	6,524,082	(106,082)	102
	11,731,100	13,614,447	(1,883,347)	

No supplementary budget covering the over expenditure was provided for audit review.

In the circumstances, the County Assembly did not contain its expenditure within the approved budget contrary to the Section 53 of the Public Finance Management (County Government) Regulations, 2015.

1.2 Unutilized Funds

The combined statement of comparison of budget and actual amounts for the year under review reflected payments totaling to Kshs.750,200,187 as at 30 June 2017 against budgeted expenditure of Kshs.914,512,167 resulting into an under-expenditure of Kshs.164,311,980 representing 18% of the total budget. Further, the combined statement of comparison of budget and actual amounts reflected budgeted receipts of Kshs.914,572,167 and actual receipts of Kshs.781,749,766 resulting to a revenue shortfall of Kshs.132,762,401. In addition, out of the Kshs.781,749,766 received during the year, only Kshs.750,200,187 was spent resulting into an under-expenditure of Kshs.31,549,579.

As a result, the residents of Kitui County did not obtain expected services equivalent to the revenue shortfall and under-expenditure of Kshs.132,762,401 and Kshs.31,549,579 respectively both totaling to Kshs.164,311,980 during the year under review.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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 assumption and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Assembly’s ability to continue offering services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor’s report to the related disclosures in the consolidated/ financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Assembly to cease to continue offering services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the County Assembly to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the financial statements.

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.



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

Nairobi

16 July 2018

