

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse 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 2018, 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 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, in all material respects, the financial position of the County Assembly of Kitui 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 and the County Government Act, 2012.

Basis for Adverse Opinion

1. Accuracy of the Financial statements

1.1 Variances between Integrated Financial Management Information System (IFMIS) Vote Book Balances and Financial Statements

The statement of receipts and payments reflected a total payment of Kshs.810,128,635 for the year under review while the respective IFMIS vote book balances reflects an expenditure of Kshs.725,568,641 resulting to an explained variance of Kshs.84,559,994.

In the circumstances, it was not possible to ascertain the accuracy of the Kshs.810,128,635 payments reflected in the receipts and payments for the year ended 30 June 2018.

1.2 Cash and Cash Equivalents

The statement of financial assets and liabilities reflected cash and cash equivalents of Kshs.910,368 as at 30 June 2018. However, the statement of cash flows reflected a cash and cash equivalents of Kshs.27,897,435 resulting to unexplained variance of Kshs.26,987,067.

In the circumstances, the accuracy and completeness of the reported cash and cash equivalents reflected in the statement of cash flows of Kshs.27,897,435 could not be confirmed as at 30 June 2018.

1.3 Fund Balance Brought Forward

The statement of the financial assets and liabilities for the year under review reflected a nil balance of a fund balance brought forward. However, the audited 2016-2017 financial statements reflected a net financial position of Kshs.26,987,067 resulting to understatement of the net financial position for the year under review by Kshs.26,987,067. The resultant difference has not been explained or reconciled. In the circumstances, the accuracy and completeness of the statement of financial assets and liabilities as at 30 June, 2018 could not be confirmed.

2.0 Use of Goods and Services

2.1 Ward Operation Expenses

Note 5 of the notes to the financial statements reflected a use of goods and services expenditure of Kshs.322,172,555 as at 30 June 2018 which included other operating expenses balance of Kshs.41,607,277. However, included in this balance is Kshs.29,840,000 paid as ward operation expenses to forty (40) legislative wards in the County translating to Kshs.746,000 per ward. The initial monthly allocation to wards was Kshs.15,000 which gradually increased to Kshs.25,000, Kshs.40,000, Kshs.60,000 and finally to Kshs.100,000. However, no documentary evidence or explanations were made available by management to explain the unjustifiable increased in monthly allocation to wards.

Further, an analysis of the major monthly expenditures incurred in six sampled wards revealed that most of the expenditure related to hire of tents, chairs, public address systems and purchase milk, beverage and newspapers as shown;

Items	Total (Kshs)
PA System	203,750
Refreshments	746,565
Tent and chairs	885,280
Transport and accommodation	381,010

However, items like tents, chairs and public address system could have been economical if they were procured rather than hiring them every month.

Further, the delivery receipts supporting the surrender of 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 Kshs.29,840,000 ward operations expenditure as at 30 June 2018 could not be ascertained.

2.2 Doubtful Expenditure on Foreign Travel

Note 5 of the notes to the financial statements reflected a use of goods and services balance of Kshs. 322,172,555 as at 30 June 2018 which included Kshs. 27,841,641 spent on foreign travel and subsistence. However, included in this amount is Kshs.20,850,316 spent on foreign travel by MCAs to various countries including Italy, Israel, Sweden, Dubai and Malaysia for various training as indicated below.

Destination	No.of participants	Period	Details	Amount (Kshs)
Italy	7	24 June-1 July 2018	Study visit to International Training centre of the ILO(IRCILO) on operations and to explore areas of cooperation	2,834,685
Israel	4	8 - 14 MAY 2018	Attend conference on Agriculture Technology	3,890,285
Sweden	7	11-17 June 2018	Health care studies	2,571,840
Malaysia (Singapore)	7	8 - 16 June 2018	To attend conference on Best practices in public investment and Accounting	3,571,986
Dubai	7	22 - 29 June 2018	Public budgeting and fiscal management	4,501,595
Dubai	7	23 – 30 June 2018	Conference on public expenditure management and financial accountability	3,479,925
Grand total				20,850,316

However, no documentary evidences on how the institutions were identified and vetted, training needs assessment, back to office reports and any economical reason of not conducting the same trainings in the readily available institutions in Kenya were availed for audit review.

Further, there was no evidence availed for audit review that one of the MCAs traveled to Dubai. The member was paid Kshs. 416,455.

In the circumstances, the propriety and value for money of Kshs.20,850,316 expenditures as at 30 June 2018 could not be confirmed.

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 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. There were no Key Audit Matters to report in the year under review.

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts - recurrent and development combined reflects approved final expenditure budget of Kshs. 989,769,598 and actual expenditure of Kshs. 810,128,635 resulting to under absorption of Kshs.179,640,963 or 18%. Further, the statement of comparison of budget and actual amounts reflects approved final budgeted receipts of Kshs. 989,769,598 and actual receipts of Kshs. 811,039,003 resulting to an exchequer of Kshs. 178,730,595 or 18% not received as at 30 June 2018 as detailed below:

Item	Budget (Kshs)	Actual (Kshs)	Under (Kshs)	% Under/over
Receipts analysis				
Exchequer Release	989,769,598	811,034,003	178,730,595	18
Other Receipts		5,000		
Total	989,769,598	811,039,003	178,730,595	18
Expenditure Analysis				
Compensation of employees	341,704,501	303,361,903	38,342,598	11
Use of goods and services	350,860,340	322,172,555	28,687,785	8
Social security Benefits	5,000,000	1,415,936	3,584,064	72
Acquisition of Assets	196,304,757	183,162,276	13,142,481	7
Finance costs	100,000	15,965	84,035	84
Other payments	95,800,000	0	95,800,000	100
TOTAL	989,769,598	810,128,635	179,640,963	18

The under absorption of Kshs. 179,640,963 or 18%, especially on other payments, social security benefits and compensation of employees may have negatively impacted on goods and service delivery by the County Assembly of Kitui. As a result, there is need for the County Assembly to evaluate its budget making mechanism with a view of allocating resources to priority areas for higher positive impact and utilization of the budget.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

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/Adverse Opinion section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Compensation of Employees

1.1 Un authorized Overpayment of Committee Sitting Allowances

Note 4 of the notes to the financial statements for the year under review reflected a compensation of employees' balance of Kshs.303,361,903 which included Kshs.18,552,432 being personal allowances paid as part of salary. However, included in this amount was Kshs. 1,284,100 paid to Members of the County Assembly (MCAs) in respect of committee sittings which were based on the Salaries and Remuneration Commission circular number SRC/TS/CGOVT/3/16 of 27 November 2013 which provided payment of Kshs.6,500 and Kshs.3,900 for Chairman and members respectively. However, this was against the revised payable sitting allowances for the committee sittings as per the Kenya gazette notice number 6518 which set the rates at Kshs. 5,000 and Kshs.3,000 for the chairman and members respectively.

Had the allowances been paid using the rates in the current circular, a total of Kshs.1,105,300 would have been paid instead of the Kshs. 1,284,100. The MCAs' were therefore overpaid by Kshs 178,800.

Consequently, the Kshs. 178,800 sitting allowance expenditure as at 30 June 2018 was irregular and not a proper charge to public funds.

1.2 Irregular Payment of Plenary Sitting Allowances

Note 4 of the notes to the financial statements reflected an expenditure of Kshs.303,361,903 which included Kshs. 18,552,432 spent on personal allowances paid as part of salary. However, included in this amount was Kshs. 7,038,200 paid to MCAs in relation to plenary sittings during the year under review which was contrary to the Kenya Gazette notice number 6518 which abolished plenary sitting allowances.

In the circumstance, the County Assembly was in breach of the law and the expenditure of Kshs. 7,038,200 remained irregular and not a proper charge to public funds as at 30 June 2018.

2.0 Non-compliance with Public Sector Accounting Standards Board Guidelines

The Public Sector Accounting Standards Board revised template of June 2018, requires the Chief Finance Officer(CFO), to sign and indicate their ICPAK membership number in the financial statements. However, during the year under review, the Principal Finance Officer's ICPAK membership number was not included in all the signed financial statements. Therefore, the CFO has contravened the law.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the review so as to obtain limited assurance

as to 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.

A review is limited primarily to analytical procedures and to inquiries, which is consistent with the more limited work I have performed under this compliance review.

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, RISK MANAGEMENT AND GOVERNANCE

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/Adverse Opinion 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. Ineffectiveness of Audit Committee

The County Assembly of Kitui appointed an audit committee of three (3) members on 4 January, 2017. However, there was no evidence availed for audit review that the audit committee convened a meeting since it was constituted contrary to Regulation 168 and 172(1) of Public Finance Management (County Governments) Regulation 2015 which stipulate the function of the audit committee and the frequency of committee meetings respectively.

As a result, it was not possible to ascertain the assurance of risks, control and governance in the County Assembly's operation for the year ended 30 June 2018.

1. Independence and Effectiveness of Internal Audit Department

Review of the organization's governance structure revealed that internal audit was not fully independent in the absence of an audit committee where the department should be functionally reporting. During the year under review, the audit department was both reporting functionally and administratively to the accounting officer. This was contrary to regulation 155(1) of Public Finance Management (County Governments) Regulations 2015 which requires head of internal audit to functionally report to audit committee and administratively to accounting officer

In the circumstances, the independence of internal audit unit could not be confirmed as at 30 June, 2018.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 1315. The standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance was maintained in all material respects.

The matters reported are limited to the deficiencies identified during the audit that I have concluded are material to be reported.

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 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 and for its assessment of the effectiveness of internal control.

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 liquidate the County Assembly's 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 in line with article 229 (6) of the Constitution of Kenya, 2010.

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 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 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.

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 Kitui's policies and procedures may deteriorate.

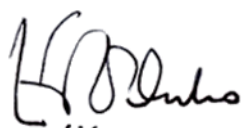
As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 Institute'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 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 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 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

21 December 2018