

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

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of County Assembly of Migori set out on pages 1 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 statements 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. Statement of Cash Flows

The initial statement of cash flows submitted for audit reflected cash and cash equivalents at the beginning of the year of Kshs.462,367 which differed with the closing balance of Kshs.479,552 for the year 2016/2017 leading to unreconciled and unsupported negative balance of Kshs.17,185.

2. Receipts

The statement of receipts and payments for the year ended 30 June 2018 reflects total receipts of Kshs.736,000,000. However, the records provided for audit revealed that an amount of Kshs.30,000,000 was received on 4 July 2018 (In 2018/2019 financial year) yet it was included in the exchequer receipts for the year 2017/2018. This is contrary to IPSAS cash basis of accounting which recognizes income as and when cash is received.

Under the circumstances, the exchequer receipts of Kshs.736,000,000 are not fairly stated in the financial statements for the year ended 30 June, 2018.

3. Compensation of Employees

3.1. Unsupported Allowances

Included in compensation of employees figure of Kshs.361,090,880 is an amount of Kshs.26,803,299 relating to payment of allowances to staff and members for official activities. The management did not provide for audit examination payment vouchers,

schedules duly signed by the beneficiaries, invitation letters, bus/work tickets as a proof of travel, attendance register as evidence of actual participation and report from the activities. Consequently, the validity and propriety of the expenditure could not be confirmed.

3.2. Special Sitting Allowance

The County Assembly paid special sitting allowances amounting to Kshs.650,000 on 2 March, 2018 and Kshs.570,000 on 18 March, 2018 to Members of County Assembly(MCAs) during a special sitting. The Members were paid at a special rate of Kshs.10,000 each during the special sittings contrary to SCR Circular Ref. No .SRC/TS/CGOVT/3/ on sitting allowances for members. Consequently, the validity of the payment totalling Kshs.1,220,000 could not be confirmed.

3.3. Unsupported Committee Allowances

The Assembly paid its members several allowances on various dates amounting to Kshs.16,097,325. However, the management did not provide supporting documents including attendance registers and documentary evidence on how the allowances were computed. The propriety and validity of the expenditure could therefore not be confirmed.

4. Use of Goods and Services

The financial statements reflects an expenditure of Kshs.312,930,971 on use of goods and services which differs with the total amount of Kshs.309,970,791 disclosed in Note 3 to the financial statements under use of goods and services for the year ended 30 June 2018. The resultant difference of Kshs.1,508,450 has not been reconciled or explained.

4.1 Domestic Travel and Subsistence

Included in the use of good and services figure of Kshs.312,930,971 are payments amounting to Kshs.18,555,200 relating to domestic travel, accommodation and subsistence allowances. The payments were not supported by evidence of travel in form of work/bus tickets, attendance registers, minutes of meetings attended, work plan, work programs and reports. Consequently, the validity and propriety of the expenditure could not be confirmed.

4.2. Taxi and Air Tickets Services

Included also in the use of goods and services figure of Kshs.312,930,971 are payments of Kshs.7,550,280 for taxi and air ticketing services to various vendors. However, the payments were not supported by contract agreements, local service

orders and completed quotations by prequalified suppliers. As a result, the validity and propriety of the expenditure could not be ascertained.

4.3. Foreign Travel

As disclosed in Note 3 to the financial statements, the Assembly spent an amount of Kshs.9,607,500 on foreign travel and subsistence during the year under review.

4.3.1. Foreign Travel to Mwanza, Tanzania

The Assembly paid an amount of Kshs.6,403,800 to facilitate various members of staff and MCAs to attend a budget committee meeting at Hotel Kingdom, in Mwanza, Tanzania. The County Assembly paid allowances to forty-four persons but the attendance register indicated that, only thirty attended on 20 and 21 December 2017 and twenty-four attended on 22 December 2017. The fourteen individuals who did not attend the meeting and who therefore did not sign the attendance register had received an amount of Kshs.2,239,800. Further, the travel documents for entry and exit at the border control point for Kenya and Tanzania were not provided for audit review. As a result, the validity and propriety of the expenditure could not be ascertained.

4.3.2. Foreign Travel to Mukono, Uganda

The Assembly paid an amount of Kshs.1,685,100 to facilitate members to attend Lake Victoria Region Local Authorities and Counties Cooperation (LVRLACC) Annual General Assembly, which was to be held from 25 April 2018 to 27 April 2018 in Colline Hotel, Mukono, Uganda. Travel documents for the delegates for entry and exit at the border control point of Kenya and Uganda were not provided for audit review. Consequently, the validity and propriety of the expenditure could not be confirmed.

4.3.3. Foreign Travel to Entebbe, Uganda

The County Assembly paid an amount of Kshs.1,224,400 in respect of allowances to members to attend Lake Victoria Region Local Authorities and Counties Cooperation for EXCOM & Standing Committee meeting on 12 December 2017 to 13 December 2017 in Entebbe. The payments schedule indicates that an officer signed to have collected Kshs.146,000 and Kshs.142,800 on behalf of two MCAs, respectively. No evidence was provided for the authority to collect the money and whether the two actually attended the meeting. Further, travel documents for entry and exit at the border control point of Kenya and Uganda were not provided for audit review. As a result, the validity and propriety of the expenditure could not be ascertained.

4.3.4. Foreign Travel to Israel

The County Assembly paid a Member of County Assembly an amount of Kshs.300,000 in respect of outstanding allowance arrears for a foreign travel to Israel. No evidence was provided for the travel to Israel. Consequently, the validity and propriety of the expenditure could not be confirmed.

4.4. General Office Supplies

Disclosed in Note 3 to the financial statements are general operating services expenses totalling Kshs.10,903,555, which includes an amount of Kshs.6,677,415 in respect of general office supplies. The following observations were made with regard to the expenditure:

- i. The management did not provide quotations that were raised from list of prequalified suppliers.
- ii. Stores ledgers/register indicating that general office supplies items procured were received and taken on charge for controlled issuance were not provided for audit examination.
- iii. Some payments documents did not include evidence that the inspection and acceptance committee verified the supplies to confirm that they met specifications.
- iv. Cases of cash sales receipts attached in support of expenditure without Local Purchase/Service Orders.

Consequently, the validity and propriety of the expenditure of Kshs.6,677,415 could not be confirmed.

4.5. Sanitary and Cleaning Materials

Included in general operating services expenditure of Kshs.10,903,555 are payments totalling Kshs.3,634,640 relating to sanitary and cleaning materials which in turn includes an amount of Kshs.2,202,340 which was not supported with local purchase orders, contract agreements used in requesting for supplies, delivery notes used in receiving the materials and stores ledger/register used in taking the materials on charge for controlled issuance. Further, the ledger/register indicating how the materials were utilized were not maintained by user departments while sanitary and cleaning materials were paid for in cash.

Consequently, the validity and propriety of the expenditure could not be confirmed.

4.6. Advertisement Publicity and Awareness

Included in the use of goods and services figure of Kshs.312,930,971 is an expenditure of Kshs.7,607,618 under communication supplies and services which in

turn includes Kshs.6,707,618 in respect of payments for advertisement, publicity and awareness. The payments for publicity and awareness totalling Kshs.3,750,620 were not supported by any documentary evidence of the specific activities that were undertaken and how the services were sourced. The validity and propriety of the expenditure of Kshs.3,750,620 could not therefore be confirmed.

4.7. Rent and Rates

Included in use of goods and services expenditure of Kshs.312,930,971 are payments totalling Kshs.57,196,569 in respect of rent and rates for the ward offices. Management did not provide ward expenditure returns for the months of July 2017 to September 2017, tenancy agreements for ward offices' rent, invoices for payments of goods and services and contract letters for temporary employees. Further rent and rates figure was under casted by Kshs.3,080,000 hence an understatement of the rent and rates in the financial statements. Consequently, the validity, propriety and accuracy of the expenditure could not be confirmed.

4.8. Insurance Costs

Included in the use of goods and services figure of Kshs.312,930,971 is an amount of Kshs.33,076,250 relating to insurance costs, which in turn includes Kshs.28,961,827 paid to an Insurance company for provision of medical insurance against a budget of Kshs.23,000,000.

Tender evaluation report for the medical insurance provided for audit review revealed that the insurance company was awarded the contract for the provision of medical insurance at a cost of Kshs.32,228,498 which differs with policy document for the comprehensive medical insurance with a quoted amount of Kshs.25,158,667.

In addition, an amount of Kshs.3,094,423 had been paid against a budget of Kshs.9,325,000 for the group life insurance policy. The payment vouchers were not supported with the relevant policy documents.

Consequently, the propriety and accuracy of the expenditure could be confirmed.

4.9. Hospitality, Supplies and Services

Included in the hospitality supplies and services expenditure of Kshs.29,386,630 disclosed under note to the financial statements are payments totalling Kshs.22,313,420 for which payments vouchers and supporting documentary evidence were not provided for audit review. Consequently, the validity and propriety of the expenditure could not be confirmed.

4.10. Computers, Printers & Accessories

Included in use of goods and services figure of Kshs.312,930,971 is an amount of Kshs.6,259,601.95 under computers, printers & accessories, which in turn includes

Kshs.1,203,210 for goods supplied but not received and recorded in the stores records. As a result, the propriety and accuracy of the expenditure could not be confirmed.

4.11. Supply of Uniform and Clothing Materials

The Assembly during the year under review paid a supplier an amount of Kshs.550,000 for the supply of uniform and clothing materials. However, local purchase order dated 6 April 2018 reflected Kshs.400,000 resulting to an overpayment Kshs.150,000. No explanation was provided for the over-payment. Consequently, the validity of the over- payment could not be confirmed.

5. Other Payments

As disclosed under Note 6 to the financial statements are other payments totalling Kshs.44,836,473, which in turn includes pending bills amounting Kshs.31,207,363 for the period 2013 to 2017 which were paid in the year 2017/2018 compared to Kshs.2,563,391 for the year 2016/2017. The management however did not provide schedules or details of the pending bills paid. Consequently, the completeness and accuracy of the pending bills paid during the year under review could not be ascertained.

6. Renovation of Speakers Residence

Included in routine maintenance of buildings expenditure of Kshs.1,560,570 is an amount of Kshs.1,200,000 in respect of renovation of the county assembly speaker residence. The assembly awarded contract to a contractor to renovate the Speaker's residence which is on a private land. The regularity of the expenditure could not be confirmed.

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 Conclusions 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

1.0 Unapproved Over-expenditure on Use of Goods and Services

Included in the use of goods and services expenditure of Kshs.312,930,971 is an amount of Kshs.126,622,279 incurred in respect of domestic travel and subsistence which exceeded the budget of Kshs.110,542,000 on the item leading to excess expenditure of Kshs.16,080,279. No approval was provided for the above excess expenditure.

Further, included in the use of goods and services figure of Kshs.312,930,971 is Kshs.29,386,630 relating to hospitality, supplies and services, which differs with the budgeted amount of Kshs.6,700,000 leading to over expenditure of Kshs.22,686,630.

In addition, sanitary and cleaning materials reflected expenditure of Kshs.3,634,640 which differs the budget figure of Kshs.1,700,000 leading to over expenditure Kshs.1,934,640.

2.0 Procurement of Furniture

Included in the general operating services expenditure is an amount of Kshs.802,000 paid to a supplier in respect of the supply of furniture. It was noted that items indicated in the quotations were not the items supplied, the items supplied were not factored in the procurement plan and the suppliers were not in the list of prequalified suppliers.

As a result, the validity and propriety of the expenditure could not be confirmed.

3.0 Unimplemented Projects

The County Assembly in its approved budget allocated a total of Kshs.11,415,000 under general operating services in respect of the following vote heads. The management however did not spend the funds according to the allocations as detailed in the table below:

Vote	Vote Item	Allocation (Kshs)
2211009	Education and Library	1,165,000.00
3110700	Motor Vehicle purchase	8,000,000.00
3111000	office furniture purchase	750,000.00
3111003	Purchase of air conditions, fans	1,500,000.00
	Total	11,415,000.00

4.0 Budget and Expenditure Control

The County Assembly overspent on various expenditure items during the year under review as summarized below:

Items	Budget Amount Kshs.	Actual Amount Kshs.	Over Expenditure Kshs	Over Expenditure %
Domestic travel	101,332,000	128,250,729	26,918,729	27%

Items	Budget Amount Kshs.	Actual Amount Kshs.	Over Expenditure Kshs	Over Expenditure %
Advertising, Awareness and publicity	3,020,000	6,373,698	3,353,698	111%
Catering Services, Accommodation	6,700,000	29,386,630	22,686,630	339%
Electricity	0	812,800	812,800	100%
Medical Insurance	23,000,000	28,961,827	5,961,827	26%
Education and Library supplies	1,165,000	3,634,640	2,469,640	212%
General office Supplies	6,000,000	6,677,415	677,415	11%
Supplies and accessories for computers & printers	1,800,000	6,529,602	4,729,602	263%
Sanitary and cleaning materials	1,700,000	3,634,640	1,934,640	114%
Refined Fuel and Lubricants	7,200,000	7,259,700	59,700	1%
Bank Service commission and charges	2,194,000	4,152,923	1,958,923	89%
Contracted guards and cleaning services	4,960,000	8,848,800	3,888,800	78%
Subscription to professional and trade bodies	3,595,000	6,400,510	2,805,510	78%
Contracted professional services	5,500,000	9,059,200	3,559,200	65%
Maintenance expense-Motor vehicles	5,540,000	8,626,110	3,086,110	55%
Maintenance of plant machinery and equipment	650,000	1,296,528	646,528	100%
Maintenance of buildings and stations	880,000	1,560,570	680,570	77%
Maintenance of computers	1,400,000	1,430,415	30,415	2%

Items	Budget Amount Kshs.	Actual Amount Kshs.	Over Expenditure Kshs	Over Expenditure %
software and networks				
Non-Residential Buildings	27,000,000	22,792,637	4,207,363	16%
Legal Fees/Arbitration and compensation payments	4,000,000	3,430,090	569,910	14%

The over-expenditure is an indication of lack of expenditure control and prudence in the use of public money contrary to the requirements under Article 201 (d) of the Constitution of Kenya.

5.0 Car and Mortgage Scheme Fund Account

Available information indicates that the County Assembly of Migori operates a Car Loan and Mortgage Scheme. However, the management did not prepare and submit for audit separate financial statements of the Car Loan and Mortgage Scheme as required under Sections 164 and 167 of Public Financial Management Act, 2012. Further, the Assembly did not provide for audit financial records, bank statements and cash books for the Car Loan and Mortgage Scheme.

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 on Effectiveness of Internal Control, 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. Operations Account

A review of the County Assembly bank statements for KCB operations account revealed that the County Assembly makes payments on cash basis as opposed to payments through IFMIS real time gross settlement and cheques. No explanation has been provided for failure to make payments through the IFMIS. Further, the County Assembly did not provide IFMIS generated bank reconciliations and confirmation certificates.

2. Wards Bank Accounts

During the year under review, Migori County Assembly maintained forty wards bank accounts mainly in commercial banks. Maintenance of multiple bank accounts increases the risk of fraud and may not enhance sound cash management systems.

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 ability to of the Migori County Assembly 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 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 resources are applied in an effective way.

Those charged with governance are responsible for overseeing the 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 Effectiveness of Internal Control, 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 Migori County Assembly 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