

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of County Assembly of Nyamira set out on pages 1 to 16, 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 summary statement of appropriation 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.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of County Assembly of Nyamira 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 do not comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1. Inaccuracies in the Financial Statement Balances

1.1. Differences Between Financial Statement and the Ledger Balances

Note 4 to the financial statements reflects hospitality services, domestic travel and insurance expenditure of Kshs.19,504,932, Kshs.131,377,169 and Kshs.17,508,782 respectively. However, the balances differ with identical account balances reflected in the ledger as indicated in the table below:

Item Description	Financial Statement Balance Kshs.	Ledger Balance Kshs.	Variance Kshs.
Hospitality Services	19,504,932	14,350,841	5,154,091
Domestic Travel	131,377,169	120,774,208	10,602,961
Insurance	17,508,782	29,259,891	(11,751,109)
Total	168,390,883	164,384,940	4,005,943

However, management has not provided an explanation for these differences and as a result, the accuracy and validity of the balance of Kshs.168,390,883 reflected in the Statement of Receipts and Expenditure under use of goods and services for the year ended 30 June 2017 cannot be confirmed.

1.2. Variance Between Financial Statements Figures and Supporting Documents

Note 4 to financial statements reflects Kshs.1,090,000 for printing, advertising and information supplies and services under use of goods and services while the supporting

schedules indicates a balance of Kshs.3,194,890 resulting to a difference of Kshs.2,104,890 which however has not been explained.

Consequently, the accuracy of use of goods and services balance of Kshs.1,090,000 for the year under review cannot be confirmed.

1.3. Inadequate Cash and Cash Equivalents Disclosures

The Statement of Assets and Liabilities reflects cash and bank balance of Kshs.51,887,829 as at 30 June 2017. However, the following unsatisfactory issues were noted in relation to the balance;

- i. No board of survey was constituted at the closure of the financial year to ascertain the cash on hand;
- ii. the bank statements from the Central Bank of Kenya (Development Vote) were not made available for audit;
- iii. the bank reconciliation statements from the Central Bank of Kenya (CBK), recurrent account reflected Kshs.32,880,460 as unrepresented cheques. However, the list of the unrepresented cheques was not attached to the reconciliation. As a result, it was not possible to confirm the accuracy and validity of the balance.;
- iv. It was noted that out of the six (6) bank accounts held by County Assembly of Nyamira, only four(4) bank accounts were disclosed leaving out the retention account held at the Central Bank of Kenya. Further, the bank statements for the retention account were not made available for audit review;
- v. The movement of accounts receivables of Kshs. 198,700 and Kshs.242,458. between the two years is not reflected in statements of cash flows besides an unexplained amount of Kshs.22.491 denoted as a prior-year adjustment.

Consequently, the accuracy of the balance of Kshs.51,887,829 reflected as cash and cash equivalents as at 30 June 2017 cannot be confirmed.

2. Outstanding Imprests

Note 10 to the financial statements reflects other advances – outstanding imprests of Kshs.198,700 under accounts receivable which ought to have been surrendered or otherwise accounted for, on or before 30 June 2017. No reason has however been provided for failure to have the imprests surrendered or accounted for on their due dates.

3. Compensation of Employees

3.1. Salaries Paid Outside the IPPD System

The compensation to employees reflects Kshs.269,061,493 which includes payments totaling Kshs.4,933,812 made to ward office employees and some staff of the Assembly. However, the payments, which are tabulated below, were done outside the Integrated Personnel and Payments Data (IPPD) system

Payee	Date	Amount (Kshs.)
KCB	12 August 2016	1,463,359
KCB	15 March 2017	431,204
Equity Bank	„	446,390
Barclays Bank	„	133,321
County Assembly of Nyamira	4 May 2017	1,509,571
County Assembly of Nyamira	27 June 2017	949,967
Total		4,933,812

3.2. Unsupported Balances Reported in the Financial Statements

The Statement of Receipts and Payments reflects total compensation of employees balance of Kshs.269,061,493 which includes various expenditures totaling Kshs.154,558,633 in respect of basic wages of temporary employees, personal allowances paid as part salary, personal allowances paid as reimbursement, and compulsory National Social Security Scheme payments of Kshs.180,000, Kshs.141,915,787, Kshs.2,421,000 and Kshs.10,041,848 respectively which were not supported with the relevant documents such as lists of payees (temporary employees) and payment schedules, ledgers and payment vouchers.

Further, the compensation of employees costs of Kshs,269,061,493 accounted for 48% of the total County Revenue budget which ratio was higher than the 35% maximum set in Section 25(l) (b) of the Public Finance Management (County Governments) Regulations, 2015.

3.3. Re-Allocation of Funds Without Authority

Note 3 to the financial statements under compensation of employees reflects a balance of Kshs.269,061,493 which includes Kshs.17,420,457 meant for various allowances but re-allocated to pay for LAPFUND and LAPTRUST contributions. Mnaagement has not provided any evidence confirming that the re-allocations were presented to the County Treasury for processing and further no reason has been provided for their execution.

Consequently, the validity and accuracy of the Kshs.269,061,493 compensation of employees expenditure incurred during the year under review cannot be confirmed.

4. Budget and Performance Analysis

4.1. Budget Under/Over Utilization

The financial statements reflect nil actual expenditure under acquisition of assets out of the total budget of Kshs.180,000,000 resulting in complete underutilization of the budget. In contrast finance/bank charges with nil allocation incurred actual expenditure of Kshs.28,755, as indicated below:

Item Description	Final Budget Kshs.	Actual on Comparable basis Kshs.	Difference Kshs.	%Utilization

Acquisition of Assets	180,000,000	-	180,000,000	100%
Finance/bank Charges	-	28,755	(28,755)	100%

No proper reason was given for the failure to utilize funds meant for the development budget and further how the unbudgeted finance costs incurred were provided for.

4.2. Projects Status Report

During the year under review, the County Assembly budgeted for 18 projects at an estimated cost of Kshs.180 million. However, there was no expenditure recorded in the statement of receipts and payments against these items yet the status report showed that 13(thirteen) projects valued at Kshs.94,011,600 had not started; four(4) projects valued at Kshs.82,000,000 were ongoing; and only one project valued at Kshs.3,988,400 had been completed.

5. Unsupported Payments – Domestic Travel and Subsistence

Included in the use of goods balance of Kshs.204,144,759 is Kshs.131,377,169 under domestic travel and subsistence which includes payments totaling Kshs.12,085,600 not supported with relevant documents such as work tickets, bus tickets; and the purposes for which the journeys were made. Further, no imprest warrant was availed for audit review to confirm whether the journeys and the respective budgets, if any, were authorized.

Consequently, the propriety and validity of the expenditures totalling Kshs.131,372,169 incurred on domestic travel and subsistence during the year under review. cannot be confirmed.

6. Use of Goods and Services

6.1. Recovery of Advances from Per Diems

Included in the use of goods balance of Kshs.204,144,759 reflected in the Statement of Receipts and Payments is expenditure of Kshs.131,481,408 incurred under domestic travel and subsistence which includes payments totaling Kshs.1,720,000 paid to twelve (12) Members of the County Assembly of Nyamira as advances. However, the advances were recovered from the officers' outstanding per diems. Further, attached to the payment voucher was a letter written by the Speaker of the County Assembly to the Assembly Clerk asking him to transfer funds from the mortgages account to the operations account to finance the payments. No explanation has been provided by management for this irregularity and it is also not clear why the Speaker directed the Clerk to transfer funds from the mortgage account to operational accounts without first seeking approval from the Assembly as required.

Consequently, the propriety and validity of the expenditure totaling Kshs.1,720,000 incurred on domestic travel and subsistence during the year under review cannot be confirmed.

6.2. Irregular Mileage Allowance

Included in the use of goods balance of Kshs. 204,144,759 is Kshs.131,481,408 incurred under domestic travel and subsistence which includes payments amounting to Kshs.675,800 paid to five Members of the County Assembly (MCA) as extra mileage allowance. However, the benefit was not taxed as required under the Income Tax Act Cap 470.

Further, none of these members resided beyond 90 Kms of the County Assembly building to qualify for the allowance. The farthest member resided 65 Kms away. No plausible explanation has been provided by management to justify why the MCAs were paid extra mileage allowance free of tax.

Consequently, the propriety and validity of the expenditure totaling Kshs.675,800 under domestic travel and subsistence as at 30 June 2017 cannot be confirmed.

6.3. Irregular Cash Payments

Included in the use of goods and services balance of Kshs. 204,144,759 is Kshs.131,481,408 under domestic travel and subsistence which in turn includes cash payments totaling Ksh.98,791,857 made to some staff of the County Assembly and MCAs at the closure of the financial year. However, the expenditure was not supported by requisite documents and no explanation was provided why cash was withdrawn by the cashier and paid to staff and MCAs instead of having them issued with imprests given that they mainly required the funds for official travel purposes.

Consequently, the propriety and validity of the expenditure totaling Kshs.8,791,857 under domestic travel and subsistence as at 30 June 2017 cannot be confirmed.

7 Governance Framework

7.1. Non-Existence of Risk Management Committee

The County Assembly is yet to establish a risk management committee. As result, threats to the operations of the Assembly have not been identified and mitigated and therefore their occurrence could have negative impact on the operations of the Assembly.

7.2. Disaster Recovery Plan

The County Assembly lacks a disaster recovery plan to deal with loss of data or information in case of systems failures or losses due to fire and theft.

Consequently, no explanation has been provided why the Assembly has not put in place a risk management committee and a disaster recovery plan as required.

8. Procurement of Civil Works

The County Assembly contracted three (3) firms to execute civil works at a contract sum of Kshs.53,602,233 as indicated below:

No.	Construction of Civil Works	Contractor	Amount Kshs.
1	Automation of Broadcasting & Hansard Recording	Kenya ICT and Computer Engineering Holdings Ltd	17,698,000

2	Supply and Installation of Auditorium Chairs	Emoss Global Limited	23,986,770
3	Padding & Carpeting of Debating Chambers	Benris Investments Limited	11,917,463
	Total		53,602,233

However, details of the procurement process showing how the suppliers were identified were not made available for audit review and as a result, it was not possible to confirm that the process was conducted in accordance with the Public Procurement and Assets Disposal Act, 2015 and whether the resultant expenditures were a proper charge on public funds.

9. Pending Bills

As at 30 June 2017, the County Assembly had accumulated pending bills totaling Kshs.63,694,476. However, the cash and cash equivalents balance at year end was Kshs.51,887,829. Management did not explain how the County Assembly committed funds in excess of its approved budget.

Further, bills totalling Kshs.51,266,590 out of a total of Kshs.63,994,475 were not supported with relevant documents such as certificates of completion and inspection and acceptance reports.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Nyamira 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis of 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 of my report, I confirm that there were no Key Audit Matters to report in the year under review.

Responsibilities of Management and Those Charged with Governance 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 of Nyamira's ability to continue to offer services, disclosing, as applicable, matters related to sustainability of services and using the going concern accounting assumption. Unless the management either intends to liquidate the Assembly or to cease operations, or have no realistic alternative but to do so. [BNK1]

[DMN2]

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 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. 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.

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 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 accounting 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 Assembly's ability to continue as a going concern. 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. |
- [BNK3][DMN4]
- 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 entity 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 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