

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF SIAYA 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 Siaya set out on pages 11 to 38, which comprise the statement of receipts and payments, statement of financial assets and liabilities as at 30 June 2017, and the statement of cash flows, 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, 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 Siaya 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).

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

Basis for Adverse Opinion

1. Inaccuracies of the Financial Statements

Audit review of the financial statements indicated the following inaccuracies which resulted to non-compliance with Public Sector Accounting Standard (IPSAS) No 1. The note 11 to financial statements reflects fund balance brought forward figure of Kshs.63,666,663 as comparative balance instead of nil balance. The Fund balance is therefore not accurate.

Consequently, the management were in breach of the financial regulations and the accuracy of the financial statements as at 30 June 2017 could not be confirmed.

2. Cash and Cash Equivalents

The financial statements reflects cash and cash equivalents balance of Kshs.250,008. However, the following anomalies were noted;

- i) Bank statements from Central Bank A/c No.1000197471 disclosed a balance of Kshs.71,316,966 with unpresented cheques amounting to Kshs.72,685,375. It was also not clear as to why the amount was overdrawn by an amount totalling Kshs.1,368,409.
- ii) The availed cash book for KCB A/C No.1143428927 was not up to date and therefore the provided bank reconciliation statements authenticity could not be verified as presenting a true position of bank closing balance.
- iii) The availed bank statements revealed that the Assembly runs two bank accounts, the KCB A/C No.1143428927 and Central bank of Kenya A/C No.1000197463 against the requirements of Article 28 of the Public Financial Management Act, 2012 which requires County Treasuries to establish and operate the Treasury Single Account (TSA) for proper accountability of public funds unless there is an express authority from the director of accounting services or a letter from Central Bank confirming in writing that it is unable to offer banking services.

Consequently, the accuracy and validity of cash and cash equivalents of Kshs.250,008 could not be confirmed.

3. Unsupported Imprest Balance

The statement of financial assets as at 30 June 2017 disclose accounts receivable-outstanding imprests balance of Kshs.1,915,825. However, no imprest register was availed for audit confirmations contrary to Section 91(2) and Section 93(4) of the Public Finance Management Act (County Government) Regulations 2015 which requires that the imprests issued is recorded in the imprest register and that the officer authorized to hold and operate an imprest shall make formal application for the imprest through an imprest warrant.

4. Use of Goods and Services

4.1 Understatement of Domestic and Foreign Travel

Included in the statement of receipts and payments under use of goods and services figure of Kshs.234,583,200 is Kshs.922,047 and Kshs.85,136,183 on foreign travel and subsistence and domestic travel and subsistence respectively. However, the schedules provided for audit review reflected Kshs.1,651,287 and Kshs.85,188,123 on foreign travel and subsistence and domestic travel and subsistence respectively leading an unsupported understatement of Kshs.781,180.

4.2 Misstatement of Various Expenditure Items

Included in the statement of receipts and payments under use of goods and services figure of Kshs.234,583,200 is Kshs.3,265,145, Kshs.5,844,392, Kshs.2,450,188 and

Kshs.1,401,051 for fuel, oil and lubricants, communication supplies and services, routine maintenance and utilities supplies and services respectively. However the schedules provided for audit review reflected Kshs.2,265,145, Kshs.2,848,131, Kshs.1,003,151 and Kshs.835,051 for fuel, oil and lubricants, communication supplies and services, routine maintenance and utilities supplies and services respectively leading to an unexplained overall misstatement of Kshs.5,222,118 as analyzed in the table below.

Items	IFMIS Payments	Cheque Payments Outside IFMIS	Total Actual Payments (IFMIS +Cheque Payments)	Financial Statement Figures	Over/ (Understatement)
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
Fuel, oil and lubricants	2,265,145		2,265,145	3,265,145	1,000,000
Communication supplies and services	1,812,746	1,035,385	2,848,131	5,844,392	2,996,261
Routine maintenance-other assets	1,003,151		1,003,151	2,450,188	1,447,037
Utilities, supplies and services	835,051		835,051	1,401,051	556,000
Foreign travel and subsistence	1,651,287		1,651,287	922,047	(729,240)
Domestic travel and subsistence	83,298,616	1,889,507	85,188,123	85,136,183	(51,940)
Total	90,865,996	2,924,892	93,790,888	99,019,006	5,222,118

4.3. Unsupported Domestic Travel and Subsistence Allowances

Included in use of goods and services figure of Kshs.234,583,200 is domestic travel and subsistence figure of Kshs.85,136,183 which further includes payment to 48 Members of County Assembly as 5 days per diem totalling Kshs.3,360,000 for attending East Africa Legislative Assembly Sports and Culture Association (EALASCA). However, as per the invitation letter only two officers were invited to represent the County in the festival hence eligible for payment totalling Kshs.134,000 out of a figure of Kshs.3,360,000. The resultant difference of Kshs.3,226,000 was not eligible for payment.

5. Fixed Assets

The fixed assets inherited from the defunct County Council of Siaya were not disclosed in the financial statements. Similarly, fixed assets that were procured during year under review worth Kshs.9,220,793 out of a total of Kshs.21,667,478 did not have name tags or serial numbers for ease of identification and thus it was not possible to ascertain their existence and location

6. Compensation of Employees

Included in the statement of receipts and payments is compensation of employees figure of Kshs.326,582,006. However, the wage bill constitutes 52% of the cost total receipts during the year. This is contrary to Public Finance Management Regulation 2015, section 107(2) that recommends a maximum of 35%. Consequently, the management was in breach of the law.

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 matter discussed in the Basis for Adverse Opinion and Other Matter sections of my report, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1.0 Budgetary Control and Performance

1.1 Undisclosed Balance of the Development Account

The Assembly had an approved budget Kshs.91,426,324 on development expenditure. However, records of exchequer releases revealed that the Assembly received Kshs.27,122,324 through the Siaya County Executive Development account thereby resulting to undisbursed amount of Kshs.64,304,000. Out of the Kshs.27,122,324 received, the Assembly spent Kshs.12,446,685 resulting into an unspent balance of Kshs.14,675,639. No bank statements were made available to confirm that the unspent balance is still intact. Further, no valid reasons were availed as to why the Assembly did not receive the whole budgeted amount under the development account. This therefore means that the development account was

under absorbed by 86.4% denying the Assembly from rendering the residents of the County necessary services.

1.2 Budget Absorption

During the financial year under review, the Assembly spent Kshs.610,195,323 on recurrent and development projects against the budget figure of Kshs.691,340,796 leading to an under expenditure of Kshs.81,145,473 as analyzed in the table below.

Component	Final Budget	Actual on comparable Basis	Utilization Difference	Under Absorption	Over Absorption
	Kshs.	Kshs.	Kshs.	%	%
Compensation of Employees	330,835,582	326,582,006	4,253,576	1	
Use of goods and services	222,764,549	234,583,200	(11,818,651)		5
Social security benefits	33,329,941	27,362,639	5,967,302	18	
Acquisition of Assets	104,410,724	21,667,478	82,743,246	79	
Finance costs	0	0	0		
Total	691,340,796	610,195,323	81,145,473	12	

From the above summary, it is clear that the management failed to utilize Kshs.81,145,473 representing 12% of its budget allocation and over spent on use of goods and services by 5%. Failure to utilize all the funds as budgeted is an indication that programs or activities are not being implemented as planned thus not achieving the intended objective of improving delivery of goods and services to the intended beneficiaries.

Responsibility 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 Assembly's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the 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.

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 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, but not for the purpose of expressing an opinion 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 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 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 Assembly to cease to continue offering services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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 and offer 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

16 July 2018