

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF UASIN GISHU 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 Uasin Gishu set out on pages 1 to 38, which comprise the statement of financial assets and liabilities 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 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 described in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of County Assembly of Uasin Gishu 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

1.0 Training Expenses

The use of goods and services figure of Kshs.154,955,363 for the year ended 30 June 2017 as disclosed in Note 5 to the financial statements, include training expenses figure of Kshs.13,660,208 in respect of training of Members of the County Assembly and staff. However, the County Assembly did not have training committee within the human resource department to conduct a training needs assessment, plan, organize, coordinate, and recommend appropriate trainings as per Section I of the County Public Service Human Resource Manual of 2013. Consequently, the propriety of the expenditure of Kshs.13,660,208 incurred on training for the year ended 30 June 2017 could not be confirmed.

2.0 Compensation of Employee Costs

The statement of receipts and payments for the year ended 30 June 2017 reflects compensation of employees figure of Kshs.298,805,224 which is at variance with the supporting schedules and the payroll summaries provided for audit verification figure of Kshs.288,955,288 resulting in unexplained variance of Kshs.9,849,936. Further, the

compensation of employee figure of Kshs.298,805,224 reflected in the statement of receipts and payments is at variance with the IFMIS payments report figure of Kshs.291,658,015 again resulting in unexplained variance of Kshs.7,147,209. Although the management explained that the differences occurred are as a result of some payments having been made outside the IFMIS, the details of these payments made outside the IFMIS system has not been provided.

Consequently, the accuracy and completeness of the compensation of employee figure of Kshs.298,805,224 for the year ended 30 June 2017 could not be confirmed.

3.0 Unconfirmed Pending Bills

Note 18.1 to the financial statements discloses pending bills totalling Ksh.3,607,838 as at 30 June 2017 out of which pending bills amounting to Kshs.1,483,056 were not supported by local purchase orders, delivery notes, invoices and inspection and acceptance reports. Consequently, the validity, completeness and accuracy of the pending bills figure of Kshs.1,483,056 as at 30 June 2017 could not be confirmed

4.0 Variances between Financial Statement Balances and IFMIS Payment Figures

The statement of receipts and payments for the year ended 30 June 2017 reflects total payments amount of Kshs.501,463,652, which is at variance with the IFMIS total payments balance of Kshs.391,434,217 resulting in a variance of Kshs.110,029,435. Although the management states that the variance is due to payments that were made to suppliers and honourable members of the county assembly and staff who had not been defined in the IFMIS, the details of the payments have not been provided for audit review. Consequently, the accuracy and validity of the total payments amounting to Kshs.501,463,652 for the year ended 30 June 2017 could not be confirmed and the County Assembly is in breach of the law.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Uasin Gishu 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 adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance to the audit of the financial statements. I have determined that there were no key audit matters to communicate in my report.

Other Matter

1.0 Budgetary Control and Performance

1.1 Approved Development and Recurrent Budget

During the year under review, the County Assembly of Uasin Gishu had a total budget of Kshs.536,118,909 comprising recurrent budget of Kshs.520,211,104 and development budget of Kshs.15,907,805 respectively. Further, the budget reflected overall under absorption of Kshs.34,655,257 or 6% as summarized below:

Item	Budgeted Allocation 2016/2017 (Kshs)	Actual Expenditure for 2016/2017 (Kshs)	Under Absorption (Kshs)	Under Absorption %
Recurrent Budget	520,211,104	490,302,622	29,908,482	6
Development Budget	15,907,805	11,161,030	4,746,775	30
Total	536,118,909	501,463,652	34,655,257	6

The under absorption of the approved budget is an indication of activities and projects in the annual work plan not implemented by the County Assembly which is likely to have negative effect on delivery of goods and service by the County Assembly. There is therefore need for the management to re-look at its budgetary mechanism with a view to focusing on priority areas which enhance service delivery to the citizens of Uasin Gishu County.

1.2 Development Budget

During the year under review, County Assembly of Uasin Gishu allocated Kshs.15,907,805 towards development projects and spent a total of Kshs.11,161,030 on purchase of ICT equipment and infrastructure resulting in under expenditure of Kshs.4,746,775 or 30% of the budget.

It is therefore clear that the County Assembly did not utilize Kshs.4,746,775 (30%) of the allocated funds and hence the intended objectives may not have been achieved which may hamper service delivery to the people of Uasin Gishu County due to lack of prerequisite infrastructure.

2.0 Governance Framework

2.1 Lack of Internal Audit Charter

As reported in the previous year, the County Assembly of Uasin Gishu has established an internal audit unit to oversee the governance mechanism and promote

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transparency and accountability in the management of the County Assembly's resources. The unit, however, reports administratively to the Clerk of the County Assembly and functionally to the Speaker of the County Assembly instead of the Audit Committee contrary to Regulation 155(1) of the Public Finance Management (County Government) Regulations 2015, which states that the head of Internal Audit unit in a County Government Entity shall enjoy operational independence through the reporting structure by reporting administratively to the Accounting Officer and functionally to the audit committee.

Further, the internal audit function operated without an internal audit charter detailing the scope, responsibilities and purpose of internal audit function. Consequently, the unit lacks operational independence and guiding tool to execute its mandate and which is against the law.

2.2 Failure to Establish Audit Committee

As reported in the previous year, the County Assembly of Uasin Gishu has not established an audit committee contrary to Section 167(1) of the Public Finance Management (County Government) Regulations, 2015 which require each county government entity to establish an audit committee. Although the management attributes the absence of the audit committee to lack of budgetary provision for the function and that the same has been factored in the budget for financial year 2017/2018, no documentary evidence has been provided to show that the committee will be in place any time soon. Consequently, the management is in breach of the law.

3.0 Information Communication Technology (ICT)

Audit review of the Information and Communication Technology (ICT) of County Assembly of Uasin Gishu revealed that the Assembly did not have an IT Policy, Data Recovery Plan (DRP) and IT security policy which are vital in effective and efficient management of the entity's IT resources. Further, the County Assembly did not have an IT steering committee which is important in performing the oversight function and formulation of policies to ensure that IT department functions are properly in place to assist in the achievement of organizational objectives in an efficient, economic and effective manner. In addition, the County Assembly did not have periodic IT reports which are supposed to assess the status of implementation of IT systems and suggest corrective measures. Consequently, IT assets of the County Assembly may not be efficiently utilized and the operations of the assembly may be hampered in the event of a disaster.

4.0 Failure to Observe One Third Rule in Staff Establishment and Recruitment

Audit review of the payroll for the month of June 2017, revealed that County Assembly of Uasin Gishu had a staff establishment of 94 (ninety four) employees, out of whom 80 (eighty) or 85 % were from the same dominant ethnicity leaving 14 (fourteen) or 15% from other ethnicities. Further, review of records indicated that the County

Assembly of Uasin Gishu Service Board during the year under review recruited 11(eleven) new officers at various cadres out of whom only one (1) officer or nine (9) % was from the non-dominant ethnicity while ten (10) or 91% were from the dominant ethnicity against the recommended threshold of 30% as required by Section B.7 of the County Public Services Human Resource Manual, 2013 and Section 65(1)(e) of the County Governments Act, 2012 which requires that in selecting candidates for appointment, the County Public Service Board shall consider the need to ensure that at least thirty (30) percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county. Consequently, the management is in breach of the law.

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 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 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.

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. 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 scepticism 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 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 sustain its 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 sustain its 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 and business activities of the County Assembly 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

17 July 2018