

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Uasin Gishu set out on pages 1 to 32, 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of County Assembly of Uasin Gishu 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 comply with the Public Financial Management Act, 2012.

Basis for Qualified Opinion

1.0 Statement of Comparison of Budget and Actual Amounts: Recurrent and Development Combined

The statement of comparison of budget and actual amounts: recurrent and development combined for the year ended 30 June 2018 reflects transfers from the county adjustment figure of Kshs.3,252,818. However, the figure does not include unspent balance of Kshs.21,454,117 for the year ended 30 June 2017. Further, the total final budget payments figure of Kshs.618,747,182 also excludes transfers to other government entities adjustment figure of Kshs.21,454,117.

Under the circumstances, the accuracy and completeness of the comparison of budget and actual amounts: recurrent and development combined for the year ended 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 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 qualified 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 matter described in the Basis for Qualified Opinion section, I have determined that there were no other Key Audit Matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Compensation of Employees

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

An audit review of the payroll for the month of June 2018, revealed that County Assembly of Uasin Gishu had a staff establishment of 92 (ninety two) employees, out of whom 80 (eighty) or 87% were from the dominant community leaving 12 (twelve) or 13% from other ethnicities. Further, review of records indicated that the County Assembly of Uasin Gishu Service Board during the year under review recruited 6(six) new officers at various cadres on contract of whom all were from the dominant ethnicity against the recommended threshold of 30% from non-dominant ethnicity 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.

2.0 Benchmarking on Digitalization of the County Assembly Chambers and County Data Centre

Included in use of goods figure of Kshs.273,211,500 is an expenditure of Kshs.1,909,600 incurred on travel and accommodation expenses on the bench marking trip in Kwale County Assembly and Kwale sub-county offices for 8 days from 25 to 31 February 2018. However, the basis of picking on Kwale County for the bench marking exercise has not been justified. Further, no evidence of the bench marking report was provided for audit review and whether it was tabled in the County Assembly for adoption.

Under the circumstances, it was not possible to confirm whether the County Assembly got value for the expenditure of Kshs.1,909,600.

3.0 Budgetary Provision

The County Assembly's procurement plan for 2017/2018 provided Kshs.50 million for building construction and architectural consultation services and further Kshs.200 million in 2018/2019 financial year totaling to Kshs.250 million. The estimated cost of the project is Kshs.862 million of which as per the County Assembly's correspondence to Cabinet Secretary, National Treasury, the Assembly was to meet 30% (Kshs.250 million) of cost whereas National Treasury meets 70% (Kshs.607 million). The County Assembly's request for funding from National Treasury has not been responded to. Despite no commitment from National Treasury, the Assembly has procured the consultancy services for building consultancy services/consortium for architectural, quantity surveying, civil/structural, electrical/mechanical engineering services for the proposed building.

The source of full funding of the building is not clear as no commitment from National Treasury has been obtained. Further given that this is a multi-year project, the estimated budget has not been captured in a multi-year budget.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about 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. 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, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the procedures performed, except for the matter described in the Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Understanding the Entity

1.1 Lack of 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 indicate that advertisement in local dailies had been made and short listing done for members, the chairman position was non responsive and had to be re advertised. The continued absence of the audit committee continues to hamper effective internal control management of the County Assembly. Consequently, the management is in breach of the Government regulations.

1.2 Lack of Independent Internal Audit Function

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 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.

1.3 Information Communication Technology

As similarly reported the previous year, a review of the Information and Communication Technology system (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.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. 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 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.

In preparing the financial statements, management is responsible for assessing the County Assembly of Uasin Gishu ability to continue as a going concern/ 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 of Uasin Gishu 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.

Those charged with governance are responsible for overseeing the County Assembly of Uasin Gishu 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

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.

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 noncompliance. 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 Uasin Gishu policies and procedures may deteriorate.

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.
- 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 of Uasin Gishu ability to continue as a going concern or 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 of Uasin Gishu to cease to continue as a going concern or 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 of Uasin Gishu 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

18 February 2019