

# **REPORT OF THE AUDITOR-GENERAL ON THE COUNTY ASSEMBLY OF WEST POKOT FOR THE YEAR ENDED 30 JUNE 2018**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of the County Assembly of West Pokot set out on pages 8 to 25, which comprise the statement of financial assets 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 the County Assembly of West Pokot 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 Financial Statements Presentation and Disclosure**

The financial statements for the year ended 30 June 2018 submitted for audit do not include Progress on follow up on auditor's recommendations arising from auditor's report for the year ended 30 June 2017. Further, the required IFMIS records and information has not been disclosed or attached to the financial statements.

Under the circumstances, the financial statements for the year ended 30 June 2018 do not conform to the revised prescribed financial statements reporting template approved by the Public Sector Accounting Board Vide Circular Ref AG/4/16/1/Vol.IV/76 dated 13 July 2017.

#### **2.0 Variance between IFMIS and Statement of Receipts and Payments Total Payments Figure**

The statement of receipts and payments for the year ended 30 June 2018 reflects total payments figure of Kshs.556,560,463 which is at variance with IFMIS total payments balance of Kshs.568,373,914 resulting in a variance of Kshs.11,813,451 which has not been explained or reconciled.

Under the circumstance, the accuracy and completeness of the total payments figure of Kshs.556,560,463 for the year ended 30 June 2018 could not be confirmed.

#### **3.0 Lack of Fixed Assets Register**

The statement of receipts and payments as at 30 June 2018 reflects acquisition of assets figure of Kshs.90,191,332. However, available information indicates that the County Assembly does not maintain an assets register and it was therefore not possible to ascertain the nature, number, physical location and fair value of the Assembly's assets contrary to regulation 136(1) of the Public Finance Management Regulations,2015 which requires that the accounting officer shall be responsible for maintaining of a register of assets under his/her control or possession. Further, acquisition of assets figure of Kshs.90,191,332 is at variance with additions for the year of Kshs 83,553,428 as reflected under Annex 3 on summary of fixed asset register resulting in a difference of Kshs 6,637,904 which has not been explained or reconciled.

Under the circumstances, the accuracy and completeness of the acquisition of assets balance of Kshs.90,191,332 as at 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 West Pokot 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(s) described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

### **Other Mater**

#### **1.0 Budget and Budgetary Performance**

#### **1.1 Approved Recurrent and Development Budget**

During the year 2017/2018, the County Assembly of West Pokot had a total budget of Kshs.597,880,526 comprising of recurrent budget of Kshs 506,880,526 and development budget of Kshs.91,000,000 respectively. Further, the total budget reflected overall under absorption of Kshs 41,320,063 or 7% as summarised below:

<b>Vote</b>	<b>Approved Budget 2017/18 (Kshs)</b>	<b>Actual Expenditure 2017/18 (Kshs)</b>	<b>Under Absorption (Kshs)</b>	<b>Under Absorption (%)</b>
Recurrent	506,880,526	467,162,531	39,717,995	7.8

Development	91,000,000	89,397,932	1,602,068	1.8
	<b>597,880,526</b>	<b>556,560,463</b>	<b>41,320,063</b>	<b>7</b>

The under absorption of the approved budget is an indication that activities and projects planned for were not implemented by the County Assembly and is likely to have a negative effect on the delivery of goods and services to the residents of the County. There is need for the management therefore to relook at its budgetary process with a view to focussing on priority areas to enhance service delivery to the residents of West Pokot County.

## **1.2 Development Budget**

During the year under review, the County Assembly of West Pokot allocated an amount of Kshs.91,000,000 towards development projects out of which it spent Kshs 89,397,932 resulting to an under expenditure of Kshs.1,602,068 or 1.8% of the budget. It is clear that the County Assembly did not utilise Kshs.1,602,068 of funds allocated for development and hence the objectives may not have been achieved and this may hamper service delivery to the people of West Pokot County.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter(s) described in the Basis for [Conclusion on Lawfulness and Effectiveness in Use of Public Resources/ Qualified Opinion] section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1.0 Use of Goods and Services**

##### **1.1 Hire of Conference Facilities**

Included in the use of goods and services figure of Kshs.181,800,238 reflected in the statement of receipts and payments is training expenses figure of Kshs.23,174,750.80 out of which Kshs.4,537,400 was paid to various hotels for hire of conference facilities.

However, the payment vouchers were not supported by relevant documents such as tender documents or quotations, tender opening, evaluation and award committee minutes. It was therefore, not possible to confirm how the hotels were identified.

Consequently, the propriety of expenditure of Kshs.4,537,400 for the year ended 30 June 2018 could not be confirmed.

##### **1.2 Single Sourcing of Air Ticketing Services**

Included in the use of goods and services figure of Kshs.181,800,238 reflected in the statement of receipts and payments is foreign travel and subsistence expenses figure of Kshs.6,101,072 out of which Kshs.1,228,100 was paid to a tour firm for the provision of air ticketing for County Assembly members and staff. However, procurement records and service contract with the firm was not availed for audit verification. It was therefore, not possible to confirm how the firm was identified. Consequently, the propriety of expenditure of Kshs.1,228,100 for the year ended 30 June 2018 could not be confirmed.

### **1.3 Provision of Internet Services**

Included in the use of goods and services figure of Kshs.181,800,238 reflected in the statement of receipts and payments is communication, supplies and services figure of Kshs.2,537,656 out of which Kshs.1,183,200 was paid to Telkom Kenya Limited being internet subscription fee for Jambonet 4mbps at a monthly fee of Kshs. 98,600. However, a service level agreement was not provided to support the payments made. Further, it was established that the internet network within the Assembly was weak and it could not be established whether the County Assembly was receiving value for money for the internet subscription payments.

Consequently, the propriety of expenditure of Kshs.1,183,200 for the year ended 30 June 2018 could not be confirmed.

### **1.4 Induction Training Expenses in Mombasa**

Included in the use of goods and services figure of Kshs.181,800,238 reflected in the statement of receipts and payments is domestic travel and subsistence expenses figure of Kshs.99,921,435 out of which Kshs.5,924,500 was paid to County Assembly Service Board members and Members of the County Assembly (MCA) for an induction training in Mombasa. According to an Internal Memo dated 14 December 2017, the board approved the training to be conducted at Mombasa- Haverton Hotel, Mtwapa. The induction was to commence from 7 to 13 January 2018. However, the payment voucher was not supported by attendance register. Further, the meeting was conducted at Pride Inn Paradise Hotel.

However, no document was provided to support the procurement of the new venue. In addition, the imprest was issued to one payee who later paid the beneficiaries contrary to Section 91(2) of the Public Finance Management (County Governments) Regulations, 2015, that requires every MCAs be issued with his/her own imprest.

Consequently, the propriety of expenditure of Kshs.5,924,500 for the year ended 30 June 2018 could not be confirmed.

### **1.5 Irregular Payment of Quarter Per Diem Allowances**

Included in the use of goods and services figure of Kshs.181,800,238 reflected in the statement of receipts and payments is training expenses figure of Kshs.23,174,751 out of

which Kshs.764,475 was paid to staff being quarter per diems during trainings in Mombasa and Nairobi. However, the payments appear irregular since the training was residential and full board accommodation provided.

Consequently, the propriety of expenditure of Kshs.764,475 for the year ended 30 June 2018 could not be confirmed.

### **1.6 Committee Members Consultative Forum in Kisumu**

Included in the use of goods and services figure of Kshs.181,800,238 reflected in the statement of receipts and payments is domestic travel and subsistence expenses figure of Kshs.99,921,435 out of which Kshs.1,357,000 was paid to members of committees on MCAs Mortgage and Car Loans for a consultative forum in Kisumu from 28 April 2018 to 3 May 2018. The forum was to review financial status of the fund, insurances of mortgage and car loan, discuss procedure of caution of title deeds, ascertain the securities and consideration of new application. However, it is not clear and management has not explained if these expenditures were a proper charge on public funds given that the meeting would have been conducted within the County Assembly premises.

Consequently, the propriety and value for money of expenditure of Kshs.1,357,000 for the year ended 30 June 2018 could not be confirmed.

### **1.7 Irregular Payment of Bulk Imprests for Domestic Travel and Training**

The statement of receipts and payments for the year ended 30 June 2018 reflects use of goods and services figure of Kshs.181,800,238. Included in this balance is imprest amounting to Kshs.37,502,370 in respect of domestic travel and subsistence expenses and Kshs.4,926,900 training expenses imprests all totalling to Kshs.42,429,270 issued to staff of the County Assembly on behalf of Members of the County Assembly to cater for travelling and accommodation expenses contrary to Regulation 91 (2) of the Public Finance Management (County Governments Regulations), 2015 which states 'that the officer authorized to hold and operate imprest shall make a formal application for imprest through an imprest warrant'. It was not clear why Members of the County Assembly could not take responsibility for their imprests. Although the management explained that bulk imprests were issued due to ease of imprest processing, it was further noted that there was no clear security arrangement while carrying such large amounts cash to avoid loss of public funds as stipulated in Regulation 89 of the same regulations on security of cash in transit. The County Assembly was therefore in breach of the law. In addition, the payments were not supported by signed schedules to show that the Members of the County Assembly were actually paid and the same was surrendered.

### **1.8 Unsupported Domestic Travel**

Included in the use of goods and services figure of Kshs.181,800,238 reflected in the statement of receipts and payments is domestic travel and subsistence expenses figure of Kshs.99,921,435 out of which Kshs.1,461,285 was paid to a company for the provision of air ticketing to County Assembly members and staff. However, the payments were not supported by procurement records and boarding passes. It was therefore not clear and the management has not explained if these expenditures were a proper charge on public funds given that the purposes of these journeys was also not given.

Consequently, the propriety of expenditure of Kshs.1,461,285 for the year ended 30 June 2018 could not be confirmed.

## **2.0 Acquisition of Assets**

### **2.1 Delay in Construction of Modern Assembly Complex**

As reported in the previous year, note 6 to the financial statements reflects acquisition of assets figure of Kshs.90,191,332 which includes an amount of Kshs.75,416,701 paid in respect of construction of modern assembly complex. The contract for the construction of the complex was awarded to a construction company on 6 January 2015 at a contract sum of Kshs.358,392,421 as per the tender reference No.WPCA/01/2014-2015. The construction was to take 36 months with effect from 12 January 2015 when the site was handed over to the contractor and be completed in February 2018.

As at 30 June, 2018 a total of ten (10) payment certificates had been raised indicating value of work certified as Kshs.218,342,685. The cumulative payments to the contractor as at 30 June, 2018 was Kshs.209,994,541.

However, according to the report of the Clerk of Works dated 26 September 2017, the total time that had elapsed since the construction works started was 135 weeks or 86.54% of the total contract period against the overall builder's works of 40.2%. At the time of audit in November 2017, the contractor was on site but no construction was going on. The management has explained that the execution of the contract was suspended by the Governor of West Pokot through a letter dated 19 September 2017 to facilitate a special audit of all contracts. However, it could not be established whether the suspension complied with contract clause on termination of a contract which may expose the County to penalties for wrongful termination of the contract.

Consequently, the objectives of the project have not been achieved and residents of West Pokot County may have not obtained value for money spent on the building as planned.

### **2.2 Refurbishment and Remodeling of the Speaker's Office**

The acquisition of assets balance of Kshs.90,191,332 includes refurbishment of buildings amount of Kshs.3,238,830 as disclosed in Note 6 to the financial statements. The balance of Kshs.3,238,830 further includes Kshs.1,488,895 made to a construction firm on 20 April 2017 vide PV No D-4172 being the final payments of the contract sum of

Kshs.4,674,892 for refurbishment and remodeling of the speaker's office. This amount was in addition to Kshs.3,185,998 paid in the previous year on 28 June 2016 vide PV No 2017. As reported in the previous year, an audit review of the procurement records revealed that the County Assembly had used request for quotations method and the works awarded to the successful contractor on 7 September 2015 for a contract sum of Kshs.4,674,892 as per the contract referenced WPCA/RFQ/01/2015-2016 signed on 21 September 2015. However, it was noted that the contract sum of Kshs.4,674,892 exceeded the prescribed limit of Kshs.4,000,000 expenditure on works through request for quotations in identifying a contractor instead of open tender method in accordance with the provisions of Regulations 35 the Public Procurement and Disposal regulations 2006. The management did not provide explanations as to why request for quotations method was used instead of the open tender method as per the provisions of the law. The management therefore was in breach of the law.

Further, the Assembly had not disclosed any amount as pending bill relating to the project as per the certified financial statements for the year 2016/2017.

As a result, the validity of the expenditure of Kshs.1,488,894 could not be ascertained.

### **3.0 Construction of County Assembly Restaurant and Car Park**

As previously reported, the County Assembly entered into a contract with a construction firm for the construction of a restaurant and a car park on 3 January 2014 through Tender No.WPCA/001/2013-14 at a contract sum of Kshs.36,685,718. During the year 2014/2015, an expenditure of Kshs.15,765,679 was incurred on the project. It was further reported that the payment vouchers in relation to this contract were not submitted for audit verification. In the year under review, project records including payment vouchers, certificates of completion issued, status report of the project were still not available for our verification.

Further, a physical verification of the project revealed that the project has stalled and there was no budgetary provision in respect of the project during 2017/2018 financial year.

Consequently, the objectives of this project has not been achieved and the residents of West Pokot did not get value for money for the amount of Kshs.15,765,679 so far spent on the project.

### **4.0 Failure to Observe One Third Basic Salary Rule**

A review of payroll for the month of June 2018 revealed that 3 members of staff earned net salaries less than a third of their basic pay against the requirement of County Human Resource Manual 2013 and Section 19(3) of the Employment Act, 2007 which states that, without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages or such additional or other amount as may

be prescribed by the Minister either generally or in relation to a specified employer or employee or class of employers or employees or any trade or industry.

Consequently, the Assembly is in breach of the Employment Act.

## **5.0 Failure to Observe One Third Staff Establishment Rule**

A review of personnel records availed for audit revealed that the County Assembly had ninety-five (95) employees out of which eighty-five (85) or 89% are from the dominant ethnic community. The County Assembly is therefore in breach of Section 65(1) (e) of the County Governments Act, 2012 on staff establishment which requires that County Public Service Board in selecting employees to ensure that at least thirty (30%) of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community

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 audit procedures performed, except for the matter(s) described in the Basis for [Conclusion on Effectiveness of Internal Controls, Risk Management and Governance/Qualified Opinion] section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **1.0 Information Communication Technology**

A review of the Information and Communication Technology (ICT) of County Assembly of West Pokot 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.

## **2.0 Internal Audit Function**

As previously reported, the County Assembly of West Pokot has established an internal audit unit to oversee the governance mechanism and promote transparency and accountability of management of the County Assembly's resources. The unit has, however, only one officer who reports to management instead of an audit committee contrary to Regulation 155(1) of public Finance Management (County Governments) Regulations, 2015 which requires the head of internal audit unit in a County Government to enjoy operational independence through the reporting structure by reporting administratively to the Accounting Officer and functionally to the Audit Committee. Further, the internal audit operated without an internal audit charter detailing scope, responsibilities and purpose of internal Audit. Consequently, due to the shortage of capacity in internal audit unit, weaknesses in internal control systems may pass unnoticed hence exposing the Assembly to risk of loss of assets and other resources.

## **2.0 Risk Management Processes**

As reported in the previous year, review of risk management processes revealed that the management does not conduct risk assessment of the various operational areas and make recommendations of the measures to be instituted to check on the risks.

The lack of risk assessment and regular reviews on fraud risk control processes makes it impossible for the management to establish that the operations are not prone to risks.

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 West Pokot ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to going concern/ sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the West Pokot County Assembly 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 West Pokot 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 West Pokot 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 West Pokot 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 West Pokot 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 West Pokot 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**

**28 January 2019**