

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF KAKAMEGA FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Kakamega set out on pages 1 to 29, which comprise the statement of financial assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts, recurrent and development combined 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 Kakamega as at 30 June, 2020, 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 County Government Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracies in Cash and Cash Equivalents

The statement of financial assets and liabilities and as disclosed under Note 6 to the financial statements reflects bank balances of Kshs.31,843,480. This comprises balances of Kshs.31,803,747 held at Central Bank recurrent account and Kshs.39,733 at Co-operative Bank. The certificate of bank balance for the Central Bank of Kenya recurrent account was not provided for audit review. Further, review of the Co-operative Bank account cashbook revealed that the audited balance carried down from the financial year 2018/2019 was Kshs.571,775 which was at variance with the negative opening balance Kshs.251,485 for the financial year 2019/2020 resulting to an unexplained and unreconciled variance of Kshs.823,260.

In addition, the financial statements reflect a bank balance of Kshs.39,733 in respect of the Co-operative Bank account which was at variance, the Co-operative Bank account cashbook which reflects a closing bank balance of Kshs.4,955,637 resulting to a variance of Kshs.4,915,904.

Consequently, the accuracy of the cash and cash equivalents balance of Kshs.31,843,480 as at 30 June, 2020 cannot be confirmed.

2.0 Unsupported Personal Allowances Paid as Part of Salary

The statement of receipts and payments and as disclosed under Note 2 to the financial statements reflects compensation of employees of Kshs.562,224,984. Included in this amount is personal allowances paid as part of salary of Kshs.284,152,324 in respect of sitting allowances for the Members of County Assembly (MCAs). However, the schedule provided for audit reflected Kshs.131,255,800 resulting to a variance of Kshs.152,896,524. Further, the attendance register for the plenary sittings and minutes of the committee sittings were not provided for audit review.

Consequently, the accuracy and completeness of the reported personal allowances paid as part of salary in respect of sitting allowances for the Members of County Assembly amounting to Kshs.284,152,324 could be confirmed.

3.0 Unsupported Use of Goods and Services Expenditure

The statement of receipts and payments and as disclosed under Note 3 to the financial statements reflects use of goods and services of Kshs.407,248,082. A review of the expenditure records revealed the following:

3.1 Domestic Travel and Subsistence Expenditure

Included in the use of goods and services is Kshs.174,251,984 in respect of domestic travel and subsistence out of which an amount of Kshs.18,104,000 was paid to the COVID-19 Committees. However, there was no evidence that the amounts paid were received and signed for by the beneficiaries

3.2 Foreign Travel and Subsistence Expenditure

Included in the use of goods and services amount is Kshs.10,969,800 in respect of foreign travel and subsistence. Review of the expenditure records revealed that an amount of Kshs.3,525,200 was paid to Members of County Assembly and staff for foreign travel. However, Management did not provide supporting documents for the foreign travel such as letters of invitation, authority by accounting officer to travel, stamped passports, boarding passes and back to office reports.

3.3 Motor Vehicle Insurance Costs

Included in the use of goods and services amount is insurance costs of Kshs.45,314,484. Review of the expenditure records revealed that an amount of Kshs.1,295,760 was incurred by the County Assembly in respect of insurance premiums for two motor vehicles. However, the motor vehicle valuation reports as well as policy documents were not availed for audit review.

3.4 Rental for Produced Assets Expenditure

Included in the use of goods and services amount is Kshs.36,955,750 in respect to rentals for produced assets. Review of the expenditure records revealed that Kshs.321,000 was spent in respect to rent payment for ward offices. However, the payment was not supported with details of the offices being paid for or the period for which the payment was made. Further, no explanation was provided for paying the amount in excess of the recommended monthly rent of Kshs.10,000 for a county ward.

3.5 Routine Maintenance - Other Assets Expenditure

Included in the use of goods and services amount is Kshs.4,309,118 in respect to routine maintenance - other assets. Review of the expenditure records revealed that transactions worth Kshs.2,123,888 were not supported with local service orders, inspection and acceptance certificates and completion certificates.

Consequently, the accuracy and completeness of the use of goods and services amount of Kshs.407,248,082 as at 30 June, 2020 could not be confirmed.

4.0 Misstatement of Use of Goods and Services

The statement of receipts and payments and as disclosed under Note 3 to the financial statements reflects use of goods and services of Kshs.407,248,082. The following inaccuracies were observed:

- i. Included in the use of goods and services amount is expenditure of Kshs.6,608,075 in respect of specialized materials and services. Review of the supporting schedules revealed an unexplained and unreconciled double posting of Kshs.350,000.
- ii. Included in the use of goods and services amount is expenditure of Kshs.13,952,548 in respect of printing, advertising and information supplies and services. Review of the expenditure records revealed misclassified transactions amounting to Kshs.1,357,800 relating to domestic travel and subsistence.
- iii. Included in the amount of use of goods and services is Kshs.9,027,510 in respect of training expenses. Review of the expenditure records revealed misclassified transactions amounting to Kshs.1,904,000 related to domestic travel and subsistence.

Consequently, the accuracy, completeness and fair statement of the Kshs.407,248,082 expenditure on use of goods and services as at 30 June, 2020 could not be confirmed.

5.0 Unsupported Acquisition of Assets

The statement of receipts and payments and as disclosed under Note 5 to the financial statements reflects acquisition of assets of Kshs.6,074,750. A review of the expenditure records revealed payments totaling to Kshs.5,054,905 were not supported with invoices, delivery notes, inspection and acceptance certificates, goods received notes and local purchase orders. Further, it was also noted that the payment vouchers were not pre-numbered.

Consequently, the validity, accuracy and completeness of Kshs.5,054,905 reported under acquisition of assets cannot be confirmed.

6.0 Undisclosed Payables

It was noted that, the County Assembly of Kakamega made recoveries of Kshs.8,152,880 in the month of June, 2020. However, at the time of audit, in September, 2020, the monies had not been remitted to the Car Loan and Mortgage Fund and not disclosed as pending accounts payable.

Consequently, the accuracy of the and completeness of the pending accounts balance of Kshs.90,790,260 as at 30 June, 2020, cannot be confirmed.

7.0 Doubtful Pending Accounts Payable

Annex 1 of the financial statement reflects an amount of Kshs.90,790,260 in respect of analysis of pending accounts payable. The following was observed:

- i. The County Assembly incurred expenditure of Kshs.1,980,677 on procurement of ICT equipment. However, the ICT equipment could not be traced during physical verification. Management did not provide explanations on the whereabouts of the equipment
- ii. The County Assembly incurred expenditure of Kshs.4,110,000 in respect of provision for sanitizing equipment. A review of the supporting records indicated that the sanitizing equipment was received and taken on charge. However, the items could not be located on physical verification.
- iii. The County Assembly incurred expenditure of Kshs.625,630 in respect of training of personnel on COVID 19 management. However, there was no evidence to support the selection of the service provider and pricing of the training.
- iv. The County Assembly incurred expenditure of Kshs.4,590,000 in respect of fumigation of sixty ward offices. However, there was no evidence to support the selection of the service provider and award was done.

Consequently, the accuracy, completeness and fair statement of the pending accounts payable amount of Kshs.90,790,260 as at 30 June, 2020 could not be confirmed.

8.0 Overstatement of Pending Accounts Payables

Annex 1 of the financial statements reflects an analysis of pending accounts payables of Kshs.90,790,260. Included in this figure is Kshs.18,000,000 in respect of legal services. However, it was observed that the amount related to a contingent liability that was erroneously disclosed as a pending accounts payable instead of a Note to the financial statements in line with Paragraph 1.3.11 of International Public Sector Accounting Standard (IPSAS Cash Basis).

Consequently, the pending accounts payable is overstated by Kshs.18,000,000.

9.0 Incomplete Fixed Asset Register

The summary of fixed asset register at Annex 2 to the financial statements does not disclose the historical costs brought forward from financial year 2018/2019 and historical costs carried forward in the year 2019/2020.

Consequently, the accuracy and completeness of the summary of fixed assets register as at 30 June, 2020, cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kakamega County Assembly Management in accordance with ISSAI 130 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. I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Delayed Disbursement of Exchequer Releases

The statement of receipts and as disclosed under Note 9 to the financial statements reflects transfers from the county treasury/exchequer releases amount of Kshs.1,066,936,774. However, a review of exchequer issues revealed that the County Assembly had not received Kshs.89,562,486 as at 30 June, 2020 being part of the disbursements expected. The delay in disbursements of funds by The County Treasury adversely affected implementation of projects for financial year 2019/2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit 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 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 Payment of Hospital Bill Outside Medical Scheme

The County Assembly incurred expenditure of Kshs.45,314,484 in respect of insurance costs. Review of expenditure records revealed that an amount of Kshs.36,998,070 was paid in respect of Members of the County Assembly and staff medical cover. However, the County Assembly paid a hospital bill of Kshs.1,708,154 for a Member of County Assembly who was a beneficiary of the medical cover. No explanation was provided why the expenditure was not met through the staff medical insurance cover.

Consequently, the County Assembly was in breach of law.

2.0 Purchase of Biometric Equipment

The County Assembly incurred expenditure of Kshs.2,055,000 in respect of purchase of communication equipment. Included in this amount was Kshs.1,726,000 for supply and installation of biometric attendance equipment. However, although the equipment was delivered, it had not been installed as at the time of the audit.

Consequently, the value for money has not been realised on purchase of the biometric equipment.

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, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for 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

1.0 Failure to Constitute an Audit Committee

During the year under review, the Assembly had not constituted an Audit Committee. This was contrary to Regulation 42(e) of the Public Finance Management (County Governments) Regulations, 2015 which requires an Accounting Officer to ensure that the County Government entity has an Audit Committee in place.

Consequently, oversight over the activities of the County Assembly may not be possible.

2.0 Lack of Information Communication Technology Policies

As reported in the previous year, a review of the Information and Communication Technology (ICT) of the County Assembly revealed that the Assembly did not have an IT Policy, Data Recovery Plan (DRP) and IT security policy in the year 2019/2020. Further, the County Assembly did not have an IT steering committee which is important in performing the oversight function and formulation of policies.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the County Assembly's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless

Management is aware of the intention to dissolve the County Assembly or to cease operations.

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 way.

Those charged with governance are responsible for overseeing the County Assembly's 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 non-compliance. 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 policies and procedures may deteriorate.

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.
- 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 applicable 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 continue 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 continue 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

08 December, 2021