REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Kisii set out on pages 1 to 37, 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 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 Kisii 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 Public Finance Management Act, 2012 and the County Governments Act, 2012.

Basis for Qualified Opinion

1.0 Use of Goods and Services

1.1 Unsupported Expenditure on Foreign Travels to Uganda

The statement of receipts and payment reflects an expenditure of Kshs.281,715,655 under use of goods and services which, as disclosed in Note 5 to the financial statements, includes an amount of Kshs.19,342,495 relating to foreign travel and subsistence allowances. The latter balance includes an amount of Kshs.8,524,000 paid out to Members of County Assembly from various committees attending trainings and benchmarking courses in Uganda between the months of November, 2019 and March, 2020. However, the training needs assessment, back to office reports, passports, boarding passes, training programme and evidence of payment to the training institutions were not provided for audit review.

In the circumstances, the accuracy, validity and completeness of foreign travel and subsistence amounting to Kshs.8,524,000 could not be ascertained.

1.2 Unsupported Training Expenses

The expenditure of Kshs.281,715,655 under use of goods and services also includes an amount of Kshs.16,799,347 in respect of training expenses, out of which payments amounting to Kshs.4,384,000 was paid to a consultant for training services for different
committees in Kampala, Uganda. However, supporting documents including visas, passports, boarding passes and certificates for the participants as proof of travel and attendance were not provided for audit review.

In the circumstances, the accuracy and validity of the training expenses amounting to Kshs.4,384,000 could not be confirmed.

1.3 Ward Offices Operation Expenses

Included in the expenditure of Kshs.281,715,655 under use of goods and services is an amount of Kshs.57,868,000 relating to other operating expenses. The latter balance includes an amount of Kshs. 49,410,000 incurred on operation expenses by forty-five (45) wards. However, the Management did not provide lease agreements for the Ward Offices to support the lease payments.

Consequently, the accuracy and propriety of ward expenses to Kshs.49,868,000 could not be confirmed.

2. Unsupported Transfers to Government Entities

The statement of receipts and payments reflects an expenditure of Kshs.552,145 under transfers to Government entities which, as disclosed in Note 7 to the financial statements, related to refunds of the unutilized funds for 2018/2019 financial year transferred to the County Revenue Fund (CRF) account. However, supporting documents including payment vouchers were not provided for audit review.

Consequently, the accuracy, propriety, and completeness of transfers to Government entity of Kshs.552,145 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Kisii 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. There are no key audit matters to report in the year under review.
Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts for recurrent and development combined for the year under review reflects an approved receipt budget of Kshs.1,110,505,387 and actual receipts of Kshs.889,281,590 resulting in a budget shortfall of Kshs.221,223,797 or 20%. Similarly, the statement reflects an expenditure budget of Kshs.1,110,505,387 compared to an actual expenditure of Kshs.889,788,575 resulting in a net under-expenditure of Kshs.220,716,812 or 20%. The underfunding and underperformance constrained execution of planned activities and delivery of services to the residents of Kisii County.

2. Pending Bills

Annex 1 of the financial statements reflects pending bills of Kshs.120,362,877 which were outstanding as at 30 June, 2020. Management had not provided an explanation for non-payment of the pending bills. Failure to settle the bills will have a negative impact on the subsequent year’s budget allocation.

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 of Conclusion

1. Extension of Library and ICT Innovation Centre

The statement of receipts and payment reflects an expenditure of Kshs.125,515,690 under acquisition of assets which, as disclosed in Note 10 to the financial statements, includes an amount of Kshs.96,672,350 in respect of construction of buildings. The amount of Kshs.96,672,350 was incurred on extension of Library and ICT innovation Centre to host Members of County Assembly Offices. The tender was awarded to a contractor through on 8 January, 2019 at a contract sum of Kshs.195,000,000 for a period of thirty (30) months ending June, 2021. Physical verification on 25 November, 2020 indicated that, the superstructure had been done up to fourth floor and the contractor had been paid a total of Kshs.100,236,598. However, the contractor was not on site and the project is behind schedule and may not be completed by June, 2021 as provided in the contract.
Under the circumstances, the project may not be completed on time and value for money may not be realized.

2. Compensation of Employees- Wage Bill

The statement of receipts and payment reflects an expenditure of Kshs.482,005,086 under compensation of employees which translates to 46% of the total Assembly’s receipts of Kshs.889,281,590 in the year under review. This is contrary to Section 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015, which states that the County Government expenditure on wages and benefits for public officers should not exceed 35% of the County Government total revenue.

The Management was therefore, in breach of the law.

3. Staff Ethnic Composition

A review of personnel records indicated that the County Assembly of Kisii had a staff composition of 348 out of which 339 or 97% of the employees were from the dominant local community in the County. This is contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which stipulates that no public establishment shall have more than one third of its staff from one ethnic community.

Management was in breach of the law, to this extent.

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 Overall Governance 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**

**Risk Management Policy**

A review of the internal controls revealed that the County Assembly does not have in place a Risk Management Policy Framework to ensure that all operations are performed within the approved risk tolerance levels. Further, there was no documented Disaster Recovery Plan to deal with loss of data or information in case of systems failures to protect the IT infrastructure in the event of a disaster.

Under the circumstances, the County Assembly may be exposed to risk of loss of critical information in an event of a disaster.

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 overall 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 continue to sustain its 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 resources are applied in an effective way.
Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the County Assembly 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 overall 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 audit is planned and performed to express a conclusion about 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 and that public resources are applied in an effective way, 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.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 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 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.

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

15 October, 2021