

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF UASIN GISHU FOR THE YEAR ENDED 30 JUNE, 2020**

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## **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 31, 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 statements 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 the Uasin Gishu 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 Unsupported Cash and Cash Equivalents**

The statement of financial position and as disclosed in Note 8A reflects cash and cash equivalents balance of Kshs.55,943 as at 30 June, 2020. However, cash books for the ward offices accounts were not provided for audit verifications. Further, the County Treasury authority for the operationalization of the ward bank accounts was not provided for audit review.

Consequently, the accuracy and completeness of cash and cash equivalents balance of Kshs.55,943 as at 30 June, 2020, could not be confirmed.

#### **2.0 Unsupported Payment of Rent for Ward Offices**

The statement of receipts and payments and as disclosed in Note 3 to the financial statements reflects expenditure of Kshs.343,587,491 in respect of use of goods and services. Included in this amount is Kshs.6,340,000 incurred on rentals of produced assets. Review of records provided revealed that there was no lease agreement or contract between the County Assembly and the landlords. Further, the invoices in support of the payment of rent were not provided for audit review.

In addition, that the rent for all the wards offices was pegged at Kshs.15,000 per month. However, it was not possible to confirm how the rent charges were determined since ward offices are not located in the same area.

In the circumstances, the validity and accuracy of the rent expenditure for ward offices of Kshs.6,340,000 for the year ended 30 June, 2020, could not be confirmed.

### **3.0 Unsupported Payment of Wages toward Employees**

The statement of receipts and payments for the year ended 30 June, 2020, reflects compensation of employees' expenditure of Kshs.326,292,687. This included an amount of Kshs.30,636,000 paid to one hundred and forty-one (141) ward employees working for the Members of County Assembly. However, personal files and other employment documents were not provided for audit verification.

Consequently, the validity of the expenditure Kshs.30,636,000 incurred on salaries for ward employees for the year ended 30 June, 2020, could not be confirmed.

### **4.0 Unsupported Foreign Travel**

The statement of receipts and payments and as disclosed also in Note 3 to the financial statements reflects expenditure of Kshs.343,587,491 in respect of use of goods and services. Included in this amount is Kshs.26,500,000 incurred on foreign travel and subsistence allowance. The foreign travel and subsistence allowance included an amount of Kshs.4,050,749 paid to staff members while participating in the East Africa Local Authorities Sports and Cultural Association (EALASCA) in Kampala, Uganda. However, examination of documents in support of the expenditure revealed the following anomalies:

- (i) Management did not provide the list of participants from County Assemblies Sports Association (CASA) for the Kenyan team showing the various games in which the Kenyan participants were involved.
- (ii) The members of staff did not get approval from the State Department of Devolution as required under circular Ref: OP/CAB.1/7A dated 26 January, 2015.
- (iii) The members of staff did not attach bus hire invoices or tickets to account for an amount of Kshs.10,000 that was disbursed for transportation costs.
- (iv) The members of staff did not produce certificates of participation to confirm their participation in the games.

Consequently, the validity of the expenditure Kshs.4,050,749 incurred on the East Africa Local Authorities Sports and Cultural Association (EALASCA), games for the year ended 30 June, 2020, could not be confirmed.

## **5.0 Irregular Subscriptions to the Society of Clerks Table and County Assembly Forum**

The statement of receipts and payments and as disclosed also in Note 3 to the financial statements reflects expenditure of Kshs.343587,491 in respect of use of goods and services. Included in this amount are other operating expenses amount of Kshs.16,449,244. The amount includes payments for annual subscription to Society of Clerks Table of Kshs.500,000 and County Assembly Forum of Kshs.2,000,000. However, there was no legislation or policy in place to authorize such subscriptions and to justify the payments.

In the circumstances, the validity of the expenditure on subscription fees of Kshs.2,500,000 for the year ended 30 June, 2020, could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Uasin Gishu 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 were no key audit matters to report in the period under review.

### **Other Matter**

#### **1.0 Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.733,014,946 and Kshs.683,014,946 respectively resulting to an under-expenditure of Kshs.50,000,000 or 6.8% of the budget. The under-expenditure was as a result of development budget that was not spent. The non-utilization of the development budget affected the planned activities and may have impacted negatively on service delivery to the residents.

#### **2.0 Unresolved Prior Year Audit Matters**

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues nor given any explanation. Management has indicated that the issues have remained unresolved as the Senate has not met to deliberate on the same.

# 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 Expenditure on Salaries, Emoluments and Benefits

The County Assembly spent Kshs.326,292,687 on compensation of employees and Kshs.12,659,795 on social security benefits. The total expenditure of Kshs.338,942,482 on the two items represents 50% of the total receipts of Kshs.682,950,255. This was contrary to Regulation 25(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which requires the County Executive Committee Member with the approval of the County Assembly to set a limit on the County Government's expenditure on wages and benefits for its public officers pursuant to Section 107(2) of the Public Finance Management Act, 2012 which should not exceed thirty-five percent of the County Government's total revenue.

Consequently, the Management was in breach of law.

### 2.0 Failure to Observe One Third Rule on Staff Establishment

A review of human resource records revealed that the County Assembly had a staff establishment of ninety-nine (99) employees out of whom eighty-nine percent (89%) were from the dominant community. This was contrary to the provisions of Section 65(1)(e) of the County Governments Act, 2012 which requires the County Public Service Board to ensure that at least thirty percent (30%) of the vacant posts at the entry level are filled by candidates who are not from the dominant ethnic community.

Consequently, the Management was in breach of law.

### 3.0 Members of County Assembly and Employees Earning Less Than a Third of their Basic Pay

Audit review of the payroll for the months of December, 2019 to March, 2020 revealed that Members of County Assembly and employees of the assembly were receiving salaries less than a third of their basic pay as tabulated below:

Salary Month	Dec 2019	Jan 2020	Feb 2020	Mar 2020
Members of the County Assembly whose net salary was less than one third of their basic salary.	22	45	40	28

County Assembly employees whose net salary was less than one third of their basic salary.	2	8	9	12
<b>Total</b>	<b>24</b>	<b>53</b>	<b>49</b>	<b>40</b>

The was contrary to Section 19(3) of the Employment Act, 2007 provides that the total amount of all deductions made by an employer from the wages of his employee at any one time should not exceed two thirds of such wages.

Consequently, the Management was in breach of law.

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 matters 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 Lack of Information Communication Technology Policies

As reported in the previous year, 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 critical in performing the oversight function and formulation of policies.

#### 2.0 Lack of Audit Committee and Weak Internal Audit Unit

The County Assembly had not constituted an audit committee as required under Regulation 167(1) of the Public Finance Management (County Government) Regulations, 2015. Further, the Internal Audit Unit was reporting both functionally and administratively to the Accounting Officer due to the absence of an audit committee.

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 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 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 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 County Assembly's financial reporting process, reviewing the effectiveness of how the Management 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 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 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 Uasin Gishu County Assembly 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.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**02 December, 2021**