OFFICE OF THE AUDITOR-GENERAL

COUNTY ASSEMBLIES FORUM (CAF)
P. O. Box 73552 - 00200,
NAIROBI, KENYA

REPORT

OF THE

AUDITOR-GENERAL

FOR THE

COUNTY GOVERNMENTS

FOR THE

YEAR 2018/2019

VOLUME II - COUNTY ASSEMBLIES









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REPORT OF THE AUDITOR-GENERAL ON COUNTY GOVERNMENTS FOR THE YEAR 2018/2019

VOLUME II – COUNTY ASSEMBLIES

1.0 Introduction

1.1 Legal Mandate of the Office of the Auditor-General

The Auditor-General is mandated by the Constitution of Kenya, under Article 229, to audit and report on the use of public resources by all entities funded from public funds. These entities include; the National Government, County Governments, the Judiciary, Parliament, statutory bodies/state corporations, commissions, political parties funded from public funds, other government agencies and any other entity funded from public funds. The mandate of the Auditor-General is further expounded by the Public Audit Act, 2015.

The Constitution requires the Auditor-General to submit the audit reports of the public entities to Parliament and the relevant County Assemblies by 31st December, every year. In carrying out the mandate, the Auditor-General, is also required, under Article 229 (6) to assess and confirm whether the public entities have used the public resources entrusted to them lawfully and effectively.

Further, the objects and authority of the Auditor-General, as outlined in Article 249 of the Constitution, are: to protect the sovereignty of the people; to secure the observance by all State Organs of democratic values and principles; and to promote constitutionalism. The Auditor-General has also been given powers by the Constitution, under Article 252, to conduct investigations, conciliations, mediations and negotiations and to issue summons to witnesses for the purpose of investigations.

1.2 Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Accounting Standards (IPSAS)-Cash Basis, as prescribed by the Public Sector Accounting Standards Board (PSASB), and 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.

Management is also responsible for maintaining effective internal control environment necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for the assessment of the effectiveness of internal control, risk management and governance.

Further, management is required to ensure that the activities, financial transactions and information reflected in the financial statements are in compliance with the law and other relevant or applicable authorities, and that public resources are applied in an effective way.

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Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how each 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.

1.3 Auditor-General's Responsibility

My responsibility is to conduct an audit of the financial statements in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), and to issue an auditor's report. The audit report includes my opinion as provided by Section 48 of the Public Audit Act, 2015, and the report is submitted to Parliament in compliance with Article 229(7) of the Constitution.

In addition, Article 229(6) of the Constitution requires me to express a conclusion on whether or not, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the law and other authorities that govern them, and that public resources are applied in an effective way. I also consider the entities' control environment 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.

I am independent in accordance with Article 249(2) of the Constitution of Kenya, 2010 and ISSAI 130 on the 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 public entities in the Republic of Kenya.

1.4 New Reporting Structure

I have amended the structure of my report to address the reporting requirements of Article 229(6) of the Constitution of Kenya, 2010, which requires that an audit report shall confirm whether or not public money has been applied lawfully and in an effective way. Section 7(1)(a) of the Public Audit Act, 2015 also requires that I provide assurance on the effectiveness of internal controls, risk management system and governance in national and county governments entities.

In addition, the International Standards of Supreme Audit Institutions (ISSAIs), now require the incorporation of Key Audit Matters in the report on the financial statements, which are those matters that I determine in my professional judgment, are of most significance in the audit of the financial statements as a whole, for the year under review. In order to address these requirements, my audit reports contain the following:

i. Report on Financial Statements, in which I give an audit opinion on whether the financial statements present a true and fair view of the financial position and performance of the entity.

ii. Report on Lawfulness and Effectiveness in Use of Public Resources, in which I give a conclusion on whether or not public resources have been applied lawfully and in effective way.

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iii. Report on Effectiveness of Internal Controls, Risk Management and Governance, in which I give a conclusion on whether internal controls, risk management and overall governance were effective.

iv. Report on Other Legal and Regulatory Requirements is included where applicable, especially for the entities that registered under the Companies Act and any other enabling legislation and authorities that require such disclosure.

1.5 Audit Opinions

I have expressed the different types of audit opinions based on the following criteria:-

a) Unmodified/ Unqualified Opinion

The books of accounts and underlying records agree with the financial statements and no material misstatements were found. The financial statements give a true and fair view of the operations of the entity.

b) Qualified Opinion

Financial transactions were recorded and are to a large extent in agreement with the underlying records, except for cases where I noted material misstatements or omissions in the financial statements. The issues though material, are not widespread or persistent.

c) Adverse Opinion

The financial statements exhibit significant misstatement with the underlying accounting records. There is significant disagreement between the financial statements and the underlying books of accounts and/or standards. Problems are widespread, persistent and require considerable interventions by the management to rectify.

d) Disclaimer of Opinion

The financial statements exhibit serious and significant misstatements that may arise from inadequate information, limitation of scope, inadequacy or lack of proper records such that I was not able to form an opinion on the financial operations.

The list of the County Assemblies and the type of opinion given on the financial statements is contained in Appendix A.

1.6 Audit Findings

The key audit findings noted during the audit of each County Assembly's financial statements for the year ended 30 June, 2019 are presented in the sections below.

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COUNTY ASSEMBLY OF MOMBASA – NO.1

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1. Variance in Transfers from County Treasury

As disclosed under Note 1 to the financial statements, the statement of receipts and payments reflects transfers from the County Treasury/Exchequer releases of Kshs.562,902,091. However, a review of the bank statements revealed that the County Assembly actually received Kshs.211,816,218, resulting to a variance of Kshs.351,085,873. The variance relates to County Assembly staff salaries paid directly by the County Executive. It was not clear why the County Executive continues to manage the County Assembly's payroll despite the County Assembly having a separate budget and requesting own funds directly from the Controller of Budget. Further, the transfers from County Treasury of Kshs.562,902,091 is at variance with Kshs.682,989,569 reflected in the records of the County Executive resulting to an unreconciled variance of Kshs.120,087,468.

In the circumstances, the accuracy, completeness and validity of transfers from the County Treasury of Kshs.562,902,091 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

2. Unsupported Compensation of Employees

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects compensation of employees of Kshs.335,528,987. A review of records revealed that the balance was at variance with payroll summary balance of Kshs.332,533,929 by Kshs.2,995,058, while records maintained by the County Executive reflected Kshs.321,912,437, resulting to a variance of Kshs.13,616,550. Management did not provide reconciliations and explanations for the variances.

Further, the balance includes Members of the County Assembly (MCAs) sitting and responsibility allowances of Kshs.39,143,092 which were not supported.

In addition, payroll deductions amounting to Kshs.80,676,662 were not supported with documentary evidence of remittances of the statutory deductions to the relevant authorities.

In the circumstances, the accuracy, completeness and validity of compensation of employees' balance of Kshs.335,528,987 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

3. Unsupported Use of Goods and Services

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.232,699,581 under use of goods and services. However, examination of records revealed that the balance includes an amount of Kshs.32,524,849 paid as foreign travel and subsistence allowance. The amount was not supported with imprest surrender vouchers, approved annual plans

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or calendar, boarding passes, approvals to travel abroad, entry and exit visa stamps and daily itinerary.

Further, the Management spent an amount of Kshs.5,270,720 under routine maintenance - other assets but the expenditure was not supported with payment vouchers, purchase requisitions, quotations and inspection and acceptance committee reports.

In the circumstances, the accuracy, completeness and validity of expenditure amounting to Kshs.37,795,569 included under use of goods and services for the year ended 30 June, 2019 could not be confirmed.

4. Unsupported Cash and Cash Equivalents Balance

As disclosed under Note 13A to the financial statements, the statement of financial assets and liabilities reflects cash and cash equivalents of Kshs.2,044,639 which includes a Central Bank of Kenya recurrent bank account balance of Kshs.46,057 that was not supported with bank reconciliation and cash book. Further, the balance under imprest account amounting to Kshs.1,998,582 and held at a commercial bank included an amount of Kshs.110,000 related to stale cheques which had not been reversed in the cash book as at 30 June, 2019. However, Management did not avail board of survey certificate to support these balances for audit review.

Consequently, the accuracy and completeness of cash and cash equivalents balance of Kshs.2,044,639 reflected in the statement of financial assets and liabilities as at 30 June, 2019 could not be confirmed.

Other Matter

5. Budgetary Control and Performance

The statement of comparison of budget and actual amounts: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.707,114,950 and Kshs.562,902,091 respectively, resulting to an under-funding of Kshs.144,212,859 or 19.4% of the budget. Further, of the budgeted expenditure of Kshs.707,114,950, only Kshs.572,475,504 was absorbed resulting to an under absorption of Kshs.134,639,446 or 19% of the budget.

The underfunding affected the planned activities and projects which may have impacted negatively on service delivery to the public.

6. Pending Bills

As disclosed under Note 5.10 - Other important disclosures, the County Assembly had outstanding pending bills amounting to Kshs.121,750,821 as at 30 June, 2019. According to Annexes 1 and 2 the financial statements reflect pending accounts payables and pending staff payables amounting to Kshs.57,419,519 and Kshs.16,331,864 respectively, as at 30 June, 2019. Further, Annex 3 to the financial statements reflects other pending payables in respect to unremitted statutory deductions amounting to Kshs.33,724,455 and unremitted staff pension contributions amounting to Kshs.14,274,983 all totalling Kshs.121,750,821. Management has not explained why the bills were not settled.

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Failure to settle bills in the year to which they relate adversely affects the implementation of the subsequent year's budgeted programs as the pending bills form a first charge to that year's budgetary provision.

7. Prior Year 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, although the Management has indicated that the issues have been resolved, the matters have remained unresolved as the Senate has not deliberated on the same.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

8. Payments Made Outside Integrated Financial Management Information System (IFMIS)

The statement of receipts and payments reflects total payments of Kshs.572,475,504, out of which Kshs.52,142,558 was made through cash withdrawals in the name of County Assembly of Mombasa for outward payments outside the IFMIS. This is contrary to Sections 149(1) of the Public Finance Management Act, 2012 and Regulation 109(1) of the Public Finance Management (County Governments) Regulations, 2015 which provide that the Accounting Officer for a County Government entity shall ensure that resources are used lawfully and authorized, and in an effective, efficient, economical and transparent way, and that all payments are made through the automated integrated financial management system.

In the circumstances, the Management is in breach of law.

9. Accounts Receivables - Outstanding Imprests

Note 14 to the financial statements reflects imprests balance of Kshs.15,401,430. Review of availed imprests register revealed that imprests amounting to Kshs.2,741,182 had been outstanding for over one (1) year while Kshs.9,238,425 was held as multiple imprests by thirty-five (35) officers. This is contrary to Regulation 93(5) of the Public Finance Management (County Governments) Regulations, 2015 which requires a holder of a temporary imprest to account or surrender it within seven (7) days after returning to duty station. Further, Regulation 93(4)(b) of the Public Finance Management (County Governments) Regulations, 2015 requires Accounting Officer to ensure that the applicant has no outstanding imprest before issuing new ones.

In the circumstances, Management is in breach of law.

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Basis for Conclusion

10. Weaknesses in Internal Control and Risk Management

10.1 Failure to Establish an Approved Risk Management Strategy

Management did not provide supporting documents as evidence that it had established a risk management strategy which would have included fraud prevention mechanism as well as developing a system of risk management and internal controls that builds robust business operations.

10.2 Failure to Establish Public Finance Management Committee

Management did not provide supporting documents as evidence that it had established a Public Finance Management Committee during the financial year ended 30 June, 2019. The committee would have provided strategic guidance to the Management on public finance management matters.

10.3 Weak Internal Audit and Lack of Audit Committee

As previously reported, the Management had not constituted an Audit Committee. It was not clear who carries the financial oversight role in the County Assembly. Further, the Internal Audit Department had no Charter creating functions, roles and powers of the Department. It was also observed that the Head of Internal Audit Function reports administratively and functionally to the Clerk, a situation that casts doubt on the independence of the department.

In absence of an approved strategy and oversight institution, it has not been possible to determine whether the budget implementation and risk mitigation strategies, policies and procedures would ensure effectiveness of internal control and that public resources are utilized for the intended purpose.

11. Un-Updated Fixed Assets Register

Annex 4 to the financial statements reflects a summary of fixed assets balance of Kshs.90,064,557. However, these assets are not tagged and the dates of acquisition and costs are also not indicated in the register.

In the circumstances, I am unable to determine whether Management has put in place policies and procedures to ensure safety and custody of its assets.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

12. Unsupported Compensation of Employees

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects compensation of employees balance of Kshs.240,511,732. The balance constitutes basic wages of temporary employees of Kshs.12,940,600 which includes an amount of Kshs.1,550,000 paid to Ward offices' staff as arrears of salary increment. However, the increase was not supported by approval and evidence that the amounts were finally paid to the beneficiaries.

Further, compensation of employees includes personal allowances paid as part of salary of Kshs.99,241,413. However, payroll records availed for audit review, included an amount of Kshs.3,143,000 for telephone allowances paid to staff and Members of County Assembly (MCAs) which is part of personnel emoluments. Management did not include this amount but instead wrongly disclosed it under telephone, telex, facsimile and mobile services expenditure. Included in the Kshs.3,143,000 on telephone allowances is Kshs.928,000 paid to the County Assembly staff, contrary to the Circular Ref. No. SRC/TS/CGOVT/3/16 of 29 July, 2013 issued by the Salaries and Remuneration Commission of Kenya which does not provide for telephone allowances for County Assembly's staff.

In addition, the basic salaries paid to permanent employees amounting to Kshs.103,967,438 differed with the Integrated Personnel and Payroll Database (IPPD) schedule of Kshs.104,012,768, resulting to an unexplained and unreconciled variance of Kshs.45,330.

In the circumstances, the accuracy, validity and completeness of compensation of employees of Kshs.240,511,732 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

13. Use of Goods and Services

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services balance of Kshs.330,523,716. However, the following issues were observed:

13.1 Irregular and Unaccounted for Expenditure

During the year under review, Management expensed an amount of Kshs.162,226,648 through cash advances in respect of travel by staff and Members of County Assembly (MCAs). The amount constitutes Kshs.132,929,148 and Kshs.29,297,500 that was captured under domestic travel and subsistence allowances and foreign travel and subsistence allowances respectively. Examination of records revealed that the amounts were issued as cash advances and immediately expensed off in the books before the activities were undertaken. No imprest was issued contrary to Regulation 93(3) of the Public Finance Management Regulations, 2015 which states that, 'Temporary imprest shall be issued mainly in respect of official journeys and are intended to provide officers with funds to meet travelling, accommodation and

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incidental expenses' and Regulation, 93(5) of the Public Finance Management Regulations, 2015 which states that, 'A holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station'.

13.2 Unsupported Expenditure

Further, Management made payments amounting to Kshs.55,254,491 which was not supported with the relevant details as indicated below:

	Component	Amount (Kshs)	Missing Records
1	Domestic travel and subsistence allowances	7,182,000	Invitation letters, programs of work, return to office reports, evidence of attendance
2	Foreign travel and subsistence allowances	3,326,739	Invitation letters, programs of work, return to office reports evidence of attendance
3	Hospitality supplies and services	2,375,600	Details of persons who were provided with the services and information on the occasions that required provision of such services
4	Advertising and information supplies & services	13,523,161	Evidence of provision of bulk photocopying of documents
5	Training expenses	9,782,991	Needs assessment, evidence of staff attendance of courses
6	Other operating expenses	18,733,000	List of registered service providers for legal services.
7	Rentals of Produced Assets	331,000	Excess rent not recovered
	Total	**55,254,491**	

In the circumstances, the propriety, validity and completeness of expenditure amounting to Kshs.217,481,139 and included under use of goods and services for the year ended 30 June, 2019 could not be confirmed.

14. Unconfirmed Ownership of Land

As disclosed under Note 10 to the financial statements, the statement of receipts and payments reflects payment under construction of buildings amounting to Kshs.33,809,036 and domestic public non-financial enterprises of Kshs.51,243,053 all totalling Kshs.85,052,089. Included in this amount is Kshs.53,619,853 in respect of construction of ten (10) MCAs ward offices at a contract price of Kshs.68,243,743. However, Management did not provide documents confirming ownership of the land on which the offices are constructed.

Under the circumstances, the ownership and obligations of the land could not be ascertained.

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15. Accounts Receivables – Outstanding Imprests

As disclosed under Note 14 to the financial statements, the statement of financial assets and liabilities reflects accounts receivables–outstanding imprests of Kshs.4,455,821. The balance includes Kshs.4,119,392 in respect of tax notice – KRA where Management indicated that this was a direct debit from their CBK Recurrent Account by Kenya Revenue Authority (KRA), being interest and penalties. Although Management indicated that it has been remitting its tax obligations on time and did not have any outstanding obligations, there was no evidence provided to confirm that KRA had accepted to refund the amount.

Consequently, the accuracy, completeness and recoverability of Kshs.4,119,392 in respect of accounts receivables as 30 June, 2019 could not be ascertained.

Other Matter

16. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.814,556,965 and Kshs.673,982,444 respectively resulting to an under-funding of Kshs.140,574,521 or 17% of the budget. Similarly, the statement reflects final payments budget and actual on comparable basis of Kshs.814,556,965 and Kshs.664,602,947 respectively resulting to an under expenditure of Kshs.149,952,928 or 18% of the budget.

The underfunding affected the planned activities and could have impacted negatively on service delivery to the resident of the County.

17. Pending Bills

As disclosed under Note 5.10, other disclosures to the financial statements, the County Assembly had pending accounts payables totalling Kshs.144,744,822 as at 30 June, 2019. Management has not explained why the bills were not settled during the year to which they occurred. Failure to settle bills during the year in which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

18. Non-Conformity with the Reporting Template

The annual report and financial statements do not contain the follow up on audit recommendations. As a result, it has not been possible to determine whether Management has taken any action on the previous audit observations. This is contrary to the format prescribed by the Public Sector Accounting Standards Board (PSASB) in accordance with section 194(1)(d) of the Public Finance Management Act, 2012 which mandates the PSASB to prescribe the formats for financial statements and reporting by all state organs and public entities.

Management is therefore in breach of the law.

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19. Acquisition of Assets

19.1 Proposed Construction of the County Assembly Complex

Annex 4 to the financial statements reflects historical cost of buildings and structures of Kshs.606,148,957. Included in the balance is Kshs.387,176,621 in respect of construction of the County Assembly Complex project whose contract sum was Kshs.466,892,170. This contract sum was varied by Kshs.116,723,042 or 25% to Kshs.583,615,212 vide letter of 29 March, 2018. However, interim certificate No. six (6) dated 11 May, 2018 for Kshs.50,964,401 indicated the total amount of work done as Kshs.402,106,969. The interim certificate did not indicate the itemized bills of quantities (BQs) indicating actual measured works at that date. Available information indicated that the project was to be completed by 29 June, 2017, which was extended by seventy-eight (78) weeks as per letter dated 20 September, 2018 which did not specify whether the extension was from the date of approval or from the previous expected date of completion. Management did not provide details of the revised work program to show the expected date of completion and evidence that the performance bond had been renewed to cover the extension of the contract period.

Further, the project's BQs provided for provisional sums totalling to Kshs.192,200,000 for various works which were sub-contracted and were being undertaken. Details of how the sub-contractors were identified, selected and contracted to undertake the works were not availed for audit verification while approval by the Project Manager before the works were undertaken were not availed.

Physical verification carried out in the month of October, 2019, revealed that the contractor was on site undertaking various works and landscaping works.

Consequently, the Management is in breach of the law and value for money on construction of the County Assembly Complex to the residents of the County could not be confirmed.

19.2 Delay in Construction of Speaker's Official Residence

Further, the balance constitutes an amount of Kshs.86,213,477 which relates to construction of the Speaker's official residence. Included in this amount is Kshs.46,411,072, being the contract sum for construction of Speaker's main house which was fully paid for as at 30 June, 2018. However, as previously reported, the contract sum was varied by Kshs.11,848,503 or 25.53% to Kshs.58,259,575, contrary to Section 139(6) of the Public Procurement and Asset Disposal Act, 2015 which states that 'where variations result in an increment of the contract price by more than twenty-five (25) percent, such variations shall be tendered for separately'. Further, the Management has not been able to obtain ownership documents for part of the construction site land measuring 0.41 hectares.

During physical verification of the project in the month of October, 2019, it was observed that the residence had not been occupied despite the original completion date being 14 November, 2016, three (3) years late.

Consequently, the value for money of Kshs.58,259,575 on construction of the Speaker's official residence could not be confirmed.

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20. Non-Compliance with Law on Ethnic Composition

During the year under review, the total number of employees of County Assembly was sixty-one (61) out of which fifty-two (52) or 85 % were members of the dominant ethnic community in the County. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, "all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community". Further, forty-five (45) or 74% were of the male gender and sixteen (16) or 26% are of the female gender, contrary to Article 27(8) of the Constitution of Kenya, 2010 on two-third gender balance

Consequently, the Management is in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

21. Manual Processing of Salaries

The statement of receipts and payments reflects compensation of employees amounting to Kshs.240,511,732. However, a review of the Integrated Personnel and Payroll Database (IPPD) reports and related records indicated that an amount of Kshs.8,483,723 relating to salaries paid to some MCAs was manually processed as the same members had not been defined in the IPPD.

Manual processing and payment of salaries exposes the transactions to manipulations due to control weakness.

22. Lack of Information, Communication and Technology (ICT) Environment

A review of the County Assembly's ICT environment revealed that the Management had not established an ICT Steering Committee and had no approved ICT policy.

Consequently, prevention of loss of data, recovery of lost data or sensitive information may be difficult or impossible.

23. Lack of Audit Committee

The Management has not established an Audit Committee. As a result, there is no developed process of deliberating on audit findings or discussion on the internal audit reports from the Internal Audit Unit.

In the circumstances, I am unable to confirm existence of policies and procedures for ensuring effectiveness of internal controls.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

24. Unsupported Basic Salaries of Temporary Employees

The statement of receipts and payments reflects compensation of employees balance of Kshs.405,684,496 out of which an amount of Kshs.39,116,636 was paid as basic wages for temporary employees. However, included in this figure is Kshs.33,913,478 in respect of compensation of employees paid outside the Integrated Personnel Payroll Database (IPPD) which was not supported with contracts of employment, academic and professional certificates of employees.

Consequently, the accuracy and validity of Kshs.39,116,636 paid as basic wages for temporary employees for the year ended 30 June, 2019 could not be confirmed.

25. Unsupported Expenditure

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.431,637,445 under use of goods and services. However, a review of the various components revealed that under domestic travel and subsistence, the Management spent Kshs.217,833,446, out of which Kshs.152,466,746 was not supported with documents such as requisitions from Heads of departments, imprest warrants, work tickets, boarding passes, bus tickets, taxi tickets and imprest surrender vouchers.

Similarly, under the hospitality supplies and services expenditure of Kshs.29,344,791 was not supported by evidence of how the venues and hotels were identified, the attendance registered and payment vouchers were not availed for audit review.

In the circumstances, the accuracy and completeness of use of goods and services balance of Kshs.431,637,445 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

Other Matter

26. Budgetary Control and Performance

The County Assembly had an approved total budget of Kshs.1,214,680,971 voted for the financial year 2018/2019, while actual receipts and expenditure amounted to Kshs.1,031,413,979 and Kshs.1,036,560,911 respectively, resulting to overall under-collection and under - absorption of Kshs.183,266,992 and Kshs.178,120,060 respectively, which translates to 15% budget under performance.

In particular, the Management spent Kshs.431,637,445 against an approved budget of Kshs.341,646,604 resulting to an over expenditure of Kshs.89,990,841 or 26% under use of goods and services budget, contrary to Section 154 of the Public Finance Management Act, 2012.

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The funds could have been allocated to other deserving areas that would improve delivery of services to the residents of the County.

27. Pending Bills

Notes 4.9.1 and 4.9.2 -Other Disclosures to the financial statements reflects pending accounts payables balance of Kshs.43,921,940 and pending staff payables balance of Kshs.19,745,757 all totaling to Kshs.63,667,697. However, the supporting pending accounts registers were not availed for audit review. Management has not explained why the amounts were not paid during the year.

Failure to clear pending bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

28. Outstanding Imprests

As disclosed under Note 10 to the financial statements, the statement of assets and liabilities reflects accounts receivables - outstanding imprests balance of Kshs.6,538,159. However, no analysis in terms of name of imprest holders, dates of issue, dates due, amounts surrendered and balance as at 30 June, 2019 was provided.

Consequently, it has not been possible to confirm the accuracy, authenticity and validity of the outstanding imprests of Kshs.6,538,159 reflected in the statement of assets and liabilities as at 30 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

29. Acquisition of Assets

As reported previously, Note 6 to the financial statements reflects Kshs.112,355,828 in respect to construction of buildings (Assembly's Office Complex). The project was started in the year 2016/2017 at a contract sum of Kshs.508,549,884. However, due to poor performance of the contractor, the contract was terminated and the Management engaged another contractor at a contract sum of Kshs.622,233,278, resulting to excess commitment of Kshs.113,683,394.

Audit inspection of the project in the month of November, 2019 revealed that the work was in progress. Progress report availed for audit indicated that the work was 40% done, while the estimated project completion date was 15 September, 2019.

Consequently, delayed completion and additional costs of the project may deny the residents value for money.

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Basis for Conclusion

30. Failure to Constitute Audit Committee

As reported in the previous year, the Management had not constituted an Audit Committee, contrary to Regulation, 167 of the Public Finance Management (County Governments) Regulations, 2015 which requires each public entity to establish an Audit Committee. It was not clear who carries out the financial oversight role for the County Assembly.

Consequently, the effectiveness of overall governance could not be confirmed.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

31. Unsupported Expenditure- Domestic Travel and Subsistence

Included in the use of goods and services of Kshs.263,541,350 under Note 3 to the financial statements is Kshs.170,951,077 for domestic travel and subsistence. This includes payments of Kshs.45,147,386 which was not supported with travel documents, meeting attendance registers, boarding passes and approved requisition. This was contrary to Section 104(1) of Public Finance Management (County Governments) Regulations, 2015 which requires that all receipts and payments vouchers of public moneys shall be properly supported by the appropriate authority and documentation.

Consequently, the accuracy and completeness of the expenditure of Kshs.45,147,386 could not be ascertained.

32. Irregular Procurement of Car Hire Services

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflects use of goods and services balance of Kshs.263,541,350 which constitutes an amount of Kshs.4,986,410 in respect of rentals on produced assets. The amount includes Kshs.2,000,000 incurred on hire of motor vehicles which was directly procured without raising request for quotations and a Local Service Order (LSO).

In view of the above, the propriety of the expenditure of Kshs.2,000,000 could not be confirmed.

33. Unsupported Payments on Acquisition of Assets

The statements of receipts and payments reflects acquisition of assets balance of Kshs.54,510,042. However, audit review of the expenditure revealed that an amount of Kshs.11,008,685 was paid without the relevant supporting documents such as acceptance letters, tender notification letters, copies of advertisement, company profiles, request for quotation for both winning and unsuccessful bidders, authorized requisition by user department and invoices.

In the circumstances, the validity of the expenditure of Kshs.11,008,685 could not be ascertained.

Other Matter

34. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects actual expenditure of Kshs.499,999,373 against final budget expenditure of Kshs.509,819,158 resulting in an under-expenditure of Kshs.9,819,782. Further, the actual expenditure for the

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year included an amount of Kshs.43,200,000 for Transfers to County Government Entities which had not been budgeted for.

Non-adherence to the budget denies residents services as planned.

35. Pending Bills

Note 4.10 to the financial statements reflects pending accounts payables totalling Kshs.26,629,727 (2018: Kshs.16,499,169) as at 30 June, 2019. During the year under review, the Management made nil payments while accumulative bills amounted to Kshs.5,030,851. Management has not explained why the bills were not settled during the year they occurred. The County Assembly is at risk of incurring significant interest costs and penalties with their continued delay in payment.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

36. 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, although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the Senate has not deliberated on the same.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

37. Staff Numbers Beyond the Approved Limit

An audit review of the payroll revealed that as at 30 June, 2019, there were eighty (80) permanent employees in the County Assembly's payroll. This is contrary to the Commission on Revenue Allocation Circular Ref. No. CRA/FA/01 VOL 11 (22) which capped the number of employees to sixty-five (65) for the cluster of County Assemblies under which the County Assembly of Tana River belongs. The County Assembly has therefore exceeded the required number by fifteen (15) employees.

Consequently, the Management is in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

38. Weaknesses in Internal Controls

During the year under review, expenditure totalling to Kshs.29,376,241 was not authorized by the Accounting Officer while payment vouchers worth Kshs.34,073,888 were not stamped 'PAID' after payment was done. The Management therefore did not

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enforce a strong internal control which could lead to double payments or payments of fictitious expenditure.

39. Lack of Functional Internal Audit Unit

The County Assembly has established an Internal Audit Unit. However, the unit has only one (1) officer who reports functionally and administratively to the Clerk of the County Assembly. The unit does not have an internal audit charter that defines its functions, roles and powers of the function.

Under the circumstances, the effectiveness and independence of the Internal Audit Unit could not be ascertained.

40. Failure to Establish an Audit Committee

The Management has not established an Audit Committee contrary to Section 153 of the Public Finance Management Act, 2012 which requires County Government entities to establish audit committees in accordance with prescribed regulations to monitor the entities governance process, accountability process and control systems, offer objective advice on issues concerning risk, control, regulatory requirements and governance of the County Assembly.

Under the circumstances, effectiveness of overall governance could not be confirmed.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

41. Unconfirmed Use of Goods and Services Expenditures

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects payments totalling Kshs.183,036,866 being expenditures incurred on use of goods and services. However, several anomalies were noted as highlighted below:

41.1 Rental Payments

The balance includes expenditures totalling Kshs.1,748,200 incurred on rental payments. However, an amount of Kshs.1,200,000 incurred on rent for Ward offices was not adequately supported. Examination of the expenditure records indicated that rental agreements for five (5) Wards and the committee house building expired on 1 April, 2019 but were not renewed.

41.2 Hospitality, Supplies and Services

Management paid Kshs.1,725,000 to a supplier for providing catering services to the County Assembly. However, no documentary evidence was presented, for audit review, to confirm whether the supplier provided the services.

41.3 Insurance Costs

The above balance of Kshs.183,036,866 also includes Kshs.15,052,150 incurred on insurance costs which in turn include premiums amounting to Kshs.7,637,552 paid for staff medical insurance. However, procurement and payment documents for the insurance cover were not presented for audit review. Further, Management spent premiums totalling Kshs.4,727,400 on a medical scheme for Members of the County Assembly (MCAs). However, the premiums were paid at a rate higher than that approved by the Salaries and Remuneration Commission (SRC) and were, therefore, irregular.

41.4 Fuel, Oil and Lubricants

Included in the balance is Kshs.4,054,500 incurred on fuel, oil and lubricants. However, payment vouchers for the expenditure were not supported with records of fuel drawn and work tickets as well as other relevant records. As a result, it is not possible to confirm the propriety of the expenditure totalling Kshs.4,054,500 reported to have been incurred on fuel and lubricants during the year under review.

41.5 Contributions to County Assemblies Forum

Included in the balance are other operating expenses amounting to Kshs.9,429,354 which in turn include a sum of Kshs.3,900,000 paid to the County Assemblies' Forum. However, documented evidence to confirm that the payments were received by the

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Forum has not been provided for audit review. Furthermore, no legal authority was cited in making the payments.

41.6 Routine Maintenance - Vehicles and Other Transport Equipment

The expenditure on use of goods and services includes payments amounting to Kshs.8,056,940 made during the year for maintenance of vehicles and other transport equipment. However, payments totalling Kshs.7,390,615 are not supported with motor vehicle work tickets, reports on defects, and before and after inspection certificates.

In the circumstance, the occurrence and propriety of the expenditure totalling Kshs.26,907,667 included under use of goods and services during the year under review could not be confirmed.

42. Unconfirmed Temporary Employees Wages

Included in the compensation of employees expenditure totalling Kshs.147,890,239 reflected in the statement of receipts and payments are transfers amounting to Kshs.8,040,000 made to Ward offices to pay salaries for temporary workers employed in the offices. However, documents to confirm the identities and other particulars of the payees, including the manner of their appointment, terms of engagement, receipt of payments and work done were not submitted for audit review.

In the circumstances, the occurrence, measurement and validity of the payments totalling Kshs.8,040,000 paid to temporary employees not been confirmed.

43. Unconfirmed Acquisition of Assets Expenditure

As disclosed under Note 10 to the financial statements, the statement of receipts and payments reflects acquisition of assets expenditure totalling to Kshs.141,582,512 which includes a balance of Kshs.49,427,000 incurred on purchase of land and buildings and Kshs.67,102,000 incurred on construction of buildings. However, procurement and payment documents to support the latter two sets of expenditures were not presented for audit review. The documents were reported to have been forwarded to the Ethics and Anti-Corruption Commission (EACC) for investigation.

Further, the summary of fixed assets register under Annex 4 to the financial statements, indicates that the County Assembly held non-current assets valued at Kshs.449,713,183 as at 30 June, 2019 against Kshs.308,130,671 as at 30 June, 2018. However, Management does not keep a register of its lands and buildings that shows terms of ownership of the assets, conveyance, location, dates and costs of acquisition, disposal and other details required by Section 136(2) of the Public Finance Management (County Governments) Regulations, 2015.

As a result, the valuation, completeness and security of the non-current assets balance valued at Kshs.449,713,183 reflected in the summary of fixed assets register as at 30 June, 2019 has not been confirmed.

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Other Matter

44. Budgetary Control and Performance

During the financial year under review, the approved budget for the County Assembly was Kshs.654,000,000 which comprised of Kshs.404,000,000 (70%) for recurrent expenditure and Kshs.250,000,000 (30%) for development expenditure. The budget was 13.5% of the total County Government budget totalling Kshs.4,846,739,676 which exceeded by 6.5 percentage points the limit set in Section 25(f) of the Public Finance Management (County Governments) Regulations, 2015.

During the year under review, the Management spent Kshs.355,980,518 and Kshs.116,529,000 on recurrent and development expenditure respectively. Therefore, the spending rates were equivalent to 88% and 72% of the respective budgets while pending bills amounted to Kshs.1,382,004 in the vote book as at 30 June, 2019.

Failure to absorb the whole budget may have constrained the scope of services offered by the Management.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

45. Meetings, Training and Events

During the year under review, the Management spent Kshs.44,419,750 on various retreats, trainings and Management meetings. These included eighty-three (83) committee sittings held in Mombasa. However, no proper explanation has been provided by Management for holding the retreats and meetings and, further, why some of these were held in Mombasa and not in Lamu.

In the circumstances, Management was in breach of the law.

46. Training Courses held Abroad

The Management incurred training expenses totalling Kshs.18,929,300 on courses attended by staff abroad. However, the courses were widely available in Kenya where travel and related costs incurred would have been lower. Further, reports by the trainees upon return were not made available for audit review.

Consequently, the validity and value for the money incurred on the expenditure could not be confirmed.

47. Single-Sourced and Exported Training

During the year under review, the Management spent a total of Kshs.29,477,893 on training expenses. However, audit review of the expenditures revealed that ten (10) training courses were offered by one (1) institution at a total cost of Kshs.12,359,450. Further, although, the institution offers similar courses locally, six (6) of the ten (10) courses procured by the Management were held in Dubai and three (3) in Tanzania. Management has not provided satisfactory explanations why the courses conducted by a local trainer were held in more expensive destinations abroad.

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Further, the training services were procured directly without complying with Section 103 and 104 of the Public Procurement and Asset Disposal Act, 2015. No plausible explanation has been provided for failure to procure the services through a competitive process.

Consequently, Management was in breach of the law.

48. Misapplication of Standing Imprests Account

A review of cash records indicated that during the year under review, the Management paid Kshs.1,341,000 to a supplier through the imprests account operated in one of the local banks. The payments were made contrary to Section 82(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that imprest accounts should only be used to pay petty cash transactions. No plausible explanation has been provided for the irregular action.

Consequently, Management was in breach of law.

49. Compensation of Employees

49.1 Overpayment of Monthly Allowances

A review of salary and emoluments expenditure revealed that monthly allowances paid to Members of the County Assembly (MCAs) during the year under review exceeded by Kshs.2,413,026 the amounts as set by the Salaries and Remuneration Commission. However, no proper explanation has been provided for the excessive payments.

49.2 Personal Allowances Paid as Part of Salary

Examination of salary and emoluments indicated that Kshs.12,251,500 was paid as sitting allowances to MCAs. However, a review of the expenditure revealed the following anomalies:

i) MCAs were paid sitting allowances for committee meetings while on other official duties or attending training and other workshops.

ii) MCAs were paid sitting allowances for various concurrent meetings.

iii) MCAs claimed and were paid sitting allowances for more than the prescribed limit of sixteen (16) committee and plenary sittings per month. The payments were made contrary to SRC Circular No .SRC/TS/CGOVT/3/16 on sitting allowances for MCAs.

iv) Eighty-three (83) committee sittings were held in Mombasa as opposed to Lamu resulting in payment of excessive domestic and subsistence allowances and hotel conference charges contrary to Section 210(1) of the Public Finance Management (County Governments) Regulations, 2015.

v) Eleven (11) MCAs served in more than three (3) Sectorial Committees contrary to Standing Order 157(3) of County Assembly of Lamu.

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In the circumstances, the validity and value for money on the expenditure could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

50. Weak Inventory Control

A review of the records on procurement of goods and services indicated that purchases for goods amounting to Kshs.4,101,680 were not recorded in the stores ledgers contrary to Section 162 of the Public Procurement and Asset Disposal Act, 2015.

As a result, accounting for stocks was not adequate and risk of losses and stock-outs was high.

51. Weak Control over Standing Imprests

Examination of cash records indicated that the Management operated a standing imprests account in a local bank. However, a memorandum cash book was not maintained to record receipts and payments made through the standing imprest. In addition, bank reconciliation statements were not prepared and submitted to the Auditor-General each month as required by Section 90 of the Public Finance Management (County Governments) Regulations, 2015. Furthermore, bank reconciliation statements were prepared manually and not in the Integrated Financial Management System (IFMIS) as expected.

Consequently, the internal controls over standing imprest were not operating in an effective way during the year ended 30 June, 2019.

52. Lack of Audit Committee

The County Assembly had no Audit Committee in place during the year under review contrary to Section 155(5) of the Public Finance Management Act, 2012. The Law requires each County Government to establish an Audit Committee with sufficient independence from Management as prescribed in Section 167(1) of the Public Finance Management (County Governments) Regulations, 2015.

Consequently, the effectiveness of overall governance could not be confirmed.

53. Lack of Internal Auditor

During the financial year under review, the County Assembly did not have an Internal Auditor contrary to Section 155 of the Public Finance Management (County Governments) Regulations, 2015, which states that a County Government entity shall ensure that it has appropriate arrangements for conducting internal audit according to the guidelines issued by the Public Sector Accounting Standards Board.

As a result, the risk of ineffective management of public resources entrusted to the County Assembly was high.

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54. Lack of a Data Recovery Plan

A review of the Information and Communication Technology (ICT) management system deployed by the Management revealed that it did not have a Data Recovery Plan and ICT Security Policy. These are vital in effective and efficient management of an entity's ICT resources. Further, there was no ICT Steering Committee, which is vital for oversight and formulation of effective ICT management policies. In addition, there were no reports on use of ICT resources and therefore decision-making and control over the resources was not effective.

Consequently, the effectiveness of the internal controls on data recovery would not be confirmed.

55. Lack of an Asset Management Policy

The Management did not have an Assets Management Policy. Therefore, there are no written guidelines on management of its assets including polices on acquisition, replacement and security.

As a result, it is not possible to confirm whether the fixed assets of the County Assembly valued at Kshs.449,713,183 as at 30 June, 2019 are managed in an economic, efficient, effective and secure way.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

56. Variances Between Financial Statements and Integrated Financial Management Information System (IFMIS) Ledger Balances

The statement of receipts and payments reflects aggregate payments of Kshs.689,649,707 which includes payments totalling Kshs.607,750,595 incurred on acquisition of assets, compensation of employees and use of goods and services. The latter balance however, does not tally with data extracted from IFMIS which reflects payments totalling Kshs.541,024,312 made on the three (3) items. The difference of Kshs.66,726,283 between the two sets of records is highlighted in the table below:

Expenditure Item	Expenditure as Per Financial Statements (Kshs)	Expenditure as Per IFMIS (Kshs)	Variance (Kshs)
Acquisition of assets	38,497,067	7,283,801	31,213,266
Compensation of employees	247,703,175	230,003,737	17,699,438
Use of goods and services	321,550,353	303,736,774	17,813,579
Total	**607,750,595**	**541,024,312**	**66,726,283**

As a result, the accuracy of the statement of receipts and payments for the year ended 30 June, 2019 has not been confirmed.

57. Unreconciled Exchequer Releases

The statement of receipts and payments reflects Exchequer releases totalling Kshs.661,875,359 remitted to the County Assembly by the County Executive during the year. On the other hand, the County Executive report indicates that Exchequer releases to the County Assembly during the year amounted to Kshs.701,070,794. The variance of Kshs.39,195,435 between the two sets of records has not been explained.

As a result, the accuracy and completeness of the Exchequer releases totalling Kshs.661,875,359 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

58. Unsupported Compensation of Employees Expenditure

58.1 Unsupported Basic Salaries

The statement of receipts and payments reflects compensation of employees expenditure totalling Kshs.247,703,175. However, the expenditure includes Kshs.125,543,285 incurred on basic salaries for permanent employees which, however, was not supported with data and reports generated from the Integrated Payroll and Personnel Database (IPPD) system.

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In the circumstances, the accuracy and completeness of basic salaries amounting to Kshs.125,543,285 for the year ended 30 June, 2019 has not been confirmed.

58.2 Unsupported Personal Allowances

Included in the compensation of employees balance of Kshs.247,703,175 reflected in the statement of receipts and payments is Kshs.6,190,900 incurred on personal allowances paid to some members of staff as part of salary and training expenses, as well as domestic travel and subsistence allowances. However, supporting documents such as training attendance schedules and signed registers and the rates of the allowances earned by the payees were not presented for audit.

In the circumstances, the accuracy and validity of personal allowances of Kshs.6,190,900 for the year ended 30 June, 2019 has not been confirmed.

59. Unsupported Goods and Services Expenditures

The statement of receipts and payments reflects expenditures totalling Kshs.321,550,353 incurred on use of goods and services. The balance includes payments totalling Kshs.1,457,000 that were not supported with relevant records such as payment vouchers and procurement records.

As a result, the accuracy and completeness of the use of goods and services balance totalling Kshs.1,457,000 incurred in for the year ended 30 June, 2019 has not been confirmed.

60. Incorrect Presentation of the Financial Statements

The statement of financial assets and liabilities reflects a nil balance in respect to accounts receivables – outstanding imprests referenced at Note 14 to the financial statements. However, the Note is not among those in the financial statements. Further, Note 16 to the financial statements reflects fund balances brought forward during the years 2016/17 and 2017/2018 instead of 2017/18 and 2018/2019 respectively. Further, Note 17 to the financial statements cites a credit adjustment amounting to Kshs.5,296,191 made on accounts receivables in the previous financial year. However, contrary to the requirements of International Public Sector Accounting Standard 1 – Presentation of Financial Statements - the effects of the reported adjustment has not been disclosed.

In view of the above, the accuracy of the accounts receivables balance as at 30 June, 2019 has not been confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

61. Non-Compliance with Law on Ethnic Composotion

During the financial year under review, the County Assembly Service Board recruited twenty-seven (27) employees on permanent and pensionable terms. However, of the staff employed, twenty-two (22) or 82% were from one ethnic community which is dominant in the County. This was contrary to Section 65 (e) of the County Governments Act, 2012 which requires at least thirty per cent (30%) of vacant posts

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at entry level be filled by candidates who are not from the dominant community in a County.

Therefore, Management was in breach of the law.

62. Non-Compliance with Human Resource Policies and Procedural Manual

Examination of personnel records indicated that the Management appointed a Senior Procurement Officer II on permanent and pensionable terms at the age of fifty nine (59) years. However, on attaining the mandatory retirement age of sixty (60) years a year later, the County Assembly Service Board revised his terms of service to a five-year contract from February, 2015 to February, 2020, and thereafter promoted him to Senior Procurement Officer I. Similarly, the County Assembly Service Board extended a driver's employment for two (2) years to October, 2019 after he attained the mandatory retirement age of sixty (60) years in October, 2017. These actions contravened Section D(21) of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which requires all officers to retire from the Service on attaining the mandatory retirement age of 60 years or 65 years for persons living with disabilities.

Consequently, the Management is in breach of human resource manual.

63. Non-Compliance with the Public Procurement and Asset Disposal Act, 2015

During the year under review, Management paid Kshs.3,600,000 to a travel firm to provide air-tickets to MCAs for a visit to Israel. However, it was not possible to confirm that the firm was chosen competitively as required by the Public Procurement and Asset Disposal Act, 2015 as there were no records to show how the firm was awarded the contract. This is contrary to Section 91(1,2) of the Public Procurement and Asset Disposal Act, 2015, which provides that Open Tendering shall be the preferred procurement method for goods, works and services. Additionally, the Section provides that a procuring entity may use an alternative procurement procedure only if that procedure is allowed and satisfies the legal conditions for use of that method.

Therefore, the Management is in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

64. Fixed Assets Not Tagged

Section 149(2)(o) of the Public Finance Management Act, 2012 requires every Accounting Officer to ensure that adequate systems and processes are in place to plan for, procure, account for, maintain, store and dispose of assets, including an asset register that is current, accurate and available to the relevant County Treasury. In addition, a functional internal control system calls for accuracy and clarity in accounting for the assets of the entity.

However, sampled verification of the County Assembly's assets valued at Kshs.95,126,463 as at 30 June, 2019 reflected in Annex 4 to the financial statements

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for the year under review, indicated that the Management does not tag its furniture and equipment.

In the circumstances, the Management lacks adequate control and security over its assets.

65. Failure to Establish Public Finance Management Committee

Regulation 18(1) of the Public Finance Management (County Governments) Regulations, 2015, provides that there be established in every County Government entity, a Public Finance Management Standing Committee to provide strategic guidance on public finance management matters. However, the County Assembly did not have a Public Finance Management Committee during the year under review.

In the circumstances, oversight on public finances appropriated to the County Assembly was not properly established.

66. Failure to Develop Risk Management Strategy

Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 requires the Accounting Officer to ensure that each County Government entity develops risk management strategies, which would include fraud prevention mechanisms, internal control and other measures that ensure robust business operations. However, the County Assembly did not have a documented risk management strategy in the year under review.

In the circumstances, there is lack of an effective way of managing its risks in an objective way.

67. Failure to Establish an Audit committee

Regulation 167(1) of the Public Finance Management (County Governments) Regulations, 2015 requires Management of each County government entity to establish an Audit Committee to oversee expenditures incurred by the entity. However, in the year under review, the County Assembly did not have an operational Audit Committee.

In the circumstances, the internal control systems were incomplete.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

68. Unsupported Expenditure - Use of Goods and Services

As disclosed under Note 5 to the financial statements, the statement of receipts and expenditure reflects an expenditure of Kshs.280,063,577 in respect of use of goods and services. Examination of records revealed the following unsatisfactory matters:

68.1 Unaccounted for Mileage Allowance

Included in the above balance is an amount of Kshs.182,489,331 in respect of domestic travel and subsistence which in turn includes Kshs.28,693,877 paid to the Members of County Assembly (MCAs) for mileage allowance. However, a review of the documents availed revealed that there was no approved public works chart of distances in kilometers between the Assembly offices and the areas of representation to support expenditure and to confirm whether the paid mileage allowances met the criteria set by SRC Circular No. SRC/TS/CGOVT/3/16 of 27 November, 2013. Further, MCAs who claimed for mileage above the ninety (90) kilometers, did not avail vehicle logbooks to confirm capacity as the Automobile Association of Kenya (AAK) rates used are based on vehicle capacity.

68.2 Unsupported Travelling and Accommodation Allowances

Further, the balance includes an amount of Kshs.182,489,331 in respect of domestic travel and subsistence. A review of the supporting documents revealed that an amount of Kshs.4,098,000 was paid to MCAs and other staff for attending official duties outside their work station. However, it was noted that the expenditure was not supported by either vehicle work tickets or bus tickets hence, it was not possible to ascertain whether the officers travelled to the indicated destinations.

68.3 Unsupported Routine Maintenance

In addition, the balance includes an amount of Kshs.2,035,890 under routine maintenance - vehicles and other transport equipment. However, examination of the expenditure and other records availed for audit review revealed that an amount of Kshs.1,747,746 for the repair of motor vehicles was not supported by post inspection reports from Mechanical Department to confirm that the repairs were carried out as required.

68.4 Unsupported Hospitality, Supplies and Services

The balance also includes an amount of Kshs.10,036,580 under hospitality supplies and services. However, a review of the expenditure revealed that an amount of Kshs.1,333,500 was not supported by minutes or reports of the meetings held while the services were single sourced from a local hotel.

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In the circumstances, it was not possible to confirm the accuracy, validity and completeness of the expenditure amounting to Kshs.280,063,577 under use of goods and services reflected in the statement of receipts and payments for the year ended 30 June, 2019.

69. Inaccurate Personal Allowances Paid as Part of Salary

The Management allocated Kshs.249,938,060 for personal allowances paid as part of salary. Examination of payment vouchers and other supporting documents availed for audit review, indicated that an amount of Kshs.28,813,473 was spent on personal allowances and paid as part of salary which includes an amount of Kshs.21,953,473 deducted for Pay As You Earn (PAYE). The amount was paid after the statutory date therefore resulting to payment of penalties. Further, an amount of Kshs.6,860,000 for domestic and subsistence allowance expense was erroneously charged under personal allowance paid as part of salary.

Under the circumstances, the accuracy of the expenditure of Kshs.28,813,473 could not be ascertained.

70. Inaccurate Statement of Cash Flows

The statement of cash flows reflects a nil opening balance for the year under review. However, the closing balance for the year ended 30 June, 2018, reflected a balance of Kshs.21,081,664. Further, the bank balances of Kshs.434,147 reflected under Note 13A to the financial statements are not supported by bank reconciliation statements.

Consequently, the accuracy and validity of the cash and cash equivalents balance of Kshs.437,417 reflected in the statement of cash flows for the year ended 30 June, 2019 could not be confirmed.

Other Matter

71. Budgetary Control and Performance

During the year under review, the approved budget of the Assembly totalled Kshs.797,191,067 out of which a sum of Kshs.747,191,067 representing 93.7% was allocated to recurrent expenditure while Kshs.50,000,000 representing 6.3% was allocated to development expenditure. However, it was noted that Kshs.746,904,203 (99.96%) of recurrent expenditure was utilized leaving a balance of Kshs.286,864 (0.04%) while Kshs.7,161,650 (14.32%) of development was utilized leaving a balance of Kshs.42,838,350 (86%) unspent.

The under-absorption of the development budget was mainly attributed to the County Executive not releasing funds to the County Assembly during the year under review. The underfunding affected service delivery to the public.

72. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, Management has not resolved the issues or disclosed all the prior year matters as provided by the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

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REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

73. Non-compliance to Public Finance Management (County Governments) Regulations, 2015

The compensation of employees' total cost of Kshs.455,843,226 is approximately 60.41% of the total revenue of Kshs.754,500,000 and thus exceeded the recommended ratio of 35% stipulated in Section 25(1) of the Public Finance Management (County Governments) Regulations, 2015. The rising wage bill may not be sustainable unless adequate measures are put in place to contain it.

Consequently, the Management is in breach of law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

74. Inaccurate Fixed Assets Register

Annex 2 on summary of fixed assets register reflects a non-current assets balance of Kshs.256,121,495 as at 30 June, 2019 which differed with the balance reflected in the assets register availed for audit review. Further, valuation for the assets reported was not done and the register lacked identification or serial numbers, acquisition dates, description of asset, location, class and cost of acquisition. The assets register presented for audit review was not prepared in a format prescribed by the International Public Sector Accounting Standards (IPSAS) 17.

Consequently, the Management has not instituted measures to ensure proper safeguards and custody of its assets.

75. Information Communication Technology (ICT) Environment and Data Security

Review of the ICT environment revealed that there was an ICT Policy in place. However, Data Security Policy and Disaster Recovery Plans were not in place. Further, formally documented and approved processes to manage upgrades made to all financial information systems were not provided for audit review.

Failure to put in place adequate measures to safeguard County Assembly data may negatively impact the entity's operations in case of a disaster.

76. Lack of an Approved Internal Audit Charter

Review of the operations of the Internal Audit Department revealed that the County Assembly has an established Internal Audit Unit to oversee governance mechanisms and promote transparency and accountability in the management of resources. However, there is no approved Internal Audit Charter detailing the scope,

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responsibilities and purpose of the internal audit function. This is contrary to the provisions of Section 155(2) of the Public Finance Management (County Governments) Regulations, 2015 which stipulates that an Accounting Officer shall ensure that an Internal Audit Unit is facilitated with sufficient authority to promote independence and ensure broad internal coverage, and adequate consideration of audit reports.

In the circumstances, the internal audit function may not function as required to ensure broad internal audit coverage and adequate consideration of audit reports.

77. Weak Internal Controls

Scrutiny of payment vouchers revealed that payments were done without proper examination, authorization and vote book control certificate completion. The authenticity and regularity of the expenditures incurred could lead to loss of public funds.

In the circumstances, the internal control structures are inadequate in safeguarding public resources.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

78. Unsupported Balances

78.1 Compensation of Employees - Basic Wages to Temporary Employees

Examination of records indicated that the Management spent basic salaries of Kshs.29,727,024 on one hundred and forty-five (145) temporary employees appointed by the Member of County Assembly and deployed to work in their respective Wards. However, there were no records showing whether the County Assembly approved the appointments, and whether these were done as required in regulations. The terms of employment, including salary structure, muster rolls indicating wages paid and the payees, among other relevant information were not disclosed as per the Wajir County Assembly Service (Ward Offices) Regulations, 2015.

In the circumstances, the accuracy and validity of expenditures totalling Kshs.29,727,024 incurred on payment of salaries for temporary employees has not been confirmed.

78.2 Use of Goods and Services

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services balance of Kshs.291,158,048. However, the following unsatisfactory matters were noted:

78.2.1 Unsupported Office and General Supplies

A sum of Kshs.4,480,000 was incurred on purchase of office and general supplies and services. However, records of supplies worth Kshs.3,450,000 to showing how these goods were received or issued from stores were not availed for audit review.

As a result, the receipt of the supplies purchased valued at Kshs.3,450,000 has not been confirmed.

78.2.2 Unsupported Training Expenses

A review of other expenditure records indicated that expenses amounting to Kshs.2,049,482 were incurred in training programmes. However, invitations letters to participants, and return to office reports on the programmes were not presented for audit review.

Similarly, expenditure totaling to Kshs.7,252,266 spent on foreign travel and subsistence was not adequately supported with records showing the training programmes attended, course invitation letters and imprests issued to participants. Also missing were copies of boarding passes, letters granting authority to travel from the Ministry of Devolution and certificates issued to the participants.

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As a result, the occurrence and propriety of the expenditures totalling Kshs.9,401,748 could not be confirmed.

78.2.3 Unsupported Mileage Allowances

Examination of mileage allowance records revealed that Kshs.140,037,396 was spent on the payment of allowances to Members of County Assembly. However, payment records and other supporting documents availed for audit revealed that some of the claims were not supported with copies of the motor vehicle logbooks and the signatures of persons who authorized the journeys were not identical with those shown in records submitted by the MCAs. In several instances, the distances used to calculate allowances were much higher in comparison to actual distances documented in the surveys conducted by the County Road Engineers.

Management did not adhere to Kenya Gazette Notice No:Vol.CXIX-No.89 which awarded the MCAs fixed mileage allowances in four (4) zone clusters. To the contrary, the claims were paid based on the furthest location in each MCA's Ward instead of the distance between the County Headquarters and the MCA's residence.

In view of these anomalies, the validity of the expenditures of Kshs.140,037,396 could not be confirmed.

78.2.4 Domestic Travel and Subsistence Allowance

Further, a review of expenditure on domestic travel and subsistence allowance includes an amount of Kshs.1,570,600 that was expensed during the previous year 2017/2018. Further an amount of Kshs.1,301,160 spent on foreign travel and subsistence allowances were charged under the account without any reallocation or approvals.

In view of these anomalies, accuracy and completeness of the expenditure reflected in the statement of receipts and payments could not be ascertained.

78.2.5 Sitting Allowances

In addition, nine (9) MCAs were paid diverse allowances which records showed were, for each payee, earned on the same dates, even though they related to different functions and activities. The payments implied that the MCAs were in different places at the same time.

As a result, the occurrence and propriety of the payments could not be confirmed.

79. Irregular Payment of Advertising Services

Examination of expenditure records indicated that a marketing firm was paid Kshs.1,200,000 being a long outstanding bill incurred in 2016 for provision of live media coverage of an event organized by the County Assembly. However, the payment was not supported with records showing how the service provider was appointed.

In the circumstance, the validity and propriety of the advertising and information supplies expenditure amounting to Kshs.1,200,000 could not be confirmed.

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Other Matter

80. Unresolved Prior Year's Audit Issues

The report on progress made in resolving audit issues highlighted in the previous year's report indicates that five (5) out of the seven (7) issues had not been resolved as at 30 June, 2019. However, management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

81. Non-Compliance with the Public Sector Accounting Standards Board

As disclosed under Annex 1 to the financial statements, the County Assembly had pending bills totalling Kshs.83,167,960 as at 30 June, 2019 which comprised of Member of County Assembly (MCAs) Gratuity, LAPFUND contributions, legal fees and other expenses. However, the disclosure does not show the pending bills, at the beginning of the year under review and payments made during the year.

Further, the analysis does not disclose the period the bills relate to and the nature of goods and services on which the pending bills were incurred. Further, the change in the pending bills from Kshs.150,452,590 as at 30 June, 2018 to Kshs.83,167,960 reported as at 30 June, 2019 has not been explained. The disclosure therefore does not conform to the format prescribed by the Public Sector Accounting Standards Board (PSASB).

Consequently, Management is in breach of the law.

82. Non-compliance with Law on Fiscal Responsibility-Wage Bill

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects compensation of employees expenditure totalling Kshs.376,296,331 against aggregate revenue of Kshs.719,759,837 which is equivalent to 52% of the total revenue of the County Assembly for the year under review. The ratio exceeds the threshold of 35% prescribed for personnel emoluments and revenue under Section 25(1) of the Public Finance Management (County Governments) Regulations, 2015.

Consequently, Management in in breach of the law.

83. Unauthorized Reallocation of Expenditure

Further, the balance includes basic salaries for permanent employees totalling Kshs.258,400,913. A review of the expenditure and the ledgers revealed that Management reallocated Kshs.2,120,000 budgeted under other office expenses. However, evidence of approval of the reallocation by the County Assembly was not availed for audit review.

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Consequently, Management is in breach of the law.

84. Unauthorized County Assemblies Forum Expenditure

Records availed for audit indicated that the Management paid Kshs.2,700,000 are subscription fees to the County Assemblies Forum. However, no authority documentation was availed by Management to support for the payment.

In the absence of supporting evidence, it is not possible to confirm that the reallocation was lawful.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

85. Lack of Sufficient Records on Fixed Assets

Management did not avail a fixed asset register, records showing the items of fixed assets procured during the year under review and in previous years for audit review.

Consequently, the existence, valuation and ownership of assets totalling Kshs.22,118,807 shown in the statement of receipts and payments and the total value of assets owned by the County Assembly as at 30 June, 2019 could not be confirmed.

86. Payment of Salaries Through Manual Payroll

As in the previous year, Management maintained both the Integrated Payroll and Personal Database (IPPD) payroll with two hundred and forty eight (248) employees and a manual payroll with eighteen (18) employees in the year under review. However, examination of the expenditure records revealed that Management paid salaries for seven (7) MCAs, one Board Member and eleven (11) other staff through the manual payroll. Personnel files for some of the staff paid through the manual payroll indicated that they had personal numbers and therefore qualified to be paid through the IPPD system. No plausible explanation has been provided by Management for operating the manual payroll.

In the circumstances, existence of effective controls on payroll system could not be confirmed.

87. Lack of Audit Committee

Regulation 167(1) of the Public Finance Management (County Governments) Regulations, 2015 requires every County Government entity to establish an Audit Committee to monitor the entity's accountability processes and control systems, and offer objective advice on issues concerning risk, control, regulatory requirements and governance of the County. There were no records to show that the Management had established an Audit Committee to monitor its operations.

Consequently, I am unable to confirm existence of good governance at the County Assembly.

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88. Lack of Risk Management Policy

Regulation 158(1) of the Public Financial Management (County Governments) Regulations, 2015 requires all heads of public institutions to develop and implement a risk management framework as one way of establishing an accountable and innovative public service. Review of records and interviews with Management, however indicated that the Management had not established a risk management system. An effective reporting system that entailed hotlines, reporting centres and whistle blower facilities had not been established to support accountable and effective management of the financial and other managerial operations of the County Assembly. Management has not provided any plausible explanation on these omissions.

Consequently, I am unable to confirm existence of effective risk management framework at the County Assembly.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

89. Inaccuracy in the Financial Statements

A review of the financial statements recorded the following the following anomalies:

89.1 Statement of Financial Assets and Liabilities

The statement of financial assets and liabilities reflects a bank balance of Kshs.736,423. However, Note 13A to the financial statements reflects a balance of Kshs.1,246,411 resulting to an unreconciled variance of Kshs.509,987. Further, the fund balance brought forward of Kshs.100,231,070 varies with the closing balance for 2017/2018 of Kshs.571,678 resulting to an unreconciled variance of Kshs.99,659,392.

In addition, the deficit for the year of Kshs.99,494,647 varies with the surplus reflected in the statement of receipts and payments of Kshs.736,423 by unreconciled variance of Kshs.98,758,224.

89.2 Statement of Cash Flows

The statement of cash flows reflects nil cash and cash equivalents at the beginning of the year which varies with the closing balance in 2017/2018 of Kshs.571,678 resulting to unreconciled variance of Kshs.571,678.

Consequently, the accuracy and completeness of the statements of financial assets and liabilities and cash flows for the year ended 30 June, 2019 could not be confirmed.

90. Unsupported Expenditure - Use of Goods and Services

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services of Kshs.249,172,487. However, domestic travel and subsistence allowance of Kshs.10,347,400 for workshops and other official duties outside the work station were not supported by documents such as copies of imprest warrants, bus tickets, air tickets, workshops invitation letters, activity programs, attendance register, signed payment schedules or back to office reports.

Further, the balance includes Kshs.8,100,000 spent on Ward offices. The lease agreements, approval for opening of bank accounts, bank statements, bank reconciliations and cashbooks for the ward offices were not availed for audit review.

In addition, stationeries worth Kshs.1,498,850 was procured but supporting documents such as stores ledger, counter requisition and issue notes were not availed for audit review.

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In the circumstances, the accuracy, completeness and validity of the use of goods and services balance of Kshs.249,172,487 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be ascertained.

91. Unsupported Compensation of Employees

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects compensation of employee of Kshs.333,561,605 which included Kshs.65,516,808 mileage allowances paid to Members of the County Assembly (MCAs). An audit review of the expenditure revealed that the disbursement was paid from a bank account without using IFMIS vote control procedures and the lists of beneficiaries were not acknowledged by the bank contrary to Section 82(1) and Section 51 of the Public Finance Management (County Governments) Regulations, 2015.

Further, Management engaged casual employees during the year under review. However, records in respect of their recruitment, job description, terms and conditions of services and muster rolls were not availed for audit review.

In the circumstances, the accuracy, completeness and validity of the compensation of employees of Kshs.333,561,605 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be ascertained.

Other Matter

92. Budgetary Control and Performance

The statement of comparison of budget and actual amounts: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.1,021,895,035 and Kshs.733,921,877 respectively resulting to an under-funding of Kshs.287,973,158 or 28% of the budget. The underfunding affected the planned activities and projects which may have impacted negatively on service delivery to the public.

93. Prior Year 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 for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

94. Non-Compliance with Law on Fiscal Responsibility-Wage Bill

The statement of receipts and payments reflects total receipts of Kshs.733,921,877 and compensation of employees of Kshs.333,561,605. This indicates that the wage

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bill constitutes 46% of the total receipts which is contrary to Section 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 which requires that the wage bill should not exceed 35% of the total revenue.

Consequently, the Management is in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

95. Summary of Fixed Assets Register

Annex 4 of the summary of fixed assets register attached to the financial statements discloses the value of fixed assets for the year under review as Kshs.115,433,501. However, the assets register availed for audit examination revealed that it does not have the minimum requirements of an assets register such as identification or serial numbers, acquisition date, description of asset, location, asset class, cost of acquisition, accumulated depreciation and net book values.

Consequently, I am unable to confirm existence of control measures to safeguard assets.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

96. Unsupported Expenditure - Use of Goods and Services

As disclosed under Note 3 of the financial statements, the statement of receipts and payments reflects use of goods and services expenditure amounting to Kshs.371,039,132. However, a review of the payment records revealed that Management spent Kshs.19,514,510 on foreign travel which further includes Kshs.5,463,500 in respect to expenditure incurred by MCAs and County Assembly staff for accommodation and travel expenses while on foreign trips to Dubai and London. Management did not provide audit review the supporting documents such as training needs assessment, back to office reports, passports, boarding passes, training programme and payment to the training institutions.

Further, an amount of Kshs.511,000 was spent to facilitate MCAs travelling to Isiolo to attend a one (1) day regional stakeholders' workshop from 30 to 31 October, 2018. However, Management paid nightout allowances for MCAs for five (5) days resulting to an over-payment of three (3) extra days totalling Kshs.204,400. The payments were not supported by motor vehicle work tickets, daily attendance registers and training programmes.

In addition, Management made payments amounting to Kshs.24,000,000 for Ward employees and Ward operation expenses but Management did not provide supporting documents for Kshs.748,710 disbursed to Korr/Ngurnit, Laisamis and Maikona Ward offices.

In the circumstances, the propriety of expenditure amounting to Kshs.6,416,610 included under use of goods and services could not be confirmed.

Other Matter

97. Budgetary Control and Performance

The statement of comparative budget and actual amounts: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.741,999,313 and Kshs.635,237,582 respectively resulting to an under-funding of Kshs.106,761,731 or 14% of the budget. Similarly, the statement reflects final payments budget and actual on comparable basis of Kshs.741,999,313 and Kshs.618,901,305 respectively resulting to an under expenditure of Kshs.123,098,008 or 17% of the budget.

The underfunding and under expenditure affected the planned activities and could have impacted negatively on service delivery for the public.

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98. Unsupported Pending Accounts Payables

Note 4.10.1 of other disclosures in the financial statements reflects Kshs.16,336,277 being additional pending bills during the year under review. However, the respective supporting documents including invoices, delivery notes, certificates for work completed and classification of the pending bills were not made available for audit verification.

Further, the brought forward balance of Kshs.50,591,573 was to be transferred to the County Executive for payment on behalf of the County Assembly. However, available records including copies of payment vouchers showed that only Kshs.44,954,571 was transferred resulting to an unexplained variance of Kshs.5,637,002.

In the circumstances, the accuracy and existence of the pending payables balance of Kshs.16,336,277as at 30 June, 2019 could not be confirmed.

99. Prior Year 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. Under the progress on audit recommendations, only two (2) issues were addressed thereby excluding sixteen (16) issues whose progress was disclosed. However, Management has not resolved all the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

100. Unauthorized Expenditure - Use of Goods and Services

During the year under review, Management made payments amounting to Kshs.6,658,200 for domestic travel and subsistence allowance to Members of County Assemblies (MCAs) and staff of the County Assembly for conducting report writing and internal training outside the County. However, Management did not provide approval for the expenditure contrary to Section III (ii) of The National Treasury Circular No. 20/2015 dated 4 November, 2015 on commitment controls and budget which restricted such expenditure.

Management is therefore in breach of the law.

101. Irregular Other Grants and Transfers

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects other grants and transfers of Kshs.5,600,000 which constitutes membership fees, dues and subscriptions paid to the County Assemblies Forum and to the Society of Clerks at The Table (SOCATT) of Kshs.5,500,000 and Kshs.100,000 respectively. However, Management did not provide supporting evidence including legal backing for the Forum and SOCATT for audit review.

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The two entities to which the County Assembly paid subscription to were not authorized in the law and thus the expenditure incurred could not be confirmed as a proper charge to public funds.

In the circumstances, I am unable to confirm whether public resources were utilized for the intended purposes.

102. Unutilized Office Furniture

Note 6 of the financial statements reflects an amount of Kshs.48,147,264 under acquisition of assets which includes Kshs.4,073,136 in respect of purchase of office furniture and equipment which further includes Kshs.3,998,000 spent on procurement of office furniture for Ward offices. However, physical verification in the month of October, 2019 revealed that the furniture was lying idle in the stores four (4) months after delivery as it had not been issued to the Ward offices.

In the circumstances, I am unable to confirm whether there was value for money for the Kshs.3,998,000 expenditure.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

103. There were no material issues relating to internal controls, risk management and governance.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

104. Presentation of the Annual Report and the Financial Statements

The Public Sector Accounting Standards Board (PSASB) requires certain disclosures in notes to the financial statements; report on progress on follow up of auditor's recommendations, annexures on analysis of pending accounts payables, analysis of pending staff payables, analysis of other pending payables and analysis of outstanding imprest. However, the report and analyses were not included in the financial statements for the year under review. Further, the financial statements do not include the report of the Clerk of the Assembly on operational performance as per the requirements of PSASB.

Further, the Finance Officer did not indicate his membership number with the Institute of Certified Public Accountants of Kenya (ICPAK) when signing financial statements. The issues were also raised in the audit of the 2017/2018 financial year. Management has not made efforts to comply with the disclosure requirements prescribed by PSASB

In the circumstances the annual report and the financial statements do not comply fully with the format prescribed by PSASB.

105. Unapproved Reallocation of Funds

During the year under review, expenditure of Kshs.343,950 and Kshs.1,550,000 was incurred in respect of training expenses and routine maintenance of vehicles respectively, under use of goods and services. However, the expenditure was charged to domestic travel and subsistence also under use of goods and services. Similarly, an expenditure of Kshs.1,376,920 on construction of buildings under acquisition of assets was charged to domestic travel and subsistence without approval. This was contrary to Section 154 (2)(b) of the Public Finance Management Act, 2012 which provides that a request for the reallocation of funds should be made to the County Treasury explaining the reasons for reallocations before such reallocations can get approval.

Consequently, the validity of the reallocations could not be confirmed.

106. Inaccuracies in Cash and Cash Equivalents

As disclosed under Note 13A to the financial statements, the statement of financial assets and liabilities reflects bank balance of Kshs.5,375,758. This comprised of Kshs.1,997 and Kshs.5,366,161 in two accounts held at the Central Bank of Kenya (CBK), and Kshs.7,600 held in Equity Bank. However, the cash book maintained for the Equity Bank account reflects a negative account balance of Kshs.8,649. The difference of Kshs.16,249 was not reconciled or explained. Further, the reconciliation statements for the Equity Account reflected a nil balance as per bank statements. The resultant variance of Kshs.17,630 was not explained.

In addition, the certificate of bank balances for the recurrent and development bank accounts held CBK reflected Kshs.2,639 and Kshs.11,690 respectively. However, the

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respective bank reconciliation statements reflected bank balances of Kshs.1,366 and Kshs.5,366,161 for the recurrent and development accounts resulting in unexplained variances of Kshs.643 and Kshs.5,354,471 respectively.

Consequently, the accuracy of the bank balance of Kshs.5,375,758 as at 30 June, 2019 could not be confirmed.

107. Inaccuracies in Fund Balance Brought Forward

The statement of financial assets and liabilities reflects fund balance brought forward of Kshs.27,948,745. However, the fund balance carried forward from 2017/2018 in the audited financial statements was Kshs.21,551,771. The resultant variance of Kshs.6,396,974 was not reconciled or explained.

Consequently, the accuracy of the net financial position of Kshs.5,375,758 reflected in the statement of financial assets and liabilities as at 30 June, 2019 could not be confirmed.

108. Inaccuracies in the Statement of Cash Flows

A review of the statement of cash flows revealed a number of inaccuracies as follows:

i. Transfers to other government entities was reflected as nil balance, while the statement of receipts and payments reflects a balance of Kshs.27,948,745 resulting to an unexplained variance of Kshs.27,948,745 between the two statements.

ii. Operating expenses were reflected as Kshs.409,819,543. A re-cast of expenses reflected a balance of Kshs.410,644,815 resulting in an understatement by Kshs.825,272.

iii. The statement of cash flows reflected an amount of Kshs.27,948,745 in respect to cash and cash equivalents at the beginning of the year. This was used to offset a negative balance in respect to transfers to other government entities. No explanation was provided for this treatment or how the negative figure on transfers to other government entities was arrived at.

iv. The statement of cash flows includes an item named “as per statement of assets” which has a balance of Kshs.5,375,758. However, the source of this entry was not explained. Further, this item was not among expenditure items for the year under review.

In the circumstances, the accuracy of the statement of cash flows for the year ended 30 June, 2019 could not be confirmed.

109. Difference Between Financial Statements and Notes to the Financial Statements

The statement of receipts and payments reflects nil balance in respect of transfers to other government entities. However, Note 7 to the financial statements reflects Kshs.27,948,745 in respect of the same item resulting in an unreconciled variance of Kshs.27,948,745. Further, the Note reflected an amount of Kshs.26,538,156 as

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unspent balance returned to County Revenue Fund. However, documents including bank statements in support of the transfer were not availed for audit review.

Consequently, the accuracy of the financial statements could not be confirmed.

110. Unsupported Expenditures

The statement of receipts and payments reflects an amount of Kshs.141,501,405 in respect of use of goods and services. The expenditure included an amount of Kshs.4,770,846 being payments in seven (7) expenditure items which were not supported with invoices, back to office reports and Local Purchase Orders (LPOs). Further, the expenditure of Kshs.7,000,000 in respect of research, feasibility studies, project preparation and design and project supervision under acquisition of assets as per Note 4 to the financial statements was also not supported with invoices, goods received notes, LPOs and delivery notes.

In the circumstances, the accuracy and the validity of the amount of Kshs.141,501,405 in respect of use of goods and services reflected in the statement of receipts and payments could not be confirmed.

111. Unlawful Contributions to County Assemblies Forum (CAF)

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.141,502,405 in respect of use of goods and services. This includes an amount of Kshs.3,000,000 under other operating expenses, paid as subscriptions to County Assemblies Forum (CAF). However, the enabling legislation supporting the contribution to the forum including documents showing how the funds were expended were not provided for audit review.

In the circumstances, the validity of the Kshs.3,000,000 expenditure could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

112. Failure to Prepare, Publish and Publicize Quarterly Financial Reports

As reported in the previous years, the Management did not prepare, publish and publicize quarterly financial reports as required by Section 166 of the Public Finance Management Act, 2012.

In the circumstance, the Management was in breach of the law.

113. Staff Recruitment and Appointments

The County Assembly employed fifty-four (54) employees contrary to its approved staff establishment which provided for eleven (11) vacancies. Further, thirty (30) employees did not have the relevant qualifications as stated in the advertisement in the Assembly's website of 9 June, 2018.

In the circumstances, the Management is in breach of law.

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114. Irregular Splitting of Procurement

The Management spent Kshs.13,479,407 on construction of a perimeter fences in seven (7) Ward offices. The works were split into ten (10) different procurement instead of being advertised as a single tender. Further, the evaluation criteria, quotation register and contract agreements were not availed for audit verification. This was contrary to the provisions of Section 54(1) of Public Procurement and Asset Disposal Act, 2015 which provides that no procuring entity may structure procurement as two or more procurements for the purpose of avoiding the use of a procurement procedure except where prescribed.

Consequently, Management was in breach of law.

115. Construction of Ward Offices

The Management spent an amount of Kshs.13,479,407 for erecting perimeter fences in seven (7) Ward offices. Physical verification of four (4) Ward projects carried out in September, 2019 revealed that three (3) perimeter fencing projects were incomplete despite the County Works Officer having issued certificates of practical completion in June, 2019 and full contract sums of Kshs.2,860,000, Kshs.2,950,000 and Kshs.2,706,280 respectively paid. The construction works had stalled at the time of audit.

Consequently, the value for money for the Kshs.13,479,407 spent on perimeter fencing in the three (3) Ward offices could not be ascertained.

116. Unutilized Projects

Records availed for audit review indicated that ten (10) Ward offices were completed in 2016/2017 financial year at a cost of Kshs.49,565,714. In addition, Kshs.25,815,687 was spent on perimeter fencing in those offices in 2017/2018 and 2018/2019 financial years all totalling to Kshs.75,381,401. However, the Ward offices had not been put to use at the time of concluding the audit. Management explained that the offices have not been operationalized due lack of office furniture, printers and computers, which were factored in the budget for 2019/2020.

In the circumstances, the residents of the County are yet to get value for money for the Kshs.75,381,401 expenditure incurred between financial years 2016/2017 and 2018/2019 on ward offices.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

117. Lack of Information Communication Technology (ICT) Policies

The County Assembly did not have in place a business continuity plan, disaster recovery plan, backup policy or a backup site. It was also observed that password protocols were not adhered to. The Accounting Officer therefore failed to institute appropriate measures to ensure confidentiality of data and information, data integrity and business continuity.

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In the circumstances, the internal control structures are inadequate in safeguarding public resources.

118. Failure to Establish an Audit Committee

The County Assembly did not have in place an Audit Committee to oversight the operations of the County Assembly, as provided in Regulation 167(1) of the Public Finance Management (County Governments) Regulations, 2015 which provides for the establishment of an Audit Committee. This affects the independence of the internal audit function.

Consequently, I am unable to confirm existence of good governance at the County Assembly.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

119. Presentation of the Financial Statements

119.1 Errors in the Annual Report and the Financial Statements

The financial statements contain the following errors and omissions:

i. Signatories to the financial statements have not disclosed their names and registration numbers for the Institute of Certified Public Accountants of Kenya (ICPAK) as required in the reporting format prescribed by the Public Sector Accounting Standards Board (PSASB).

ii. Although Management has explained in the Significant Accounting Policies section of the financial statements how it treats pending bills, no disclosure has been provided in the financial statements of the pending bills, if any, as at 30 June, 2019. As a result, the information on the pending bills does not conform to the reporting requirements set by the PSASB.

iii. Similarly, contrary to the International Public Sector Accounting Standard (IPSAs) No 1 and PSASB reporting requirements, the respective financial statements are not properly titled to indicate that they reflect the financial position of the County Assembly as at 30 June, 2019, and of its operations for the year then ended.

119.2 Unexplained Variance in Receipts Balance

The statement of comparison of budget and actual amounts: recurrent and development combined reflects nil balances for the final budgeted receipts and the actual receipts. However, the approved receipts budget reflects an amount of Kshs.1,019,216,683 while the statement of receipts and payments reflects actual receipts totalling Kshs.941,182,191 for the year under review. No explanation has been provided by Management for the failure of the budget balances to tally in the three (3) sets of records.

In view of these discrepancies, the financial statements for the year ended 30 June, 2019 do not conform to the IPSAS and the PSASB reporting requirements, and further, the accuracy and completeness of balances cited has not been confirmed.

120. Variances Between Financial Statements and Ledger and Cashbook Expenditure Balances

The statement of receipts and payments reflects Kshs.327,711,603 in respect to ten (10) expenditure items while the respective supporting ledgers reflect expenditure totalling Kshs.325,417,833 in respect of the items resulting to an unexplained variance of Kshs.2,293,770. Further, the financial statements reflect expenditure totalling Kshs.9,541,396 in respect of several items whose balance, however, differs with payments totalling 9,455,453 reflected in the cash book in respect of the items.

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Management has not explained the variance of Kshs.4,444,097 between the two sets of records.

In the circumstances, the accuracy and completeness of these balances has not been confirmed.

121. Unsupported Cash and Cash Equivalents Balance

As disclosed under Note 7 to the financial statements, the statement of assets and liabilities reflects a bank balance of Kshs.183 which includes a nil balance at a local bank. However, review of the bank statement issued by the bank revealed an overdraft of Kshs.1,070,220. Contrary to Section 82(7) of the Public Finance Management (County Governments) Regulations, 2015, Management did not provide authority from the County Treasury to operate the bank overdraft. In addition, the recurrent vote bank account reflects stale cheques amounting to Kshs.328,090 which have not been reversed in the cash book. As a result, the cashbook balance is understated by this amount. Further, payments in bank statement not recorded in the cashbook amounting to Kshs.160,000 have remained outstanding since November, 2013. Similarly, Kshs.38,166 in respect to outstanding payments in bank not in cash book and Kshs.250,000 outstanding receipts in bank not in cash book have been outstanding since September, 2018 and February, 2019 respectively contrary to Regulation 90(3) of the Public Finance Management (County Governments) Regulations, 2015.

Further, the bank confirmation certificate, availed for audit review, reflects a balance of Kshs.10,851,892 which differs from the sum of Kshs.183 reflected in the statement of assets and liabilities in respect to cash and cash equivalents. The variance amounting to Kshs.10,851,709 between the two sets of records has not been explained by Management.

In the circumstance, the accuracy, completeness and validity of cash and cash equivalents balance of Kshs.183 reflected in the statement of assets and liabilities as at 30 June, 2019 has not been confirmed.

122. Unexplained Variance and Omissions in the Fixed Assets Register

Annex 1 to the financial statements reflects fixed assets with an aggregate value of Kshs.211,593,293 as at 30 June, 2019. However, the fixed assets register, availed for audit review, reflected assets valued at Kshs.286,550,236 resulting to an unexplained variance of Kshs.74,956,943 between the two sets of records. Further, assets inherited from the defunct local authorities were not included in the assets register. In addition, historical costs were not disclosed in the asset register contrary to Annex 5 of the PSASB reporting template which requires the costs to be disclosed in the summary of fixed assets register.

Management has not taken proper custody and safeguard of the County's assets.

123. Unsupported Use of Goods and Services

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects payments for use of goods and services totalling to Kshs.477,398,155. Examination of sampled records indicated the following anomalies:

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i. Supporting documents for domestic travel and subsistence allowance payments totalling Kshs.27,662,500 were not availed for audit review.

ii. Payments totalling Kshs.15,046,000 were made to the MCAs for travelling outside the County for seminars and report writing sessions. These activities could have been carried out in the County for prudent use of funds.

iii. Out of foreign travel and subsistence imprests totalling Kshs.7,601,810 spent by the MCAs on a trip to Japan, Kshs.1,405,458 was not accounted for.

iv. Management paid the County Assemblies Forum (CAF) membership subscription amounting to Kshs.3,500,000, under other operating expenses. However, the expenditure documents did not specify the activities funded and authority for the payments or acknowledgement of the funds by the CAF.

v. Fuel, oil and lubricants costing Kshs.2,995,600 were procured directly from suppliers without competitive bidding. The purchase was contrary to Section 91(1) of the Public Procurement and Asset Disposal Act, 2015, which states that open tendering shall be the preferred procurement method for procurement of goods, works and services. Further, Management did not avail, for audit review, the supply contracts and fuel registers showing how the supplies were consumed.

In the circumstances, value for money on the use of goods and services of amounting to Kshs.49,204,100 could not be confirmed.

Other Matter

124. Incomplete Report on Prior Year Issues

The report on progress made on follow-up of auditor recommendations reflected under other Important disclosures indicates that all issues highlighted in the audit report for the previous year have since been resolved. However, records indicating how the matters were resolved were not availed for audit review Management has therefore failed to adhere to the provisions of the PSASB templates and The National Treasury circular No.PASB/1/12/Vol.1(44) of 25 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis of Conclusion

125. Non-Compliance with the Law on Fiscal Responsibility-Wage Bill

The statement of receipts and payments reflects receipts totalling Kshs.941,182,191 compared to compensation of employees expenditure totalling Kshs.442,045,191. The wage bill, therefore, constitutes 47% of the total receipts of the County Assembly contrary to Section 25(1b) of the Public Finance Management (County Governments) Regulations, 2015 which prescribes that the ratio should not exceed 35%.

In the circumstances, the Management is in breach of regulations.

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Basis for Conclusion

126. Lack of Risk Management Policy and Report

As in the previous year, Management did not provide evidence that it had put in place a risk management policy to support robust operations as prescribed in Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015. No formal risk assessment reports on the operations of the County Assembly were published by Management during the year under review.

Consequently, it is not possible to confirm whether risks to the operations of the County Assembly were identified, their significance estimated and likelihood of their occurrence determined, and the measures established to contain their possible effects.

127. Lack of Internal Audit Charter

Review of the interim report of the Internal Audit for the period 1 July, 2018 to 31 December, 2018 revealed that although an Internal Audit Charter had been prepared, it had not been approved.

In the circumstances, the County Assembly's overall governance may not have been effective.

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REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

128. There were no material issues noted during the audit of the financial statements of the County Assembly.

Other Matter

129. Pending Accounts Payable

Annex 1 and 2 - Other disclosures to the financial statements shows pending accounts and staff payables of Kshs.10,517,225 and Kshs.7,766,190 respectively. However, the County Assembly did not have in place, a detailed creditors' ledger or register showing the age and movements of the outstanding payables during the year. Further, the County Assembly did not have sufficient cash reserves as at 30 June, 2019, to pay the pending payables totalling Kshs.18,283,415 for the goods and services consumed.

Failure to pay bill when they fall due affects the budget for the subsequent years as they form first change.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

130. Non-Compliance with the Public Finance Management Act, 2012

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects expenditure on use of goods and services balance of Kshs.153,089,155 which includes an amount of Kshs.57,939,623 on account of domestic travel and subsistence allowances. The balance of Kshs.57,939,623 further includes an amount of Kshs.5,901,600 being payments made to Members of the County Assembly (MCAs) and other staff as per diem allowances for travels outside the County for purposes which would ordinarily have been achieved at their offices. These included discussing annual development plan, scrutinizing the budget, preparation of financial statements, report writing of county sports, review of land petitions and review of mandate, responsibilities and teamwork.

The above is contrary to the provisions of Regulation 42(1)(b) of the Public Finance Management (County Governments) Regulations, 2015, and Treasury Circular No. 20/2015 dated 4 November, 2015, which suspended movement of state and public officers for purposes of transacting business that would ordinarily be done in the offices.

Consequently, the Management is in breach of the law.

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131. Non-Compliance with the Public Procurement and Asset Disposal Act, 2015

As disclosed under Note 7 to the financial statements, the statement of receipts and payments reflects expenditure on acquisition of assets of Kshs.5,752,250. A review of the documents in support of the expenditure revealed an amount of Kshs.4,288,050 paid to a firm for the supply and delivery of Ward office furniture. However, scrutiny of the available tender documents revealed that a firm which had procedurally bid for the supply had quoted a price of Kshs.3,949,500, and was lower than that of the firm which was awarded the contract, had been disqualified for lack of brochure or catalogue. The grounds used for disqualifying the bidder were contrary to Section 133(1) of the Public Procurement and Asset Disposal Act, 2015.

A review of the disqualified bidder's documents revealed that the brochures/catalogue of furniture had indeed been included in the bid documents. Had the bidder been evaluated as per the law, and awarded the tender, the County Assembly could have made a saving of Kshs.338,550.

Further, the payment lacked proof of contracting of the firm by the Management and evidence of it having tendered to supply the furniture in the tender register and tender opening minutes as provided under Section 135 of the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, the Management was in breach of the law and the effectiveness and value for money on the use of the public resources could not be ascertained.

132. Poor Human Resource Practices

A review of payroll and other personnel records revealed that an employee who resigned on 4 June, 2019 and opted to leave immediately did not pay the County Assembly one-month's salary in lieu of the notice pursuant to Section 35(1)(c) of the Employment Act, 2007 (Revised 2012). Instead, the employee was paid a salary of Kshs.162,310 for the month of June, 2019 despite not having worked.

Further, review of a sample of personnel files and other related records revealed that a number of re-designations were made by the County Assembly Service Board during the year. However, the Management did not provide evidence by way of operational requirements to justify the re-designations. There was no evidence that the re-designations were conducted competitively or whether the officers had the requisite competencies.

In addition, Management has not provided evidence whether the affected individuals had consented; as required under Section 69(2) of the County Governments Act, 2012 and Section 4.19 (3) the County Assembly Human Resources Manual which provides for existence of the vacancy, competency, fairness and officer's consent to re-designation.

Consequently, the Management was in breach of the law.

133. Irregular Transfers of Funds

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects payments on use of goods and services amounting to

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Kshs.153,089,155 which includes an amount of Kshs.22,972,700 on account of other operating expenses. The above payment of Kshs.22,972,700 constitutes transfers of Kshs.5,300,000 and Kshs.500,000 to the County Assemblies Forum (CAF) and Society of Clerks at the Table (SOCATT) respectively. Further, the Management incurred related expenditure by way of subsistence allowances to MCAs amounting to Kshs.3,913,700 while attending events in Naivasha, Mombasa and Kisumu organized by the Society on various dates during the year under review.

However, the two (2) bodies which the County Assembly was paying subscriptions to were not anchored in law and the expenditure incurred could not be confirmed as a proper charge to public funds.

Consequently, the Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

134. Lack of an Approved Training Plan

Included in the amount for use of goods is Kshs.18,390,600 spent on training expenses. However, the County Assembly did not have an annual training plan for the year under review. Such a plan should indicate the individual MCA or staff training needs, as well as approval from the training committee. This would inform the training budget allocation and its utilization.

In the circumstances, existence of effective internal control mechanism on training could not be confirmed.

135. Poor Expenditure Control of Imprest

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.153,089,155 under use of goods and services which includes an amount of Kshs.22,972,700 in respect of other operating expenses. The balance of Kshs.22,972,700 includes Kshs.11,934,500 issued to an employee through temporary imprest to cover payment of Ward expenses across the County. The expenditure paid related to office rent and other daily operational expenses at the Ward offices. However, it was not clear why rental payments were being made through cash as opposed to direct remittances to the landlords as per the signed tenancy agreements.

Consequently, I am unable to confirm existence of clear guidelines on use of imprest issued, and how the same was to be accounted for.

136. Lack of Risk Management Policy

A review of the County Assembly's Information Technology (IT) control environment, risk management and disaster preparedness level revealed that the County Assembly lacked formally approved risk management policies such as Disaster Recovery Plan, Business Continuity Plan, IT Strategic Plan and IT Management Policy contrary to

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requirements of Regulation 158(1)(a) of the Public Finance Management (County Governments) Regulations, 2015.

Consequently, existence of effective risk management measures at the County Assembly could not be confirmed.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

137. Presentation of the Financial Statements

The financial statements did not include budget execution by programmes and sub-programmes as prescribed by the Public Sector Accounting Standards Board (PSASB). Further, no explanation was given in the financial statements for under expenditure for both recurrent and development items. In addition, PSASB requires bank reconciliations to be annexed to the financial statements. However, this information was not annexed to the financial statements.

In the circumstances, the presentation of the financial statements for the year ended 30 June, 2019 did not conform to the prescribed format by PSASB.

138. Irregularly Paid Legal Fees

The statement of receipts and payments reflects an expenditure of Kshs.295,433,452 under use of goods and services. The balance includes Kshs.76,201,265 in respect of other operating expenses out of which an amount of Kshs.5,900,000 was paid to a law firm for rendering various legal services to the County Assembly.

The fee notes submitted for audit review reflected one consolidated figure without details of specific service(s) provided and paid for contrary to the provisions of the Advocates (Remuneration) (Amendment) Order, 2014 which provides detailed guidelines on how the legal fees should be charged.

Further, the two (2) cases had not been concluded at the close of audit in August, 2019 but the full payment of Kshs.5,900,000 had been made contrary to Clause 4 of the Frame Work Agreement dated 14 August, 2018 which states that in consideration of the services rendered by the advocate under this agreement, the procuring entity shall pay to the advocate at the conclusion of each case, the legal fees mutually agreed upon by parties.

In the circumstances, the propriety of the Kshs.5,900,000 expenditure for the year ended 30 June, 2019 could not be ascertained.

139. Use of Goods and Services

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflects Kshs.295,433,452 in respect to use of goods and services. A review of the expenditure revealed unsatisfactory matters as outlined below:

139.1 Unsupported Domestic Travel and Subsistence

An amount of Kshs.135,781,594 in respect of domestic travel and subsistence includes an amount of Kshs.4,843,800 which was paid without supporting documents such as attendance schedules, invitation letters, work/bus tickets and/or back to office

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reports. It has not been possible to ascertain whether the expenditure of Kshs.4,843,800 was a proper charge to public funds.

139.2 Avoidable Expenditure on Hospitalities, Supplies and Services

Further, out of a balance of Kshs.14,356,929 in respect of hospitalities, payment for supplies and services amounting to Kshs.2,308,000 was made for hire of conference facilities for meetings held outside the County. However, there was no justification why the meetings were held outside the County and could therefore have been avoided. It has therefore, not been possible to confirm that the expenditure of Kshs.2,308,000 was a proper charge to public resources.

139.3 Irregular Contributions to the County Assembly Forum (CAF)

The above balance of Kshs.295,433,452 constitutes an amount of Kshs.76,201,265 in respect to other operating expenses out of which an amount of Kshs.2,300,000 was spent in the payment of annual subscriptions to. However, no documentary evidence was provided for audit review to support the expenditure, the specific activities being funded and the basis for such payments. It was therefore, not possible to ascertain the propriety and value for money of the Kshs.2,300,000 expenditure on CAF for the year ended 30 June, 2019.

139.4 Unsupported Expenditure for Motor Vehicles Maintenance

The amount of Kshs.295,433,452 also includes Kshs.3,206,272 in respect of routine maintenance - vehicles and other transport equipment which further includes Kshs.700,000 paid for repairs of a motor vehicle. According to the regional mechanical engineer's inspection report dated 8 June, 2018, the repairs were carried out by a firm that had been issued with four (4) Local Service Orders (LSOs). However, the LSOs were not availed for audit review.

In the circumstances, the regularity and accountability of the amount of Kshs.295,433,452 spent under use of goods and services reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

Other Matter

140. Budgetary Control and Performance

The statement of comparison of budget and actual amounts : recurrent and development combined reflects an approved budget receipts of Kshs.664,744,226 and actual receipts of Kshs.558,042,527 resulting in receipts under realization of Kshs.106,701,699 which could have affected the realization of the County Assembly's planned activities for the year.

Similarly, the statement reflects approved budgeted expenditure of Kshs.592,744,226 while the actual expenditure amounted to Kshs.556,036,802 resulting to net under-absorption of Kshs.108,707,424.

The under absorption of Kshs.108,707,424 could have impacted negatively on delivery of goods and services to the residents of the County during the year under review.

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141. Prior Year Matters

In the audit report of the previous year, several paragraphs 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, although the Management has indicated that 11 out the 17 issues have been resolved, no documentary evidence has been availed for verification to show how and when the issues were resolved while the remaining six (6) issues remain unresolved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

142. Inaccuracy in Cash and Cash Equivalents

The statement of financial assets reflects an amount of Kshs.10,503,393 in respect to cash and cash equivalents balance. A review of the cashbooks, bank statements and certificates of balances revealed that the cashbook in respect to the Cooperative Bank account reveals that the County Assembly had an overdraft of Kshs.36,528 as at 30 June, 2019. However, the authority to overdraw the account in line with Section 119(4) of the Public Finance Management Act, 2012 which stipulates that an Accounting Officer for a County Government entity shall not cause a bank account of the entity to be overdrawn beyond the limit authorized by the County Treasury was not availed.

Management is therefore in breach of the law.

143. Procurement of Insurance Services

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.295,433,452 under use of goods and services which includes a balance of Kshs.15,974,756 in respect of insurance costs. Out of this, an amount of Kshs.14,072,612 was paid to the National Hospital Insurance Fund (NHIF) for provision of medical insurance cover for MCAs and staff of the Assembly.

The contractual agreement between the County Assembly and NHIF commenced on 2 October, 2018. However, the County Assembly and NHIF signed the contract on 26 April, 2019 and 15 July, 2019 respectively. NHIF was therefore in engagement with the County Assembly for about nine (9) months without any contractual agreement.

Further, the proposal by NHIF presented to the Management was not subjected to competition with other bidders contrary to Section 126(1) of the Public Procurement and Asset Disposal Act, 2015 which states that an evaluation committee of a procuring entity shall examine the proposal received in accordance with the request for proposals.

In the circumstance, the Management is in breach of the law.

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144. Non-Disclosure of Land and Buildings

The summary of fixed asset register at Annex 2 to the financial statements for the year under review reflects assets balance of Kshs.46,391,356 as at 30 June, 2019. However, despite the County Assembly being in possession of the land and buildings where it is currently housed, no valuation has been carried out to determine their value and therefore Annex 2 to the financial statements reflects nil balance under land, building and structures as at 30 June, 2019. Further, no assets handing over report including ownership documents from the defunct local authorities to the County Assembly was made available for audit review.

Consequently, the balance of Kshs.46,391,356 reflected as the value of assets and the ownership status as at 30 June, 2019 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

145. Lack of an Audit Committee

The Management had not established an Audit Committee as required by Section 42(1)(e) of Public Finance Management (County Governments) Regulations, 2015 which stipulates that an Accounting Officer shall ensure each County Government entity has an Audit Committee in place.

In the circumstance, it was not possible to confirm that the Management had established an effective internal control mechanism in absence of such an oversight committee.

146. Lack of Risk Management Policy for Internal Audit and Reports

The Internal Audit section did not have a Risk Management Policy contrary to Section 153(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 which states that internal auditors shall have a duty to give reasonable assurance through the Audit Committee on the state of risk management, control and overall governance within the organization.

In the circumstances, it was not possible to ascertain how risks were identified, controlled, monitored and mitigated during the year under review.

147. Information, Communication and Technology (ICT) Environment

Review of the County Assembly's ICT environment revealed that there was no formal approved ICT policy in place which includes data security policy and disaster recovery plans. The ICT organization structure was not provided for review. Further, the County Assembly did not have an IT Steering Committee or Strategic Committee for ensuring effective IT controls and strategies.

In the circumstance, the security and reliability of data including its management information system could not be ascertained.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

148. Accuracy of the Financial Statements

The financial statements reflected balances that differ with the balances reflected in the Integrated Financial Management Information System (IFMIS) trial balance as tabulated below:

Item	Financial Statements Balance (Kshs.)	IFMIS Trial Balance (Kshs.)	Variance (Kshs.)
Exchequer Releases	806,554,690	887,074,264	80,519,574
Other Receipts	4,020,000	0	(4,020,000)
Compensation of Employees	344,616,070	310,218,267	(34,397,803)
Use of Goods and Services	385,835,814	329,260,019	(56,575,795)
Other Grants and Transfers	50,000,000	0	(50,000,000)
Social Security Benefits	1,550,203	18,830,127	17,279,924
Acquisition of Assets	28,553,140	85,161,059	56,607,919
Finance Costs	17,547	0	(17,547)
Bank Balances	990	56,129,883	56,128,893
Cash Balances	926	2,476,248,776	2,476,247,850
Accounts Payables	12,728,169	3,612,825,754	3,600,097,585

Management has not given any explanation or reconciliation to account for the variances.

In the circumstances, the accuracy, validity and completeness of the financial statements for the year ended 30 June, 2019 could not be confirmed.

Other Matter

149. Budgetary Control and Performance

The statement of comparison of budget and actual amounts: recurrent and development, combined reflects final receipts budget and actual on comparable basis of Kshs.1,034,797,246 and Kshs.810,574,690 respectively, resulting in revenue shortfall of Kshs.224,222,556 or 22% of the budget. Similarly, the Management utilized Kshs.810,572,246 or 99.9% of the total receipts. The revenue shortfall may have affected planned activities for service delivery to the public

150. Prior Year 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

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Governance. However, although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the Senate has not deliberated on the same.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis of Conclusion

151. Use of Goods and Services

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects payment on use of goods and services of Kshs.385,835,814. Review of the expenditure revealed the following unsatisfactory observations: -

151.1 Ward Operating Expenses

The above balance includes other operating expenses amount of Kshs.62,854,287 which includes Kshs.42,293,000 on account of general office operations expenditure through imprests issued to the forty (40) Members of the County Assembly (MCAs). Management paid Kshs.100,000 per month to the Wards to cater for general Ward office expenses. The basis for the monthly allocation of Kshs.100,000 could not be established as it does not cover rent, salaries and allowances to employees as these expenses are paid for directly by the County Assembly at the Ward offices.

In the circumstances, the validity and value for money from the expenditure of Kshs.42,293,000 on general Ward operations could not be ascertained and may not constitute a proper charge to public funds.

151.2 Compliance with Salaries and Remuneration Commission

Included under the use of goods and services - domestic travel and subsistence is expenditure amounting to Kshs.106,768,252. Examination of records and documents relating to domestic travel and subsistence allowances revealed that the County Assembly Service Board passed a resolution in their Board meeting and set transport allowances payable without seeking for approval from the Salaries and Remuneration Commission risks as shown below:

	Region/Town	Allowances (Kshs.)
1	Mombasa	25,000
2	Kisumu	25,000
3	Nakuru	15,000
4	Nairobi	10,000
5	Machakos	6,000
6	Mwingi	6,000

In the circumstances, the Management was in breach of the law.

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Basis for Conclusion

152. Lack of a Training Policy

Included in the use of goods and services are payments totalling Kshs.62,326,269 in respect of foreign travel and subsistence. Examination of supporting documents revealed that members of the Tourism, Sports and Culture Committee travelled to Malaysia between 20 to 27 October, 2018, for a duration of eight (8) days. However, the members were paid for nine (9) days per diem resulting into an overpayment. Further, it was also noted that most of the foreign travels were planned after foreign institutions invited specific MCAs for trainings and conferences. It was not clear how the foreign institutions knew about the specific training needs for specific MCAs in order to grant the invitations. The Management did not avail a training policy and as such, it was not possible to ascertain the relevance of the trainings and conferences to the Assembly in line with its mandate.

Consequently, existence of effective control measures on trainings could not be confirmed.

153. Effectiveness of Audit Committee

The Management appointed an Audit Committee of three (3) members on 4 January, 2017. However, there is no evidence, by way of Committee meeting's minutes, to signify that the Committee had met since it was constituted. This was contrary to Regulation 168 and 172(1) of Public Finance Management (County Governments) Regulation, 2015 which stipulates the function of the Audit Committee and the frequency of committee meetings respectively.

As a result, the envisioned assurance on risks, control and governance through having an Audit Committee reports may not have been realized.

154. Independence and Effectiveness of Internal Audit Department

The Internal Audit Department is not fully independent as it reports functionally to the Clerk of the County Assembly who is the Accounting Officer and not to the Audit Committee as required. The Head of Internal Audit should functionally report to the Audit Committee and administratively to the accounting officer to ensure independent evaluation of controls.

In the circumstances, the effectiveness and independence of the Internal Audit function in provision of oversight management and operations over the County Assembly could not be confirmed.

155. Imprest Paid Through Cash and Unauthorized Warrants

Examination of bank statements, cashbooks and other related documents revealed that the cash payments totalled to Kshs.164,931,816 representing 20% of the total expenditure for the year. Further, imprests to individuals were paid through cash

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instead of the beneficiary bank accounts. Such imprest payments were not made through the official imprest warrants as required but on printed forms which lacked key control features over imprest issuance such as serialization, purpose for the imprests and the date of surrender.

There is therefore override of internal controls on the cash payments without due regard to checks and balances in place.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

156. Variances between Financial Statements and Intergrated Financial Management Information System (IFMIS) Balances

Several balances reflected in the financial statements presented for audit differ with those shown against comparable accounts in the trial balance extracted from the IFMIS for the year ended 30 June, 2019, as detailed below;

Item	Financial Statements Balance (Kshs.)	IFMIS Balance (Kshs.)	Variance (Kshs.)
Compensation of Employees-basic salaries for permanent staff	342,778,509	279,053,150	63,725,359
Compensation of Employees - Social Benefit Schemes	17,668,497	19,668,497	(2,000,000)
Use of Goods and Services	481,044,180	447,995,552	33,048.628
Acquisition of Assets	24,186,539	81,254,059	(57,067,520)
Transfers to other Government units	85,000,000	75,000,000	10,000,000
Bank Balances	421,325	1,922,333,230	(1,921,911,905)
Cash in Hand Balance	0	2,407,202,753	(2,407,202,753)
Accounts receivables	0	124,021,811	(124,021,811)
Accounts payables	0	1,865,638,721	(1,865,638,721)

Management did not provide reconciliations for the variances.

As a result, the accuracy, validity and completeness of the account balances reflected in the financial statements could not be confirmed.

157. Unconfirmed Bank Balances

As disclosed under Note 13 A to the financial statements, the statement of assets and liabilities reflects bank balances totalling Kshs.421,325. The balance comprised of account balances in development, recurrent and imprest bank accounts amounting to Kshs.141,001, Kshs.140 and Kshs.280,183 respectively. However, the cash books presented in support of the balance were dated 31 July, 2019 instead of 30 June, 2019 which was the reporting date. Further, the bank balance reflected in the respective cashbook as at 30 June, 2019 was Kshs.1,903,770 comprised of Kshs.150,001 development for vote account, Kshs.1,175,858 under recurrent vote account, and Kshs.577,911 in respect of imprests account.

In view of these anomalies, the accuracy and completeness of the bank balance totalling Kshs.421,325 reflected in the statement of assets and liabilities as at 30 June, 2019 has not been confirmed.

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158. Accuracy of Statement of Cash Flows

The statement of cash flows reflects nil opening cash and cash equivalents balance which differs with the closing cash and cash equivalents credit (negative) balance Kshs.43,725,317 for the financial year ended 30 June, 2018. No restatements have been disclosed in the financial statements that would explain the reported change of the opening balance. In addition, the reported comparative balance amounting to Kshs.43,725,317 differed with the audited balance of Kshs.31,627,749 by Kshs.75,353,067 which has not been explained.

In absence of any explanations, the accuracy of the statement of cash flows for the year ended 30 June, 2019 could not be confirmed.

159. Disclosure of Pending Bills

Annex 1 to the financial statements reflects pending accounts payables totalling to Kshs.76,066,531 as at 30 June, 2019. However, the pending bills have not been disclosed in the financial statements under other disclosures as required by the International Public Sector Accounting Standards (Cash Basis) accounting framework.

In the circumstance, validity of the pending bills as at 30 June, 2019 could not be confirmed.

Other Matter

160. Budgetary Control and Performance

The statement of comparison of budget and control amounts: recurrent and development combined reflects final revenue budget and actuals on comparable basis amounting to Kshs.1,230,776,339 and Kshs.951,103,579 respectively resulting in a shortfall of Kshs.279,672,760 or 23% of the budget. Management explained the underfunding as having resulted from delay in receipt of Exchequer releases.

Further, the Management incurred expenditure totalling Kshs.360,447,006 on compensation of employees against its budget amounting to Kshs.354,795,858 resulting in over-expenditure of Kshs.5,651,148.

In the circumstance, Management did not adhere to the approved budget. No plausible explanation has been provided for the anomaly.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

161. Inter-Account Borrowing

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflects other receipts totalling Kshs.10,000,000. Examination of records of the receipts revealed that these were funds borrowed from the County Assembly Housing Fund. Although, Management explained that the borrowing was occasioned by delays in receipt of Exchequer releases, the County Assembly approval was not availed for audit review. In addition, there was no evidence to show that the borrowed funds were refunded to the Fund by the County Assembly.

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In view of the foregoing, the borrowing amounting to Kshs.10,000,000 from the County Assembly Fund was irregular.

162. Irregular Reallocation of Compensation of Employees Budget

During the year under review, Management reallocated funds totalling Kshs.75,040,000 budgeted for compensation of employees. The reallocations were made contrary to the provisions of Section 154(1c) of the Public Finance Management Act, 2012 which prohibits Accounting Officers from reallocating funds meant for wages to other expenditure items.

In the circumstance, Management was in breach of the law.

163. Non-Compliance with law or One Third of Basic Pay Rule

Review of monthly payrolls during the year revealed that non-statutory deductions on the salaries of two (2) employees exceeded two-thirds (2/3) of their basic pay contrary to Section19(3) of the Employment Act, 2007.

Management therefore, acted contrary to law and exposed the staff to the risk of pecuniary embarrassment.

164. Non-Compliance with Law on Ethnic Composition

Analysis of the County Assembly staff compliment revealed that out of two hundred and twelve (212) employees, employed by the County Assembly as at 30 June, 2019, one hundred and ninety-eight (198) representing 93% of the establishment were from the dominant ethnic community in the County. This was contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008 which provides that no public establishment shall have more than a third (1/3) of its employees from one ethnic community.

In the circumstance, the Management has breached the law.

165. Non-Adherence to End of Year Cut-off Date

Examination of expenditure records indicated that payments totalling Kshs.13,849,114 were made to various suppliers and contractors after 30 June, 2019. The payments were made contrary to Regulation 97(1) of the Public Financial Management (County Governments) Regulations of 2015, which states that the accounts of the County Government entities shall record transactions which take place during the financial year running from 01 July to 30 June.

Consequently, the Management is in breach of regulations.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

166. There were no material issues relating to effectiveness of internal controls, risk management and governance.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

167. Accuracy of the Financial Statements

The Management presented financial statements for audit which exhibited discrepancies as highlighted below:

167.1 Variances Between Financial Statements and Integrated Financial Management Information System (IFMIS) Balances

The financial statements presented for audit and the IFMIS balances reflected significant variances as detailed out below:

Item	Financial Statements Balance (Kshs.)	IFMIS Balance (Kshs.)	Variance (Kshs.)
Compensation of Employees	339,571,383	334,418,272	5,153,111
Use of Goods and Services	377,166,435	371,987,158	5,179,277
Acquisition of Assets	89,424,521	88,613,659	810,862
Bank Balances	8,154,703	70,555,187	(62,400,484)
Cash Balances	-	2,452,932,274	(2,452,932,274)
Other Debtors & Prepayments	-	147,000	(147,000)
Outstanding Imprests	-	29,933,301	(29,933,301)
Deposits and Retentions	7,776,214	3,238,815,588	(3,231,039,374)
Fund balance b/f	9,953,634	(837,041,088.)	(846,994,722)
Prior year adjustments	(9,583,854)	-	(9,583,854)

No reconciliation statement or explanations have been availed for audit verification.

167.2 Reconciliation of Compensation of Employees Balances

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects expenditure on compensation of employees of Kshs.339,571,383. However, payroll summaries presented in support amounted to Kshs.315,535,905 resulting to unexplained and unreconciled variance of Kshs.24,035,478.

167.3 Errors in Comparative Surplus Balance

The statement of receipts and payments reflects comparative surplus balance of Kshs.5,694,382 which differs from the 2017/18 audited balance of Kshs.5,753,168 resulting to a variance of Kshs.58,786. Although Management has explained that the variance resulted from correction of an error in the prior year audited financial statements, no disclosure by way of notes have been made as required by IPSAS 3.

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Further, the correction has not been effected in all the elements of the financial statements including the statement of assets and liabilities.

Consequently, the accuracy, validity and completeness of the financial statements for the year ended 30 June, 2019 could not be confirmed.

Other Matter

168. Rise in Use of Goods and Services

During the year under review the Management's expenditure on use of goods and services increased from Kshs.288,649,368 recorded in the previous year to Kshs.377,166,435 resulting to a significant increase of Kshs.88,517,067 or 30%. The increase mainly occurred under fuel oil and lubricants, other operating expenses, specialized materials and services, and utilities, supplies and services categories and as detailed out below:

Item	2018/2019 Amount (Kshs)	2017/2018 Amount (Kshs)	Increase (Kshs)	% Increase
Fuel, Oil and Lubricants	7,465,980	4,606,183	2,859,797	62
Other Operating Expenses	123,584,075	60,807,242	62,776,833	103
Specialized Materials and Services	1,396,976	705,600	691,376	98
Utilities, Supplies and Services	1,305,843	839,736	466,107	56
Total	**133,752,874**	**66,958,761**	**66,794,113**	**50**

However, there was no significant change in the level of activity in comparison to the prior year. Management has not explained the increase.

169. Budgetary Control and Performance

The statement of comparison of budget and actual amounts indicates that Management expended an amount of Kshs.824,319,544 or 97% of the budgeted amount of Kshs.847,450,779. However, a review of the individual sub-vote revealed that the County Assembly had a development budget on acquisition of assets of Kshs.101,090,572 but only Kshs.79,469,727 or 79% was utilized on acquisition of assets.

Further, Management has not provided any explanatory notes for material deviations between the final budget and actual on comparable basis exceeding 10% in the statement of comparison of budget and actual amounts as required under Paragraph 24 of the International Public Sector Accounting Standards (IPSAS).

The under absorption of the approved budget is an indication of assets not acquired in the year under review as planned, for the benefit of the stakeholders.

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170. Prior Year Audit Matter

As previously reported, the Management made payments totalling Kshs.288,600,581 in the financial year ended 30 June, 2018 in respect to use of goods and services. Included in this figure was Kshs.9,403,447 on account of foreign travel and subsistence paid out as per diems for the Speaker, the Clerk and Members of County Assembly while traveling to Singapore and Dubai to attend conferences. However, Management did not provide supporting documents such as air tickets, boarding passes, training fee receipts, back to office reports and certificates of attendance as proof of travel, for audit review. The matter remained unresolved as at 30 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

171. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

172. Control Weaknesses over Expenditure Documents

Included in the use of goods and services amount is Kshs.108,385,731 expenditure on domestic travel and subsistence. However, controls over domestic travel expenditure were noted to be weak. For instance, fuel receipts are not backed by ETR receipts which cast doubt on their authenticity and sampled receipts on hire of taxis services did not have journey details.

In view of the foregoing, the County Assembly could be exposed to the risk of payment of invalid expenditure.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

173. Accuracy of the Financial Statements

173.1 Non-Disclosures of Bank Accounts

The County Assembly operates twenty-five (25) bank accounts with commercial banks through which standing imprest for the operations of Ward offices' are paid. The bank accounts were however, not disclosed in the financial statements as required by the Public Sector Accounting Standards Board (PSASB).

Management did not therefore comply with the PSASB template.

173.2 Failure to Reconcile Bank Balances

As disclosed under Note 7A to the financial statements, the statement of financial assets and liabilities reflects a bank balance of Kshs.29,904,445. Included in this balance is Kshs.27,608,760 reportedly as held at the deposit retention bank account at the Central Bank of Kenya. However, the certificate of bank balance on confirmation reflects nil balance as at 30 June, 2019. Further, there is no cashbook being maintained for the account contrary to the provision of clause 6.11 of the County Financial Accounting and Reporting Manual.

Further, the recurrent and development bank account reflects balances of Kshs.795,012 and Kshs.1,500,673 respectively. The amounts however, differed significantly with the respective cashbook balances as tabulated below: -

Account Name	Cashbook Balance (Kshs.)	Financial Statement (Kshs.)	Variance (Kshs.)
CBK-Recurrent	757,002.70	795,012	38,009.30
CBK-Development	6,415,482.97	1,500,673	4,914,809.97
Total	**7,172,485.67**	**2,295,685**	**4,952,819.27**

In addition, the banks reconciliation statements in support of the two (2) account balances as at 30 June, 2019 had long outstanding reconciling items totalling to Kshs.125,926,692 that remained unreconciled. Management has not explained why the reconciling items continue to remain unresolved.

Consequently, the accuracy of the reported bank balances of Kshs.29,904,446 as at 30 June, 2019 could not be confirmed.

174. Unsupported Ward Expenses

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflects payments under use of goods and services amounting to Kshs.300,240,100. The balance includes other operating expenses of Kshs.32,568,186 which includes a balance of Kshs.9,975,000 being payments for the

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operations in twenty five (25) Ward offices. However, the expenditure was not supported with Electronic Tax Register (ETR) receipts casting doubt on their authenticity. Further, no cashbooks were maintained at the Wards for the control of the imprest bank accounts transactions.

Consequently, the accuracy and validity of other operating expenses amounting to Kshs.32,568,186 for the year ending 30 June, 2019 could not be confirmed.

175. Pending Accounts Payables (Pending Bills)

Annex 1 to the financial statements reflects pending accounts payables of Kshs.75,369,634 in respect of amounts owed to contractors and service providers at. Included in this balance is an amount owed to two (2) law firms of Kshs.7,407,200 and Kshs.6,380,800. However, verification of correspondences from the firms indicate that the County Assembly owes the law firms Kshs.5,827,200 and Kshs.6,061,244 resulting into overstatement of Kshs.1,580,000 and Kshs.319,556 respectively.

Consequently, the accuracy of the pending bills balance of Kshs.75,369,634 as at 30 June, 2019 could not be confirmed.

Other Matter

176. Budgetary Control and Performance

The statement of comparison of budget and actual amounts: recurrent and development combined reflects final expenditure budget and actual on comparable basis of Kshs.839,574,296 and Kshs.768,982,402 respectively, resulting in an under-absorption of Kshs.70,591,894 or 8%.

The under absorption mainly occurred under acquisition of assets which had a budgeted allocation of Kshs.217,384,500 against expenditure of Kshs.149,430,077 resulting to under absorption of Kshs.67,954,423 or 31%. The underutilization indicates that some activities, predominantly development planned for the year were not undertaken.

This may have impacted negatively on service delivery for the residents of the County.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

177. Unlawful Subscriptions to County Assemblies Forum (CAF)

Note 3 to the financial statements discloses other operating expenses of Kshs.32,568,186 which includes payments of an amount of Kshs.5,000,000 to the CAF as annual subscription fees. The payment is contrary to Section 149(1)(a) of the Public Finance Management Act, 2012.

Consequently, Management is in breach of the law.

178. Pending Settlement of Court Award

The Speaker of the first County Assembly declined to swear in a nominated Member of the County Assembly (MCA), on the grounds of suitability in the year 2013. The

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aggrieved member sought redress in court which was ruled in his favour. According to the ruling, the unpaid amount attracts interest at the rate 14% per annum, effective 30 July, 2017. By 30 June, 2019, the Management had settled an amount of Kshs.1,650,000 leaving a balance of Kshs.12,208,000. There was no budget provision during the financial year to settle the obligation.

Consequently, the County Assembly is incurring avoidable cost by way of accrued interest, which is not effective use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT SYSTEMS, AND GOVERNANCE

Basis for Conclusion

179. Inadequate Fixed Asset Register

Annex 3 to the financial statements discloses a summary of fixed assets of Kshs.581,989,806 as at 30 June, 2019. However, the amount excludes undetermined value of the land parcel on which the construction of the County Assembly Office Block is ongoing.

Consequently, the ownership, rights and obligations of the fixed assets with a value of Kshs.581,989,806 could not be confirmed.

180. Lack of Risk Management Policy

The Management does not have an approved risk management policy in place to guide the assessment and evaluation of risk and development of strategies to mitigate them. This is contrary to Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires the accounting officer to ensure that the county government entity develops risk management strategies, which include fraud prevention mechanism; and a system of risk management and internal control that builds robust business operations.

Consequently, existence of effective risk management measures at the County Assembly could not be confirmed.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

181. Accuracy of Compensation of Employees Expenditure

The statement of receipts and payments reflects compensation of employees' expenditure totalling Kshs.195,315,153. However, supporting schedules reflected expenditures totalling Kshs.190,651,752 resulting in an unexplained difference of Kshs.4,663,401.

Further, analysis of expenditure trends showed that expenditure on employees rose by Kshs.31,598,847 or 19.3 % from Kshs.163,716,306 in the previous financial year to Kshs.195,315,153 in the year under review. Management has not explained the increase.

In addition, an amount of Kshs.25,486,948 was incurred in respect of basic wages of temporary employees. However, examination of the payment records indicated that manual payment vouchers were used to pay the wages and not the Integrated Payroll and Personal Data (IPPD) System, as expected. Further, the expenditure was not supported by signed master rolls.

In view of the above, the accuracy and validity of the compensation of employees' expenditure totalling Kshs.195,315,153 reflected in the statement for receipts and payments for the year ended 30 June, 2019 have not been confirmed.

182. Unexplained Variances Between Various Financial Statements and Integrated Financial Management Information System (IFMIS) Report Balances

As in the previous year, the financial statements reflect various balances which differ with comparable account balances reflected in IFMIS report for the year ended 30 June, 2019 as detailed below:

Details	Amount as Per Financial Statements Kshs.	Amount as Per IFMIS Report- Kshs.	Difference Kshs.
Total Receipts	655,982,249	636,616,791	(19,365,458)
Total Payments	655,980,450	656,366,168	(415,718)
Bank Balances	818,314	503,299,961	(502,481,647)
Cash Balances	0	2,347,825,734.80	(2,347,825,735)
Accounts Receivables	0	13,001,765.30	(13,001,765)
Outstanding Imprests			
Accounts Payables- Deposits and retentions	816,516	2,228,284,630	(2,227,468,114)
Fund Balance brought forward	0	(355,604,722.00)	355,604,722

No explanation or reconciliations have been provided for the differences between the two sets of records.

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In view of these anomalies, the accuracy and completeness of the financial statements for the year ended 30 June, 2019 have not been confirmed.

182.1 Discrepancies in the Statement of Cash Flows

The statement of cash flows reflects a nil balance against adjustments in accounts payables, deposits and retentions while the statement of financial assets and liabilities reflects a net decrease of Kshs.44,883 in respect to the items. Similarly, the statement of cash flows reflects nil cash and cash equivalent balance at the beginning of the year while the statement of financial assets and liabilities as at 30 June, 2018 had a balance of Kshs.861,399, which is the opening balance for the year under review.

Consequently, the accuracy and validity of the financial statements for the year ended 30 June, 2019 could not be confirmed.

183. Unconfirmed Fixed Assets Balance

Annex 4, summary of fixed assets register, attached to the financial statements reflects assets totalling Kshs.182,396,624. As similarly reported in the previous year, the closing assets balance for the year under review does not include assets of unknown value inherited from the defunct local authorities. These include three (3) motor vehicles of unknown value and land valued at Kshs.19,000,000.

As a result of the omission, the accuracy and completeness of the summary of fixed assets register balance of Kshs.182,396,624 as at 30 June, 2019 has not been confirmed.

Other Matter

184. Unresolved Prior Year Audit Matters

In the audit report of the previous year, several paragraphs were raised. However, the Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and the National Treasury's Circular. Ref: PSASB/1/12/VOL.1 (44) of 25 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

185. Non-Compliance with the Law on Ethnic Composition

Examination of the human resource records revealed that during the year under review, the County Assembly had fifty-four (54) permanent employees out of whom forty-two (42) equivalent to 96% of all staff members were from the dominant community in the County. This is contrary to the provisions of Section 65(e) of the County Governments Act, 2012 which requires County Governments to ensure that at least thirty percent (30%) of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county.

Consequently, Management is in breach of the law.

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186. Avoidable Expenditure on Domestic Travel and Subsistence

As disclosed under Note 5 to the financial statements, the statement of receipts and payment reflects expenditure totalling Kshs.164,743,040 under domestic travel and subsistence. Included in this expenditure are payments totalling Kshs.38,861,111 made to MCAs and staff for attending various meetings in facilities located outside the County Assembly premises. The meetings could have been conveniently held at a lesser, or no cost, within the County Assembly.

In the circumstances, the expenditure of Kshs.38,86111 does not give value for the money for the use of public resources.

Further, an amount of Kshs.25,616,762 in respect to domestic travel and subsistence was instead charged to two accounts where Kshs.6,856,220 was charged to hospitality supplies while Kshs.18,760,542 was charged as training expenses without any approval from the County Treasury as provided under Section Section 154(2) of the Public Finance Management Act, 2012

Had the mis-posted expenses been charged to the domestic travel and subsistence account, the total expenditure on the item would have increased to Kshs.190,359,802 resulting in an over-expenditure of Kshs.25,359,802 against the approved budget for the year amounting to Kshs.165,000,000.

Consequently, Management is in breach of the law.

187. Delayed Completion of Projects

As previously reported, Management in July, 2016 awarded two (2) contracts valued at Kshs.10,672,231 to construct a gate at the County Assembly and refurbish a hotel for use by the County Assembly at Kshs.3,818,905 and Kshs.6,853,326 respectively. The works were to be completed in February and August, 2017 respectively. However, the respective contracts lapsed before the works were completed. At the time of the audit in October, 2019 all payments due had been made to the contractors and the works were almost complete.

The contractors were, however, not on site at the time of the audit inspection. No explanation was provided for the failure to complete the projects two (2) years after their contracted completion dates.

As a result of the delay, the services by the County Assembly have not been realized.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

188. There were no material issues relating to effectiveness of internal controls, risk management and governance.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

189. Accuracy of the Financial Statements

The statement of receipts and payments reflects several balances in respect to (4) components while the corresponding Integrated Financial Management Information System (IFMIS) report reflected differing balances on the same components as detailed below:

Component	Statement of receipts and Payments Balance (Kshs)	IFMIS Report (Kshs)	Variance (Kshs)
Compensation of Employees	244,160,733	249,152,674	(4,991,941)
Use of Goods and Services	293,566,178	208,491,792	85,074,386
Government Pension & Retirement Benefits	16,614,814	20,971,111	(4,356,297)
Bank Charges	44,689	0	(44,689)

Further, the statement of financial assets and liabilities reflects accounts receivables amount retained by the County Treasury of Kshs.5,054,286. However, Note 14 to the financial statements reflects an amount of Kshs.488,765 in respect of the same item resulting to an unreconciled and unexplained variance of Kshs.4,565,521.

In addition, the statement of cash flows reflects comparative balances for the year ended 30 June, 2018 of three (3) components which differed significantly with the audited statement of cash flows for the same components as detailed below:

Component	Comparative Balances		Variance (Kshs)
	Current Cash Flows Statement 2018/2019 (Kshs.)	Audited Cash Flows Statement 2017/2018 (Kshs)	
Net Cashflow from Operating Activities	39,338,084	39,826,848	488,764
Net Cashflow from Investing Activities	39,847,301	37,790,206	2,057,095
Closing Cash and Cash Equivalents balance	16,369	2,562,228	2,545,859

In the circumstances, the accuracy and validity of the financial statements for the year ended 30 June, 2019 could not be confirmed.

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Other Matter

190. Pending Bills

During the year under review, the County Assembly recorded pending bills totalling to Kshs.5,223,399 which were not settled during the year ended 30 June, 2019 but were carried forward to the 2019/2020 financial year. Management has not explained why the bills were not settled during the year when they occurred.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

191. Compliance with the Public Sector Accounting Standards Board

The annual report and financial statements did not include the annexures on analysis of pending staff payables, analysis of other pending payables and analysis of outstanding imprest contrary to the template issued by the Public Sector Accounting Standards Board (PSASB) in June, 2019.

Consequently, the annual report and the financial statements for the year ended 30 June, 2019 were not PSASB compliant.

192. Non-Compliance with the Law on Fiscal Responsibility- wage Bill

The statement of receipts and payments reflects total receipts of Kshs.629,333,009 compared to compensation of employees expenditure of Kshs.244,160,733. The wage bill constitutes 39% of the total receipts. This is contrary to Section 25(1b) of the Public Finance Management (County Governments) Regulations, 2015 which requires that the wage bill should not exceed thirty-five (35) percent of total revenue.

In the circumstances, the Management is in breach of law.

193. Compliance with the Public Procurement and Asset Disposal Act, 2015

During the year, Management procured sports and games items worth Kshs.1,400,921. Examination of the supporting documents revealed that the items had not been included in the procurement plan. This is contrary to Section 45.3(a) of the Public Procurement and Asset Disposal Act, 2015 which states that all procurements shall be within the approved budget and shall be planned by the procuring entity concerned through an annual procurement plan.

The Management is therefore in breach of the law.

194. Irregular Hire of Conference Facilities

Management hired conference facilities at a cost of Kshs.921,408 but did not provide supporting documents to show how the facilities were identified, purpose of the

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meetings, programme and back to office report for audit review. The meetings were held outside the County Assembly offices without justification contrary to The National Treasury circular number 20/2015 dated 4 November, 2015 that requires all accounting officers to ensure that all workshops and retreats with majority of participants drawn from one duty station are held within the precincts of the duty station.

Management is therefore in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

195. There were no material issues relating to effectiveness of internal controls, risk management and governance.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

196. Long Outstanding Unreconciled Cash Items

The statement of financial assets and liabilities reflects a bank balance of Kshs.3,993,215. However, the bank reconciliation statement as at 30 June, 2019 reflects payment in cashbook not in bank statement and payments in bank statement not in cashbook amounting to Kshs.27,812,950 and Kshs.2,973,676, respectively. It was noted that, reconciling items amounting to Kshs.13,924,769 shown in the statement relate to the month of August, 2018. No explanation was provided on why these balances have remained outstanding for long without being cleared.

In view of the above, the accuracy and completeness of the cash and cash equivalents balance totalling Kshs.3,993,215 could not be confirmed.

197. Variances Between the Financial Statements and Integrated Financial Management Information System (IFMIS) Balances

The financial statements reflect various balances which, differ with comparable account balances reflected in the IFMIS report shown below:

(i) Variances between Statement of Receipts and Payments and IFMIS Balances

Details	Balance as Per Statement of Receipts and Payments Kshs.	IFMIS Balances Kshs.	Variance Kshs.
Receipts			
Receipts-Transfers from County Treasury/Exchequer	627,000,000	677,000,000	50,000,000
Payments/Expenditure			
Compensation of Employees	282,078,630	293,228,850.9	11,150,220.9
Use of Goods and Services	271,612,408	268,996,003.5	(2,616,404.5)
Transfers to Other Government Entities	29,187,583	0	(29,187,583)
Acquisition of Assets	22,890,724	42,890,725	20,000,001
Finance cost/Interest	0	6,314,930	6,314,930

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(ii) Variances between Statement of Financial Assets and Liabilities and IFMIS Report

Details	Balances as Per Statement of Financial Assets and Liabilities Kshs.	Balances as Per IFMIS Report Kshs.	Variance Kshs.
Bank Balances	3,993,215	1,321,416,499	1,317,423,284
Cash Balances	0	946,190,487.95	946,190,487.85
Accounts Receivables - Outstanding Imprest	0	2,495	2,495
Accounts Payables-Deposits and Retentions	3,993,215	204,222,451	200,229,236
Fund Balance Brought Forward	140,316	(623,649,476)	(623,789,792)

No reconciliations have been provided for the variances.

In absence of any reconciliation, the accuracy and completeness of the financial statements for the year ended 30 June, 2019 could not be ascertained.

Other Matter

198. Budgetary Control and Performance

During the year under review, the approved budget for the County Assembly of Kshs.836,381,818 comprised of Kshs.786,381,818 and Kshs.50,000,000 for recurrent and development votes, respectively. However, the Management incurred expenditure totalling Kshs.595,140,317 and Kshs.22,812,724 on recurrent and development votes, respectively resulting in under-expenditure of Kshs.191,241,501 on the recurrent budget and Kshs.17,812,724 on the development budget or 23% and 36% of the respective budgets.

In view of the failure to utilize the whole of its operational and development budgets, the County Assembly did not realize all its targeted outputs to the residents of the County as required.

199. Pending Accounts Payables (Bills)

Note 2.10 - Other Disclosures - to the financial statements, reflects accounts payables (bills) amounting to Kshs.14,203,325 incurred on construction of buildings. Management has not explained why the amounts had not been settled.

Failure to settle bills during the year to which they relate distorts the financial statements for that year and adversely affects budgetary provisions for the subsequent year to which they have to be charged.

200. Unresolved Prior Year Issues

The audit report for the previous year, several issues were raised. However, the Management has not resolved the issues nor given any explanation for failure to

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adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 VOL.1(44) of June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

201. Payment of Sitting Allowances

Included in domestic travel and subsistence expenditure totalling Kshs.141,313,599 are sitting allowances totalling Kshs.4,204,200 paid to MCAs for attending plenary sessions or committee meetings in venues away from the County Assembly Building. However, a review of records and attendance registers for the meetings revealed that MCAs were paid allowances totalling Kshs.517,400 attended two (2) or more separate meetings held on the same day, or concurrently. Management has not explained the multiple and concurrent payments of sitting allowances.

In view of the anomaly, the expenditure is not a proper charge to public funds.

202. Payment of Subscription Fees

Expenditure records indicated that during the year under review, Management paid Kshs.2,800,000 in subscription fees to the County Assemblies Forum (CAF) and the Society of Clerks at the Table (SOCATT). However, at the time the payments were made, the County Assembly had not developed policies and guidelines for payment of subscriptions to such bodies.

In the circumstance, I am unable to confirm whether the expenditure totalling Kshs.2,800,000 incurred on subscriptions was valid and a proper charge on public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

203. There were no material issues relating to effectiveness of internal controls, risk management and governance.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

204. Variance Between Financial Statements and Integrated Financial Management Information System (IFMIS) Balances

The financial statements reflect several balances that vary from those reflected in respect to the same accounts in IFMIS Report, as shown below:

Variances Between Financial Statements and IFMIS Balances

Item Description	Financial Statements Balance Kshs.	IFMIS Balance Kshs.	Variance Kshs.
Bank Balance	934,216.00	897, 896,935.05	896,962,719.05
Cash Balance	-	2,380,538,746.00	2,380,538,746.00
Other Debtors and Pre-payments	-	51,597,409.25	51,597,409.25
Government Imprest	-	5,678,055.00	5,678,055.00
Suspense and Clearance Account	-	111,151,946.45	111,151,946.45
Other Liabilities	-	(15,153,299.90)	(15,153,299.90)
Withholding Taxes	433,261.00	-	433,261.00
System Required Liabilities Accounts	4,766,009,613.15	-	4,766,009,613.15

In the absence of the accuracy and completeness of the financial statements has not been confirmed.

205. Variances Between Bank Balances and IFMIS Cash Book

The statement of financial assets and liabilities reflects a bank balance of Kshs.934,216 as at 30 June, 2019 which comprised of Kshs.934,215 held in a recurrent account and Kshs.1 in a development account. However, the IFMIS cash book for the recurrent account reflects a closing credit balance of Kshs.150,508,889.65 as at 30 June, 2019.

As a result of the significant discrepancy, the accuracy and completeness of the bank balance amounting to Kshs.934,216 could not be confirmed.

206. Unsupported Fuel, Oil and Lubricants Expenditure

Included in the use of goods and services is an expenditure balance of Kshs.544,137,516 out of which Kshs.5,761,000 was incurred on purchase of fuel, oil and lubricants. Records availed for audit review indicated that during the year under review, Management contracted a firm to supply fuel that was to be paid for through fuel cards. However, no fuel registers or supplier statements were availed for audit review to confirm the quantities of fuel consumed during the year.

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Consequently, the occurrence, measurement and propriety of the expenditure amounting to Kshs.5,761,000 reported as having been incurred on fuel, oil and lubricants could not be confirmed.

207. Irregular Payment of Travel and Subsistence Allowances

Included in domestic travel and subsistence expenditure totalling Kshs.221,061,780 reflected in the statement of receipts and payments are payments amounting to Kshs.6,678,350 made to Members of the County Assembly (MCAs) who attended various meetings and workshops away from the County Assembly. However, some of the payees were also included in signed attendance lists for other meetings held concurrently, indicating double payments.

In view of the anomaly, the occurrence, regularity and validity of the travel and subsistence allowance payments amounting to Kshs.6,678,350 has not been confirmed.

Other Matter

208. Pending Bills

Note 5.10 - Other disclosures – of the financial statements indicates that pending bills totalling Kshs.25,068,206 and Kshs.19,543,000 relating to pending accounts payables and pending staff payables respectively, were not settled during the year under review, but were instead carried forward to 2019/2020 financial year.

The pending bills reflect financial commitments made by Management without sufficient resources and may indicate imprudent management of public funds. In addition, failure to settle bills in the year they occur distorts the financial statements for the year and adversely affects budgetary provisions for the year in which they are paid.

209. Unresolved Prior Year Issues

In the report for the 2017/2018 financial year, several issues were highlighted in the Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources as well as in the Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the financial statements for the year under review do not include disclosures on the progress made in resolving the issues contrary to the reporting and the National Treasury Circular Ref: PSASB/1/12 VOL.44 of 25 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

210. Unauthorized Expenditure

Included under use of goods and services payments of Kshs.544,137,516 is Kshs.221,061,780 spent on domestic travel and subsistence allowances. The approved budget for the item was Kshs.221,918,585 and therefore, the absorption rate attained was 99.6%. However, an additional expenditure amounting to

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Kshs.19,543,000 incurred on the item was not paid for but was instead carried forward to 2019/2020 financial year as pending staff payables.

Consequently, the Management was in breach of the law.

211. Unsupported Expenses on Rentals of Produced Assets

Further, the use of goods and services payments balance of Kshs.544,137,516 reflected in the statement of receipts and payments also includes Kshs.13,394,914 spent on rentals of produced assets, out of which Kshs.11,362,974 was for rents paid for County Assembly Ward Offices. However, as in the previous year, no records were availed for audit to confirm how the amount of rent payable was determined.

In the circumstances, it was not possible to confirm whether value for money was attained on the expenditure.

212. Irregular Expenditure on Security Services

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflect payments totalling Kshs.30,110,820 spent on other operating expenses. The balance includes payments totalling Kshs.2,058,300 in respect of contracted security services provided by a local security firm. Examination of records indicated that the firm was contracted on 1 December, 2014 for a period of one year and therefore, the contract expired on 1 December, 2015. The expired contract was not renewed and no tender was executed. However, contrary to the provisions of Section 135 of the Public Procurement and Asset Disposal Act, 2015, the firm continued to offer security services to the County Assembly without a contract.

In the circumstances, Management is in breach of the law.

213. Unsupported Transport Allowances

Included in domestic travel and subsistence expenditure totalling Kshs.221,061,780 are payments amounting to Kshs.6,023,000 spent on transport allowances paid to MCAs while attending various meetings held in Nairobi, Nyeri, Naivasha and Mombasa. The payments were made at varying daily rates that ranged between Kshs.2,000 and Kshs.13,000. Although the records indicated that Management wrote to the SRC in June, 2016 seeking approval for the rates applied, the request had not been consented to by the time of audit in November, 2019.

In the circumstance, the legality and validity of the payments amounting to Kshs.6,023,000 spent on travel allowances could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

214. Unsigned County Assembly Service Board Meetings

Expenditure records indicated that during the financial year under review, the Kiambu County Assembly Service Board held fifty-eight (58) meetings. However, only very few

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minutes of the meetings were signed by the Chairperson and the Secretary of the Board. Further, on several occasions, the Board did not confirm previous minutes in time. The omissions cast doubt on the occurrence and validity of the reported meetings.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

215. Unreconciled Cash Balance

As disclosed under Note 13A to the financial statements, the statement of financial assets and liabilities reflects an aggregate cash and cash equivalents balance of Kshs.14,408,333. However, the amounts for the three (3) bank accounts did not tally with the respective Integrated Financial Management Information System (IFMIS) cashbook balances as detailed below:

Account Name	Statement of Receipts and Payments Balance (Kshs.)	IFMIS Cashbook Balance (Kshs.)	Unexplained Difference (Kshs.)
Development Account	14,373,918	(189,588,206)	203,962,124
Recurrent CBK	191	2,095,062.55	2,094,871
Recurrent KCB	34,224	Not disclosed	
Total	**14,408,333**		

No reconciliations have been provided for the differences. Further, contrary to the reporting format prescribed by the Public Sector Accounting Standards Board (PSASB), the financial statements do not include bank reconciliation statements for the three (3) bank accounts as at 30 June, 2019.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.14,408,333 could not be confirmed.

216. Unsupported Acquisition of Assets

As disclosed under Note 10 to the financial statements, the statement of receipts and payments during the year ended 30 June, 2019 reflects acquisition of assets payments totalling Kshs.317,050,664. The balance includes Kshs.39,570,881 paid for the construction of the County Assembly's office building. Payments made in respect to the project totalled Kshs.65,570,881. The balance includes Kshs.26,000,000 paid on behalf of the County Assembly by the County Executive during the 2017/18 financial year.

The ongoing works were assessed as 70% complete in November, 2019. However, the contract agreement and progress of works reports, were not availed for audit review.

As a result, it was not possible to verify the reported level of works completed and whether these were done as provided for in the contract agreement.

Further, the above includes Kshs.95,431,284 spent on construction of twenty-five (25) MCA Ward Offices under various contracts valued at Kshs.295,752,194. However, Management did not avail status reports on five (5) MCAs Ward Offices.

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The balance further includes retention payments totalling Kshs.14,314,510 as brought forward from the previous year. However, no deposit payables had been included in the financial statements for the year ended 30 June, 2018. The source and nature of the retention payments reflected in the financial statements for the year under review could not be confirmed.

In view of the above, the accuracy and validity of the acquisition of assets payments totalling Kshs.317,050,664 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

217. Unconfirmed Pending Bills

Note 1.2 of Other disclosures to the financial statements reflects pending accounts payables in respect to construction of buildings and supplies of goods and services totalling Kshs.71,251,247. However, invoices and certificates for the balance were not availed for audit review.

Consequently, the valuation, validity and accuracy of the pending accounts payables balance of Kshs.71,251,247 as at 30 June, 2019 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

218. Stalled and Incomplete Projects

The projects' status report indicated that fourteen (14) projects contracted at an aggregate cost of Kshs.462,121,832 out of which payments totalling Kshs.304,488,679 made to the respective contractors as at 30 June, 2019, were reviewed during the audit.

Eight (8) of the projects contracted at Kshs.82,323,122 were not completed. Payments made to the respective contractors at the time of the audit totalled Kshs.26,155,324, equivalent to 32% of the contracts sum. Similarly, one (1) project for construction of the Speaker's residence at Kshs.75,016,756 had stalled with payments totalling Kshs.45,610,187 or approximately 61% of the contract sum having been made to the contractor. Additional observations made during the audit inspections are outlined in the Appendix to this report.

Management has not disclosed the actions it has taken to revive and complete the stalled projects.

In view of the above, the residents of the County have not obtained value for money on the funds invested in the stalled projects.

219. Failure to Pay Borrowed Funds

The statement of receipts and payments reflects other receipts comparative balance of Kshs.5,000,000. The sum was borrowed in 2017/2018 financial year from the County Assembly's Car Loan and Mortgage Members Fund and used to meet the County Assembly's financial obligations. It was to be repaid upon receipt of Exchequer

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releases from The County Treasury. However, the repayment had not been made as at 30 June, 2019.

There was no evidence to show that the borrowing of funds was authorized by the County Assembly and, no explanation has been provided by Management for failure to repay the funds.

Consequently, Management is in breach of the law.

220. Non-Compliance with Law on Fiscal Responsibility-Wage Bill

The statement of receipts and payments reflects compensation of employees expenditure totalling Kshs.436,983,615 equivalent to 38% of the total revenue amounting to Kshs.1,189,677,492. The balance exceeds the recommended threshold of 35% prescribed for compensation of employees expenditure in Regulation, 25 (1) of the Public Finance Management (County Government) Regulations, 2015. No explanation has been provided by Management for the breach of the wage bill limit.

Consequently, the Management is in breach of the law.

221. Non-Compliance with Law on Ethnic Composition

Review of personnel records revealed that, the County Assembly had a total of three hundred and twenty-four (324) employees out of whom three hundred and twelve (312) or approximately 97% were from the dominant community in the County. During the year under review, the County Assembly's Public Service Board recruited twenty (20) new staff all of whom were from the dominant community in the County. The appointments flouted Section 65(e) of the County Governments Act, 2012 which prescribes that at least 30% of the vacant posts at entry level be filled by candidates who are not from the dominant ethnic community in a County.

Consequently, the Management is in breach of the law.

222. Non-Compliance with One-Third Basic Salary Rule

Section 3 of the Employment Act, 2007 (First Schedule) provides that wages paid to an employee shall not be less than one-third of the monthly pay after statutory and other deductions. However, sampled review of the County Assembly's payroll indicated that some employees received net salaries that were less than one-third of their respective basic salaries after Management allowed excessive non-statutory deductions for loans and other check-off payments beyond the two-third limit. This puts the staff at risk of pecuniary embarrassment.

Consequently, the Management is in breach of the law.

223. Delay in Construction of New County Assembly Offices

During the year under review, the County Assembly paid Kshs.126,030,410 to a contractor for construction of new County Assembly offices whose initial contract sum was Kshs.179,736,282. This brought the cumulative payments to the contractor to Kshs.147,962,134. The tender for the works was awarded in June, 2016. However, as previously reported, the contract did not specify the dates which the works were to start and end. Audit verification carried out in December, 2019 revealed that some of

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the works were approximately 70% complete although, the expected completion date was not disclosed by Management.

Consequently, I am unable to confirm when the construction works will be completed and the expected value for money obtained on public funds spent on the project.

224. Outstanding Imprests

Regulation 93(5), (8) of the Public Finance Management (County Governments) Regulations, 2015 requires a holder of a temporary imprest to account for or surrender the imprest within seven (7) working days after returning to the duty station. In addition, a second imprest should not be issued to any officer before the previous one is surrendered or recovered in full. A review of imprest records indicated that imprests totalling Kshs.21,675,715, reflected in the statement of assets and liabilities as at 30 June, 2019 were overdue for surrender. Further, the imprest balance included an amount of Kshs.14,644,700 held by several officers issued with multiple imprests, contrary to regulations.

Consequently, the Management is in breach of law.

225. Irregular Banking of Deposits and Retentions

Examination of deposits and retentions records indicated that the County Assembly had deposits totalling Kshs.26,085,257, as reflected in the statement of financial assets and liabilities, under account payables-deposits and retentions. However, the deposits were held in the County Assembly's development vote bank account contrary to Clause 6.11 of National Treasury Accounting and Financial Reporting manual for County Governments which prescribes a separate bank account for deposits and retentions.

Consequently, Management is in breach of law.

226. Use of Manual Payroll

Records availed for audit indicated that during the year under review, staff salaries and allowances were processed through both the Integrated Personnel and Payroll Database (IPPD) and spread sheets. The payments made through the two (2) systems amounted to Kshs.418,079,390 and Kshs.18,904,225 respectively. No explanation was provided for failure to process all the payments through the prescribed IPPD system.

Consequently, Management failed to use the prescribed system.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

227. Lack of Risk Management Policy

Section 158(1) of the Public Finance Management (County Governments) Regulations, 2015 requires each County Government entity to establish a system of risk management that supports robust business operations. However, Management

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did not availed evidence that it has established a risk management system to manage unfavorable events that may disrupt the operations of the County Assembly.

In the circumstances, I am unable to confirm whether the County Assembly has capacity to manage risks in an effective way.

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Appendix: Stalled and Incomplete Projects

No	Project Name	Contract Sum	Total Payments as at 30 June, 2018 Kshs.	Amount Paid in 2018/2019 Kshs.	Total Payment as at 30 June, 2019 Kshs.	Status	Observations
1	Construction and completion of MCA Ward Office at Kalobeyei Ward	12,489,756	-	4,448,509	4,448,509	97%	On-going
2	Construction and completion of MCA Ward Office at Kakuma Ward	11,821,571	-	4,866,286	4,866,286	85%	On-going. The contractor was on site. Roofing, walling, plastering. Fencing and ceiling not yet done
3	Construction and completion of MCA Ward Office at Lokichogio Ward	3,807,081	-	3,807,081	3,807,081	70%	On-going. The contractor was on site. Roofing and walling done. Plastering, ceiling, windows and doors not done.
4	Construction of County Assembly Ultra-Modern County Assembly Chamber	203,809,234	28,000,000	126,030,410	154,030,410	70%	On-going. The contractor was on site. Roofing, walling done. Plastering and ceiling, windows, doors were not done.
5	Construction and completion of MCA Ward Office at Kang'atotha Ward	12,413,140	-	4,450,723	4,450,723	80%	The contractor was not on site. Roofing, walling, plastering done. Ceiling was not done.
6	Construction and completion of MCA Ward Office at Kataboi in Lakezone Ward	11,958,900	-	4,087,910	4,087,910	70%	The contractor was not on site. Roofing, walling done. Plastering, fencing, windows & doors and ceiling not done.

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No	Project Name	Contract Sum	Total Payments as at 30 June, 2018 Kshs.	Amount Paid in 2018/2019 Kshs.	Total Payment as at 30 June, 2019 Kshs.	Status	Observations
7	Construction and completion of MCA Ward Office at Song'ot Ward	11,853,089	-	1,248,500	1,248,500	90%	The contractor was not on site. Roofing, walling, plastering and ceiling are done. Fencing, windows and doors were not done
8	Construction of MCA Ward Office in Kalokol Ward	11,215,388	-	4,307,109	4,307,109	75%	The contractor was not on site. Roofing, walling, fencing and fitting of windows & doors done. Plastering and ceiling not done.
9	Construction and completion of MCA Ward Office in Township Ward	11,727,655	-	3,475,211	3,475,211	70%	The contractor was not on site. Roofing, walling and fitting of windows & doors done. Plastering and ceiling not done.
10	Construction and completion of MCA ward office at Township Kanamkemer	11,948,232	-	5,733,996	5,733,996	70%	The contractor was not on site. Roofing, walling done. Plastering, fencing, windows, doors and ceiling not done.
11	Construction and completion of MCA ward office in Nakalale Ward	11,206,718	-	2,851,876	2,851,876	70%	The contractor was not on site- Roofing, walling done and windows & doors fitted. Plastering, fencing and ceiling were not done.
12	Construction and completion of MCA Ward Office in Nanam Ward				-	50%	The contractor was not on site. Walling was done. Roofing, plastering, doors, windows, fencing, ceiling done

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No	Project Name	Contract Sum	Total Payments as at 30 June, 2018 Kshs.	Amount Paid in 2018/2019 Kshs.	Total Payment as at 30 June, 2019 Kshs.	Status	Observations
13	Construction of County Assembly Office Annex- Treasury Building	72,854,312	26,000,000	39,570,881	65,570,881	70%	The contractor was not on site- Roofing, walling done. Plastering, windows, doors and ceiling not done.
14	Construction of Speaker's Residence	75,016,756	45,610,187	-	45,610,187	40%	The contractor was not on site- only walling is done
	Total	**462,121,832**	**99,610,187**	**204,878,492**	**304,488,679**		

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

228. Presentation of Annual Reports and Financial Statements

The annual report and financial statements prepared and presented for audit had the following errors: -

i. The statement of receipts and payments reflects a comparative balance under total payments of Kshs.558,129,981 instead of Kshs.558,028,163 resulting to error of Kshs.101,818.

ii. Comparative figure of Kshs.470,000,000 under Note 1 to the financial statements is missing.

iii. Note 3 to the financial statements reflects a figure of Kshs.117,184,727 whereas the statement of receipts and payments reflects Kshs.108,530,360.

iv. The comparative figure for outstanding imprest per statement of financial assets and liabilities of Kshs.3,058,300 does not agree with Note 14 of the financial statements figure of Kshs.1,590,600 resulting to an unreconciled variance of Kshs.1,467,700.

v. Progress on follow up on Auditor's recommendations arising from Auditor's report for the year ended 30 June, 2018 is missing.

vi. Comparative figure of Kshs.183,267,938 for use of goods and services does not agree with audited financial statements figure of Kshs.181,800,238 resulting to unreconciled variance of Kshs.1,467,700.

vii. The statement of cash flows reflects cash at the beginning of the year of Kshs.8,732,542 whereas the closing balance in 2017/18 was Kshs.4,529,923 and cash at the end of the year was Kshs.8,732,542 instead of Kshs.9,059,846 as per casted figure. The statement of financial assets and liabilities is misstated by the same balances.

Consequently, the accuracy, validity and completeness of the figures reflected in the financial statements the year ended 30 June, 2019 could not be confirmed.

229. Unsupported Cash and Cash Equivalents

As disclosed under Note 14 to the financial statements, the statement of financial assets and liabilities reflects cash and cash equivalents amount of Kshs.7,174,842. The amount comprises of a bank balance of Kshs.7,174,872 and a nil cash in hand. However, no board of survey report was availed for audit verification as at 30 June, 2019 to verify the cash in hand. Further, the bank reconciliation provided for audit verification reflected a nil cash book balance which resulted in an unexplained variance of Kshs.7,174,872.

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Consequently, the accuracy and completeness of cash and cash equivalent balance of Kshs.7,174,842 reflected in the statement of financial assets and liabilities as at 30 June, 2019 could not be confirmed.

230. Unsupported Accounts Receivable – Outstanding Imprest Register

As disclosed under Note 14 to the financial statements, the statement of financial assets and liabilities reflects accounts receivables-outstanding imprests amount of Kshs.1,557,700. However, the supporting schedule for the outstanding imprest show that all the imprest was issued in the financial year ended 30 June, 2018 and had therefore taken more than one year to surrender. Management did not provide an imprest register to confirm recording of opening balance, amount issued during the year, date issued, date due or amount pending at the close of the year.

Consequently, the accuracy, validity and recoverability of outstanding imprest balance of Kshs.1,557,700 reflected in the statement of financial assets and liabilities as at 30 June, 2019 could not be confirmed.

231. Unreconciled Variance

The statement of receipts and payments reflects total payments of Kshs.664,114,396 which is at variance with the Integrated Financial Management Information System (IFMIS) total payments figure of Kshs.671,571,045, resulting in a variance of Kshs.7,456,649 which has not been explained or reconciled.

Under the circumstance, the accuracy and completeness of the total payments figure of Kshs.664,114,396 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

232. Unsupported Use of Goods and Services

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services figure of Kshs.222,370,911. The following observations were made: -

232.1 Unsupported Domestic Travel and Expenses

Included in the figure is domestic travel and subsistence payments of Kshs.12,503,700 made to Members of the County Assembly (MCAs) and County Assembly staff subsistence allowance while in Mombasa, Kitale and Nairobi. However, the payment vouchers were not supported by attendance registers, work tickets, flight tickets, minutes of the deliberations and details of the venue and how it was identified. Management has not explained if the expenditure was a proper charge on public funds given that the meeting could have been conducted in the County Assembly chambers. In addition, the imprest was issued to officers who later paid the beneficiaries contrary to Section 91(2) of the Public Finance Management (County Governments) Regulations, 2015, which requires every payee to be issued with their own imprest.

232.2 Unsupported Foreign Travel and Expenses

The amount includes foreign travel and subsistence expenses of Kshs.19,701,300 made to twenty-eight (28) MCAs while attending conferences in Malaysia and

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Singapore by international training firms. However, Management did not provide supporting documentation on how the training firms were identified, need for the training, or a report on the training to the County Assembly. Further, it was established that the payments of Kshs.2,154,000 for conference fees was paid to two (2) local firms and not the overseas trainers.

232.3 Unsupported Routine Maintenance

The figure includes routine maintenance of vehicles and other transport equipment amounting to Kshs.4,424,143 out of which a total of Kshs.2,406,496 was incurred on repairs and service of various motor vehicles. However, the payments were not supported with Local Service Orders (LSO), quotations, invoices and authorizations for service.

232.4 Unauthorized and Unsupported Other Operating Expenses

The amount includes other operating expenses amounting to Kshs.7,461,899 out of which Kshs.1,000,000 was subscription payments to Society of Clerks-At-The-Table (SOCATT) in respect of financial year 2017/2018. However, no documentation in support of its formation, composition and operation was availed for audit verification. Further, the payment for Membership Fees, Dues and Subscriptions to Professional and Trade Bodies for the year 2017/18 was not disclosed in the previous financial statements as a pending bill.

232.5 Unsupported Rentals of Produced Assets

The amount includes rentals of produced assets expenses of Kshs.2,040,000 being rent payments for leased Ward offices. However, the expenditure was not supported by procurement records such as lease agreements.

232.6 Unsupported Training Expense

The amount includes training expenses of Kshs.10,026,230 out of which Kshs.5,005,000 were made to various hotels for hire of conference facilities**.** However, Management did not provide relevant supporting documents such as tender documents or quotations, tender opening, evaluation and award committee minutes.

Consequently, the accuracy, completeness and validity of use of goods and services of Kshs.222,370,911 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

233. Unsupported Transfers to Other Government Entities

As disclosed under Note 7 to the financial statements, the statements of receipts and payments reflects transfer to other government entities amount of Kshs.39,392,606. The amount includes an amount of Kshs.2,392,606 as transfers to National Government entities. However, supporting documents, basis of the transfer and the details of the National Government entities that received the money were not provided for audit verification. Further, there were transfers to County Assembly entities amounts of Kshs.37,000,000 out of which an amount of Kshs.20,000,000 was to West Pokot County Assembly staff car loan and mortgage scheme while Kshs.17,000,000 was not supported.

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Consequently, the accuracy, completeness and validity of transfer from other government entities of Kshs.39,392,606 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

234. Other Receipts

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflects total receipts amount of Kshs.668,317,015. The figure includes other receipts of Kshs.108,530,360 which relates to transfers from County Executive which could not be traced to the County Executive's financial statements. Consequently, the accuracy, completeness and validity of total receipts of Kshs.668,317,015 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

Other Matter

235. Budgetary Control and Performance

The statement of budget execution by programme and sub programme for the year ended 30 June, 2019 reflects actual amount on comparable basis of Kshs.553,180,404 which is at variance with the summary statement of budget and actual amounts figure of Kshs.664,114,396 by Kshs.110,933,992, which has not been explained or reconciled.

Under the circumstance, the accuracy and completeness of the statement of budget execution by programme and sub-programme actual amount of Kshs.553,180,404 for the year ended 30 June, 2019 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN THE USE OF PUBLIC RESOURCES

Basis for Conclusion

236. Non-Compliance with the One Third Basic Salary Rule

Review of the payroll for the months of July, 2018 to June, 2019 indicated that some members of staff earned net salaries less than a third of their basic pay. This was contrary to the requirement of the 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, 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, Management was in breach of the law.

237. Non-Compliance with the Law on Ethnic Composition

Review of the personnel records revealed that the County Assembly had a total of ninety-six (96) employees out of which eighty-six (86) or 90% are from the dominant ethnic community. This is contrary to Section 65(1) (e) of the County Governments

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Act, 2012 on staff establishment which requires that in selecting employees the County Public Service Board should ensure that at least thirty percent (30%) of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community.

Consequently, Management was in breach of the law.

238. Poor Provision of Internet Services

Management paid Kshs.1,200,000 to a telecommunications firm for internet subscription at a monthly fee of Kshs.98,600 for the first six month and Kshs.101,400 for the next six months. As reported in the previous year, the internet network within the County Assembly was weak.

Consequently, it was difficult to confirm whether value for money on expenditure of Kshs.1,200,000 for the year ended 30 June, 2019 was realised.

239. Construction of County Assembly Restaurant and Car Park

As previously reported, Management entered into a contract for the construction of a restaurant and a car park on 3 January, 2014 at a contract sum of Kshs.36,685,718. During the year 2014/2015 expenditure of Kshs.15,765,679 was incurred on the project. However, the payment vouchers in support of this payment were not submitted for audit verification.

Further, a physical verification of the project in November, 2019 revealed that the project has stalled and there was no budgetary provision in respect of the project during 2018/2019 financial year. Project records including payment vouchers, certificates of completion, status report of the project were not availed for audit verification.

Consequently, the value for money has not been realised in the construction of the restaurant and car park.

240. Delay in Construction of Modern Assembly Complex

Note 10 to the financial statements reflects acquisition of assets figure of Kshs.129,586,192 which includes an amount of Kshs.64,490,970.02 paid in respect of construction of modern Assembly complex. As reported in the previous year, the contract was awarded to a company on 6 January, 2015 at a contract sum of Kshs.358,392,421 and was to take 36 months to be completed in February, 2018. As at 30 June, 2019 certificates raised certified the value of work as Kshs.290,125,246.84. The cumulative payments to the contractor as at 30 June, 2019 was Kshs.261,718,222.

However, according to the clerk of works report dated 12 April, 2019, the time had elapsed since the construction works had taken two hundred and fifteen (215) weeks or 114% of the total contract period while the overall works was 76%. Management 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 by the National Construction Authority. 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.

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Consequently, the objectives of the Project have not been achieved and residents of the County may not have obtained value for money on the construction of the Assembly complex as planned.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

241. Lack of Policies

It was noted that the County Assembly did not have in place business continuity plan, disaster recovery plan, backup policy or a backup site. It was also observed that password protocols were not adhered to. The Accounting Officer therefore, failed in instituting appropriate measures to ensure confidentiality of data and information, data integrity and business continuity.

Consequently, I am unable to confirm existence of effective measures to ensure operations of the County Assembly continue uninterrupted.

242. Lack of an Audit Committee

The County Assembly operated without a duly established Audit Committee. This was contrary to Section 155(5) of the Public Finance Management Act, 2012 and Regulation 167 of Public Finance Management (County Governments) Regulations, 2015 which provides for the establishment of the Audit Committee for a County Government entity.

Consequently, the existence of an effective system of governance could not be confirmed.

243. Weak Internal Audit Function

As previously reported, the internal audit unit has only one officer who reports to Management instead of an Audit Committee. This is contrary to Section 155(1) of the Public Finance Management Act, 2012 and Regulation 155(1) of Public Finance Management (County Governments) Regulations, 2015 which provides for independence of the Head of Internal Audit unit by reporting administratively to the Accounting Officer and functionally to the Audit Committee. Also, the internal audit operated without an internal audit charter detailing scope, responsibilities and purpose of internal audit.

Consequently, assurance on the effectiveness of internal control, risk management and governance may not be realised.

244. Lack of Risk Management Processes

It was noted that Management did not have a risk management policy, risk management framework or a risk register. Management did not also conduct risk assessment, Management was therefore unable to design measures for mitigation against risks.

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As such, it was not possible to establish operations that were open to risk and to mitigate against the risks.

245. Lack of Fixed Assets Register

The statement of receipts and payments reflects acquisition of assets amounting to Kshs.178,085,387. However, Management did not provide fixed assets register for audit review. It was therefore not possible to ascertain the nature, number, physical location and fair value of the County Assembly's assets contrary to Regulation 136(1) of the Public Finance Management Regulations, 2015 which requires the Accounting Officer shall be responsible for maintaining a register of assets under his/her control or possession.

Consequently, existence of effective measures for assets control could not be confirmed.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

246. Inaccuracies in Financial Statements

The financial statements contain the following inaccuracies:

246.1 Accounts Payables

The statement of financial assets and liabilities reflects nil balances in respect to accounts payables-deposits and retentions for both the current and prior years. However, Note 15 to the financial statements discloses a comparative prior year balance of Kshs.15,527,402 being cash due to the County Executive. No explanation has been provided by Management for the anomaly.

246.2 Statement of Cash Flows

The statement of cash flows reflects a nil opening cash balance that however, differs with the prior year closing balance of Kshs.6,624,177. Further, the statement reflects a closing cash balance of Kshs.15,518,826 which differs with the net increase in cash and cash equivalents balance for the year amounting to Kshs.16,293,340. The difference amounting to Kshs.774,514 between the two sets of records, has not been explained or reconciled.

As a result, the cash and cash equivalents balance as at 30 June, 2019 of Kshs.15,518,826 could not be ascertained.

246.3 Statement of Financial Assets and Liabilities

The statement of financial assets and liabilities reflects total financial assets and net financial position balances of Kshs.15,905,626 and Kshs.16,680,140 respectively resulting to an unexplained variance of Kshs.774,514 between the two balances.

Further, the comparative total financial assets balance amounting to Kshs.150,376,430 differs with net financial position balance of Kshs.123,649,224 reflected in the audited statements for the year ended 30 June, 2018 resulting to a difference of Kshs.26,727,206.35 which has not been explained or reconciled.

Consequently, the accuracy and completeness of the financial statements for the year ended 30 June, 2019 could not be confirmed.

247. Variance between the Financial Statements and Integrated Financial Management Information System (IFMIS) balances

Several balances reflected in the financial statements differ with balances reflected in IFMIS ledgers as at 30 June, 2019 as shown in the table below:

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Component(s)	Financial Statements Balance (Kshs.)	IFMIS Balance (Kshs.)	Variance (Kshs.)
Revenue	544, 004,862	587,945,310	(43,940,448)
Net Financial Assets	15,905,626	134,227,747	(118,322,121)
Net Financial Liabilities	16,680,140	134,337,747	(117,657,607)

In view of the variances, the accuracy of the financial statements could not be confirmed.

248. Unreconciled Compensation of Employees

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects compensation of employees' expenditure totalling Kshs.265,627,249. However, the aggregate expenditure reflected in the payroll for the year amounts to Kshs.199,408,769 resulting to an unexplained variance of Kshs.66,218,480.

Consequently, the accuracy and completeness of the compensation of employees' expenditure totalling Kshs.265,627,249 could not be confirmed.

249. Misstatement of Social Security Benefits

As disclosed under Note 9 to the financial statements, the statement of receipts and payments reflects social security payments totalling Kshs.24,432,535. However, the schedule of actual payments reflects expenditure totalling Kshs.15,491,676 comprised of payments to the Local Authorities Pension Trust (LAPTRUST) Fund and pension and gratuity amounting to Kshs.6,541,320 and Kshs.8,950,356 respectively. The resulting variance of Kshs.8,940,859 has not been explained.

Consequently, the accuracy and completeness of the expenditure on social security benefits totalling Kshs.24,432,535 for the year ended 30 June, 2019 could not be confirmed.

250. Unsupported Expenditure on Acquisition of Assets

As disclosed under Note 10 to the financial statements, the statement of receipts and payments reflects payments on acquisition of assets totalling Kshs.72,374,274. Included in the payment is the cost of office furniture and equipment, and specialized plant, equipment and machinery purchased at Kshs.1,352,760 and Kshs.1,023,000 respectively. However, there were no records to show how the items were purchased and whether they were received and taken on charge as appropriate.

Consequently, the ownership and existence of the assets reported at an aggregate cost of Kshs.2,375,760 during the year ended 30 June, 2019 could not be confirmed.

251. Unconfirmed Accounts Receivables - Outstanding Imprests

As disclosed under Note 14 to the financial statements, the statement of financial assets and liabilities reflects accounts receivables - outstanding imprests balance of

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Kshs.386,800. However, the balance excludes imprests brought forward from the previous year totalling Kshs.13,845,683 whose surrender during the year has not been confirmed as the respective imprest surrender and journal vouchers have not been availed for audit review.

As a result, the accuracy and completeness of the receivables-outstanding imprests balance totalling Kshs.386,800 as at 30 June, 2019 has not been confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

252. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

253. Lack of Risk Management Policy

Regulation 158(1)(a) and (b) of the Public Finance Management Act (County Governments) Regulations, 2015 requires each Accounting Officer to develop risk management strategies which include fraud prevention mechanisms and internal controls that build robust business operations.

However, no evidence has been provided to show that a risk management policy exists to guide the managerial operations of the County Assembly.

In the circumstances, Management lacks objective means to contain the adverse effects of unfavorable events that may affect the operations of the County Assembly.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

254. Inaccuracy of the Financial Statements

254.1 Errors in the Financial Statements

The statement of comparison of budget and actual amounts: recurrent and development combined reflects transfers from the County Treasury totalling Kshs.648,670,500 which however differs by Kshs.44,000 with the balance reflected in the statement of receipts and payments for the year totalling Kshs.648,714,500.

Further, Note 5.10(1) of other disclosures reflects pending accounts payable totalling Kshs.8,648,026 whereas Annex I to the financial statements reflects a sum of Kshs.31,943,468.40 on the account resulting to an unreconciled variance of Kshs.23,295,442.40.

Consequently, the accuracy of the financial statements could not be ascertained.

254.2 Overstatement of Cash and Cash Equivalents

As disclosed under Note 8 to the financial statements, the statement of financial assets and liabilities reflects cash and cash equivalents bank balance totalling Kshs.222,683,786. Included in the balance is Kshs.20,427,050 closing bank balance for the County Assembly's Staff Car Loan and Mortgage Fund. However, the Fund is a separate entity and the Management should therefore have prepared separate financial statements for audit.

Similarly, the bank balance includes Kshs.200,546,681 transferred from the County Government of Trans Nzoia to the County Assembly to operationalize the Car Loan Fund and Mortgage Fund for Members of the County Assembly. Therefore, the balance is incorrectly presented as being part of the cash balance of the County Assembly as at 30 June, 2019. As a result, the bank balance is overstated by Kshs.220,973,731.

In view of these anomalies, the accuracy and completeness of the cash and cash equivalent of Kshs.222,683,786 reflected in the statement of financial assets and liabilities as at 30 June, 2019 could not be confirmed.

Other Matter

255. Budgetary Control and Performance

The statement of comparison of budget and actual amounts: recurrent and development combined reflects an approved receipt budget totalling Kshs.754,078,431 and actual receipts on comparable basis totalling Kshs.649,216,368 resulting to a revenue shortfall of Kshs.104,862,063 or 14% of the budget.

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The statement further reflects an expenditure budget amounting to Kshs.754,078,431 and actual expenditure totalling Kshs.622,253,392 resulting to under-expenditure of Kshs.131,825,039 equivalent to 13% of the budget. Management explained the under-expenditure as having resulted from a shortfall in Exchequer releases received during the year.

In view of the above, projects and activities planned for the year were not done, thereby affecting service delivery.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

256. Car Loan and Mortgage Scheme Funds

Section 15(1)(c) and (d) of the Car Loan Scheme Fund Regulations, 2014 and Section 18(1)(c) and (d) of the Mortgage Scheme Fund Regulations, 2014 require the Administrator of the Fund to submit its financial statements to the Auditor-General not later than three (3) months after the end of each financial year. Further, Section 81 of Section 47(1) of the Public Audit Act, 2015 which requires public entities to prepare annual financial statements for audit by the Auditor-General.

Management has failed to submit the financial statements to the Auditor-General since the inception of the two (2) Funds in the 2013/2014 financial year.

Therefore, Management was in breach of the Law.

257. Outstanding Imprests and Advances

As disclosed under Note 9 to the financial statements, the statement of financial assets and liabilities reflects accounts receivables balance totalling Kshs.6,927,854. The balance comprised of temporary imprests totalling Kshs.5,527,588 and staff advances totalling Kshs.1,400,266. The imprests ought to have been surrendered within seven (7) days of the officers returning to their duty stations as required in Regulation 93 (5) of the Public Finance Management (County Governments) Regulations, 2015. In addition, twelve (12) officers held more than one imprest contrary to Regulation 93(4b) which does not allow issue of additional imprests to officers with oustanding balances.

Consequently, Management was in breach of law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

258. Weak Information Communication Technology (ICT)

As similarly reported in the previous year, Management did not have a business recovery plan for disasters. In addition, there was no policy on back up of data, or documented and approved user management standards and procedures, including on user access rights.

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In view of the above, internal control and risk management on the ICT function was weak.

259. Weak Internal Audit Function

Regulation 155(1) and 167(1) of the Public Finance Management (County Governments) Regulations, 2015 requires establishment of an Internal Audit Committee to oversee the internal audit function in every public entity. However, as reported in the previous year, the Internal Audit Unit reports to the Clerk of the County Assembly who is the Accounting Officer. The authority and independence of the function is not properly established. Further, the internal audit function has no charter detailing its purpose, scope, and responsibilities. There was no evidence of work done by the Internal Audit Unit, such as audit reports issued, during the year under review.

In view of the above, the internal control and governance system in the County Assembly is not effective.

260. Unconfirmed Fixed Assets Balance

The statement of receipts and payments reflects acquisition of assets totalling Kshs.29,459,149 made during the year. When added to the balance brought forward from 2017/2018 of Kshs.13,102,330, the fixed assets as at 30 June, 2019 amounts to Kshs.42,561,479, as disclosed under Annexure 2 to the financial statements. However, the Management did not present fixed asset register for audit review.

As a result, the existence and ownership of the assets totalling Kshs.42,561,479 reflected in the Annexure 2 as at 30 June, 2019 has not been confirmed.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

261. Unsupported Compensation of Employees

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflects compensation of employees payments totalling Kshs.306,051,584. Included in the balance are payments identified as Uasin Gishu County Assembly imprest account, Ward office payments and payments to Jubilee Party. However, documentation to support the balances such as records from the Integrated Payroll and Personnel Database (IPPD), bank and other payment schedules were not presented for audit review.

In addition, the balance includes basic wages of temporary employees' totalling Kshs.28,010,000. However, records on how the workers, were identified, their job contract agreements, copies of their appointment letters and signed payrolls were not made available for audit review.

In the circumstances, the accuracy, completeness and validity of compensation of employees balance of Kshs.306,051,584 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

262. Unsupported Training Expenses

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects use of goods and services expenditure totalling Kshs.333,730,974. Included in the balance is expenditure amounting to Kshs.1,356,300 incurred on house leadership training workshop. However, the respective training needs assessment reports, signed attendance lists and certificates as well as imprest warrants issued to participants were not presented for audit review.

Consequently, the accuracy, completeness and validity of the payments totalling Kshs.1,356,300 included in the use of goods and services expenditure for the year ended 30 June, 2019 could not be confirmed.

263. Unsupported Acquisition of Assets

As disclosed under Note 7 to the financial statements, the statement of receipts and payments reflects acquisition of assets balance totalling to Kshs.14,621,453. The balance is reflected as additions in the summary of fixed assets register which reflects cumulative assets amounting to Kshs.80,470,295. However, the assets register was not presented for audit review.

As a result, the occurrence, measurement, and completeness of the acquisition of assets balance amounting to Kshs.14,621,453 reflected in the statement of receipts and payments for the year, ended 30 June, 2019 could not be confirmed.

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Other Matter

264. Budgetary Control and Performance

During the financial year under review, the County Assembly had an approved budget of Kshs.772,771,448 with Kshs.671,479,866 allocated to recurrent expenditure and Kshs.100,798,650 to development expenditure. However only Kshs.671,479,866 was disbursed from the County Treasury for recurrent expenditure, whereas no disbursements were made for development expenditure.

Failure to absorb the budget provision meant that the projects that the County Assembly was expected to execute during the year under review were not realized.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

265. Delay in Construction Projects

As reported in 2017/2018, the Management procured consultancy services in respect to the proposed construction of County Assembly Headquarters and Chambers.

As at 30 June, 2019 payments totalling Kshs.49,109,389 had been made to a local firm in respect of the consultancy services. The payments were made in two (2) tranches of Kshs.28,000,000 on 8 June, 2018 and Kshs.21,109,389 on 4 July, 2018.

Consequently, the County Assembly has not received value for money for the expenditure totalling Kshs.49,109,389 incurred on the project.

266. Non-Compliance with Law on Ethnic Composition

Review of the payroll for the month of June, 2019, revealed that the County Assembly had a staff establishment of ninety-eight (98) employees, out of which eighty-six (86) or 87.75% were from the dominant community in the County. Further, during the year under review the County Assembly Service Board recruited six (6) new officers, all of whom were from the dominant community. This was contrary to the requirements set out in Section B.7 of the County Public Services Human Resource Manual, 2013 and Section 65(1)(e) of the County Governments Act, 2012 which provide that 30% of new appointments in County Governments shall be made from minority communities in the County. No plausible explanation has been provided by Management for the irregularity.

Consequently, the Management was in breach of the law.

267. Non-Compliance with One Third of Basic Salary Rule

During September, 2018 twenty one (21) employees earned a net salary of less than a third (⅓) of the basic salary contrary to Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016. The Management has not given explanation for failure to comply with the policy.

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In the circumstances, the County contravened Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016 and this may expose the staff to pecuniary embarrassment.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

268. Lack of Information Communication Technology (ICT) Policy

As in the previous year, Management did not provide, for audit review documentation to show that it had prepared an ICT policy defining its priorities in investment and use of ICT resources. Further, Management was yet to establish an ICT steering committee to guide and provide oversight over the use of the resources.

In the circumstances, I am unable to confirm the existence of effective controls on ICT.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

269. Inaccuracies in the Financial Statements

A review of the financial statements revealed that balances for compensation of employees, use of goods and services and acquisition of assets differ with comparable account balances reflected in Integrated Financial Management Information System (IFMIS) records, as shown in the attached Appendix II.

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June, 2019 has not been confirmed.

269.1 Non-Conformity of the Financial Statements to the Prescribed Format

The summary statement of appropriation combined does not show the budget utilization difference for the year. This is contrary to the format prescribed by the Public Accounting Standards Board.

269.2 Discrepancies in Brought Forward Balances for Assets

The summary of fixed asset register under Annex 4 reflects brought forward asset balances under historical costs totalling Kshs.159,751,028. However, the audited financial statement for 2018/2019 against balance totalling Kshs.82,381,030 reflected the previous year's audited financial statements reflected. The increase by Kshs.77,369,998 from the closing balance for the previous year has not been explained as shown in **Appendix I.**

Consequently, the accuracy, completeness and validity of the financial statements for the year under review could not be confirmed.

270. Unaccounted for Assets and Liabilities from the Defunct Local Authorities

The summary of fixed assets register shown under Annex 4 to the financial statements indicates that the County Assembly held assets valued at Kshs.179,066,069 as at 30 June, 2019. However, the balance does not include the values of fixed assets taken over by the County Assembly from the defunct local authorities located in the County. The assets include land, buildings, motor vehicles, furniture and fittings and office equipment. Management has not provided a plausible explanation why the assets have not been disclosed in the financial statements.

Consequently, the accuracy and completeness of the summary of fixed assets register balance amounting to Kshs.179,066,069 as at 30 June, 2019 has not been confirmed.

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271. Unsupported Expenses

271.1 Use of goods and Services

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services expenditures totalling Kshs.244,517,949. Included in the balance is Kshs.67,801,483 incurred on domestic travel and subsistence. Review of records indicated that an amount of Kshs.11,298,000 was paid as per diem during the 1st Edition the of County Assemblies Sports tourney held in Nairobi. However, the expenditure was not supported with attendance reports.

Further, records indicated that payments totalling to Kshs.23,284,100 paid out as travel imprests were directly expensed without being supported with relevant documentation.

271.2 Unsupported Expenses - Foreign Travel and Subsistence Allowances

The balance constitutes an amount of Kshs.14,921,518 under foreign travel and subsistence. However, review of expenditure records indicated that imprests totalling Kshs.6,689,865 were directly expensed without being accounted for with relevant expenditure documents.

Further, the records indicated that payments totalling Kshs.3,448,750 also reported to have been incurred through imprests, were not supported with imprest warrants and documentation.

In addition, payments totalling Kshs.9,245,229 incurred on a study tour in Uganda were not supported with imprest warrants, invitation letters and report on the study tour.

271.3 Unsupported Training Expenses

The balance also constitutes a balance of Kshs.22,004,040 training expenses. However, review of records indicated that imprests totalling Kshs.1,797,975 were directly expensed without any surrender or accountability documents contrary to section 91(2) of the Public Finance Management (County Governments) Regulations, 2015 and section (6) County Financial Reporting Manual, 2015.

271.4 Unsupported Hospitality Supplies and Services

The balance further incudes an amount of Kshs.22,819,985 in respect of hospitality supplies and services. However, examination of records on the expenditures indicated that imprests amounting to Kshs.5,305,320 were directly expensed without being supported with relevant expenditure documents contrary to Section 91(2) of the Public Finance Management (County Governments) Regulations, 2015 and Section 6 of the County Financial Reporting Manual, 2015.

Consequently, the occurrence and validity of the expenditures totalling Kshs.61,069,249 included in the use of goods and services for the year ended 30 June, 2019 could not be confirmed.

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272. Unsupported Recruitment of Staff

A review of the payroll indicated that the Management employed 44 (forty-four) new staff to work in Ward offices and the Office of the Speaker. However, there were no records to show whether the staff were recruited through a competitive process, whether the recruitment process was conducted in a fair and transparent manner and that the best qualified applicants were selected.

Consequently, it was not possible to confirm that the emoluments paid to the new employees totalling Kshs.19,190,878 during the year ended 30 June, 2019 were valid.

Other Matter

273. Unresolved Prior Year Audit Matters

In the audit for 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, Management has neither resolved the issues nor, as required under the reporting template prescribed by the Public Sector Accounting Standards Board and the National Treasury Circular Ref: PSASB/1/12/VOL.1(44) of 25 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

274. Nugatory Expenditure on Compensation of Employees

The statement of receipts and payments reflects compensation of employees' expenses totalling Kshs.278,775,965. Included in the balance is Kshs.5,223,877 being income tax paid on gratuity for Members of the County Assembly (MCAs) who served between March, 2013 to August, 2018.

Clause 4.8 of the bilateral agreement dated 6 May, 2014 between the Elgeyo/Marakwet County Assembly Service Board and the Local Authorities Provident Fund Board required the Fund to deduct upon payment, all statutory deductions and remit these to the relevant authorities on behalf of the members. However, the Local Authorities Provident Fund paid gross benefits to beneficiaries without deducting and remitting tax to Kenya Revenue Authority (KRA). Available information indicated that in September, 2018 KRA demanded from the County Assembly Service Board, gross Pay-As-You-Earn (PAYE) tax totalling Kshs.5,223,877, penalties of Kshs.1,305,969 and interest of Kshs.156,716. The Management paid Kshs.5,223,877 and requested for a waiver of the penalty and interest but this had not been granted at the time of audit.

Consequently, the amount of Kshs.5,223,877 constituted wasteful expenditure to public resource and should be recovered from the officers who occasioned the loss.

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275. Non-Compliance with the Law on Fiscal Responsibility - Wage Bill

During the year under review, Management spent Kshs.278,775,965 or 49% of its total own-generated receipts amounting to Kshs.567,762,197 on compensation of employees. This was contrary to Regulation 25(1) (b) of the Public Finance Management (County Governments) Regulations, 2015 which limits the ratio to 35% or less of the County Government's total revenue.

The Management therefore breached the law.

276. Non-Compliance with One Third of Basic Salary Rule

During the year under review net salaries totalling Kshs.2,320,397.70 were paid to several staff of the County Assembly after deductions totalling Kshs.1,860,568.30 were made on their minimum net pay amounting to Kshs.4,180,966.00. The deductions were in excess of one-third of their salaries and therefore contravened Section 19(3) of the Employment Act, 2007 and exposed the staff to the risk of pecuniary embarrassment.

Consequently, Management is in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

277. Lack of Information Communication Technology (ICT) Controls

As reported in the previous year, Management has not implemented the following aspects of (ICT) policy.

(i) sharing regular updates of security features with system users;

(ii) issuing staff members with unique e-mail addresses;

(iii) setting up office intranet and

(iv) establishing an ICT department with an ICT manager.

In the circumstance, the ICT function does not support other functions of the County Assembly in an effective way.

278. Non-Functional ICT Strategic Committee

Management has established an ICT strategic committee. However, there was no evidence showing that the committee carried out any activities during the year under review. The ICT steering committee met only twice during the year against the four (4) times prescribed in its terms of reference.

Further, there were no documented and approved processes to manage upgrades to all financial and performance of ICT systems. As a result, the risk of loss or corruption of data during upgrades was high.

Consequently, I am unable to confirm the existence of effective ICT governance structure.

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279. Non-Functional Audit Committee and Lack of Audit Plan and Charter

Review of the Internal Audit Unit revealed that it did not have a charter that set out its role as well as functions and performance expectations. The Unit's activities were not guided by an internal audit plan that addressed risks it had identified. Further, the Unit had only two (2) of the eight (8) staff members provided for in the approved staff establishment. Similarly, the Audit Committee had only one (1) member which was insufficient to fulfil its mandate. Overall, managerial accountability was weak as audit recommendations were not implemented.

Consequently, I am unable to confirm effectiveness of overall governance structure.

280. Lack of Risk Management Policy and Business Recovery Plan

During the year under review, the County Assembly did not have a risk management policy and business recovery or continuity plan. Further, the Assembly did not have documented human resource policies and procedures setting qualifications required for various posts. Also missing were policies or strategies for continuous development and for measurement of employee competences and skills.

In the circumstances, I am unable to confirm effectiveness of Management response to risks.

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Appendix I

Unexplained Differences in Fixed Assets Brought Forward

Asset class	Historical Cost b/f as Per Financial Statements Kshs.	Historical Cost as Per Prior Year Audited Financial Statements Kshs.	Difference Kshs.
Land			
Buildings and Structures	70,773,025	29,236,215	41,536,810
Transport Equipment	44,745,161	13,875,000	30,870,161
Office Equipment, Furniture and Fittings	11,438,838	11,165,977	272,861
ICT Equipment	26,304,038	26,304,038	-
Machinery and Equipment	6,489,966	1,799,800	4,690,166
Total	**159,751,028**	**82,381,030**	**77,369,998**

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Appendix II

Unexplained Differences Between Financial Statements and IFMIS Balances

Item	Amount as IFMIS Records Kshs.	Amount as per Financial Statements Kshs.	Difference Kshs.
Compensation of Employees			
Personal Allowances Paid as Part of Salary	128,223,418	78,670,825	49,552,593
Personal Allowances Paid as Reimbursements	-	24,507,099	(24,507,099)
Personal Allowances Provided in Kind	-	7,999,838	(7,999,838)
Pension and Other Social Security Contributions	-	17,045,656	(17,045,656)
Other Personnel Payments (Gratuity)	-	17,483,824	(17,483,824)
Use of Goods and Services	**-**	**-**	**-**
Office and General Supplies and Services	5,696,400	7,898,486	(2,202,086)
Other Operating Expenses	59,415,704	62,514,860	(3,099,156)
Routine Maintenance – Other Assets	2,227,399	2,301,479	(74,080)
Other Payments – Bank Charges		500	(500)
Social Security	17,483,824	-	17,483,824
Acquisition of Assets	**-**	-	**-**
Construction and Civil Works	1,126,826	168,000	958,826
Purchase of Office Furniture and Equipment	9,073,135	2,833,940	6,239,195
Purchase of ICT Equipment	-	7,813,275	(7,813,275)
Research, Feasibility Studies, Project Preparation and Design, Project Supervision	74,080	-	74,080
Purchase of Specialized Plant, Equipment and Machinery	1,500,000	-	1,500,000

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

281. Unaccounted for Retention Monies

The statement of financial assets and liabilities reflects nil balance in respect to accounts payable-deposits and retentions. However, expenditure records presented for audit indicated that Management deducted Kshs.25,302,745 from payments made to a contractor during the year under review. In addition, although the Management operates a bank account for deposits at the Central Bank of Kenya, there were no retention monies deposited in the account and therefore it is not clear how the sum of Kshs.25,302,745 was accounted for.

No plausible explanation has been provided by Management for failure to disclose the deposit in the financial statements.

Consequently, the accuracy and validity of the statements of financial assets and liabilities as at 30 June, 2019 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

282. Non-Compliance with Law on Ethnic Composition

A review of personnel records availed for audit indicated that during the year under review, the Management recruited five (5) employees all of whom were from the dominant community in the County. This was contrary to Section 65(1)(e) of the County Governments Act, 2012 which requires every 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 community in the respective County.

Consequently, the Management breached the law.

283. Irregular Loan Recoveries and Share Capital Contributions

Examination of imprest records indicated that several Members of the County Assembly (MCAs) were paid travel and subsistence imprests totalling Kshs.5,593,328 during the year under review. The imprests were paid net of share contributions and loan deductions remitted to the Nandi County Assembly Savings and Credit Co-operative Society (SACCO) to which the MCAs made monthly share contributions and owed loans.

Further, Management had allowed the MCA's to take excessive loans from the SACCO which had resulted in salary deductions in excess of the two-thirds of salary limit prescribed in Section 19(3) of the Employment Act. No plausible explanation was

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provided by Management for the irregular use of imprests to pay off loans advanced to the MCAs.

In the circumstance, the Management was in breach of the law.

284. Non-Adherence to Regulations on Issuance of Temporary Imprests

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services expenditure amounting to Kshs.285,974,904 which in turn includes domestic travel and foreign travel and subsistence expenditure amounting to Kshs.63,410,879 and Kshs.28,047,700 respectively,

Examination of expenditure records indicated that temporary imprests was issued in cash to several officers assigned to carry out various duties and activities away from their duty stations. The cash advances, were expensed directly without sufficient supporting documents contrary to Section 91 of Public Finance Management (County Governments) Regulations, 2015 which requires such expenditures to be funded through temporary imprests. No plausible explanation has been provided by Management for disregarding regulations on use of public funds.

Consequently, the Management did not effectively use public resources on the management for cash.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

285. Lack of Information Communication Technology (ICT) Steering Committee and Other Internal Controls

Audit review of the ICT system indicated that Management had not formulated an ICT policy and framework to promote and guide effective and efficient use of the County Assembly's ICT resources. The County Assembly did not have an ICT Steering Committee to provide oversight on the activities of the ICT Department as well as leadership in formulating relevant policies. Further, system security plans including means to recover data in the event of unfavorable events were not documented.

Consequently, I am unable to confirm effectiveness of ICT and other internal controls.

286. Unconfirmed Fixed Assets

The summary of fixed assets register reflected under Annex 4 to the financial statements reflects assets totalling Kshs.387,471,305. However, Management did not avail an assets register with detailed analysis of each category of assets as required by Section 136 of the Public Finance Management Regulations, 2015. Similarly, title deeds for the parcels of land as well as log books for three (3) of the motor vehicles owned by the County Assembly, were not availed for audit review.

In the circumstances, the ownership and custody of the assets could not be confirmed.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

287. Inaccuracies in the Financial Statements

287.1 Omitted Fund Balance

The statement of financial assets and liabilities reflects comparative fund balance of Kshs.26,027,362 which comprised of a bank balance and outstanding imprests balance of Kshs.12,886,452 and Kshs.13,140,910 respectively. However, in arriving at the balance, Management only considered the Exchequer funds received during the year ended 30 June, 2018 and left out the opening fund balance for the year. No plausible explanation has been provided for the anomaly.

In the circumstance, the accuracy and completeness of the fund balance totalling Kshs.26,027,362 reflected in the statement of financial assets and liabilities as at 30 June, 2019 has not been confirmed.

287.2 Unconfirmed Cash Balance

As disclosed under Note 7 to the financial statements, the statement of financial assets and liabilities reflects bank balances totalling Kshs.137,991. However, excluded from the balance is Kshs.308,273 held in the operations bank account as at 30 June, 2019 and disclosed under Note 5.8 to the financial statements. The Note further reflects prior year aggregate bank balance of Kshs.21,501,204.00 which amounts to Kshs.8,614,752.00 after casting. The variance amounting to Kshs.12,886,452 has not been explained.

Further, contrary to the requirements of the international Public Sector Accounting Standards Board template for Cash Basis reporting, the reported bank balance excludes unpaid contract retention monies amounting to Kshs.619,413.60 as at 30 June, 2019. The Board of Survey certificate for cash at hand balance as at 30 June, 2019 was not presented for audit review.

In view of the above, the accuracy and completeness of the bank balance reflected in the statement of financial assets and liabilities as at 30 June, 2019 has not been confirmed.

287.3 Unconfirmed Imprest Balances

As disclosed under Note 8 to the financial statements, the statement of financial assets and liabilities reflects accounts receivables - outstanding imprests (Cash Balances) balance of Kshs.104,210. However, verification of the imprests register revealed imprests totalling Kshs.1,065,600 resulting to an unexplained variance of Kshs.961,390 between the two sets of records. Further, documents to account the reported surrender of the opening imprest balance totalling Kshs.13,140,910 were not presented for audit verification and therefore it was not possible to confirm how the balance was surrendered.

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In view of the above, the accuracy and completeness of the Accounts receivables outstanding imprest balance of Kshs.104,210 reflected in the statement of financial assets and liabilities as at 30 June, 2019 could not be confirmed.

287.4 Inaccurate Statement of Cash Flows

The statement of cash flows reflects closing cash and cash equivalents balance amounting to Kshs.242,201 which, however, differs with the Kshs.137,991 balance reflected in respect to the account in the statement of financial assets and liabilities. No plausible explanation has been provided for the variance of Kshs.104,210 between the two (2) statements. In addition, the statement of cash flows excludes adjustments of Kshs.13,036,700 made in respect of accounts receivables during the year under review.

Further, the statement reflects nil opening cash and cash equivalents balance which, however, differs with the actual closing balance of Kshs.26,027,362 reflected in the statement for the year ended 30 June, 2018 as well as the balance amounting to Kshs.12,886,452 reflected in the statement of financial assets and liabilities as at 30 June, 2018.

In view of these anomalies, the accuracy and completeness of the statement of cash flows for the year ended 30 June, 2019 has not been confirmed.

287.5 Unexplained Payroll Variances

As disclosed under Note 2 to the financial statements, the statement of receipts and payments reflects compensation of employees payments totalling Kshs.344,704,862. However, re-computation and verification of the payroll payments in the Integrated Payroll and Personnel Database (IPPD) system revealed expenditures totalling Kshs.341,384,383 resulting in an unexplained variance of Kshs.3,320,479. Further, Pay As You Earn (PAYE) schedules presented for audit reflected payments totalling Kshs.80,911,004. However, re-computation of the PAYE payments reflected in the payroll revealed expenditures totalling Kshs.72,533,454 resulting to an unexplained variance of Kshs.8,377,550 between the two sets of records.

Consequently, the accuracy and completeness of compensation of employees payments totalling Kshs.344,704,862 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

287.6 Unconfirmed Returns to County Revenue Fund

As disclosed under Note 7 to the financial statements, the statement of assets and liabilities reflects comparative cash and cash equivalents balance of Kshs.12,886,452. Documents presented for audit indicated that the balance was returned to the County Revenue Fund (CRF) account at the end of the 2017/18 financial year. However, no refund statement was prepared and forwarded to the Controller of Budget as required by Section 136(2) of the Public Finance Management Act, 2012. Further, no disclosure on return of the funds to the CRF was made in the supplementary estimates for the year under review.

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In the circumstances, the reported return of Kshs.12,886,452 to the CRF could not be confirmed.

288. Unsupported Expenditure-Use of Goods and Services

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflects use of goods and services payments balance of Kshs.230,331,453. The following observations were made:

288.1 Insurance Costs

Included in the balance is insurance costs totalling Kshs.23,960,504. However, Management did not present, for audit review supporting documents, such as insurance policies, valuation reports, listings of staff covered under the medical policy and service level agreements with the insurers.

288.2 Motor Vehicles Maintenance

Included in the balance is expenditure on routine maintenance of vehicles and other transport equipment totalling Kshs.2,358,812. However, reports from the mechanical and transport department showing the repairs and maintenance work done were not presented for audit review. As a result, the occurrence and validity of the expenditure has not been confirmed.

In the circumstances, the occurrence, measurement and validity of the expenditure totalling Kshs.26,319,316 during the year ended 30 June, 2019 could not be confirmed.

289. Unconfirmed Car-Mileage Payments

Examination of records indicated that during the year under review, four (4) Members of the County Assembly (MCAs) were paid Kshs.1,524,680 in mileage claims for ten (10) months from September, 2017 to June, 2018 after they transferred their respective Ward offices to new locations.

The claims were back-dated to September, 2017 which preceded the transfer requests submitted by the MCAs to the Clerk of the County Assembly. There was no evidence showing that the MCAs incurred any costs in lease agreements for new offices, or for having terminated any previous leases. In addition, the approvals, were not presented for audit review.

Consequently, it is not possible to confirm the regularity and propriety of the car-mileage allowances totalling Kshs.1,524,680 paid to the MCAs.

Other Matter

290. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular. Ref: PSASB/1/12/V0L.1(44) of 25 June, 2019.

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Basis for Conclusion

291. Delay in Construction of County Assembly Offices

As reported in previous years, Management initiated works on extension of the County Assembly offices at a contract sum of Kshs.40,000,000 in 2014 with completion date of 21 August, 2015. However, audit verification of the works in September, 2019 indicated that the project was incomplete in spite of the contract period having ended four (4) years earlier. Although the contract period was not extended, Management did not impose any penalties on the contractor for the delay in completing the works. Cumulative payments made to the contractor at the time of the audit amounted to Kshs.39,064,413 equivalent to 98% of the contract sum. Construction was ongoing but there were no records to show the proportion of works completed. No satisfactory explanation has been provided by Management for the failure to complete the project in due time.

In the circumstance, the County Assembly has not obtained value for the funds invested in the project.

292. Unfunded Pending Bills

Annex 1 to the financial statements discloses a balance for pending bills totalling Kshs.6,280,000 as at 30 June, 2019. However, the County Assembly did not have corresponding cash reserves to pay for the goods and services it had consumed. This was contrary to Section 53 (8) of the Public Procurement and Asset Disposal Act, 2015 which prohibits public entities from engaging in procurement activities for which sufficient funds have not been set aside.

The names of the creditors and the periods the bills have been outstanding were not included in Other Disclosures in the financial statements as required by the Public Sector Accounting Standards Board.

Consequently, Management was in breach of the law.

293. Irregular Payments to Devolution Forums

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflects payments on use of goods and services totalling Kshs.230,331,453. The amount includes specialized materials and services costs amounting to Kshs.13,264,190 which in turn include Kshs.8,816,860 paid to the County Assembly Forum and Society of Clerks at the Table. However, the two (2) payments were made contrary to Section 37 of the Inter-governmental Relations Act, 2012 which provides that operational expenses for the structures and institutions established by the Act shall be provided for in the annual estimates of the revenue and expenditure of the National Government.

Consequently, Management was in breach of the law.

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294. Non-Compliance with the One Third of Basic Salary Rule

During the year ended 30 June, 2019, nineteen (19) employees earned a net salary of less than a third (⅓) of the basic salary contrary to Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016. The Management has not given explanation for failure to comply with the policy.

The County contravened Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016 as this may expose the staff to pecuniary embarrassment.

Consequently, the Management is in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

295. Lack of Information Communication Technology (ICT) Strategic Committee

Section 1.4 (a) of the ICT Policy for Baringo County stipulates that there shall be a County ICT Advisory Committee to advise Management and link the County ICT function to the National Government's goals as well as the ICT profession. However, the was no evidence to show the existence of the ICT strategic committee during the year under review.

Therefore, it is not possible to confirm whether the ICT Strategy that the County has an effective ICT environment.

296. Lack of Risk Management Policy

Section 158(1)a of the Public Finance Management (County Governments) Regulations, 2015 requires the Accounting Officer to ensure that a County Government entity develops risk management strategies including fraud prevention mechanisms. However, during the year under review, the Management did not have a documented risk management policy to guide management on operational, financial and other types of risks it may be exposed to. Management has not provided a satisfactory explanation for the failure to establish the strategy.

Consequently, I am unable to confirm existence of effective management of risk.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

297. Accuracy of the Financial Statements

The financial statements for the year ended 30 June, 2019 reflect various amounts and balances which are at variance with the underlying records as outlined below:

297.1 Statement of Receipts and Payments

The expenditure balances reflected in the statement of receipts and payments are at variance with Integrated Financial Management Information System (IFMIS) report expenditure balances as tabulated below:

Item(s)	IFMIS Report Balances (Kshs.)	Statement of Receipts and Payments Balances (Kshs.)	Difference Kshs.
Expenditure/Payments			
Compensation of Employees	218,142,935	218,142,935	0
Use of Goods and Services	214,082,638	209,272,938	4,809,700
Transfers to Other Government Units	492,400	28,271,323	(27,778,923)
Other Grants and Transfers	1,650,066	492,400	1,157,666
Social Security Benefits	10,000,000	10,000,000	0
Acquisition of Assets	29,980,404	1,709,081	28,271,323

No reconciliations or explanation have been provided for the above variances.

297.2 Statement of Financial Assets and Liabilities

The account balances reflected in statement of financial assets and liabilities also differs with IFMIS report balances as summarized below:

Item(s)	Financial Statements Balances Kshs.	Balances as Per IFMIS Report Kshs.	Variance Kshs.
Accounts Payables - Deposits	-	1,555,419,540	(1,555,419,540)
Bank Balances	1,992,646	678,238,451	(676,245,805)
Cash Balances	-	1,911,328,906	(1,911,328,906)
Fund Balance Brought Forward	22,397,359	(319,512,031)	341,909,390
Prior year adjustments	(22,397,359)	-	(22,397,359)

No satisfactory explanations or reconciliations have been similarly provided for the above discrepancies.

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Consequently, the accuracy and completeness of the figures reflected in the financial statements for the year ended 30 June, 2019 could not be confirmed.

298. Unsupported Foreign Travel and Subsistence

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.209,272,938 under use of goods and services which constitutes an expenditure of Kshs.34,455,993 relating to foreign travel and subsistence allowances. The balance includes subsistence allowances of Kshs.5,036,010 paid to eighteen (18) Members of the County Assembly (MCAs) and three (3) members of staff while attending the 2nd County Assemblies Integrity forum held in Arusha, Tanzania between 27 January, 2019 and 3 February, 2019. Examination of the imprest surrender vouchers revealed that five (5) imprest holders with imprests amounting to Kshs.953,768 did not submit copies of their passports as a proof of travel to Arusha and back.

Further, all members who travelled were each given a transport allowance of Kshs.50,000 but some did not attach any expenditure receipts to the surrender vouchers to account for the transport allowance.

Consequently, the accuracy, completeness and validity of the Kshs.5,036,010 could not be confirmed.

299. Misallocation of Budget Provisions

The statement of receipts and payments reflects social security benefits payments amounting to Kshs.10,000,000. However, a review of payments charged to the expenditure item revealed expenditure was on travel and subsistence allowance of Kshs.8,413,600 and medical insurance of Kshs.1,586,400. The Management did not give satisfactory explanation for the above mis-allocation of budgetary provisions.

Consequently, the propriety on the expenditure of Kshs.10,000,000 could not be confirmed.

300. Irregular Issuance of Imprests

Included in domestic travel and subsistence expenditure of Kshs.43,281,154 is an amount of Kshs.4,500,000 issued to ward staff as imprests to cater for various public participation events held across the County. The Ward staff are not employees of the Assembly and the expenditure was therefore irregularly incurred.

Consequently, the accuracy and validity of Kshs.4,500,000 expenditure could not be confirmed.

Other Matter

301. Budgetary Control and Performance

During the year under review, the approved final budget of the County Assembly was Kshs.476,170,301 with Kshs.469,271,323 (98.55%) allocated to recurrent expenditure and Kshs.6,896,978(1.45%) development expenditure. Further, the statement of comparison of budget and actual amounts for recurrent and development combined reflects an overall under absorption of Kshs.8,279,624 or 1.7%.

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There was 75% under absorption of the approved development vote budget which impacted negatively on the implementation of approved development projects. However, the Management has not provided satisfactory explanation for the failure to fully utilize budgetary provisions as appropriated by the County Assembly.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

302. Doubtful Procurement Process for Hotel and Conference Facilities

Disclosed under Note 5 to the financial statements under supply of goods and services is an expenditure of Kshs.27,664,000 in respect of hospitality supplies and services. Included in the amount are payments totalling Kshs.1,147,372 for hotel and conference facilities for MCAs and staff. However, the procurement process used to identify the hotels and conference facilities was not indicated or clarified. As a result, it could not be confirmed whether the services were procured in accordance with requirements under Sections 91 and 92 of the Public Procurement and Asset Disposal Act, 2015.

Consequently, the Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

303. Fixed Assets Register

Annex 4 to the financial statements reflects a summary of fixed assets register balance of Kshs.75,505,574 as at 30 June, 2019. However, examination of records revealed that the Management has not updated the fixed assets register. The assets register maintained did not indicate the category of assets, date of acquisition and current condition of the assets.

Consequently, I am unable to confirm existence of effective controls on management of fixed assets.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

304. Accuracy of the Financial Statements

Analysis of the balances reflected in the financial statements revealed the following variances with the balances reported in the Integrated Financial Management Information System (IFMIS) generated trail balance as follows:

Component	IFMIS Trial Balance Kshs.	Financial Statements Balance Kshs.	Variance Kshs.
Use of Goods and Services	712,508,676.10	595,865,447.00	116,643,229.10
System Required Expense	12,499,143.00	-	12,499,143.00
Acquisition of Assets	169,917,253.00	162,280,478.00	7,636,775.00
Domestic Lending and On-Lending	15,000,000.00	-	15,000,000.00
Ministry HQ Recurrent Bank A/C	1,041,322,586.85	-	1,041,322,586.85
Ministry HQ Development Bank A/C	421,201,957.00	-	421,201,957.00
Cash and Cash Equivalent	2,476,905,639.35	3,976,315.00	2,472,929,324.35
Other Liability	203,177.25	-	203,177.25
Consolidated Fund	2,046,096,323.55	-	2,046,096,323.55

It is also noted that a number of items appearing in the IFMIS trial balance had not been reported anywhere in the financial statements or explained what they relate to.

In the circumstances, the completeness, accuracy and validity of balances reflected in the financial statements for the year ended 30 June, 2019, cannot be confirmed.

305. Use of Goods and Services

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects expenditure totalling to Kshs.595,865,447 under use of goods and services. A review of available records revealed the following unsatisfactory matters:

305.1 Unreconciled Committee Expenses

The above balance includes MCA committee meeting expenses (sitting allowances) of Kshs.82,516,091 for plenary and respective committee sittings. However, an analysis of the payroll which records actual payments made by the County Assembly indicated an amount of Kshs.81,174,102.90 while the Clocking Sitting Allowance Management System reflected an amount of Kshs.55,257,800 resulting to unreconciled variances between the three sets of records.

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305.2 Misclassification of Rentals of Produced Assets

Further, the expenditure includes an amount of Kshs.78,880,110 paid in respect of rentals of produced assets. The assembly increased Ward offices operational costs from Kshs.60,000 to Kshs.100,000 per month with nominated Members of County Assembly (MCAs) being allocated Kshs.30,000 each per month. Examination of expenditure documents revealed that other operational costs and salaries and remuneration were charged under the item resulting to misclassification of expenditure. Further, a review of payments amounting to Kshs.45,837,410 for Ward operational costs revealed that the expenditure returns supporting documents did not have the electronic tax register (ETR) receipts. In addition, there is no evidence to show that the procurements were subjected to competitive procurement process for goods and services.

In the circumstances the propriety on the use of Kshs.78,880,110 could not be ascertained.

305.3 Unauthorized Expenditure on Subscription Fees

The expenditure also includes an amount of Kshs.4,023,049 relating to membership fees, dues and subscription to professional and trade bodies. Included in this payment is Kshs.3,300,000 being part payment of Kshs.5,000,000 annual subscription fees to the County Assemblies Forum (CAF). The payment was not budgeted for contrary to Section 37 of the Intergovernmental Relations Act, 2012 which provides that the operational expenses in respect of the structures and institution established by the Act shall be provided for in the annual estimates of the revenue and expenditure of the National Government.

305.4 Irregular Expenditure on Domestic Travel and Subsistence

The expenditure further includes domestic travel and subsistence expenditure of Kshs.117,200,531 which constitutes an amount of Kshs.70,635,545 paid in respect of committee meetings held outside the County Assembly without the necessary approvals and justification.

Consequently, the validity, propriety and accuracy of the expenditure amounting to Kshs.235,531,746 under use of goods and services reflected in the statements of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

Other Matter

306. Budgetary Control and Performance

The statement of comparison of budget and actual amounts: recurrent and development combined indicates that the County Assembly had a final budget of Kshs.1,287,000,637 but received Kshs.1,076,825,789 leading to a budget shortfall of Kshs.210,174,848 or 16% of the approved budget. The statement further reflects actual expenditure of Kshs.1,100,724,601 against the budgeted expenditure of Kshs.1,287,000,637 resulting to under expenditure of Kshs.186,276,036 or 14% of the approved budget. The under expenditure mainly occurred under transfers to other government entities and acquisition of assets which recorded under expenditure of

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Kshs.7,336,468 or 76% and Kshs.162,280,478 or 45% respectively of their budgeted provisions.

Further, a review of the current budget compared to the previous year's budget revealed that the Management made huge budget allocations to various activities as follows:

Sub Item Name	Approved Budget 2017/2018 Kshs.	Budget 2018/2019 Kshs.	Change (increase/ (Decrease) Kshs.	% Change
Training Allowances	500,000	15,000,000	14,500,000	2900
Domestic Travel and Subsistence Allowances	12,500,000	58,000,000	45,500,000	364
Foreign Travel and Subsistence Allowances	17,500,000	40,000,000	22,500,000	129
Advertising, Awareness and Publicity Campaigns	4,000,000	9,000,000	5,000,000	125
Superannuation Fund/Gratuity	21,150,990	42,708,488	21,557,498	102
Electricity	3,000,000	6,000,000	3,000,000	100
Rents and Rates - Non-Residential	41,500,000	76,400,000	34,900,000	84
Membership Fees, Dues and Subscriptions to	4,000,000	7,000,000	3,000,000	75
Catering Services (Receptions), Accommodation, Gifts, Food & Drinks	23,000,000	33,000,000	10,000,000	43
Medical Insurance	29,425,840	38,200,000	8,774,160	30
Committee Meeting Expenses	90,000,000	111,000,000	21,000,000	23

There was no evidence of changes in activities to necessitate the above budget adjustments.

Consequently, the Management did not adhere to the budget and budgetary controls.

307. Pending Bills

Annex 1 to the financial statements reflects pending bills of Kshs.57,390,196 as at 30 June, 2019. Management has not provided reasons for non-payment of the bills. Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year.

308. Unresolved Prior Year 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, although the Management has indicated that some issues have been responded to, the matters have remained unresolved as the Senate has not deliberated on the matters.

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Basis for Conclusion

309. Unauthorized Hire of Legal Services

Pending accounts payables reported under other disclosures to the financial statements for the year ended 30 June, 2019 reflects a balance of Kshs.57,390,196 which included Kshs.32,136,908 in respect to outstanding legal fees as at 30 June, 2019. Management did not provide evidence to show that it sought and got approval to engage the services of a consultant to render legal services contrary to Section 17(1) of the Office of the Attorney-General Act No. 49 of 2012.

In the circumstances, Management was in breach of the law.

310. Unspent Funds Not Transferred to County Exchequer Account

As disclosed under Note 6 to the financial statements, the statement of receipts and payments reflects transfers to County Treasury (CRF Account) of Kshs.7,336,468. However, the statement of cash flows reported Kshs.26,944,266 being cash and cash equivalent at year end of 2017/2018 as well as the cash and cash equivalents at the beginning of the financial year 2018/2019. The Management did not explain why only Kshs.7,336,468 was returned as provided in compliance with Section 136(2) of the Public Finance Management Act, 2012.

Under the circumstances, Management was in breach of the law.

311. Non-Compliance to the Thirty Per Cent (30%) Reservation Rule

Section 53(6) of Public Procurement and Asset Disposal Act, 2015 states that every procuring entity shall ensure that at least thirty (30%) percent of its procurement budget in every financial year is reserved for the youth, women and persons with disability. During the year under review, Management made procurement contracts amounting to Kshs.438,955,821 but only Kshs.35,700,000 worth of contracts was reserved for the youth, women and persons with disability. This translates to eight (8%) per cent reservation contrary to Section 53(6) of the Public Procurement and Asset Disposal Act, 2015. No reasons were given for not adhering to this provision.

Under the circumstances, Management was in breach of the law.

312. Unauthorized Variations of a Contract

The Management entered into a contract agreement with a firm for the construction of executive residential house for the Speaker at a contract sum of Kshs.42,649,273.40 and paid Kshs.22,737,191.55. A review of the contract and verification of the payment indicated that there were variations to the roof, swimming pool, pump house among other items which had not been deliberated on. Although the contract agreement did not specify the completion date, board minutes reflect that the Project is behind schedule and no reasons were given for the delay in completion of the Project.

Under the circumstances, effective use of public resources could not be confirmed.

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Basis for conclusion

313. Valuation of Inherited Assets from the Defunct Local Authorities

Annex 3 of the financial statements reflected fixed assets with historical costs of Kshs.505,861,058 (2018-Kshs.343,580,580). It was noted that the Assembly inherited fixed assets including land and buildings from the defunct County Council of Nakuru. However, there is no evidence of handover report indicating the assets and their values.

In the circumstances, I am unable to confirm the actual value of assets under the County Assembly.

314. Lack of a Functional Audit Committee

The established audit committee has not been operationalized to support the accounting officer on their responsibilities for risk, control and governance and to follow up on the implementation of the recommendations of internal and external auditors as required under Section 168 of the Public Finance Management (County Governments) Regulations, 2015.

In the circumstances, I am unable to confirm the effectiveness of the overall governance.

315. Lack of a Risk Policy

The County Assembly does not have a risk management policy which should guide on assessment and evaluation of risk and development of the strategies for mitigation.

In the circumstances, I am unable to confirm the effectiveness of the risk management.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

316. Inaccuracies in the Financial Statements

Examination of records supporting the financial statements for the year ended 30 June, 2019 revealed the following discrepancies:

316.1 Statement of Receipts and Payments

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects expenditure amounting to Kshs.323,758,726 under use of goods and services. However, the ledger provided in support of the expenditure, reflects Kshs.329,253,866 resulting to a variance of Kshs.5,495,140. Further, expenditure amounting to Kshs.19,274,000 spent on domestic and subsistence allowances was charged to foreign travel and subsistence allowances instead of domestic travel. This has the effect of overstating the foreign travel and subsistence allowances expenses while understating the domestic travel and subsistence allowances expenses.

316.2 Statement of Assets and Liabilities

Further, the statement of financial assets and liabilities reflects nil balance on Fund balance brought forward while Note 16 to the financial statements reflects Fund balance brought forward of Kshs.2,760,447 resulting to variance of Kshs.2,760,447. Management did not reconcile the two records to account for the variances.

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June, 2019 could not be confirmed.

317. Unsupported Payments – Use of Good and Services

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.323,758,726 under use of goods and services. A review of payment vouchers revealed that Management paid Kshs.16,206,551 as travel and subsistence allowances to MCAs and staff of the Assembly but no supporting documents were availed for audit review.

In the circumstances, the accuracy and completeness of the balance reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

318. Unsupported Receipt Vouchers

The Recurrent Cashbook reflects Kshs.766,973,520 as remittance from Narok County Executive County Revenue Fund. However, actual receipt vouchers as required in accordance with Section 167(1) of the Public Finance Management (County Governments) Regulations, 2015 were not availed, by Management, for audit review.

In the circumstances, it is not possible to confirm the accuracy of remittance of Kshs.766,973,520 for the year ended 30 June, 2019.

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Other Matter

319. Pending Bills

During the year under review, the County Assembly had an outstanding pending bill amounting to Kshs.66,784,272 as at 30 June, 2019. Management has not explained why the bills were not settled during the year when they occurred.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

320. Prior Year 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, although the Management has indicated that the issues have been responded to, the matters remained unresolved as the Senate has not deliberated on the same.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

321. Compliance with the Public Finance Management (County Governments) Regulations, 2015

Examination of the payroll revealed that the County Assembly of Narok incurred net salary of Kshs.150,249,096 out which Kshs.85,728,516 (57%) was paid outside the Integrated payroll and personnel Database, IPPD System. No sufficient reasons were provided why some employees salary was processed outside the IPPD System, contrary to Regulation 42(1)(d) of Public Finance Management (County Governments) Regulations, 2015.

Consequently, Management is in breach of the law.

322. Lack of Documents on Ethnic Composition

The Management did not provide records showing the ethnic composition of the staff of County Assembly for audit review. This is contrary to Section 9(1)(e) of the Public Audit Act, 2015. It was therefore not possible to confirm whether County Assembly is compliant with the ethnic composition as per Section 65(1)(e) of the County Governments Act, 2012.

Consequently, the Management is in breach of the law.

323. Irregular Procurements of Legal Services

Management contracted a law firm to provide legal opinion on a matter to the County Assembly of Narok Service Board in a case filed in a Nakuru Court. The contracted firm acted on behalf of the Board and was subsequently paid an amount of Kshs.3,323,620. However, the firm was not enlisted as a prequalified supplier contrary to Section 71(1) of the Public Procurement and Asset Disposal Act, 2015.

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Consequently, the Management is in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

324. Lack of Audit Committee

During the year under review, Management did not provide documents supporting existence of an audit committee at the County Assembly. Therefore, the duties and responsibilities of audit committee to offer oversight and guidance was deficient.

Consequently, I am unable to confirm effectiveness of the overall governance at the Assembly.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

325. Inaccuracies in the Financial Statements

325.1 Unconfirmed Use of Goods and Services Balance

The statement of receipts and payments reflects Kshs.370,418,331 in respect of use of goods and services. However, the respective ledger and expenditure schedules reflect payments totalling Kshs.364,923,191 resulting in an unreconciled variance of Kshs.5,495,140.

325.2 Unconfirmed Cash Flows Statement Balances

The statement of cash flows reflects a net increase in cash and cash equivalents balance of Kshs.5,191,446 whereas the respective balances in the statement amounted to Kshs.6,325,941 resulting in an unexplained variance of Kshs.1,134,495. Further the cash and bank balance reflected in the statement of assets and liabilities amounts to Kshs.14,187,765 against the sum of Kshs.5,191,446 reflected in the statement of cash flows. The difference amounting to Kshs.8,996,319 between the two sets of records was not explained or reconciled.

As a result, the accuracy and completeness of the financial statements could not be confirmed.

Other Matter

326. Pending Bills

Annex 1 to the financial statements indicates that the County Assembly had pending bills totalling Kshs.29,527,442 as at 30 June, 2019. Management did not explain why the bills were not paid during the year under review.

Failure to pay pending bills on time creates risk of wasteful expenditure on interest costs and penalties that may become due on the debts. In addition, it reduces funding for the subsequent year since the bills form a first charge on the budget for the year.

327. Budgetary Control and Performance

The statement of comparison of budget and actual amounts: recurrent and development combined, reflects a final budget of Kshs.798,920,025 for both receipts and payments. The statement, in addition, reflects actual receipts and payments totalling Kshs.754,219,231 and Kshs.749,027,786 respectively. The total receipts for the year fell short of the target by Kshs.44,700,794 or 6% and were, therefore, the main cause of the aggregate under-expenditure amounting to Kshs.50,580,167, equivalent to 36% of the development budget, incurred by the County Assembly.

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The unrealized receipts and the resultant under-expenditure constrained implementation of development projects planned for the year under review.

328. Unresolved Prior-Year Audit Matters

The audit report for the previous year highlighted several unsatisfactory issues. However, contrary to the reporting requirements prescribed by the Public Sector Accounting Standards Board (PSAB), the annual report and the financial statements for the year under review do not include a report on the progress made in resolving the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

329. Failure to Pay All Salaries Through the Integrated Personnel Payroll Database System

Examination of the payroll records availed for audit indicated that an amount of Kshs.35,460,000 out of expenditure totalling Kshs.283,869,223 was spent on compensation of employees outside the Integrated Personnel Payroll Database (IPPD) System established for use by Ministries, Departments and Agencies, including Counties. No explanation was provided by Management on why the payments were processed manually and not through the IPPD system.

Manual payrolls are inefficient, are prone to errors, and may hamper accountable use of public funds.

Contrary to Regulation 120(1) of the Public Finance Management (County Governments) Regulations, 2015, personnel costs processed manually were not classified based on the Government Finance Statistics Manual and the Standard Chart of Accounts used in capturing government expenditure. Further contrary to Regulation 120(2), the employees were not linked to a program identified in the budget of the County Government.

Consequently, the Management was in breach of law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

330. There were no material issues relating to effectiveness of internal controls, risk management and governance.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

331. Unsupported Board Expenses

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services payments totalling Kshs.335,701,386 which include Kshs.13,348,856 paid to the County Assembly Service Board (CASB). However, only Kshs.4,044,000 of the payments made to the Board was however, supported with relevant records. The balance amounting to Kshs.9,304,856 was therefore, not unaccounted for.

Consequently, the accuracy and validity of the goods and services expenses balance totalling Kshs.9,304,856 reflected in the statement of receipts and payments for the year ended 30 June, 2019 has not been confirmed.

332. Undisclosed Assets

As disclosed under Note 10 to the financial statements, the statement of receipts and payments reflects payments for acquisition of assets totalling Kshs.50,829,450. Included in the balance is a sum of Kshs.7,500,000 relating to refurbishment of buildings out of which Kshs.5,642,400 was spent on purchase of a mace, mace table and digital recorder for use in the County Assembly. The items were, however, not included in the summary of fixed assets as at 30 June, 2019 availed for audit.

Consequently, the summary of assets was understated by Kshs.5,642,400 and the items purchased were not properly accounted for in the assets records of the County Assembly.

333. Unaccounted for Ward Expenses

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects compensation of employees expenditure totalling Kshs.301,938,256. The balance includes a sum of Kshs.38,360,000 incurred on basic wages of temporary employees which in turn includes a sum of Kshs.14,400,000 spent on Ward expenses. Further examination of records on the expenses indicated that these were imprests paid to Members of the County Assembly who, however, did not submit returns on how the funds were used.

Consequently, the occurrence and validity of the payments totalling Kshs.14,400,000 included in the compensation of employees for the year ended 30 June, 2019 was not confirmed.

334. Undisclosed Cash and Cash Equivalents Balance

The cash and cash equivalents balance amounting to Kshs.8,135 reflected in the statement of assets and liabilities and further disclosed under Note 13A to the financial statements comprised of balances held in two (2) bank accounts namely the Salary

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Clearance Account and Car Loan and Mortgage Fund Account. However, the recurrent vote bank balance of Kshs.17,121,969 as at 30 June, 2019 and confirmed by the Central Bank of Kenya has not been included in the financial statements.

Further, two (2) bank accounts held in commercial banks in Kericho with cash totalling Kshs.1,212,934 as at 30 June, 2019 have, similarly, not been included in the financial statements.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance totalling Kshs.8,135 as at 30 June, 2019 has not been confirmed.

Other Matter

335. Undisclosed Prior Year Issues

The audit report for the year ended 30 June, 2018 highlighted several issues in regard to lawfulness and effectiveness in use of public resources as well as effectiveness of internal controls, governance and risk management systems. However, contrary to the reporting format prescribed by the Public Sector Accounting Standards Board, the report for the year under review has not disclosed the progress, if any, made by Management in resolving these issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

336. Failure to Prepared Fund Financial Statements

As disclosed under Note 7 to the financial statements, the statement of receipts and payments reflects transfers to other government entities totalling Kshs.25,000,000. The balance is denoted as transfers to the Car Loan Fund Account. However, contrary to Regulation 101(4) of the Public Finance Management (County Governments) Regulations, Management did not prepare and submit the financial statements of the Fund to the Auditor-General for audit.

Management is therefore in breach of the law.

337. Non-Compliance with the Law on Ethnic Composition

An audit review of the staff establishment for the 2018/2019 financial year revealed that the County Assembly had eighty-eight (88) employees out of whom eighty-three (83), or 94% were from the dominant community in the County. As a result, only five (5), or 6.7% of the posts were filled by other ethnic communities. This was contrary to provisions of Section 7(1) of the National Cohesion and Integration Act, 2008 and Section 65(1)(e) of the County Governments Act, 2012 both of which require all public entities to represent the diversity of the people of Kenya in their employee rolls.

As a result, Management is in breach of the law.

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Basis for Conclusion

338. Lack of Proper Controls on Use of Fuel

Expenditure records examined indicated that payments for fuel totalled Kshs.14,000,000 during the year under review. However, management did not maintain a fuel register on receipt and use of the fuel supplies.

Consequently, there was no confirmation whether the fuel supplies were used for the intended purposes.

339. Failure to Establish an Audit Committee

Audit review of internal control and oversight systems at the County Assembly revealed that Management had not established an audit committee contrary to Section 155 of the Public Finance Management Act, 2012 and Section 167(1) of the Public Finance Management (County Governments) Regulations, 2015. The two provisions require each County Government entity to have an audit committee that oversees governance and promotes transparency and accountability in the Management of its resources.

In the circumstances, I am unable to confirm the effectiveness of overall governance.

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REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

340. There were no material issues noted during the audit of financial statements of the County Assembly.

Other Matter

341. Budgetary Control and Performance

The statement of comparison of budget and actual amounts - development and recurrent combined reflects approved receipts and expenditure budget of Kshs.803,549,398. However, the Assembly received an amount of Kshs.657,433,000 while actual expenditure amounted to Kshs.657,933,558 resulting to budget under-performance by 18%.

The shortfall in receipts mainly occurred due to Exchequer releases where an amount of Kshs.146,116,398 was not released. The under absorption mainly occurred under transfers to other government entities and acquisition of assets of Kshs.12,351,090 and Kshs.133,036,060 respectively totalling to Kshs.145,387,150.

The under absorption may have negatively impacted on service delivery to the citizens.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

342. Surrender to County Revenue Fund

The comparative figure of unspent cash held at the Central Bank of Kenya as at 30 June, 2018 as reported in the statement of financial assets and liabilities is Kshs.738,685. However, examination of available County Assembly's records indicate that only an amount of Kshs.283,173 was surrendered to the County Revenue Fund (CRF) leaving a balance of Kshs.455,512 not returned. This is contrary to Section 136 of the Public Financial Management Act, 2012 which requires, a County Government entity holding appropriated money that was withdrawn from the County Exchequer Account but has not been spent, to repay the unspent money to the County Exchequer Account and prepare a refund statement which shall be forwarded to the Controller of Budget at the end of a financial year.

Consequently, Management was in breach of the law.

343. Acquisition of Assets

As disclosed under Note 10 to the financial statements, the statement of receipts and payments reflects payments on acquisition of assets of Kshs.51,723,280. A review of the expenditure revealed the following observations:

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343.1 Non-Deduction of Contract Retention Money

Included in this amount are payments for the construction of buildings amounting to Kshs.31,172,845 out of which an amount Kshs.25,504,154 was paid to three (3) contractors without withholding the applicable retention amount at the rate of 10% amounting to Kshs.2,550,415.40. This amount was to compensate the County Assembly against any loss resulting from poor workmanship during the defect liability period as stipulated for in the contract documents.

Consequently, Management was in breach of law.

343.2 Delayed Completion of Mini Chamber Boundary Wall

Further, the payments include Kshs.5,560,093 paid in respect of construction of buildings for the construction of a boundary wall at a contract price of Kshs.31,955,378 which was signed on 18 October, 2016. No specific commencement and completion dates were disclosed. A perusal of the project file revealed that on 18 March, 2019, the Clerk to the Assembly wrote a termination letter to the contractor due to unsatisfactory progress in the execution of works. On 25 March, 2019, the contractor responded to the termination letter for the contract stating the reasons for the delayed completion; as mobilization challenges, delayed payments, and lack of coordinated approval of work progress by the project management team based in Nairobi. Subsequently, on 5 April, 2019, the contractor requested for an extension of time of one hundred and twenty (120) working days with effect from the date of the letter. Upon receipt, the evaluation committee and with the approval of the Clerk of the County Assembly on 10 April, 2019 granted an extension of sixty (60) days.

Audit inspection carried out on the boundary wall in September, 2019 revealed that the wall was incomplete with some sections having pillars while others were at slab level. There were no on-going works and the contractor was not on site.

343.3 Delayed Completion of Construction of Mini Chamber

Further, the payment includes Kshs.14,777,153 for construction of a mini chamber during the year. The contract for the construction works was awarded on 28 September, 2016 at a contract price of Kshs.65,693,531 and the contract agreement signed on 19 October, 2016. Review of the project revealed that the contract commencement and completion dates were not stated in the contract, consequently, it was not possible to determine the contract duration.

Further, information available indicated that the site was handed over to the contractor on 17 November, 2017 more than one (1) year later after the contract was signed. At the time of the audit visit at the site, in September, 2019, no works was on-going and the contractor was not on site.

In the circumstance therefore, the construction of the Chamber and the boundary wall is behind schedule and the likelihood of cost escalation is high. In addition, the benefits envisaged from its construction have not been realized.

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REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

344. There were no material issues relating to effectiveness of internal controls, risk management and governance

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REPORT ON THE FINANCIAL STATE MENTS

Basis for Qualified Opinion

345. Unexplained Variances

The financial statements reflect account balances that do not, however, tally with balances reflected in the expenditure ledger or supporting schedules as explained below:

345.1 Use of Goods and Services

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.453,261,782 in respect of use of goods and services. Included in the balance are payments totalling Kshs.409,050,122 spent on several items while the ledger indicated an amount of Kshs.394,883,814 against the same items.

345.2 Acquisition of Assets

The statement of receipts and payments reflects payments for acquisition of assets totalling Kshs.37,458,043, out of which a sum of Kshs.2,822,500 was spent on purchase of Information Communication Technology (ICT) equipment. However, the supporting schedules reflected expenditure totalling Kshs.2,321,500 against the item. No explanation has been provided by Management for the difference of Kshs.501,000 between the two sets of records.

345.3 Cash and Cash Equivalents

The statement of financial assets and liabilities reflects a cash and cash equivalents balance totalling Kshs.29,735,435. However, the bank reconciliation statements reflects a cash balance of Kshs.34,332,262 as at 30 June, 2019 resulting to an un-reconciled difference of Kshs.4,596,827.

In the circumstances, the accuracy of the balances reflected in the financial statements for the year ended 30 June, 2019 could not be confirmed.

346. Unsupported Balances

346.1 Use of Goods and Services

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflects payments totalling Kshs.453,261,782 in respect of use of goods and services. However, the following anomalies were noted:

346.1.1 Fuel, Oil and Lubricants

The balance includes an amount of Kshs.3,480,520 spent on purchase of fuel, oil and lubricants out of which an amount of Kshs.2,650,000 was paid to a petroleum products dealer for fuel purchases made through fuel cards. However, the respective local

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purchase orders, the contract agreement and the fuel register indicating how the fuel was drawn were not availed for audit review.

346.1.2 Rent for Ward Offices

Further, an amount of Kshs.22,682,838 was incurred on payments for rentals of produced assets out of which Kshs.7,200,000 was spent on Ward offices. As a control procedure, each ward is required to file expenditure returns on rental payments made in each month. However, the returns from sixty (60) Wards by the respective lease or rental agreements and records that confirmed receipt of the rental payments by the respective landlords were not availed for audit review.

346.1.3 Unused Office Space

In addition, an amount of Kshs.12,000,000 was paid as rent to secure space for Members of County Assembly (MCAs) at a building located in Kakamega Town. However, as previously reported, an audit inspection of the offices confirmed that additional office space measuring 2000 square feet was paid for at Kshs.102 per square feet. The space was, however, hardly used by the MCAs and had not been partitioned for use. Management therefore, paid rent for office space that the County Assembly did not require.

346.1.4 Domestic Travel Expenses

The expenditure also constitutes an amount of Kshs.233,737,421 was spent on domestic travel and subsistence during the year under review out of which Kshs.11,929,900 was paid directly to several County Assembly staff. Contrary to Section 93(3) of the Public Finance Management Act, 2012, the staff were not issued with imprest warrants and were expected to disburse the monies to other staff assigned duties as travel and subsistence. However, Management did not avail records to confirm that the final payees review received the funds.

346.1.5 Hospitality Supplies and Services

Expenditure records further indicated that Kshs.39,744,042 was spent on hospitality activities during the year out of which Kshs.2,775,000 was paid to a member of staff for management of conference services provided on various occasions. However, examination of payment vouchers revealed that the payments were not properly supported as user requisitions and local purchase orders were not attached to the payment vouchers.

In the circumstances, it was not possible to confirm the validity of expenditure in the statement of receipts and payments amounting to Kshs.35,554,900 included under use of goods and services.

347. Undisclosed from Car Loan and Mortgage Fund

The statement of receipts and payments reflects receipts totalling Kshs.1,051,305,830 and payments totalling Kshs.1,052,014,286. However, the statement has not disclosed a sum of Kshs.30,074,400 transferred from the Car Loan and Mortgage Fund to finance the operations of the County Assembly. Further, the transfer was made contrary to the Fund's Regulations.

In the circumstances, the accuracy of the financial statements could not be confirmed.

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Other Matter

348. Pending Bills

Reflected under Annex 1 to the financial statements is an analysis of pending bills which indicates that the County Assembly owed vendors of goods, service providers and contractors amounts totalling to Kshs.38,542,131 as at 30 June, 2019. The balance is comprised of Kshs.37,119,971 and Kshs.1,422,160 under recurrent vote and development vote respectively.

Failure to pay suppliers and contractors in due time adversely affects the budget for the year in which the pending bills are paid. In addition, it hampers economic activity and may result in unnecessary interest costs and discourage local businesses from trading with public entities.

349. Unresolved Prior Year Issues

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, Management has indicated in Note 3 of other disclosures that the matters have not been resolved and therefore remain outstanding.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

350. Non-Compliance with the Law on Ethnic Composition

An analysis of data obtained from the Integrated Payroll and Personnel Database (IPPD) for the period under review revealed that the County Assembly had eighty (80) members of staff as at 30 June, 2019 out of whom 74% were from the dominant community in the County. As a result, only 26% of the posts were filled by other communities. The ratio contravened Section 65(1)e of the County Governments Act, 2012 which requires at least thirty 30% percent of the vacant posts at entry level be filled by candidates who are not from the dominant ethnic community in a County.

In the circumstances, the Management is in breach of the law.

351. Payments Made Outside the Integrated Financial Management Information System (IFMIS)

The statement of receipts and payments reflects aggregate payments amounting to Kshs.1,052,014,286 out of which payments totalling Kshs.68,267,149 were made outside IFMIS. Management has therefore, breached Section 83(1) of the Public Finance Management Act, 2012 which grants responsibility for establishing a sound cash management system to The National Treasury, and which has since prescribed IFMIS as the system to be used for payment of public funds. In addition, the County Financial Accounting and Reporting Manual requires all appropriated funds be transacted through IFMIS.

Therefore, Management is in breach of the law.

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352. Irregular Procurement of Staff Medical Insurance

Examination of procurement records indicated that fourteen (14) firms submitted bids for a tender for the provision of medical insurance cover for the Members of the County Assembly advertised during the year under review. However, the audit revealed the following anomalies in the procurement process:

- The original tender documents were not availed for audit review
- The evaluation committee did not follow the seven-point scoring criteria agreed with Management, but instead awarded scores based on their own criteria. As a result, the objectivity of the evaluation and award of the tender could not be confirmed.
- The bidder who was awarded the contract at Kshs.36,998,070 was directed by Management to engage a different underwriter for unclear reasons. No evidence was availed to confirm that the offer made by the new underwriter was evaluated and found to be feasible.
- Management did not avail the contract performance report for the service for audit review. As a result, it was not possible to confirm whether the service provider met the performance expectations set under the contract.
- The original tender documents were not availed for audit as they were reported to have been taken by the Ethics and Anti-Corruption Commission for investigation.

In the circumstances, it was not possible to confirm whether the tender was awarded competitively or whether value for money was obtained on the expenditure totalling Kshs.36,998,070 incurred on the insurance policy.

353. Irregularities in the Procurement of Media Cameras

Further, examination of records revealed other procurement records examined indicated that the County Assembly procured media cameras from a local vendor at a cost of Kshs.1,973,000. The cameras were intended for use in broadcasting the proceedings of the County Assembly. However, the following anomalies were noted in regard to the procurement:

- Specifications for the equipment provided that, the County Assembly was to acquire Sony BRC-H900 cameras but instead Armce cameras were delivered, which according to the user department lacked a video recording system and other important capabilities included in the bid price at Kshs.100,000.
- The cameras supplied did not conform to the specifications of the contract.
- Included in the purchase price was a sum of Kshs.103,000 being cost of installing and orientation of the cameras. However, the cameras supplied were portable and would be removed daily after the business of the County Assembly. Their purchase prices should therefore not have included installation and orientation costs.

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In view of these anomalies, value for money was not obtained from public funds totalling Kshs.1,973,000 spent on purchase of the cameras.

354. Irregular Sitting Allowances

Examination of records on departmental committees' meetings revealed that a sum of Kshs.9,149,400 was paid to MCAs who did not attend scheduled meetings contrary to Section 104(1)(i) of the Public Finance Management Act, 2012 which requires the County Treasury to ensure proper management, control, and accounting for the finances of the county government and its entities for efficient and effective use of budgetary resources.

Consequently, the Management is in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

355. Weak Internal Controls in Use of Fuel Cards

Examination of payment vouchers for fuel purchased through fuel cards revealed that during the year under review, two (2) fuel cards previously reported as having been lost were used to draw fuel from the contracted supplier. Examination of the respective payment vouchers revealed that the officer responsible for requisitioning for fuel purchases also authorized payments for the requisitions. In the absence of proper segregation of duties, internal checks and control over funds spent and fuel purchased were weak and there was risk of misuse.

356. Lack of Audit Committee

Regulation 42(e) of the Public Finance Management (County Governments) Regulations, 2015 requires the Accounting Officer to ensure that each County Government entity has an active audit committee. However, Management had not constituted an Audit Committee to provide oversight over the financial affairs of the County Assembly.

In the circumstances, transparency and accountability on the operations of the County Assembly may be impaired.

357. Weak Information Technology Control Environment

Examination of records and interviews with Management indicated that the County Assembly's Information Technology (IT) Department did not have a strategic plan to guide investment in and use of IT resources. As a result, there is risk that the department may not be effective in helping the County Assembly achieve its goals and objectives.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

358. Failure to Submit Original Budget

The statement of comparative budget and actual amounts: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.701,285,805 and Kshs.617,914,441 respectively, resulting to an under-funding of Kshs.83,371,364 or 12% of the budget. The underfunding affected the planned activities and impacted negatively on service delivery for the public.

Similarly, Management spent Kshs.618,051,420 against the approved budget of Kshs.701,285,805 resulting to an under expenditure of Kshs.83,234,387 or 12% of the budget. However, Management did not avail the original budget for audit review.

Consequently, the accuracy and validity of the budget figures reflected in the statement of comparative budget and actual amounts for the year ended 30 June, 2019 could not be confirmed.

359. Accuracy of the Financial Statements

359.1 Statements of Receipts and Payments

The statement of receipts and payments reflects under acquisition of assets comparative balance of Kshs.15,125,720 whereas under Note 10 to the financial statements, the balance is disclosed as Kshs.24,814,510 resulting into a variance of Kshs.9,688,790. Similarly, the statement reflects other payments comparative balance of Kshs.9,688,790 whereas under Note 12 to the financial statements, discloses a nil balance resulting to a variance of Kshs.9,688,790. The variance has not been reconciled.

Further, foreign travel and subsistence expenses amounting to Kshs.1,845,900 was wrongly charged to domestic travel and subsistence while foreign travel expenditure of Kshs.1,381,800 was charged to trainings expenses.

359.2 Discrepancies between the Statements of Financial Assets and Liabilities and the Notes Balances

The statement of financial assets and liabilities reflects a balance of Kshs.1,940,342 under Accounts receivables - outstanding imprests, and a comparative balance of Kshs.1,157,599 as at 30 June, 2018. However, Note 14 to the financial statements reflects staff advances balance of Kshs.248,644 only under account receivables and no imprests as at 30 June, 2019 while the comparative balance for the previous is reflected as nil despite the fact that an analysis of the current outstanding imprests balance of Kshs.1,940,342 revealed that an amount of Kshs.636,788 of the imprest related to 2016/2017 and earlier years. This results to unreconciled variances of Kshs.1,691,698 and Kshs.1,157,599 respectively.

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In the circumstances, the accuracy of the financial statements for the year ended 30 June, 2019 could not be confirmed.

360. Unsupported Cash and Cash Equivalents

As disclosed under Note 13 to the financial statements, the statement of financial assets and liabilities as at 30 June, 2019 reflects cash and cash equivalents balance of Kshs.4,186,193. The balance constitutes cash in hand balance amounting to Kshs.2,433,577 and bank balances amounting to Kshs.1,752,616. However, the development account bank balance of Kshs.30,247 was supported by a bank reconciliation statement which reflected nil cash book balance resulting to a variance of Kshs.30,247, while the recurrent bank account with a nil balance was supported by a reconciled cash book balance of Kshs.326,612 resulting to a variance of Kshs.326,612. Further, Management did not provide the respective bank certificates and board of survey certificate to confirm the balances for audit review.

In the circumstance, the accuracy and validity of the cash and cash equivalent of Kshs.4,186,193 reflected in the statement financial assets and liabilities as at 30 June, 2019 could not be confirmed.

361. Unsupported Expenditure

361.1 Use of Goods and Services

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.268,264,331 under use of goods and services. The following unsatisfactory matters were observed;

361.1.1 Unsupported Foreign Travel and Subsistence

The balance includes foreign travel and subsistence allowances expenditure amounting to Kshs.8,893,136 out of which Kshs.3,337,236 was issued to the Clerk to the County Assembly as imprest on behalf of thirteen (13) Members of the County Assembly (MCAs) and two (2) Assembly staff for a trip to Bujumbura, Burundi. However, Management did not avail a signed payment schedule acknowledging receipt of money, return to office report, visas and boarding passes for audit review. Further, Management did not give explanations why the imprest was issued to the Clerk to the County Assembly on behalf of the others.

361.1.2 Unsupported Training Expenses

The balance includes training expenses balance of Kshs.4,098,250 out of which Kshs.1,381,800 was paid to three (3) MCAs to travel to Singapore. However, Management did not avail, a signed payment schedule acknowledging receipts of money, training schedule, visas and boarding passes.

361.1.3 Unsupported Domestic Travel Expenditure

The balance includes domestic travel and subsistence allowance of Kshs.180,178,631. However, Management issued imprest of Kshs.163,504,018 to the Clerk of the Assembly instead of the individual MCA and Assembly staff. This is contrary to the Section 93 of the Public Finance Management (County Governments)

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Regulations, 2015. In addition, Management did provide supporting documents such as payment schedules, approval to hold meetings outside the County, recipients of cash, attendance registers, return to office reports, procurement documents for meetings venues.

361.2 Unsupported Acquisition of Assets

As disclosed under Note 10 to the financial statements, the statement of receipts and payments reflects acquisition of assets balance of Kshs.10,184,039 which includes payments amounting to Kshs.4,348,788. However, Management did not provide supporting documents such as payment vouchers authorized by the Accounting Officer, tender opening minutes, inspection and acceptance committee appointment letters and local purchase orders, for audit review.

In the circumstances, the accuracy, completeness and validity of the of the statement of receipts and payments for the year ended 30 June, 2019, could not be confirmed.

Other Matter

362. Prior Year 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, although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the Senate and the County Assembly have not deliberated on the issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

363. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

364. There were no material issues relating to effectives of internal controls, risk management and governance.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

365. Unsupported Foreign Travel and Accommodation Allowances

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.461,012,872 under the use of goods and services. The balance constitutes foreign travel and subsistence amount of Kshs.3,140,486 which includes Kshs.576,200 in respect of foreign travel accommodation for two (2) officers who attended a seminar on executive security and open source intelligence techniques from 13 to 17 May, 2019 at Emerald Hotel Kampala, Uganda for five (5) days at the invitation of the Kenya Institute of Management. The amount of Kshs.576,200 was not supported by the relevant travel documents together with a return to office report.

In the circumstances, the propriety in the utilization of Kshs.576,200 could not be ascertained.

366. Reconciliation of Balances on Acquisition of Assets

As disclosed under Note 7 to the financial statements, the statement of receipts and expenditure reflects an expenditure of Kshs.103,380,386 under acquisition of assets which includes construction of building and refurbishment of building expenses of Kshs.86,585,391. However, it was noted that these balances do not agree with the supporting schedules of Kshs.96,225,650 leading to an unreconciled variance of Kshs.9,640,259.

In the circumstances, the ownership, accuracy and completeness of the acquisition of assets balance of Kshs.86,585,391 for the year ended 30 June, 2019 could not be ascertained.

367. Variances in the Bank Balances

As disclosed under Note 9A to the financial statements, the statement of assets and liabilities reflects a bank balance of Kshs.1,560,549 which constitute Kshs.1,549,071, Kshs.4,378 and Kshs.7,100 held in Development, Recurrent and Imprest Account respectively. Review of the bank reconciliation statements attached as Annexure 6 to the financial statements revealed that the Management used the bank certificate balances instead of the reconciled cash book balances for both the Central Bank development and recurrent bank accounts leading to a variance of Kshs.161,046 as tabulated below;

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Bank Account	Bank Certificate Balance Kshs.	Reconciled Balance Kshs.	Variance Kshs.
Central Bank-Development	1,549,071	1,130,501	418,570
Central Bank-Recurrent	4,378	261,902	(257,524)
KCB Imprests A/c	7,100	7,100	
Total	1,560,549	1,399,503	**161,046**

In the circumstances, it was not possible to ascertain the accuracy of the reported bank balance of Kshs.1,560,549 reflected in the statement of assets and liabilities as at 30 June, 2019.

Other Matter

368. Budgetary Control and Performance

During the year under review, the Management had a balanced budgeted of receipts and expenditure of Kshs.985,080,484, comprising recurrent allocation of Kshs.874,978,131 or 89% of total budget, and development allocation of Kshs.110,102,353 or 11% of the total budget. However, the County Assembly actual receipts amounted to Kshs.959,877,909 or 97% or the budgeted receipts.

The Assembly incurred an actual total expenditure of Kshs.959,124,251 which was 99.9% of actual receipts but 97% of the budget. Whereas the County Assembly incurred an overall actual expenditure/budget absorption ratio of 97%, instances of poor performance were noted mainly on transfer to other government entities which registered a performance rate of 48%. There were also instances where the budgeted amounts were exceeded on social security benefits, acquisition of assets and finance costs.

Management has attributed the over expenditure to the settlement of award in a court case for a MCA while the finance cost relates to withholding Value Added Tax (VAT) of 6%.

Non-adherance to the budget affected the planned activities and may have impacted negatively on service delivery to the public.

369. Other Pending Payables

As disclosed under Note 5.10 - Other Important Disclosures and Annexure 3 to the financial statements, the County Assembly had outstanding pending bills balance of Kshs.29,289,892 comprising of Kshs.9,591,024 and Kshs.19,698,868 due to the Assembly Staff Car and Mortgage Fund and Assembly MCA Car and Mortgage Fund respectively as at 30 June, 2019.

However, a review of the previous year's report indicated that an amount of Kshs.81,128,709 constituting Kshs.73,529,415 and Kshs.7,599,294 for the Assembly MCA Car and Mortgage Fund and the Assembly Staff Car and Mortgage Fund respectively, had remained outstanding at the end of the year. However, during the year under review an amount of Kshs.4,484,276 was remitted. From the foregoing, the

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outstanding balance ought to have been Kshs.76,644,433 and not the balance of Kshs.29,289,892 reported in the financial statements.

In absence of any reconciliation between the two records, it was not possible to ascertain accuracy of other pending payables balance of Kshs.29,289,892 reported.

370. Outstanding Imprests

Note 10 to the financial statements indicates that the Assembly had outstanding imprests amounting to Kshs.464,000 as at 30 June, 2019. No explanation was provided why the amount still remained unaccounted for in contravention of Regulation 93(5) of the Public Finance Management (County Governments) Regulations, 2015) which requires a holder of a temporary imprest to account or surrender it within seven (7) working days after returning to duty station.

371. Prior Year 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 for failure to adhere to the provisions of the Public Sector Accounting Standards Board and the National Treasury Circular Ref: PSASB/1/12/VOL 1(44) of 25 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

372. Acquisition of Assets

372.1 Purchase of Motor Vehicle and Other Transport Equipment

Note 7 to the financial statements reflects acquisition of assets balance of Kshs.103,380,386 which includes an amount of Kshs.10,942,500 paid in respect of purchase of motor vehicles and other transport equipment. Out of this, the Management procured a 33-seater luxury bus at a total cost of Kshs.4,980,000 during the year from a contracted local dealer.

However, review of the tender evaluation committee's minutes dated 5 March, 2019 revealed that the supplier had been disqualified as non-responsive and was thus not subjected to technical and financial evaluation, and it was recommended that the contract be awarded to another dealer at a price of Kshs.5,455,000.

Further, another bidder was disqualified at the technical evaluation stage on the grounds that the submitted bid indicating HINO brand instead of Isuzu make. The user technical specifications did not restrict the model. In addition, the inspection and acceptance committee certificate was not availed for audit review.

This showed that the Management contravened Section 80(1) of the Public Procurement and Asset Disposal Act, 2015 that requires the Evaluation Committee to

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evaluate and compare the responsive tenders and Section 48(1 & 3) which requires the Accounting Officer to establish an inspection and acceptance committee to inspect and review the goods, works or services in order to ensure compliance with the terms and specifications of the contract.

372.2 Refurbishment of Speaker's Residence

The above balance includes an amount of Kshs.9,403,426 paid in respect of refurbishment of buildings. Out of this, the Assembly awarded a contract to a local contractor to refurbish the Speaker's residence at a cost of Kshs.1,984,060. However, the engineer's estimates and procurement documents were not availed for audit review. Audit verification procedure planned on the site could not be done due to non-cooperation from the client. As a result, it was not possible to ascertain whether value for money was achieved in the application of the refurbishment expenditure.

372.3 Delayed Construction of Office Block

The balance further includes an amount of Kshs.77,181,965 paid in respect of construction of buildings as part of contract awarded to a local contractor at a contract sum of Kshs.447,768,217. The contract was to be carried out in eighteen (18) months with expected completion date of May, 2018 but which was later revised to one hundred and twenty seven weeks (127) weeks pushing the completion period to 13 May, 2019.

However, documentation for application and approval of a revised completion date in line with the provisions of Section 139(2) of the Public Procurement and Asset Disposal Act, 2015 which requires an Accounting Officer of a procuring entity, on the recommendation of an evaluation committee, to approve the request for the extension of contract period accompanied by a certificate from the tenderer was not provided for audit verification.

Consequently, Management was in breach of the law.

373. Use of Goods and Services

373.1 Hospitality Supplies and Services

As disclosed under Note 4 to the financial statements, included in the use of goods and services balance of Kshs.461,012,872 is a hospitality supplies and services expenditure amounting to Kshs.260,462,788. However, examination of the expenditure revealed the following anomalies:

373.1.1 Misallocation of Funds to Foreign Travel and Subsistence

Review of payment records revealed that Kshs.43,697,320 of funds budgeted under hospitality supplies and services were applied towards foreign travel and accommodation without evidence of request and subsequent approval of the re-allocations by the County Treasury.

This was in contravention of Section 154(2b) of the Public Finance Management Act, 2012 which provides that an Accounting Officer may re-allocate funds, in the budget

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for a financial year, but only if a request for the re-allocation has been made to the County Treasury has been approved.

373.1.2 Unauthorised Transfer of Funds

In addition, the Assembly paid Kshs.5,000,000 to the County Assemblies Forum being annual subscription for the 2018/2019 financial year under hospitality and supplies vote. However, review of the approved budget revealed that the expenditure was not budgeted for.

Consequently, the Management contravened Regulation 43(2) of the Public Finance Management (County Governments) Regulations, 2015 that requires a County Government entities to execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan with the exception of unforeseen and unavoidable spending dealt with through the County Emergency Fund or supplementary estimates.

Consequently, the Management is in breach of the law.

373.1.3 Irregular Overpayment of Travel and Subsistence Allowances

Included in the figure of hospitality and supplies are payments towards travel and subsistence for MCAs and staff totalling Kshs.65,415,110 out of which there was an overpayment of Kshs.57,376,570 arising from payment of subsistence allowance for activities carried out within the County Headquarters or application of wrong subsistence rates. In addition, some payments were not properly supported with either participants' invitation letters, approval documents, stamped foreign travel documents, original work tickets, signed attendance registers, original receipts or activity reports.

This showed that, Management failed to comply with the provisions of Regulation 93(3) of the Public Finance Management (County Governments) Regulations, 2015 which provides that temporary imprests be issued mainly in respect of official journeys and are intended to provide officers with funds with which they can meet travelling, accommodation and incidental expenses. Further, the Assembly did not adhere to the rates as provided by SRC Circular No.SRC/ADM/CIIR/1/13VOL.IV(1) of 20 November, 2017 that reviewed rates and cluster classification for all the cadres in County Public Service.

Consequently, the Management is in breach of the law.

373.2 Other Operating Expenses

As disclosed under Note 4 to the financial statements, included in the use of goods and services balance of Kshs.461,012,872 are other operating expenses of Kshs.94,068,180 However, review of records revealed the following:

373.2.1 Irregular Payment of Task Force Allowance

The Management incurred an amount of Kshs.531,300 in respect of allowances to members of a task - force composed of own staff to audit paid and pending hotel bills. However, the allowances were calculated using wrong rates leading to overpayment

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of Kshs.315,300. Further, it was noted that the taskforce terms of reference included routine tasks that could have been performed by internal auditors within their normal work. Further, the task force report was not availed for audit verification.

This is contrary to the provisions of Circular No. MSPS.2/1A.VOL.XLVOL.III/(119) dated 2 August, 2013 issued by the Ministry of Devolution and Planning that states that taskforces can only be appointed with clear justification and assigned tasks that are not routine in nature as well as the Salaries and Remuneration Commission (SRC) Circular No. SRC/ADM/CIR/1/13(122) of 16 April, 2014 which specifies the rates for payments of allowances to members of a task force.

373.2.2 Irregular Payment

Examination of records indicate that Management paid sitting allowances amounting to Kshs.674,000 to the members of the County Assembly Service Board for internal sittings on 26 June, 2019. The payment was for two (2) sittings in February, 2019, five (5) sittings in March, 2019 and one (1) sitting by Chair and Secretary as required. The meeting held on 26 February, 2019 had no substantive agenda while the meeting held on 12 March, 2019 was held without prior notice and had no minutes and thus contravening Regulation 104(1) of Public Finance Management (County Governments) Regulations, 2015 which requires that all receipts and payment vouchers of public moneys to be properly supported by pre-numbered receipts and payment vouchers and authorised by the appropriate authority.

Further, two (2) County Assembly Service Board (CASB) members were paid a commuter allowance of Kshs.10,000 per sitting for 16 sittings totalling Kshs.320,000 in contravention of Clause 4 of the circular referenced SRC/TS/CGOVRT/3/61 Vol. IV (49) dated 8 December, 2017 that nullified the earlier provisions by letters and or circulars on remuneration packages for part time/external members of CASB, including the commuter allowance at the rate of Kshs.10,000 per sitting.

In the circumstances, the Management was in breach of SRC circulars.

374. Compensation of Employees

374.1 Irregular Basic Salary and Allowances

Note 3 to the financial statements reflects compensation of employees' balance of Kshs.302,663,670 which includes an amount of Kshs.285,456,410 paid in respect of basic salaries of permanent employees.

Out of this, Management paid a total of Kshs.3,211,000 to an external member of the County Assembly Service Board (CASB) as basic salary and allowances for the period between July, 2017 and October, 2018, the period within which the petition against her dismissal/appointment was being considered.

The first term of the member elapsed on 8 August, 2017, the day of the General Elections in line with Section 48(2) of the County Assembly Services Act, 2017 which provides that external members shall continue to serve as members of the CASB upon commencement of the Act on 27 July, 2017 and before the first General Elections held on 8 August, 2017.

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There was thus no basis for such payment since her term ended with the General Elections of August, 2017 and her new appointment commenced in 24 October, 2018 after the petition against her was dispensed with by the High Court of Kenya at Bungoma with express orders that each party should bear their own costs.

Consequently, Management was in breach of the law.

374.2 Management of Employee Pensions

A review of the County Assembly's payroll revealed that twenty (20) employees engaged on permanent and pensionable terms were not members of any pension scheme as at September, 2018 in contravention of Section 26 of the County Assembly Services Act, 2017, which requires the County Assembly Services Board to establish a contributory pension scheme for all its employees. Further, the employees were not contributors to National Social Security Fund. Thus, the Assembly was in breach of Section 19(1) and (5) of the NSSF Act, 2013 which requires every employer, who under a contract of service, employs one (1) employee or more to register with the Fund as a contributing employer and further register the employees as members of the Fund.

The Management did not make provisions for the Ward office staff gratuity amounting to Kshs.2,812,320 in the year under review and yet the letter of appointments for Ward office staff provides that the successful candidates are entitled to a gratuity payment at the end of their engagement period.

Consequently, Management was in breach of the law.

374.3 Failure to Deduct PAYE Tax

The county Assembly has a memorandum of understanding with the Local Authority Pension Trust Fund (LAPFUND) to manage MCA gratuities and make monthly transfers. However, the Management paid Kenya Revenue Authority a total of Kshs.4,507,963 for tax and penalty on non-remitted tax on gratuity. It is not clear why the penalty was not paid by LAPFUND given that they have the full delegated responsibility over the management of the gratuity.

In the circumstances, the value for money on the expenditure of Kshs.4,507,963 to KRA.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

375. Fixed Asset Register

Annexure 4 on the summary of fixed asset register reflects assets totalling Kshs.531,744,677 as at 30 June, 2019. However, the Management did not avail an updated asset register for audit verification. As a result, it was not possible to ascertain the nature, number, physical location and fair value of the Assembly's assets.

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Consequently, I am unable to confirm whether there are effective measures to safeguard assets.

376. Internal Audit Function

The Audit Committee had not developed, communicated and implemented a risk management policy and framework.

Consequently, the internal audit function did not effectively discharge its management oversight role.

377. Information and Communication Technology Control Environment

Review of governance documents and interviews with the Management revealed the following significant weaknesses in the Information and Communication Technology (ICT) control environment;

- Non-establishment of an ICT Strategic Committee at the Board Level.
- Non-establishment of an ICT Strategic Plan.
- Roles and responsibilities for each ICT function not defined.
- There is no process in place to ensure up-to-date security on all systems software including patch management process, only manual methods are used.
- There is no formal change request documentation completed indicating the change to be made and the reasons for all changes to the financial systems for any system upgrades.
- No documented and tested emergency procedure has been put in place.
- The entity does not have an ICT Continuity and Disaster Recovery Plan.
- No Back-Up and Retention Strategy.
- No online back-ups in place. Back-ups are not secured in an offsite storage facility.

As a result, the Assembly's ICT infrastructure and resources are not managed in line with the best practices.

378. Management of Ward Office Operations

Field visits to twenty-six (26) out of forty-five (45) wards during the period under review revealed the following anomalies in the management of the Ward Operations Fund;

- Failure by the Ward managers to engage the department of lands, housing and urban development in estimating the market lease/rent rates for the occupied offices. In addition, no lease/rent agreements for the visited offices were availed for audit verification.

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- Non-adherence to the County Service Board circular on the staffing of Ward offices. While the circular set the maximum number of staff at three (3), most of the Wards engaged extra staff without appropriate authority.

- Failure to withhold rental income tax at the rate of 10% as required.

- Failure to remit NHIF and NSSF contributions on a monthly basis for all employees. The County Assembly did not remit NSSF contributions, employees' or employer's share, in respect of the 135-ward staff for the year under review, amounting to Kshs.648,000.

In the circumstances, I am unable to confirm existence of effective internal controls on the ward operations.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

379. Unsupported Cash and Cash Equivalents

The statement of financial assets and liabilities reflects cash and cash equivalents balance of Kshs.22,813,770. However, Management did not support the figure with cashbook, certificates of bank balance and bank reconciliation statements.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.22,813,770 could not be confirmed.

380. Inaccuracy of Accounts Receivables

As disclosed under Note 10 to the financial statements, the statement of financial assets and liabilities reflects accounts receivables amount of Kshs.29,053,263. Included in the amount is a salary advance amount of Kshs.13,670,963 which differs with the salary advance schedule of Kshs.12,595,789 resulting to unreconciled variance of Kshs.1,075,174.

Consequently, the accuracy and completeness of the accounts receivables amount of Kshs.29,053,263 reflected in the statement of financial assets and liabilities as at 30 June, 2019 could not be confirmed.

381. Unsupported Accounts Payables - Deposits and Retention

As disclosed under Note 11 to the financial statements, the statement of assets and liabilities reflects accounts payable – deposits and retention balance of Kshs.16,160,651. However, Management did not avail supporting schedules for audit review.

Consequently, the accuracy, completeness and validity of the accounts payable – deposits and retention balance of Kshs.16,160,651 reflected in the statement of assets and liabilities as at 30 June, 2019 could not be confirmed.

382. Unsupported Compensation of Employees

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflects compensation of employees amount of Kshs.372,276,888 which includes personal allowances paid as part of salary of Kshs.39,685,813. The supporting schedules provided indicate sitting allowances amount of Kshs.124,688,259 resulting to an unreconciled difference of Kshs.85,002,446.

Consequently, the accuracy, completeness and validity of the compensation of employees amount of Kshs.372,276,888 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

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383. Unsupported Use of Goods and Services

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects use of goods and services amount of Kshs.321,900,305. The balance includes domestic travel and subsistence payments amounting to Kshs.2,209,010 which were not supported by documents such as imprest warrants, attendance schedules, bus/work tickets, invitation letters, advertisement notices, list of officers who benefited, appointment of members of evaluation committees as well as minutes of the committee's meetings, contract agreement, notification of award, professional opinions and reports.

Further the balance includes insurance costs of Kshs.29,876,200. Included in the insurance costs expenditure are payments of Kshs.1,729,700 which did not relate to insurance costs.

Consequently, the accuracy, completeness and validity of the domestic travel and subsistence payments amounting to Kshs.2,209,010 reflected in the statement of assets and liabilities as at 30 June, 2019 could not be confirmed.

384. Unsupported Social Security Benefits

As disclosed under Note 6 to the financial statements, the statement of receipts and payments reflects social security benefits of Kshs.22,165,792. However, Management did not avail payment vouchers other supporting documents in support of expenditure for audit review.

Consequently, the accuracy, completeness and validity of the social security benefits of Kshs.22,165,792 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

385. Unsupported Procurement

Management procured iPads, laptops, desktops and training for Members of County Assembly (MCAs) from a local company at a contract sum of Kshs.9,665,600. However, procurement documents and stores records were not provided for audit review.

Consequently, the accuracy, completeness and validity of the procurement amounting to Kshs.9,665,600 as at 30 June, 2019 could not be confirmed.

Other Matter

386. Pending Payables

The County Executive had pending accounts payables totalling Kshs.155,214,841 as disclosed under Note 5.10(1, 2 and 3), which have been carried forward to 2019/2020 financial year.

Failure to settle accounts payables in the year to which they relate adversely affects the following year's budget provision to which they have to be charged.

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387. Prior Year 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. Although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the Senate has not deliberated on the same.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

388. Long Outstanding Imprests

As disclosed under Note 10 to the financial statements, the imprests balance of Kshs.15,382,300 includes outstanding imprest amount of Kshs.15,203,300, held by staff for more than six (6) months after the due dates had lapsed. This was contrary to the provisions of Regulation 93 (5) of the Public Finance Management (County Governments) Regulations, 2015 which provides for accounting and surrender of imprest within seven (7) working days after returning to the duty station. Further, Management has not explained measures it has taken to recover the amounts as required by Regulation 93(6) of the Public Finance Management (County Governments) Regulations, 2015 which provides for the Accounting Officer to take immediate action to recover the full amount from the salary of the defaulting officer with interest at the prevailing Central Bank rate.

Consequently, Management was in breach of the law.

389. Non-Compliance with One Third Basic Salary Rule

Review of the payrolls revealed that net salary of sixty-one (61) employees fell below 1/3 of the basic salary. This was against provisions of Section 19(3) of the Employment Act, 2007 which requires that deductions made by an employer from the wages of an employee at any one time shall not exceed two thirds of such wages.

Consequently, Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

390. Weak Controls in Management of Salary Advances

The County Assembly's records indicated that outstanding salary advances as at 30 June, 2019 amounted to Kshs.13,670,963. However, it was noted that part of this amount was owned by the MCAs and staff members who were issued with salary advances in excess of their respective two months' basic salaries. In addition, the salary advance ledger was not updated and the initial amounts issued could not be ascertained.

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As a result, effectiveness of controls over salary advances including overall governance could not be confirmed.

391. Payment of Salaries Through Manual Payroll

Included in the compensation of employees expenditure of Kshs.386,109,748 are salaries amounting to Kshs.14,422,415, which were paid through the manual payroll instead of the Integrated Payroll and Personnel Database (IPPD).

In the circumstances, effectiveness of adequate controls over manual payroll could not be confirmed.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

392. Misstatement of Cash and Cash Equivalents

The statement of financial assets and liabilities reflects cash and cash equivalents figure of Kshs.4,515,657. The list of unpresented cheques as at 30 June, 2019 included a payment to the County Assembly of Siaya of Kshs.380,000 which was not reported as part of either receivables or part of cash and cash equivalents as at 30 June, 2019.

Consequently, the accuracy of the cash and cash equivalents balance of Kshs.4,515,657 reflected in statement of financial assets and liabilities as at 30 June, 2019 could not be confirmed.

393. Inaccurate Statement of Cash Flows

The statement of cash flows reflects nil balance for cash and cash equivalents at the beginning of the year which differs with the prior year balance of Kshs.115,873. The statement of cash flows also reflects nil adjustment for change in accounts payables which differs with the statement of financial assets change in accounts payables of Kshs.4,174,040. Further, the statement of cash flows reflects cash and cash equivalents at the end of the year of Kshs.254,617 which differs with the cash and cash equivalents figure of Kshs.4,515,657 reflected in the statement of financial assets and liabilities resulting to an unreconciled variance of Kshs.4,261,040.

Consequently, the accuracy of the statement of cash flows for the year ended 30 June, 2019 could not be confirmed.

394. Inaccurate Fund Balance Brought Forward

The statement of financial assets and liabilities reflects a fund balance brought forward of Kshs.87,000 which differs with the prior year balance carried forward of Kshs.115,873 resulting to unreconciled variance of Kshs.28,873.

Consequently, the accuracy of the fund balance brought forward of Kshs.87,000 reflected in the statement of financial assets and liabilities as at 30 June, 2019 could not be confirmed.

395. Unsupported Foreign Travel and Subsistence Allowances

The statement of receipts and payments reflects use of goods and services payments of Kshs.312,939,083 which includes an expenditure of Kshs.9,901,720 spent on foreign travel and subsistence allowances which further includes an amount of Kshs.6,818,172 paid to Members of the County Assembly (MCAs) and the secretariat to attend a benchmarking training at the Lake Victoria Fisheries Organization in Jinja, Uganda from 1 to 15 February, 2019. However, the payment was not supported by

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payment vouchers, authority and approval of payment, an official invitation letter from the host organization and with the necessary travel documents.

Consequently, the accuracy, completeness and authenticity of the foreign travel and subsistence allowances amount of Kshs.6,818,172 for the year ended 30 June, 2019 could not be confirmed.

396. Unsupported Domestic Travel and Subsistence

As disclosed under Note 5 to the financial statements, the statement of receipts and payments, and reflects an amount of Kshs.312,939,083 in respect of use of goods and services which includes an amount of Kshs.137,507,322 relating to domestic travel and subsistence. However, the amount includes cash payments amounting to Kshs.4,368,000 which was not supported with documentation for the activities undertaken.

Further, the domestic travel and subsistence amount of Kshs.137,507,322 includes payments to staff amounting to Kshs.6,910,440 which were expensed at the point of payment instead of holding the amount in an imprest account pending surrender by the respective officers.

In addition, domestic travel and subsistence includes payments to MCAs and staff amounting to Kshs.3,703,200 for an activity that was to be undertaken after the closure of the financial year. The payments were however, expensed at the point of payment instead of being held in an imprest account pending surrender by the respective officers. Review of documents availed in support of the expenditure revealed that the activities were undertaken in Kisumu for two (2) days with thirty-two (32) participants attending on the first day and twenty two (22) participants attending on the second day. This was against the planned activity of a team of 52 participants attending the function for two (2) days, and payment of allowances for two days instead of the one day attended.

In the circumstances, the accuracy and completeness of the domestic travel and subsistence expenditure of Kshs.137,507,322 for the year ended 30 June, 2019 could not be confirmed.

397. Mis-statement of Accounts Receivables

The statement of financial assets and liabilities reflects nil balance for accounts receivables. However, Note 14 to the financial statements reflects accounts receivables balance of Kshs.341,618 resulting to unreconciled negative difference of Kshs.341,618.

Consequently, the accuracy and completeness of the accounts receivables balance of Kshs.341,618 reflected in the statement of financial assets and liabilities as at 30 June, 2019 could not be confirmed.

398. Unauthorized Expenditure on Domestic Travel and Subsistence

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects an expenditure on domestic travel and subsistence allowances of Kshs.137,507,322 which was over and above the budgetary allocation of

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Kshs.122,129,167 by Kshs.15,378,155. The over expenditure was not approved and budgeted for.

399. Irregular Payment to County Assembly Forum (CAF)

Further, the expenditure constitutes an expenditure of Kshs.312,939,083 which includes other operating expenses of Kshs.34,704,231. However, the other operating expenses included an amount of Kshs.5,000,000 paid to the County Assemblies Forum (CAF) without any documentation to support the validity of the payment.

Consequently, the Management was in breach of the law.

Other Matter

400. Budgetary Control and Performance

The County Assembly revenue was budgeted at Kshs.1,151,527,437 against actual receipts of Kshs.702,886,378, representing an overall under collection of Kshs.448,641,059 or 39%. This was mainly due to non-receipt of the Exchequer releases for the development. Further, the Management spent Kshs.702,631,761 against a budget of Kshs.1,151,527,437 representing under expenditure of Kshs.448,895,676 or 39%. It was further noted that the Management only utilized Kshs.54,230,174 out of the budgeted amount of Kshs.462,871,230 for the development vote resulting to under absorption of 88%.

Under absorption of the budget meant that planned activities were not carried out and service delivery to the public may not be carried out as planned.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis of Conclusion

401. Stalled Projects

401.1 Construction of Assembly Complex

The County Assembly budgeted Kshs.462,871,230 during the financial year 2018/2019 for development expenditure. This included an amount of Kshs.178,520,000 for the construction of an Assembly building and Kshs.30,000,000 for land compensation for the Assembly complex. However, the project did not take off due to a land disputes still pending in court. Physical verification of the project revealed that the contractor had delivered construction materials including sand, ballast, metal bars, and stones but discontinued the construction works due to the land dispute.

401.2 Construction and Supervision of Speaker's Residence

The County Assembly budgeted Kshs.462,871,230 during the financial year 2018/2019 for development expenditure. This included an amount of Kshs.121,071,630 for the construction of Speaker's residence and an amount of

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Kshs.4,000,000 for land compensation for the Speaker's residence. However, the project is yet to commence due to delayed allocation of the parcel of land by County Executive of Siaya for the construction of the residence.

Consequently, the County Assembly is at risk of incurring additional costs due to delay in progress of work and litigations.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

402. There were no material issues relating relating to effectiveness of internal controls, risk management and governance.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

403. Use of Goods and Services

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.343,723,810 in relation to use of goods and services. However, a review of the expenditure under the various components revealed the following unsatisfactory matters: -

403.1 Irregular Payment of Honoraria Allowances

The balance constitutes Kshs.38,251,659 in respect of other operating expenses which includes Kshs.12,167,466 paid out as honoraria allowances to staff involved in budget preparations. It was noted that the activity is part of their day to day responsibilities as the officers drew salaries as compensation for their services thereby occasioning double compensation.

403.2 Irregular Rental Expenditure

The balance includes payments on rentals of produced assets amounting to Kshs.42,315,009. This includes Kshs.24,921,000 as rents and Kshs.17,394,009 in respect of operations for ward administration. Although the Management made payments for the premises during the year ended 30 June, 2019, no lease and contract agreements signed between County Assembly and landlords in the various Wards were availed for audit review.

In circumstances, the accuracy and validity of the expenditure of Kshs.42,315,009 could not be confirmed.

Other Matter

404. Budgetary Control and Performance

The statement of comparison of budget and actual amounts: recurrent and development combined indicated that the Management did not utilize anything under the approved development budget of Kshs.50,759,125 under acquisition of assets. Management has attributed this to lack of Exchequer releases as no development Exchequer was issued from the County Treasury. Non-release of the approved estimates and under expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

405. Pending Bills

Annex 1 to the financial statements reflects pending bills amounting to Kshs.6,139,091 as at 30 June, 2019. Management has not provided reasons for non-payment of the bills. Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year where the pending bills should form a first charge.

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406. Unresolved Prior Year Matters

The audit report of the previous year raised several issues 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 indicated how the issues have been resolved contrary to provisions of the International Public Sector Accounting Standards, IPSAS 24 and the reporting template prescribed by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

407. Unutilized Lease of Office Premises

The Management leased additional offices at a private building in Kisumu City in preparation for renovations to the currently occupied office premises. The Management entered into lease agreement on 9 May, 2018 at a monthly rent and service charge at Kshs.962,490 and Kshs.237,510 respectively. However, the County Assembly was yet to occupy the leased offices sixteen (16) months since the lease agreement was signed. The premises continued to attract rent which had amounted to Kshs.19,200,000 as at 30 June, 2019. Failure to occupy the premises amounts to wasteful utilization of public resources as the rent and any other charges accruing continue to accumulate. Further, the outstanding amount of Kshs.19,200,000 has not been disclosed in the financial statements.

The public stands to lose the above Kshs.19,200,000 which is billing from the date of signing the contract despite the County Assembly not occupying the leased premises.

In the circumstances, this is not proper charge to public resources.

408. Compensation of Employees

408.1 Non-Compliance the Law on Fiscal Responsibility – Wage Bill

As disclosed under Note 2 to the financial statements, the statement of receipts and payments reflects compensation of employees' expenditure of Kshs.269,731,741 which accounted for thirty-nine (39%) percent of the total receipts of Kshs.684,802,036. This is above the thirty-five (35%) percent limit provided for under Section 25(1) of the Public Finance Management (County Governments) Regulations, 2015.

408.2 Non-Compliance with Law on Ethnic Composition

Review of the payroll revealed that ninety-seven (97%) percent of the employees were from the dominant ethnic community of the County. This is contrary to Section 7(1) of the National Cohesion and Integration Commission Act, 2008 which requires that all public establishments seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.

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In the circumstances, the Management is in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

409. Non-Issue of Imprest Warrant to Officers

As disclosed under Note 9 to the financial statements, the statement of assets and liabilities reflects nil balance under account receivables. However, a review of the imprest accounts revealed huge cash and cheques payments to the Clerk of the County Assembly for payments of subsistence allowances on behalf of MCAs and staff of the County Assembly. It was not clear why the officers were not issued with individual imprest warrants to account for their individual expenditure upon surrender of the imprest.

In the circumstance, I am unable to confirm existence of measures in place to control expenditure of imprest including governance.

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Basis for Adverse Opinion

410. Payments Outside Integrated Financial Management Information System (IFMIS)

The statement of receipts and payments reflects total payments of Kshs.890,115,880. The balance however includes expenditure amounting to Kshs.17,592,055 which represents payments made outside IFMIS. The Management did not provide satisfactory explanation for paying outside the designated system.

In the circumstances, the completeness and accuracy of the total payments figure of Kshs.890,115,880 reflected in the statements of receipts and payments for the year ended 30 June, 2019 could not be ascertained.

411. Inaccurate Bank Balances

As disclosed under Note 8 to the financial statements, the statement of financial assets and liabilities reflects a bank balance of Kshs.590,189 held in two (2) bank accounts at the Central Bank of Kenya and one (1) each at Equity Bank and Cooperative Bank. However, a review of two (2) operations accounts held in the above two (2) commercial banks revealed that the Management had an undisclosed bank overdraft of Kshs.48,527,404 which has not been authorized and approved.

Further, the two (2) accounts figures under Note 8 to the financial statements of Kshs.40,669 differed significantly with the cashbook figures of Kshs.48,527,403 resulting to an unreconciled variance of Kshs.48,486,754.

Consequently, the validity, accuracy and completeness of the bank balance of Ksh.590,189 reflected in the statement of financial assets and liabilities as at 30 June, 2019 could not be confirmed.

412. Unsupported Transfers to Other Government Entities

As disclosed under Note 6 to the financial statements, the statement of receipts and payments reflects transfers to other government entities of Kshs.28,000,000. However, the Management did not provide, for audit review, supporting documents to confirm the transfer.

Consequently, the accuracy, validity and completeness of the transfers of Kshs.28,000,000 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

413. Variance Between - Compensation of Employees Integrated Payroll and Personnel Data (IPPD) and Financial Statements

As disclosed under Note 2 to the financial statements, the statement of receipts and payments reflects compensation of employees' balance of Kshs.450,377,925. However, the balance under various sub-components amounting to Kshs.207,225,947

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differed with the figure as per the IPPD of Kshs.126,085,394 resulting to unreconciled variance of Kshs.81,140,553.

Further, on a comparable basis, compensation of employees increased from Kshs.366,778,923 in the year 2017/2018 to Kshs.450,377,925 resulting to a net increase of Kshs.83,599,002 or 23% in the financial year under review without explanation. The Management did not provide, for audit review an approved staff establishment.

Consequently, the accuracy, completeness and validity of compensation of employees balance of Kshs.450,377,925 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

414. Unsupported Committee Allowances

Included in the compensation of employees' expenditure of Kshs.450,377,925 is an amount of Kshs.242,699,136 which was paid in respect of personal allowances. Examination of records however indicates that an amount of Kshs.5,341,100 relates to amounts paid as special committee allowances to sixty (60) Members of the County Assembly (MCAs). Management did not avail any gazette notice calling for the meeting.

Further, the attendance register revealed that twenty-eight (28) MCAs were also paid the special sitting allowance although they were absent contrary to Regulation 104(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that, "all receipts and payment vouchers of public moneys shall be supported by sufficient pre-numbered receipt and payment vouchers and by the appropriate authority and documentation".

Consequently**,** the propriety of compensation of employees' expenditure of Kshs.242,699,136 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

415. Unsupported Use of Goods and Services

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflects expenditure amounting to Kshs.407,065,608 in respect of use of goods and services. The expenditure constitutes hospitality, supplies and services of Kshs.22,850,184, training expenses of Kshs.31,895,495 and other operating expenses of Kshs.106,003,566 which were not supported by sufficient documentation such as procurement details and documents for training consultancies, training attendance registers and programs.

Consequently, the accuracy, completeness and validity of use of goods and services of Kshs.160,749,245 reflected in the statement of receipts and payments for the year ending 30 June, 2019 could not be confirmed.

Other Matter

416. Budgetary Control and Performance

The summary statement of appropriation: recurrent and development combined reflects approved receipts budget and actual on comparable basis of Kshs.960,770,261 and Kshs.890,623,273 respectively resulting to a shortfall of

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Kshs.70,146,988 or 7% of the approved budget. Similarly, the statement reflects an approved expenditure budget and actual on comparative basis of Kshs.960,770,261 and Kshs.890,115,880 respectively resulting to an overall under expenditure of Kshs.70,654,382 or 7% of the budget. Although the under collection and under expenditure are minimal, a review of the individual vote and components revealed that the Management made transfers to operations account of Kshs.28,000,000 without a budget thereby occasioning an unauthorized expenditure under the recurrent Vote while under the development vote only an expenditure of Kshs.32,159,947 out of approved budget of Kshs.102,754,457 was utilized resulting to an under expenditure of Kshs.70,594,510 or 68.7% of the budget.

The under expenditure on development budget may have impacted negatively on service delivery to the residents of the County in the achievements of some of the core objectives of the County Assembly and denied the residents efficient and effective service delivery.

417. Prior Year Unresolved Issues

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, although the Management has indicated that some issues have been responded to while others are awaiting feedback, the matters have remained unresolved as the Senate has not deliberated on the same.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

418. Non-Compliance with the Law on Fiscal Responsibility – Wage Bill

The statement of receipts and payments reflects compensation of employees of Kshs.450,377,925 which is 51% of the total receipts of Kshs.890,623,273. This is contrary to Regulation 25(b) of the Public Finance Management (County Governments) Regulations, 2015 which requires that the wage bill should not exceed thirty-five (35%) percent of the total revenue of the County.

Consequently, the Management is in breach of law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

419. Lack of Finance Policy Manual

The Management had not developed a finance policy manual to guide the operations of the finance department. Hence, the County Assembly lacks clear guidelines on exercising prudent financial management practices including budget preparation, budget execution and keeping of the books of account in a manner envisaged by the law.

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Consequently, it has not been possible to confirm the existence of effective internal controls on financial transactions.

420. Lack of Risk Management Policy

The Management had not developed a risk management policy framework to guide in identification, classification and crafting response to various risks facing the County Assembly.

In the circumstances, the Management may not be able to respond effectively in the event of a disaster or an emergency.

421. Officers not on Substantive Appointment

A review of the human resource records revealed that the Clerk and Principal Finance Officer do not have substantive appointment thus creating management challenges in the running of the County Assembly.

Consequently, some key resolutions of the County Assembly may not be implemented owing to lack of substantive appointments in senior management positions.

422. Lack of Internal Audit Committee

The Management had not constituted internal audit committee to handle emerging issues in internal auditing, develop and implement the use of innovative approaches in performing independent assessment of systems, controls and efficiencies guided by professional standards; and supporting the entities efforts to achieve their objectives as required under Regulation 167(1) of the Public Finance Management (County Governments) Regulations, 2015.

In the circumstances, the Management may face challenges in managing internal controls and overall governance.

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Basis for Qualified Opinion

423. Unsupported Expenditure – Use of Goods and Services

As disclosed under Note 7 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.373,310,630 under use of goods and services. Examination of available records revealed the following unsatisfactory matters:

423.1 Ward Operation Expenses

The balance includes an amount of Kshs.102,360,000 relating to rental of produced assets which was paid as Ward operation expenses for forty (40) County Wards. Further, an amount of Kshs.6,120,000 was allocated to seventeen (17) nominated Members of the County Assembly (MCAs) for operations. However, it was noted that the Management paid rental expenses of Kshs.30,000 per month to each nominated MCA while each elected MCA was paid at flat rate of Kshs.200,000 per month. The expenditure was not supported with any verifiable and relevant documents.

423.2 Unsupported Domestic Travel and Subsistence Expenses

Further, the balance includes payments amounting to Kshs.139,291,382 relating to domestic travel and subsistence allowances which includes an expenditure of Kshs.27,643,934 that was not supported with relevant documentation such as work tickets, evidence of travel in form of bus work-tickets, attendance registers, minutes of meetings attended, work plan and work programmes.

423.3 Other Operating Expenses

In addition, the balance includes payments amounting to Kshs.17,115,832 relating to general operating expenses which were also not supported with relevant documents.

Consequently, the completeness, accuracy and validity of the use of goods and services of Kshs.373,310,630 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

424. Unreconciled Balances - Compensation of Employees

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.375,253,889 under compensation of employees. The balance includes an amount of Kshs.15,778,400 which was paid through manual payment vouchers outside the recommended Integrated Payroll and Personnel Data (IPPD) system in respect of committee allowances arrears and plenary sittings top-up.

Further, the balance includes payments relating to pension and social security contributions balance of Kshs.25,041,177. The Management produced schedules totalling Kshs.25,049,179 in support of the expenditure, resulting in an unexplained variance of Kshs.8,002. In addition, the approved supplementary budget reflects an amount of Kshs.17,826,768 for pension and other social security contributions while

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the actual expenditure is Kshs.25,041,177 leading to an over-expenditure of Kshs.7,214,409, which was not satisfactorily explained.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.375,253,889 on compensation of employees reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

425. Accuracy of the Financial Statements

A review of financial statements revealed significant variances between the Integrated Financial Management Information System (IFMIS) figures and the financial statements. The statement of receipts and payments reflects total receipts of Kshs.989,82,265 while IFMIS records reflected a balance of Kshs.790,000,000 resulting to an unreconciled balance of Kshs.199,282,265. Similarly, the statement of receipts and payments reflects total payments of Kshs.945,900,493 while IFMIS records reflected a balance of Kshs.841,199,796 resulting to an unreconciled balance of Kshs.104,700,697. Management has not reconciled the differences between the two sets of reports.

Further, whereas the statement of receipts and payments for the County Executive of Migori reflects transfers to the County Assembly of Migori of Kshs.963,407,108, the amount differs with the Exchequer receipts of Kshs.928,127,065 reflected as transfers from the County Treasury received by the County Assembly during the year resulting to unreconciled variance of Kshs.35,280,043.

Consequently, the completeness and accuracy of the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

Other Matter

426. Pending Payables (Bills)

Disclosed under Note 5.10 to the financial statements are pending accounts payables of Kshs.107,393,379 as at 30 June, 2019, which were not settled during the year under review but were carried forward to the 2019/2020 financial year. Management has not explained the cause of the outstanding bills and measure it has putting in place to deter the accumulation of pending bills.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

427. Budgetary Control and Performance

The County Assembly had an approved budget of Kshs.438,857,522 and Kshs.100,000,000 on compensation of employees and acquisition of assets respectively, against actual expenditure of Kshs.375,253,889 and Kshs.78,486,603 leaving Kshs.63,603,633 or 14% and Kshs.21,511,397 or 22% as under expenditure or 14%.

The under absorption of the approved budget is an indication of activities not implemented by the County Assembly leading to non-provision of services to the residents of the County.

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428. Unresolved Prior Year Matters

In the audit report of the previous year, a number of issues were raised under the Report on Financial Statements. However, Management has not resolved the issues nor disclosed the prior year matters as provided by the Public Sector Accounting Standards Board templates and by The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

429. Failure to utilize Completed Projects

During the year under review, the Management undertook twenty-one (21) projects with a total cost outlay of Kshs.104,734,116. However, physical verification revealed the status as indicated in the attached **Appendix I.**

Although the twenty-one (21) projects' status were indicated as complete, fourteen (14) had not been commissioned, an indication that the facilities were not being used.

Consequently, the value for money has not been fully realized with regard to the expenditure of Kshs.104,734,112 on the projects.

430. Acquisition of Assets

The acquisition of assets expenditure of Kshs.78,488,603 includes an amount of Kshs.3,823,903 which was paid for the construction of the County Assembly Prefabs Buildings - Container House by a contractor while an amount of Kshs.8,633,736 was paid for the architectural design of Speaker's residence. However, the inspection and acceptance certificate were not provided for audit.

Consequently, the regularity and value for money of the expenditure of Kshs.78,488,603 could not be confirmed.

431. Non-Compliance with the Law on Ethnic Composition

The analysis of ethnic composition of the County Assembly staff indicated that the dominant ethnic community in the County comprised 78% of the Assembly staff while the remaining 22% of the positions were held by other ethnic communities contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, "all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community".

Consequently, the Management is in breach of the law.

432. Unauthorized Expenditure

The County Assembly had an approved budget of Kshs.200,000 and Kshs.15,000,000 on finance costs and other payments-mortgages respectively against actual expenditure of Kshs.4,501,578 and Kshs.114,345,793 leading to over expenditure of

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Kshs.4,301,578 or 225% and Kshs.99,345,793 or 662%. The over-expenditures is an indication of lack of expenditure control and prudence in the use of public resources contrary to the requirements under Article 201(d) of the Constitution of Kenya.

In the circumstances, the efficiency and effectiveness in the use of public resources could not be ascertained.

433. Lack of an Approved Staff Establishment

The County Assembly did not have an approved staff establishment to indicating the authorized staffing levels during the year under review. Further, no evidence was provided to indicate that the County Assembly had carried out job evaluation to determine the staff requirements and optimum number of employees for each category. This is contrary to the provisions of Section 66 of the County Governments Act, 2012 and Section 6(3)(B) of the County Assembly Public Service Human Resource Manual that requires the Assembly to have an approved staff establishment.

In the circumstances, the Management is in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

434. Poor Controls on Cash Transactions

It was observed that the County Assembly cash office operated huge cash transactions in 2018/2019 financial year. Examination of bank statements revealed that the Management on various dates withdrew a total of Kshs.58,073,500 in cash for office use.

In the circumstances, the County Assembly is exposed to risks of fraud and theft which are inherent in cash transactions.

435. Lack of Risk Management Policy Framework

A review of risk management processes revealed that the County Assembly did not have an approved risk management policy framework during the year 2018/2019. Further, there was no documentary evidence to confirm that the Assembly had conducted a risk assessment to identify the potential risk exposure, possibility of their occurrences and the mitigating strategies.

In the circumstances, Management may not be able to respond effectively in an event of a disaster.

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Appendix I: Completed Projects Status

Nature of Work	Location	Date of Contract	Project Cost Kshs.	Operational
MCA Ward Office-Gokeharaka	Gokeharaka	1-12- 2016	5,660,950	Commissioned
MCA Ward Office-North Kanyamkago	Ayego	24-5-2016	5,674,128	Not Commissioned
MCA Ward Office-Muhuru Bay	Muhuru	4-4-2016	6,084,142	Not Commissioned
MCA Ward Office-Masaba	Masaba	2-12-2015	4,892,775	Not Commissioned
MCA Ward Office-God Jope	God Jope	16-5-2016	4,524,719	Not Commissioned
MCA Ward Office-West Sakwa	Nyatambe	16-5-2016	5,876,677	Not Commissioned
MCA Ward Office-Komosoko/ Nyamosense	Komosoko	4-4-2016	5,418,713	Not Commissioned
MCA Ward Office-Kachieng	Sori	2-12-2015	5,040,896	Commissioned
MCA Ward Office-South Kanyamkago	Uriri	4-4-2016	5,802,152	Commissioned
MCA Ward Office-West Kanyamkago	Wang-Chieng	3-5-2016	5,741,302	Commissioned
MCA Ward Office-Wasweta II	Kababu	13-6-2014	4,541,880	Commissioned
MCA Ward Office-Ntimaru West	Ntimaru Town	4-8-2014	4,588,743	Not Commissioned
MCA Ward Office-North Sakwa	Kuja	23-4-2015	4,203,258	Not Commissioned
MCA Ward Office-Makerero	Taragwiti	11-6-2015	4,168,519	Not Commissioned
MCA Ward Office-Suna Central	Next to county Assembly	21-7-2015	4,608,571	Commissioned
MCA Ward Office-Tagare	Mabera	11-6-2015	4,759,259	Not Commissioned
MCA Ward Office-Bukira East	Kehancha	11-6-2015	4,332,623	Not Commissioned
MCA Ward Office-North Kadem	Agenga	23-8-2014	4,496,751	Commissioned
MCA Ward Office-Kaler	Olasi Trading Centre	26-11-2014	4,200,615	Not Commissioned
MCA Ward Office-Nyabasi west	Nyabasi	4-4-2016	5,538,489	Not Commissioned
Completion of Macalder MCA's office	Osiri	1-6- 2015	4,578,950	Not Commissioned
Total			**104,734,112**	

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

436. Inaccuracy in Transfers from County Treasury

The statement of receipts and payments reflects opening transfers from the County Treasury of Kshs.874,401,598 instead of Kshs.988,001,598 recalculated figure as disclosed under Note 1 to the financial statements. The resultant variance of Kshs.113,600,000 was not reconciled.

Further, a review of transfers from the County Treasury reported at the beginning of the year amounting to Kshs.216,000,000 against the closing balance of Kshs.102,400,000 for financial year 2017/2018 on quarter one transfers, resulting to an unreconciled variance of Kshs.113,600,000.

Consequently, accuracy and completeness of the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

437. Unsupported Ward Office Operations Expenses

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services balance of Kshs.369,626,435. This balance includes Kshs.20,542,500 under other operating expenses, which was paid for forty-five (45) Ward operations expenses including rent for offices. However, Management did not provide, for audit review, lease agreements to support the rental payments.

Consequently, the accuracy, completeness and validity of the expenditure of Kshs.20,542,500 could not be confirmed.

Other Matter

438. Pending Bills

As disclosed under Annex 1 to the financial statements, the County Assembly had pending bills totalling to Kshs.18,194,294 as at 30 June, 2019, which were not settled during the year under review but carried forward to 2019/2020 financial year. The bills constitute payables for construction and supply of goods and services amounting to Kshs.12,695,335 and Kshs.5,499,019 respectively. Management has not explained why the bills were not settled during the year which they occurred.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

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439. Budgetary Control and Performance

Management had budgeted to receive Kshs.1,121,839,013 from the County Treasury but the actual receipts during the year under review was Kshs.987,353,127, resulting in a shortfall of Kshs.134,485,886 or 12%. In addition, the Management spent a total of Kshs.988,392,674 against a final budget of Kshs.1,121,839,013 leading to a gross under-expenditure of Kshs.131,446,339 or 12%. The under collection and under absorption imply that the planned service delivery activities may not be undertaken.

440. Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements. Although the Management has indicated that the issues have been responded to, the matters remained unresolved as the Senate has not deliberated and resolved the matters.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis of Conclusion

441. Non-Compliance with Law on Fiscal Responsibility – Wage Bill

The statements of receipts and payments reflects under compensation of employees, an amount of Kshs.453,400,221 and total receipts of Kshs.987,353,127. The compensation of employees cost accounted for forty-six percent (46%) of the receipts. This is contrary to the provisions of Regulation 25(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which limits the County Assembly`s expenditure on wages and benefits to not more than thirty five percent (35%) of its total revenue for the year.

Consequently, the Management is in breach of law.

442. Non-Compliance with Law on Ethnic Composition

During the year under review, the total number of employees of County Assembly was three hundred and fifty-five (355) out of which three hundred and forty-five (345) or 97% of the total number were members of the dominant ethnic community in the County. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, “all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community”.

Management is therefore in breach the law.

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Basis for Conclusion

443. Lack of Risk Management Policy

Management did not provide documents, for audit review, in support of existence of a risk management policy framework which should ensure that all operations are performed within the approved risk tolerance levels. Further, a documented disaster recovery plan that deals with loss of data or information in case of systems failures and to protect the Information Technology (IT) infrastructure in the event of a disaster was not availed.

Consequently, I am unable to confirm the readiness of Management in dealing with risks.

444. Lack of Approved Staff Establishment

Management did not provide, for audit review, an approved staff establishment to guide optimal staffing levels, recruitment and placement of staff.

Consequently, I am unable to confirm existence of measures to ensure governance and optimal staff levels.

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REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

445. Unsupported Compensation of Employees

As disclosed under Note 2 to the financial statements, the statement of receipts and payments reflects compensation of employees' balance of Kshs.307,739,088. However, the balance includes salaries to Ward staff amounting to Kshs.2,518,000 which was paid outside the Integrated Personnel and Payroll Database (IPPD). Management did not avail supporting documents for audit review for the recruitment of Ward staff such as advertisements, interview process, shortlisting schedule and subsequent evidence of their admission in the staff establishment. It was also noted that each of the twenty (20) Wards had four (4) members of staff contrary to the ceiling of three (3) members set by Commission on Revenue Allocation Circular.

Consequently, the accuracy, completeness and validity of compensation of employees of Kshs.2,518,000 included under compensation of employees in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

446. Unsupported Expenditure - Use of Goods and Services

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.238,868,417 in respect of use of goods and services. The balance includes an amount of Kshs.2,570,200 paid to various hotels for the provision of hospitality services under hospitality, supplies and services. However, examination of records revealed that the expenditure was committed in the 2017/2018 financial year but was not disclosed in that year's list of pending bills.

Consequently, the completeness, accuracy and validity of use of goods and services expenditure amounting to Kshs.2,570,200 could not be confirmed.

447. Variances Between Integrated Financial Management Information System (IFMIS) Reports and Financial Statements

A comparison of balances reflected in the financial statements and the IFMIS reports revealed some unreconciled variances as shown below:

Transaction Details	Amount as per Financial Statements Kshs.	Amount as per IFMIS Reports Kshs.	Variance Kshs.
Receipts	653,321,800	597,529,167	55,792,633
Cash and Bank	2,864,891	877,016,348	(874,151,457)
Payables	0	1,516,358,775	(1,516,358,775)

In the circumstances, the accuracy and completeness of the balances reflected in the financial statements for the year ended 30 June, 2019 could not be ascertained.

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Other Matter

448. Pending Bills

As disclosed under Note 4.10 to the financial statements, the County Assembly had pending bills amounting to Kshs.12,263,985 which were not settled during the year under review but were carried forward to 2019/2020 financial year. The bills constitute accounts payables and pending staff payables balances of Kshs.12,195,335 and Kshs.68,650 respectively. Management has not explained why the bills were not settled during the year they occurred.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

449. Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements. Although the Management has indicated that the issues have been responded to, the matters remained unresolved as the Senate had not deliberated on them.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

450. Delay in Construction of Projects

450.1 Construction of Office Block

During the year under review, the Management awarded a multi-year project contract for the construction of a six (6) floor office block at a contract sum of Kshs.367,000,000. The contract was to run for a period of one hundred and fifty-six (156) weeks commencing 13 June, 2018 to 13 June, 2021. The budgetary allocations for the year under review was Kshs.117,174,315 as per the County Integrated Development Plan (CIDP).

However, physical verification on progress of the project carried out in the month of October, 2019 revealed that a total of Kshs.44,091,179 had been paid, however the building was behind schedule by six (6) months.

450.2 Construction of Car Park, Perimeter Fence, Access Road, Gate and Gate House

A contract for the construction of the car park, perimeter fence, access road, gate and gate house was awarded to a contractor at a contract sum of Kshs.27,625,516. The contract agreement was signed on 24 June, 2016 for a period of one hundred and eighty (180) days to run until 24 December, 2016.

However, physical verification carried out on the project during the month of October, 2019 revealed that some marks were below 50% while some had not even started as shown below:

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Description of Work	Bill of Quantity Value Kshs.	Work Done (%)
Sub-structures	4,629,550	35%
Superstructure	998,950	39%
Finishes	1,244,750	40%
Chain Link Fence	322,000	0%
Electrical Works	3,600,000	5%
Project Managers Expenses	250,000	80%
Contingencies	1,000,000	0%
Mechanical works	600,000	0%
Total	**12,645,250**	

It was noted that substantial works on the perimeter fence was yet to be completed long after the lapse of the contract period. The project completion was therefore behind schedule. Management has not given any satisfactory explanations for the delays.

Consequently, it is not possible to confirm if the residents will realize value for money due to the delay.

451. Payment of Penalties and Interests to Kenya Revenue Authority

During the year under review, the Management paid Kshs.701,094 to the Kenya Revenue Authority (KRA) as penalties and interest as a result of LAPFUND not remitting PAYE arising from gratuity paid to the Speaker of the County Assembly and Members of County Assembly during the period between June, 2012 to June, 2016 that had resulted from unpaid taxes of Kshs.2,124,529. The penalties and interests were not budgeted for because the same ought to have been paid by the LAPFUND and not the County Assembly of Nyamira. Management has not taken any action to determine the officer(s) who may have occasioned the loss of public resources.

Consequently, the regularity of the expenditure of Kshs.701,094 could not be confirmed.

452. Non-Compliance with One Third Basic Salary Rule

Review of the payroll records revealed that there existed several employees who were earning less than a third of their basic pay during the year under review contrary to the provisions of Section 19(3) of the Employment Act, 2007.

Consequently, the Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

453. Weak Internal Audit Function

The County Assembly has an Internal Audit Unit which was not adequately staffed. In particular, the Principal Internal Auditor`s position has not been filled. The unit had

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only two (2) officers serving in the level of Senior Internal Auditor and Internal Auditor. Further, Management did not avail supporting documents as evidence that the unit had an Internal Audit Charter to guide it on carrying out audit assignments.

Consequently, I am unable to confirm the effectiveness of the Internal Audit Function and the overall governance of the County Assembly.

454. Lack of Risk Management Policy

Management did not avail supporting documents as evidence that the County Assembly had developed a comprehensive Risk Management Policy. Further, there was no documentary evidence to confirm that the Assembly conducted a risk assessment and compiled a report identifying the potential risks, the likelihood of their occurrence and the mitigating strategies in the year 2018/2019.

Consequently, I am unable to confirm existence of an efficient risk management process in the County Assembly.

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COUNTY ASSEMBLY OF NAIROBI CITY - NO.47

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

455. Inaccurate Statement of Cash Flows

The statement of cash flows reflects adjustments during the year of Kshs.10,985,207. This differs with the change in imprest and advances of Kshs.48,329,602 and change in accounts payables of Kshs.36,650,717 in the statement of financial assets resulting to unreconciled variance of Kshs.73,995,112.

Consequently, the accuracy of the statement of cash flow as presented and the cash and cash equivalents balance cannot be confirmed.

456. Inaccurate Fund Balance Brought Forward

As disclosed under Note 15 to the financial statements, the statement of financial assets and liabilities reflects brought forward fund balance amount of Kshs.10,985,207. This differs with the balance carried forward from the audited financial year 2017/2018 amount of Kshs.92,981,220 resulting to an unreconciled variance of Kshs.81,996,013.

In the circumstances, the accuracy and completeness of the statement of financial assets and liabilities could not be confirmed.

457. Unsupported Prior Year Adjustments

As disclosed under Note 17 to the financial statements, the statement of financial assets and liabilities reflects prior year adjustments of Kshs.155,991,125, which have been explained as adjustments on bank account balances, receivables and payables. However, the balance was not supported with documentation indicating how the change from Kshs.27,401,780 in the previous year to Kshs.155,991,125 in the year under review was arrived at.

Consequently, the accuracy and completeness of the prior year adjustments for the year under review could not be confirmed.

458. Pending Bills

Other important disclosures to the financial statements reflects pending bills amount of Kshs.13,426,583.85 made up of pending accounts payables, pending staff payables and other pending payables of Kshs.13,352,229.05, Kshs.56,400.00 and Kshs.17,954.80 under Notes 1, 2 and 3. However, the supporting Annexures 1, 2 and 3 did not contain the breakdown of the pending bills.

Consequently, the accuracy and completeness of pending payables of Kshs.13,426,583.85 could not be confirmed.

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459. Unsupported Expenditure – Compensation of Employees

The statement of receipts and payments reflects compensation of employees' expenditure amount of Kshs.648,349,325 which includes personal allowances paid as part of salary of Kshs.238,832,977. Examination of records revealed that a total of Kshs.81,525,600 was paid as sitting allowances to Members of the County Assembly during the year under review. However, the schedule of meetings supported with attendance registers were not provided for audit review.

Consequently, the accuracy, completeness and validity of the expenditure of Kshs.81,525,600 incurred on sitting allowances could not be confirmed.

460. Unsupported Expenditure – Use of Goods and Services

The statement of receipts and payments reflects use of goods and services expenditure amount of Kshs.570,288,835 which includes rentals of produced assets amount of Kshs.14,758,356. However, examination of records revealed that the payments were not supported by signed lease agreements between the County Assembly and the landlords.

In the circumstances, the completeness and validity of the expenditure of Kshs.12,347,000 incurred on rental of produced assets could not be confirmed.

Other matter

461. Budgetary Control and Performance

During the financial year ended 30 June, 2019, the County Assembly had an approved final budget of Kshs.1,422,241,700 comprising of recurrent vote amount of Kshs.1,386,671,700 and development vote amount of Kshs.35,570,000. The summary statement of appropriation: recurrent and development combined reflects an overall under expenditure amount of Kshs.124,867,477, equivalent to 9% of the approved budget.

The underutilization of the development budget affected the planned activities and may have impacted negatively on service delivery to the public.

462. Prior Year 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, Management has not resolved the issues or disclosed all the prior year matters as provided by the Public Sector Accounting Standards Board template and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

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REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for conclusion

463. Unauthorized Overdrawing of Bank Accounts

The statement of financial assets and liabilities reflects cash and cash equivalents amount of Kshs.9,074,491. However, review of the IFMIS bank reconciliation statements attached in the financial statements indicated that the recurrent, development and deposit bank accounts held at the Central Bank of Kenya had an overdraft of Kshs.91,669,794.70, Kshs.5,131,820.50 and Kshs.4,034,718.05 respectively. Management did not provide approvals for the overdrafts. This is contrary to the Section 119(4) of the Public Finance Management Act, 2012 which provides that an Accounting Officer for a County Government entity shall not cause a bank account of the entity to be overdrawn beyond the limit authorized by the County Treasury or a Board of a County Government entity.

Consequently, Management is in breach of the law.

464. Irregular Payment of Expenditure Claims

The statement of receipts and payments reflects use of goods and services expenditure amount of Kshs.570,288,835 which includes domestic travel and subsistence allowances balance of Kshs.231,156,824. Examination of records revealed that the County Assembly made payments amounting to Kshs.15,633,105 to various members of staff as refunds of expenditure spent on domestic travel and subsistence allowances. This was contrary to the provisions of Regulations 91(2) and 93(4) of the Public Finance Management (County Governments) Regulations, 2015, on management of temporary imprest, which requires employees to make formal application for imprest before travel. There was no explanation why the concerned staff did not apply for the imprest before undertaking various journeys.

Consequently, Management was in breach of the law.

465. Non-Compliance with One Third of Basic Salary Rule

During the year ended 30 June, 2019, six (6) employees earned a net salary of less than a third (1/3) of the basic salary. This was contrary to Section C.1(3) of the Public Service Commission (PSC) Human Resource Policy, 2016 which stipulates that Public Officers should not over-commit their salaries beyond two thirds (2/3) of their basic salaries. Management has not given explanation for failure to comply with the policy.

In the circumstances, the County contravened Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016 and this may expose the staff to pecuniary embarrassment.

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REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

466. Outstanding Imprest

The statement of financial assets and liabilities reflect accounts receivables balance of Kshs.166,347,527 as at 30 June, 2019. However, the imprest register maintained by the County Assembly does not reflect the date the imprest was given, the purpose of the imprest, amount surrendered, balance outstanding and the due date.

Consequently, due to the weak internal controls over imprest management, recoverability of the imprests overdue and determination of interest chargeable on the outstanding imprests may be difficult.

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CONCLUSION

The detailed reports for the County Assemblies for the year ended 30 June, 2019, together with my opinion are contained in the respective County Assembly's audited financial statements for the year ended 30 June, 2019, which I have already submitted to the respective County Assemblies.

APPRECIATION

I wish to sincerely thank the entire staff of the Office of the Auditor-General for their commitment, passion and professionalism in carrying out their duties. Special appreciation goes to the Report review and finalization team that prepared this Consolidated Audit Report.

I wish also to appreciate my clients/auditees for the cooperation they accorded my staff during the audit.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

16 July, 2021

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Appendix A: List of County Assemblies and Audit Opinions given on their Financial Statements

1. Certificates with Unqualified Opinion

County Code	County Assembly	Opinion
13	Tharaka-Nithi	Unqualified
36	Bomet	Unqualified

2. Certificates with Qualified Opinion

County Code	County Assembly	Opinion
1	Mombasa	Qualified
2	Kwale	Qualified
3	Kilifi	Qualified
4	Tana River	Qualified
5	Lamu	Qualified
6	Taita/Taveta	Qualified
7	Garissa	Qualified
8	Wajir	Qualified
9	Mandera	Qualified
10	Marsabit	Qualified
12	Meru	Qualified
14	Embu	Qualified
15	Kitui	Qualified
17	Makueni	Qualified
18	Nyandarua	Qualified
19	Nyeri	Qualified

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County Code	County Assembly	Opinion
20	Kirinyaga	Qualified
21	Murang'a	Qualified
22	Kiambu	Qualified
23	Turkana	Qualified
26	Trans Nzoia	Qualified
27	Uasin Gishu	Qualified
28	Elgeyo/Marakwet	Qualified
29	Nandi	Qualified
31	Laikipia	Qualified
32	Nakuru	Qualified
33	Narok	Qualified
34	Kajiado	Qualified
35	Kericho	Qualified
37	Kakamega	Qualified
38	Vihiga	Qualified
39	Bungoma	Qualified
40	Busia	Qualified
41	Siaya	Qualified
42	Kisumu	Qualified
44	Migori	Qualified
45	Kisii	Qualified
46	Nyamira	Qualified
47	Nairobi City	Qualified

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3. Certificates with Adverse Opinion

County Code	County Assembly	Opinion
11	Isiolo	Adverse
16	Machakos	Adverse
24	West Pokot	Adverse
25	Samburu	Adverse
30	Baringo	Adverse
43	Homa Bay	Adverse

4. Certificates with a Disclaimer of Opinion

None

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