REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY ASSEMBLY OF KISUMU

FOR THE YEAR ENDED 30 JUNE 2018

COUNTY ASSEMBLY OF KISUMU
AMMENDED REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018

Prepared in accordance with the Cash Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)

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1. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The County is constituted as per the constitution of Kenya is headed by the Speaker of the County Assembly, who is responsible for the general policy and strategic direction of the Assembly. The County Assembly constitutes 49 Members of County Assembly (MCAs) elected to represent members of the public from their respective wards. The MCAs are responsible for making any laws for effective performance of the County Government, approving plans and policies and playing the oversight role over the County Executive.

(b) Key Management

The *entity's* day-to-day management is under the following key organs:

- The County Assembly Service Board
- The Clerk; and
- The Heads of Departments

(c) Fiduciary Management

The key management personnel who held office during the year ended 30th June 2018 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Accounting Officer	Benson Oloo Opiyo
2.	Accounting Officer	Linet A Ochieng
3.	Finance Officer	Kephars Onyango Onoka
4.	Procurement Officer	Edwin Ouma Kisia
5.	Speaker	George Onyango Oloo

(d) Fiduciary Oversight Arrangements

The Controller of Budget

The Controller of Budget has a fiduciary Oversight role of the County Government/Assembly under article 228(5) of the Constitution of Kenya 2010 by approving withdrawal from the public fund only when satisfied that the withdrawal is authorised by law.

Internal Audit Department.

The internal audit department of the Assembly ensures that the internal controls exist and are adhered to.

Finance Committee

The finance committee of the County Assembly has a fiduciary responsibility of ensuring public funds are utilised in accordance with the law.

(e) Entity Headquarters

P.O. Box 86-40100
ADC Building
Uhuru Road
Kisumu,Kenya

(f) Entity Contacts

Telephone: (254) 796173314
E-mail: kisumuassembly@gmail.com
Website: wwwkisumuassembly.go.ke

(g) Entity Bankers

1. Central Bank of Kenya
   Haile Selassie Avenue
   P.O. Box 60000
   City Square 00200
   Nairobi, Kenya

2. Kenya Commercial Bank

(h) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GPO 00100
Nairobi, Kenya

(i) Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

2. FORWARD BY THE CLERK OF THE ASSEMBLY

The County Assembly is made of the MCAs. It is headed by the Speaker who is elected by the MCAs. The CA is the legislative authority in the county. It also plays an oversight role in ensuring that the county resources are well allocated and well spent. The CA is especially critical in the Budgeting process. The MCAs meet every week in accordance with the Standing Orders of the County Assembly.

In executing its mandate, the CA has the following oversight committees:

1. Public Accounts Committee

2. Budget and Appropriations Committee

Public Accounts Committee

The committee was formed to provide oversight on the County's finances. The committee do hold their weekly mandatory meetings during the year.

Budget and Appropriations Committee

The budget and appropriations committee provides guidance in the budgetary process. It is charged with the budget making process and ensuring that there is public participation in the budget process.

In addition to the above two committees of the County Assembly, the County Assembly has an independent Audit Committee which is yet to be constituted

Audit Committee

The process of forming an audit committee is ongoing.

Challenges

We have experienced some challenges during the year.
These include:

1. We have also experienced challenges with IFMIS as a result of down times and poor internet connectivity. This has in some instance delayed payments to suppliers and lead to payments being made outside IFMIS
2. Political processes – there were delays in approving the budget for FY 2017/2018 due to disagreements between the MCAs. This delayed some development projects scheduled for FY 2017/2018;

Conclusion

FY 2017/2018 was a good year in general. Good progress was made and the momentum has been created to enable Kisumu County Assembly continue on a trajectory into prosperity. We have identified gaps and areas to improve on in the subsequent years.

I take this opportunity to thank Speaker and the Members of the county assembly for their support. I would also want to thank my colleagues, head of departments who we have worked hand in hand to ensure the Kisumu County Assembly achieves its mission.
I thank all staff in the County Assembly for their continued commitment and dedication through hard work in delivering services to the people of Kisumu County.

Sign

Clerk of the County Assembly

3. STATEMENT OF MANAGEMENT RESPONSIBILITIES

Sections 164 of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer of a County Government Entity to prepare financial statements in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Clerk of the County Assembly is responsible for the preparation and presentation of the County Assembly's financial statements, which give a true and fair view of the state of affairs of the County Assembly for the year ended June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the County Assembly; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the County Assembly; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Clerk accepts responsibility for the County Assembly's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Clerk is of the opinion that the County Assembly's financial statements give a true and fair view of the state of the County Assembly's transactions for the year ended June 30, 2018, and of its financial position as at that date. The Clerk further confirms the completeness of the accounting records maintained for the County Assembly which have been relied upon in the preparation of the its financial statements as well as the adequacy of the systems of internal financial control.

The Clerk confirms that the County Assembly has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the County Assembly's funds received during the quarter under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Clerk confirms that the County Assembly's financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the financial statements

The County Government's financial statements were approved and signed by the Clerk of the County Assembly on 13 / 12 / 2018.

Clerk of the County Assembly

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF KISUMU FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of County Assembly of Kisumu set out on pages 1 to 16, which comprise the statement of financial assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation: recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of County Assembly of Kisumu as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Cash and Cash Equivalents

1.1. Unreconciled and Incomplete Cash Books

Included in the statement of financial assets and liabilities under bank balance (Note 5A) is a balance of Kshs.19,489. It was observed that the County Assembly of Kisumu cash books had inaccuracies, were poorly maintained and the cash books were not certified by the board of survey at the close of the financial year. Bank statements for the month of July were not availed for audit review.

Consequently, the accuracy, validity and completeness of the bank balance of Kshs.19,489 as at 30 June 2018 could not be confirmed.

1.2 IFMIS Cash Payments

An examination of payments in IFMIS reflected material payments totalling Kshs.197,473,729 out of the total payments in the statement of receipts and payment of Kshs.600,160,943. However, the purpose of cash payment is not supported and it is also not explained how cash payment of such magnitude can be paid through the counter to the County Assembly of Kisumu and Car & Mortgage Fund in contravention of the Public

Finance Management Act, 2012 and County Financial Accounting and Reporting Manual section 6.7 on Petty Cash Management.

Consequently, the regularity of Kshs.197,473,729 expenditure could not be confirmed for the year ended 30 June 2018.

2. Unsupported Use of Goods and Services Expenditure

2.1. Unaccounted for Ward Operation Funds

Included in the statement of receipts and payments under use of goods and services expenditure of Kshs.344,633,365 is an amount of Kshs.45,742,285 relating to rentals of produced assets. Audit review of payment vouchers of the component revealed that various Ward offices were advanced a total of Kshs.4,600,000 for the operations and maintenance of their wards. However, the Wards did not account for the funds advanced to them with documentary evidence as to how they were utilized and no approved board minutes were also availed for audit review to confirm that each Ward was to receive Kshs.17,500 as office rent and Kshs.50,000 as office maintenance expenses per month.

Further, included in the schedule of rentals of produced assets was ward salary of Kshs.3,678,227 paid in the month of March 2018 vide cheque numbers 1826 and 1827 but no explanation and or evidence was adduced as to why the Ward salaries could be paid from the component of rentals of produced assets. In addition, a payment voucher of Kshs.4,080,857 paid to Shiloah Investments Limited was not availed for audit review.

Consequently, the propriety and validity of the Kshs.3,745,727, paid towards ward operations, ward salaries and Kshs.4,080,857 to Shiloah Investments could not be confirmed for the year ended 30 June 2018.

2.2 Domestic Travelling Claims

Included in the statement of receipts and payments under use of goods and services expenditure of Kshs.344,633,365 is an amount of Kshs.97,327,280 relating to domestic travel and subsistence allowance. However, an expenditure of Kshs.19,723,700 for domestic travel and subsistence was not fully supported.

In view of the foregoing, the propriety and validity of the Kshs.19,723,700 expenditure could not be confirmed.

2.3 Non-Receipt of Specialized Materials and Services Delivered

Included in the statement of receipts and payments under use of goods and services figure of Kshs.344,633,365 is specialised materials and services of Kshs.5,619,652 which in turn include materials totaling to Kshs.1,898,862 received by the store but not supported by goods received notes or delivery notes to confirm that goods were actually received.

As a result, the propriety and validity of Kshs.1,898,862 for good received could not be confirmed.

2.4. Irregular Issuance of Imprests

Included in the statement of receipts and payments under use of goods and services figure of Kshs.344,633,365 were imprest warrants for the facilitation of Members of the Assembly and members of staff of the County Assembly of Kisumu to participate in the Chairman's Cup in Nakuru, totaling Kshs.425,700 which lacked the imprest holder's signature. It is thus difficult to confirm whether the funds were actually paid out to the payees and how the accounting officers accounted for the funds. Consequently, the propriety of the expenditure of Kshs.425,700 could not be confirmed.

2.5 Purchased-Routine Maintenance of Motor Vehicles and Transport Equipment

The statement of receipts and payments under use of goods and services figure of Kshs.344,633,365, which includes an amount of Kshs.15,622,326 for routine maintenance of Motor Vehicles that in turn includes goods worth Kshs.384,600 procured through cash and similarly unsupported repairs of Kshs.2,680,196 paid to Rallytech Motors ltd. Further, there was no proof of receipt of these goods into stores.

Consequently, the propriety and validity of the expenditure of Kshs.3,064,796 under use of goods and services for the period ended 30 June 2018 could not be confirmed

2.6 Unsupported Legal/Arbitration Fees Payments

Included in the statement of receipts and payments under use of goods and services figure of Kshs.344,633,365 is other operating expenses of Kshs.40,894,758 which in turn include Kshs.10,145,000 captured in the Integrated Financial Management Information System (IFMIS) as legal fees/arbitration and compensation payments by County Assembly. However, no procurement records such local service orders, quotations, tender opening minutes, contract agreement and tender opening documents were provided for audit review. It is also not explained how payments to Commissioner of Income Tax and County Assembly of Kisumu can be categorized as legal fees and compensations.

Under the circumstances, the propriety of the expenditure of Kshs.10,145,000 under legal fees, arbitration and compensation for the period ended 30 June 2018 could not be ascertained.

2.7 Understatement of Government Imprest

Included in the statement of financial assets and liabilities under account receivables is a figure of Kshs.3,457,838 which includes Kshs.3,214,538 under Government imprests. Examination and compilation of the list of imprests holders from the IFMIS imprest register as at 30 June 2018 revealed that the figure reported was Kshs.3,374,090 instead of Kshs.3,214,538 resulting to understated or unreconciled difference of Kshs.159,552 between the two sets of records.

3. Overstatement of Transfers from National Treasury

Included in the figure for transfers from National Treasury of Kshs.602,524,335 were figures of Kshs.35,121,244 and Kshs.55,000,000 which were actually received in the

bank on 3rd and 4th of July 2018 respectively. The figure reported was overstated by Kshs.90,121,244 since the two amounts relate to a different financial year.

Consequently, the accuracy, validity and completeness of the transfers from National Treasury of Kshs.602,524,335 for the year ended 30 June 2018 could not be confirmed.

4. Un-surrendered House Hold Items

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.39,989,889 is purchase of office furniture and general equipment figure of Kshs.15,434,422 which includes, the Assembly's house hold items procured worth Kshs.4,051,488 for the former speaker rented house but only items worth Kshs.3,171,628 were recorded in the asset register. Further, when the former speaker vacated the office she never surrendered back the items to the Assembly. The Assembly has not explained why they have not recovered the items.

Consequently, the propriety of the expenditure of Kshs.4,051,488 under acquisition of assets for the period ended 30 June 2018 could not be confirmed.

5. Compensation of Employees

5.1. Double Sitting Allowance

Included in the statement of receipts and payments under compensation of employees figure of Kshs.215,537,689 is personal allowance paid as part of salary of Kshs.87,105,887 which in turn includes Assembly payment of Kshs.300,300 as sitting allowance to members for meetings which run concurrently. Although the attendance register showed that the members attended both meetings it is not clear how a member can attend two meetings concurrently.

Consequently, the propriety of the expenditure of Kshs.300,300 under personal allowance paid as part of salary for the year ended 30 June 2018 could not be confirmed.

5.2. Extraneous / Honorarium Allowance

Included in the statement of receipts and payments under compensation of employees figure of Kshs.215,537,689 is personal allowance paid as part of salary of Kshs.87,105,887 out of which the Assembly paid a total of Kshs.6,809,625 to members of County Assembly as honorarium. No evidence was provided to confirm whether honorarium to MCAs had been approved by Salary and Remuneration Commission(SRC). Consequently, the propriety of the honorarium totaling Kshs.6,809,625 for the year ended 30 June 2018 could not be confirmed.

5.3 Committee Sitting Allowance

Included in the statement of receipts and payments under compensation of employees figure of Kshs.215,537,689 is personal allowance paid as part of salary of Kshs.87,105,887 which in turn includes a total of Kshs.7,073,000 paid to members as committee sitting allowance. However, committee minutes were not made available for audit verification and those made available were not signed by the chairman and the secretary of the committee. Consequently, the propriety of the expenditure of

Kshs.7,073,000 under personal allowance paid as part of salary for the year ended 30 June 2018 could not be confirmed

5.4. Quarter Per Diem Paid to Members of County Assembly

Included in the statement of receipts and payments under compensation of employees figure of Kshs.215,537,689 is personal allowance paid as part of salary of Kshs.87,105,887 which in turn include amount to paid members of County Assembly of Kshs.531,400 as quarter per diem when they were on official duty during the vetting of the audit committee members. The Assembly has not availed any document authorizing payment of the quarter per diem to members of County Assembly. Consequently, the propriety of the expenditure of Kshs.531,400 under personal allowance paid as quarter per diem for the year ended 30 June 2018 could not be confirmed

6. Use of Goods and Services

6.1 Unreconciled Differences of Domestic Travel and Subsistence Balance

Included in the statement of receipts and payments under use of goods and services figure of Kshs.344,633,365 is domestic travel and subsistence amount of Kshs.97,327,280. However, examination of a schedule availed showed a balance of Kshs.101,303,723 while the statement of receipts and payments disclosed figure of Kshs.97,327,280 thus leading to unreconciled or unexplained difference of Kshs.3,976,443.

Under the circumstances, the validity and accuracy of the expenditure of Kshs.97,327,280 under domestic travel and subsistence allowance for the year ended 30 June 2018 could not be confirmed.

6.2 Lack of Journal Entries

Financial statements for the year ended 30 June 2018 submitted for audit on 1 October 2018 reflected a personal allowances paid as part of salary of Kshs.57,963,392, while the amended financial statements submitted on 14 December 2018 reflects an amount of Kshs.87,105,887 under the same head. No journal entries for the difference of Kshs.29,142,495 was provided. Consequently, the accuracy of the financial statements could not be confirmed

6.3 Unsupported Legal Fees

Included in the statement of receipts and payments under use of goods and services figure of Kshs.344,633,365 is other operating expenses of Kshs.40,894,758 which in turn include a payment voucher in favor of Okong'o Wandago Advocates for Kshs.500,000 that was wrongly classified and unsupported under specialized materials and services

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Kisumu in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing

audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters discussed in the Basis for Adverse Opinion section, I have determined that there are no other key audit matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective

Basis for Conclusion

1. Contractors not in the List of Pre-Qualified Firms

1.1 Hospitality Supplies

Included in the statement of receipts and payments under use of goods and services figure of Kshs.344,633,365 is hospitality supplies and services figure of Kshs.11,465,725 which in turn include payment to Center Cafeteria service provider total amount of Kshs.2,124,794 despite not being in the list of pre-qualified suppliers, and also no supporting documents such as tender minutes from the board were provided to justify the payments. Consequently, the management breached the law.

1.2. Insurance Costs

Included in the statement of receipts and payments under use of goods and services figure of Kshs.344,633,365 was insurance cost of Kshs.32,574,301 out of which Kshs.2,124,794. was paid to an Insurance Agency for motor vehicle insurance cover. The agency was not in the list of pre-qualified suppliers, and no supporting documents such as tender minutes, advertisement, tender opening register to justify the transactions. Consequently, the propriety of the expenditure of Kshs.2,124,794 under insurance cost for the period ended 30 June 2018 could not be confirmed

1.3. Others Suppliers

Included in the statement of receipts and payments under use of goods and services figure of Kshs.344,633,365 are other tenders awarded totalling Kshs.26,495,790 to companies which were not listed among the prequalified suppliers:

i. Contract No. CGK/CA/EDB/15-16/001 of Kshs4,996,120 (renovation of education block at the county assembly)

ii. Contract No. CGK/CA/FLT/15-16/002 of Kshs.1,601,670 (construction of 3 door disability friendly toilet)

iii. Contract no. CAK/OT/2015/2016/02 of Kshs19,898,000

The management breached the law.

2. Budget as a Control Tool

2.1 Compensation of Employees – Basic Salary

Included in the statement of receipts and payments is compensation of employees figure of Kshs.215,537,689. However, the assembly budget for basic salary of permanent employees in the financial year under review was Kshs.112,656,772 while the actual expenditure reflected in the financial statement was Kshs.136,129,516 leading to over expenditure of Kshs.23,848,353. The management breached the law.

2.2. Compensation of Employees – Personal Allowances

Included in the statement of receipts and payments under compensation of employees figure of Kshs.215,537,689. However, the assembly budgeted for personal allowances paid as part of salary for the year under review Kshs.43,376,438 while the actual expenditure is Kshs.57,963,392 leading to an explained variance of Kshs.14,586,954. The management breached the law.

2.3. Foreign Travel and Subsistence Allowance

Included in the statement of receipts and payments under use of goods and services figure of Kshs.344,633,365 is an amount of Kshs.38,627,501 relating to foreign travel and subsistence allowance. However, management had budgeted to spend in the vote of foreign travel and subsistence allowance of Kshs.23,105,200 but ended up spending Kshs.38,627,501 which was Kshs.15,522,080 over and above the approved budgeted amount. No supplementary budget or authority for virement was provided to cover the over expenditure. Consequently, the propriety and validity of the Kshs.15,522,080 could not be confirmed.

3. Failure to Recover Imprests

Included in the statement of financial assets and liabilities under account receivables is imprest figure of Kshs.3,214,538 out of which Kshs.466,800 had been surrendered at the time of the audit on 26 October 2018. Therefore, a balance of Kshs.2,747,738 was still outstanding and no recovery had been made almost 4 months after the closure of the financial year. In the circumstances, the accuracy and recoverability of the outstanding imprest could not be ascertained.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that

govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Members Sitting Allowance

The statement of receipts and payments under compensation of employees reflects a is figure of Kshs.215,537,689. However, members sitting allowance for the month of July 2017 totaling to Kshs.1,409,200 has not been supported by attendance register and Committee minutes therefore the propriety of the expenditure cannot be confirmed.

2. Fixed Asset Register

Included in the statement of receipts and payments is acquisition of assets figure of Kshs.9,989,889 which includes purchased assets worth Kshs.39,406,767, which were not recorded in the fixed asset register. The County Assembly does not maintain an updated assets register.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control.

In preparing the financial statements, management is responsible for assessing the County Assembly of Kisumu ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the

County Assembly of Kisumu or to cease operations, or have no realistic alternative but to do so.
Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public money is applied in an effective manner.
Those charged with governance are responsible for overseeing the County Assembly of Kisumu financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal

control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the County Assembly of Kisumu policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Assembly of Kisumu ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Assembly of Kisumu to cease to continue as a going concern or to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the County Assembly of Kisumu to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

18 February 2019

5. FINANCIAL STATEMENTS

5.1. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2017/18 KShs	2016/17 KShs
RECEIPTS			
Transfers from the County Treasury/Exchequer Releases	1	602,524,335	654,621,594
TOTAL RECEIPTS		602,524,335	654,621,594
PAYMENTS			
Compensation of Employees	2	215,537,689	320,098,314
Use of goods and services	3	344,633,365	319,726,591
Acquisition of Assets	4	39,989,889	14,605,000
TOTAL PAYMENTS		600,160,943	654,429,905
SURPLUS/DEFICIT		2,363,392	191,689

The explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 13/12/ 2018 and signed by:

Clerk of the Assembly
Name: Linet A Ochieng

Chief Finance Office – County Assembly
Name: Kephers Onyango Onoka
ICPAK Member Number: 10684

5.2. STATEMENT OF FINANCIAL ASSETS AND LIABILITIES

FINANCIAL ASSETS	Note	2017/2018 Ksh	2016/2017 Ksh
Cash and Cash Equivalents			
Bank Balances	5A	19,489	1,113,935
Cash Balances	5B	-	-
Total Cash and cash equivalents		19,489	1,113,935
Accounts receivables	6	3,457,838	-
TOTAL FINANCIAL ASSETS		3,477,427	1,113,935
NET FINANCIAL ASSETS		3,477,427	1,113,935
REPRESENTED BY			
Fund balance b/fwd	7	1,113,935	922,246
Surplus/Deficit for the year		2,363,392	191,689
NET FINANCIAL POSITION		3,477,427	1,113,935

The explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 13/12/2018 and signed by:

Clerk of the Assembly
Name: Linet A Ochieng

Chief Finance Office – County Assembly
Name: Kephers Onyango Onoka
ICPAK Member Number: 10684

5.3. STATEMENT OF CASH FLOWS

	Note	2017-2018 KShs	2016/17 KShs
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from operating income			
Transfers from the County Treasury/Exchequer Releases	1	602,524,335	654,621,594
Payments for operating expenses			
Compensation of Employees	2	(215,537,689)	(320,098,314)
Use of goods and services	3	(344,633,365)	(319,726,591)
Adjusted for:			
Changes in receivables		(3,457,838)	-
Net cash flows from operating activities		38,895,443	15,718,935
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	4	-39,989,889	-14,605,000
Net cash flows from investing activities		-39,989,889	-14,605,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		- 1,094,446	191,689
Cash and cash equivalent at BEGINNING of the year		1,113,935	922,246
Cash and cash equivalent at END of the year		19,489	1,113,935

The explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 12/12/18 2018 and signed by:

Clerk of the Assembly
Name: Linet A Ochieng

Chief Finance Office – County Assembly
Name: Kephers Onyango Onoka
ICPAK Member Number: 10684

5.4. STATEMENT OF COMPARISON OF BUDGET & ACTUAL AMOUNTS: RECURRENT AND DEVELOPMENT COMBINED

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	% Utilisation difference
RECEIPTS					
Transfers from the County Treasury/ Exchequer Releases	656,616,804.00		656,616,804.00	602,524,335	92%
Proceeds from Sale of Assets					
Other Receipts					
TOTAL	**656,616,804.00**		**656,616,804.00**	**602,524,335.00**	92%
PAYMENTS					
Compensation of Employees	340,526,944.00	-116,163,946.00	224,362,998.00	215,537,689	96%
Use of goods and services	227,389,860.00	127,919,798.00	355,309,658.00	344,133,365	97%
Subsidies					
Acquisition of Assets	17,200,000.00	24,122,904.00	41,322,904.00	39,989,889.00	97%
Finance Costs					
Other Payments	71,500,000.00	-35,878,756.00	35,621,244.00	500,000.00	1%
TOTAL	**656,616,804.00**		**656,616,804.00**	**600,160,943**	91%
Surplus/ Deficit	**0.00**	**0.00**	**0.00**	**2,363,392**	

Underutilization of 1% on other payments is as a result of exchequer that was never received for Car and Mortgage for public servants.

The entity financial statements were approved on 13/12/ 2018 and signed by:

Clerk of the Assembly
Name: Linet A Ochieng

Chief Finance Office – County Assembly
Name: Kephers Onyango Onoka
ICPAK Member Number: 10684

5.5. STATEMENT OF COMPARISON OF BUDGET & ACTUAL AMOUNTS: RECURRENT

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	% Utilisation difference
RECEIPTS					
Transfers from the County Treasury/ Exchequer Releases	656,616,804.00		656,616,804.00	602,524,335	92%
Proceeds from Sale of Assets					
Other Receipts					
TOTAL	**656,616,804.00**		**656,616,804.00**	**602,524,335.00**	92%
PAYMENTS					
Compensation of Employees	340,526,944.00	-116,163,946.00	224,362,998.00	215,537,689	96%
Use of goods and services	227,389,860.00	127,919,798.00	355,309,658.00	344,133,365	97%
Acquisition of Assets	17,200,000.00	24,122,904.00	41,322,904.00	39,989,889.00	97%
Finance Costs					
Other Payments	71,500,000.00	-35,878,756.00	35,621,244.00	500,000.00	1%
TOTAL	**656,616,804.00**		**656,616,804.00**	**600,160,943**	91%
Surplus/ Deficit	**0.00**	**0.00**	**0.00**	**2,363,392**	

Underutilization of 1% on other payments is as a result of exchequer that was never received for Car and Mortgage for public servants.

The entity financial statements were approved on 13/12/ 2018 and signed by:

Clerk of the Assembly
Name: Linet A Ochieng

Chief Finance Office – County Assembly
Name: Kephers Onyango Onoka
ICPAK Member Number: 10684

5.6. BUDGET EXECUTION BY PROGRAMMES AND SUB-PROGRAMMES

Programme/Sub-programme	Original Budget	Adjustments	Final Budget	Actual on comparable basis	Budget utilization difference
P0201: General Administration, Planning and Support Services					
Financial Management Services	25,454,228.00	12,169,146.00	37,623,374.00	31,794,417	85%
Administration and Planning services	188,123,348.00	2,667,572.00	190,790,920.00	148,585,803	78%
Fiscal Analyst Services	6,458,240.00	2,184,608.00	8,642,848.00	7,992,979	92%
Human Capital Services	61,401,288.00	13,770,440.00	75,171,728.00	64,919,455	86%
P0201: Legislation and Oversight Services					
Legislation and Oversight	188,231,836.00	-57,134,428.00	131,097,408.00	113,894,149	87%
Policy Services (Office of the Speaker)	47,720,264.00	-10,572,338.00	37,147,926.00	29,354,719	79%
Committee Services	109,227,600.00	8,399,000.00	117,626,600.00	150,903,326	128%
Representation and Participation	30,000,000.00	28,516,000.00	58,516,000.00	52,716,095	90%
	656,616,804.00	**0.00**	**656,616,804.00**	**600,160,943**	**91%**

(NB: This statement is a disclosure statement indicating the utilisation in the same format at the County budgets which are programmatic. Ensure this document is accurately presented to enable consolidation with other County Entities).

5.7. SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

1. Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of Accounting, as prescribed by the PSASB and set out in the accounting policy notes below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions. The statement of assets and liabilities, although not a requirement of the IPSAS Cash Standard, has been included to disclose information on receivables and payables.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the entity all values are rounded to the nearest Kenya Shilling. The accounting policies adopted have been consistently applied to all the years presented.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

2. Reporting entity

The financial statements are for the Kisumu County Assembly. The financial statements encompass the reporting entity as specified in section 164 of PFM Act 2012.

3. Recognition of receipts and payments

a) Recognition of receipts

The County Assembly t recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Assembly.

Tax receipts

Tax Receipts is recognized in the books of accounts when cash is received. Cash is considered as received when notification of tax remittance is received.

Transfers from the Exchequer/ County Treasury

Transfer from Exchequer is recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Receipts

Other receipts relate to receipts such as tender fees among others. These are recognised in the financial statements when the associated cash is received.

b) Recognition of payments

The entity recognises all expenses when the event occurs and the related cash has actually been paid out by the entity.

Compensation of employees

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

Use of goods and services

Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. Such expenses, if not paid during the period where goods/services are consumed, shall be disclosed as pending bills.

Acquisition of fixed assets

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

4. In-kind contributions

In-kind contributions are donations that are made to the *entity* in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the *entity* includes such value in the statement of receipts and payments both as receipts and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

Restriction on cash

Restricted cash represents amounts that are limited /restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation.

There were no other restrictions on cash during the year.

6. Accounts Receivable

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

7. Accounts Payable

For the purposes of these financial statements, deposits and retentions held on behalf of third parties have been recognized as accounts payables. This is in recognition of the government practice of retaining a portion of contracted services and works pending fulfilment of obligations by the contractor and to hold deposits on behalf of third parties. This is an enhancement to the cash accounting policy adopted and prescribed by the Public Sector Accounting Standards Board. Other liabilities including pending bills are disclosed in the financial statements.

8. Non-current assets

Non-current assets are expensed at the time of acquisition while disposal proceeds are recognized as receipts at the time of disposal. However, the acquisitions and disposals are reflected in the entity fixed asset register a summary of which is provided as a memorandum to these financial statements.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they are recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the *entity* at the end of the year. Pending bill form a first charge to the subsequent year budget and when they are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

10. Budget

The budget is prepared on the same accounting basis (cash basis), the same accounts classification basis, and for the same period as the financial statements. The *entity's* budget was approved as required by Law . A high-level assessment of the *entity's* actual performance against the comparable budget for the financial year under review has been included in the Statement of Comparison between actual and budgeted amounts included in these financial statements.

11. Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

12. Subsequent events

Events subsequent to submission of the financial year end financial statements to County Treasury and other stakeholders with a significant impact on the financial statements may be adjusted with the concurrence of the County Treasury.

13. Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

14. Related party transactions

Related party transactions involve cash and in kind transactions with the National Government, National Government entities and County Government entities. Specific information with regards to related party transactions is included in the disclosure notes.

5.8. NOTES TO THE FINANCIAL STATEMENTS

1. Transfers from the County Treasury/Exchequer Releases

	2017/2018 KSHS	2016/2017 KSHS
Transfers from the County Treasury for Q1	36,903,091	109,397,800
Transfers from the County Treasury for Q2	105,500,000	223,685,736
Transfers from the County Treasury for Q3	160,000,000	123,658,624
Transfers from the County Treasury for Q4	300,121,244	197,879,434
Cumulative Amount	**602,524,335**	**654,621,594**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. COMPENSATION OF EMPLOYEES

	2017/18	2016/17
	KSHs	KSHs
Basic salaries of permanent employees	106,987,020.85	143,776,944
Basic wages of temporary employees	-	-
Personal allowances paid as part of salary	87,105,887.15	143,410,852
Personal allowances paid as reimbursements	18,000	-
Personal allowances provided in kind	-	-
Pension and other social security contributions	21,426,781	-
Compulsory national social security schemes	-	-
Compulsory national health insurance schemes	-	-
Social benefit schemes outside government	-	-
Other personnel payments	-	32,910,518
Total	**215,537,689**	**320,098,314**

3. USE OF GOODS AND SERVICES

	2017/18	2016/17
	KSHs	KSHs
Utilities, supplies and services	164,859	200,000
Communication, supplies and services	176,315	45,000
Domestic travel and subsistence	97,327,280	42,200,000
Foreign travel and subsistence	38,627,501	64,474,939
Printing, advertising and information supplies & services	6,876,580	2,263,320
Rentals of produced assets	45,742,285	63,000,000
Training expenses	36,403,699	20,677,010
Hospitality supplies and services	11,465,725	4,000,000
Insurance costs	32,574,301	16,500,000
Specialized materials and services	5,619,652	10,300,000
Office and general supplies and services	7,853,256	2,150,000
Other operating expenses	40,894,758	86,783,322
Routine maintenance – vehicles and other transport equip	15,622,326	5,130,000
Fuel Oil and Lubricants	2,680,749	2,003,000
Routine maintenance – other assets	2,604,079	
Total	**344,633,365**	**319,726,591**

4. ACQUISITION OF ASSETS

Non Financial Assets	2017/18	2016/17
	Ksh	Ksh
Purchase of Vehicles and Other Transport Equipment	5,870,000	8,665,980
Purchase of Office Furniture and General Equipment	15,434,422	-
Purchase of ICT Equipment, Software and Other ICT Assets	18,685,467	5,939,020
Total	**39,989,889**	**14,605,000**

5. BANK BALANCES

5A. BANK BALANCES

Name of Bank, Account No. & Currency	Indicate whether recurrent or development	2017/18	2016/17
		K Shs	K Shs
Central Bank Of Kenya, & ksh.	Recurrent Acc	12,190.00	879,495.40
KCB Operations Account, & Ksh.	Recurrent Acc	7,299	234,439.34
Total		**19,489.00**	**1,113,934.74**

(NB: all bank accounts operated by the County Assembly should be included in this note.)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5B. CASH IN HAND

	2017/18	2016/17
	K Shs	K Shs
Cash in Hand – Held in domestic currency	-	-
Cash in Hand – Held in foreign currency	-	-
Total	-	-

Cash in hand should be analysed as follows:

	2017/18	2016/17
	K Shs	K Shs
Location 1	-	-
Location 2	-	-
Location 3	-	-
Total	-	-

(Provide locations where cash in hand is held e.g head office, cashier's office, cash office etc)

6. ACCOUNTS RECEIVABLE

	2017/18	2016/17
	K Shs	K Shs
Government Imprests	3,214,538	
Clearance Accounts		
Staff Advances	243,300	-
Other Advances	-	-
Total	**3,457,838**	-

**See Annex 6 for a detailed analysis of the outstanding imprests.*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. FUND BALANCE BROUGHT FORWARD

	[illegible]	[illegible]
Bank accounts	1,113,935	922,246
Cash in hand	-	-
Accounts Receivables	-	-
Accounts Payables	-	-
Total	1,113,935	922,246

5.9. OTHER DISCLOSURE

ANNEX 1– SUMMARY OF FIXED ASSET REGISTER

Asset class	Historical Cost B/f (KShs) 2016/2017	Additions during the year (KShs)	Disposals during the year (KShs)	Historical cost as at the end of year
Purchase of Vehicles and Other Transport Equipment	8,665,980	5,870,000		14,535,980
Purchase of Office Furniture and General Equipment	-	15,434,422		15,434,422
Purchase of ICT Equipment, Software and Other ICT Assets	5,939,020	18,685,467		24,624,487
Total	**14,605,000**	**39,989,889**		**54,594,889**

NB: The balance as at the end of the year is the cumulative cost of all assets bought and inherited by the County Assembly since its inception. Additions during the year should tie to note 10 on acquisition of assets during the year and subsequently the statement of receipts and payments