REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF GARISSA FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Garissa set out on pages 1 to 24, which comprise of the statement of financial assets and liabilities as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts: recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Assembly of Garissa as at 30 June, 2019 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the County Governments Act, 2012.

Basis for Qualified Opinion

1. 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:

1.1 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 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 distances above the 90 kilometers, did not avail vehicle logbooks to confirm capacity as the Automobile Association of Kenya (AAK) rates used are based on vehicle capacity.

1.2 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 Members of County Assembly (MCAs) and other staff for attending official duties outside their work station. However, it was noted that the expenditure was not supported by either vehicles work tickets or bus tickets hence it was not possible to ascertain whether the officers travelled to the indicated destinations.

1.3 Unsupported Routine Maintenance

In addition, the balance includes an amount of Kshs.2,035,890 incurred on 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.

1.4 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.

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.

2. Inaccurate Personal Allowances Paid as Part of Salary

The County Assembly allocated Kshs.249,938,060 for personal allowances paid as part of salary for the year ended 30 June, 2019. However, examination of payment vouchers and other supporting documents availed for audit review, indicated that an amount of Kshs.28,813,473 spent on personal allowances and paid as part of salary by the County Assembly includes an amount of Kshs.21,953,473 deducted for Pay As You Earn (PAYE) was paid after the statutory date therefore resulting to payment of penalties by the County Assembly.

Further, an amount of Kshs.6,860,000 for domestic and subsistence allowance expense was charged under personal allowance paid as part of salary which is erroneously charged.

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

3. 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 all 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 been confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Garissa County Assembly in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report during the year under review.

Other Matter

1. 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.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several paragraphs were raised under the Report on financial statements. 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.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis of conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Non-Adherence 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 the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Inaccurate Fixed Assets Register

The financial statements under Annex 2 on summary of fixed assets register reflects an amount of Kshs.256,121,495 as at 30 June, 2019 being the Assembly's non-current assets. However, although an assets register was availed for audit review, the information disclosed on Annex 2 of the summary of fixed assets register and the data captured differed. 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 and hence the assets register presented for audit review was not prepared in a format prescribed for a fixed asset register as per IPSAS 17.

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

2. ICT Environment and Data Security

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

In the circumstances, I am unable to confirm existence of measures to safeguard the ICT environment.

3. 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, 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 County Assembly's internal audit function may not function as required to ensure broad internal audit coverage and adequate consideration of audit reports.

4. Weak Internal Controls

Scrutiny of payment vouchers revealed that payments were done without proper examination, authorization and vote book control certificate completion. Consequently, 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.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the Assembly's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to dissolve the County Assembly or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the County Assembly monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

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

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

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

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

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

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

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

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

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

28 January, 2021