

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

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of County Assembly of Isiolo set out on pages 1 to 17, which comprise 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 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 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, in all material respects, the financial position of the County Assembly of the Isiolo 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 do not comply with the Public Finance Management Act, 2012 and the County Governments Act, 2012.

### **Basis for Adverse Opinion**

#### **1.0 Presentation of 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 Assembly's financial statements for the year under review. Further, the financial statements did not include the report of the Clerk of the Assembly on operational performance as per the requirements of the Public Sector Accounting Standards Board.

In addition, the Finance Officer is required to indicate their membership number with the Institute of Certified Public Accountants of Kenya (ICPAK) when signing financial statements. However, the County Assembly's Finance Officer did not append his membership number with the Institute of Certified Public Accountants of Kenya (ICPAK) as per the requirements of the Public Sector Accounting Standards Board.

The issues were raised in the audit of the 2017/2018 financial year. Management has not made efforts to comply with the disclosure requirements prescribed by the Public Sector Accounting Standards Board

In the circumstances the Assembly's financial statements did not comply fully with the format prescribed by the Public Sector Accounting Standards Board.

## **2.0 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.

## **3.0 Inaccuracies in Cash and Cash Equivalents**

The statement of financial assets and liabilities and as disclosed under Note 13A to the financial statements reflects a balance of Kshs.5,375,758 in respect to bank balances. This was 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 at the Central Bank of Kenya (CBK) reflected Kshs.2,639 and Kshs.11,690 respectively. However, the respective bank reconciliation statements reflected bank balances of Kshs.1,996 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.

## **4.0 Inaccuracies in Fund Balance Brought Forward**

The statement of financial assets and liabilities reflects Kshs.27,948,745 as the fund balance brought forward. 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 net financial position of Kshs.5,375,758 reflected in the statement of financial assets and liabilities as at 30 June, 2019 has been overstated by the Kshs.6,396,974.

## **5.0 Inaccuracies in the Statement of Cash Flows**

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

- i. Transfers to other government entities was reflected as a Nil balance, while in the statement of receipts and payments reflected a balance of Kshs.27,948,745 resulting in 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 figure of Kshs.410,644,815 resulting in an understatement of 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.

## **6.0 Difference Between Financial Statements and Notes to the Financial Statements**

The statement of receipts and payments reflected a Nil balance in respect of transfers to other government entities. However, Note 7 to the financial statements reflected 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 returns to County Revenue Fund (CRF) comprising of unspent balance returned to CRF. However, documents including bank statements in support of the transfer were not availed for audit review.

Consequently, the accuracy of the Notes to the financial statements and the transfers to other government entities could not be confirmed.

## **7.0 Unsupported Expenditures**

The statement of receipts and payments reflected 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). Also, 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, good received notes, Local Purchase Orders (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 could not be confirmed.

### **8.0 Unlawful Contributions to County Assembly Forum (CAF)**

The statement of receipts and payments and as disclosed under Note 4 to the financial statements, reflects an amount of Kshs.141,502,405 in respect of use of goods and services. This includes an amount of Kshs.11,049,619 being expenditure in respect of other operating expenses. The amount includes Kshs.3,000,000 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.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Isiolo Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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. I have determined that there are no other key audit matters to communicate in my report.

### **Other Matter**

#### **Budget Performance**

The statement of comparison of budget and actual amounts – recurrent and development combined for the year under review reflects an approved receipts budget of Kshs.500,284,815 and actual receipts of Kshs.498,000,000 resulting in revenue shortfall of Kshs.2,284,815 or 0.5%.

Further, the statement reflects an expenditure budget of Kshs.500,284,815 and an actual expenditure of Kshs.492,624,242 resulting to a deficit of Kshs.7,660,573 or 1.5%. The under absorption of Kshs.7,660,573 represents services expected but not delivered to the residents of Isiolo County.

# REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

## **Conclusion**

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

## **Basis for Conclusion**

### **1.0 Failure to Prepare, Publish and Publicize Quarterly Financial Reports**

As reported in the previous years, the County Assembly 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 County Assembly was in breach of the Law.

### **2.0 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 on 9 June, 2018.

In the circumstances, the Assembly's Management is in breach of their own policies and procedures.

### **3.0 Irregular Splitting of Procurement**

The County Assembly 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.

### **4.0 Stalled and Incomplete Projects at Ward Level**

The County Assembly spent an amount of Kshs.13,479,407 for erecting perimeter fences in seven (7) ward offices. However, the construction works of the said ward offices had stalled at the time of audit. Further, 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.

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

## **5.0 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 totaling to Kshs.75,381,401. However, the Ward offices had not been put to use as at the time of concluding my audit. Management explained that the Ward offices have not been operationalized due lack of office furniture, printers and computers, which is factored in the budget for 2019-2020.

In the circumstances, the residents of Isiolo 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.

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, 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**

#### **1.0 Lack of ICT Policies**

It was noted that the County Executive 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.

#### **2.0 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.

In the circumstances, the County Assembly was in breach of the Law.

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 governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and those Charged with Governance**

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

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

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

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

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

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error,

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

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

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

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

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

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



- Conclude on the appropriateness of the Management’s use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Assembly’s ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Assembly to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the County Assembly to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**08 April, 2021**