

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF GARISSA FOR THE YEAR ENDED 30 JUNE 2018**

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## **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 32, 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 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 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 comply with the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Use of Goods and Services**

##### **1.1. Unsupported Domestic Travel and Subsistence Allowances**

Included in use of goods and services of Kshs.217,094,611 is domestic travel and subsistence allowances figure of Kshs.85,575,630 which in turn includes Kshs.5,659,600.00 paid to Members of County Assemblies (MCAs) and other staff who travelled outside their work stations on official duties. However, it was noted that some payment schedules were not signed by the payees, venues of some meetings were not indicated and payment schedules were not made available for audit review. In addition, some payments were not supported by bus tickets or work tickets and specific nature of official duties were not disclosed to justify the payments made.

Consequently, it has not been possible to ascertain the probity of the expenditure of Kshs.5,659,600.

##### **1.2. Irregular Procurement of Other Operating Expenses**

Included in use of goods and services of Kshs.217,094,611 is Kshs.80,586,360 which in turn includes Kshs.5,300,000 paid in respect of consultancy services contracted for by the Assembly. It was however, noted that some payments were not supported with signed

contract agreements between the Assembly and the service providers. Further, reports of the services offered, companies' registration certificates, compliance certificates, list of attendance, training programs, and copies of certificates issued to the trainees were not availed for audit review.

Consequently, it has not been possible to ascertain the propriety of the expenditure of Kshs.5,300,000.

### **1.3. Irregular Sourcing and Payment of Rental of Produced Assets**

Included in use of goods and services of Kshs.217,094,611 is Kshs.1,220,000 incurred on rental of produced assets and services. However, a review of the expenditure revealed the following anomalies:-

- i. Garissa County has 30 wards but rent payment was made to only four (4) wards.
- ii. Payment voucher No.080 dated 23 October 2017 amounting Kshs.100,000 to Syco Ltd with respect to rent payment for Sebena ward office was not properly supported since the invoice and rental lease did not originate from the company.
- iii. Payment voucher No.458 dated 13 April 2018 amounting Kshs.240,000 to Balambash Company Ltd with respect to rent payment for Jarajara Ward office was not properly supported since the rental lease or contract was not availed for audit review.
- iv. Payment voucher No.405 dated 23 March 2018 amounting Kshs.120,000 to Daya Hardware and Construction Ltd with respect to rent payment for Balambala ward office was not properly supported since the rental lease or contract and the invoice were not availed for audit review.
- v. Payment voucher No.405 dated 23 March 2018 amounting Kshs.70,000 to Togweyne Construction Ltd with respect to rent payment for Maalimin ward office was not properly supported since the rental lease and invoice were without any description or date.
- vi. Payment voucher No.081 dated 23 October 2018 amounting Kshs.140,000 to Syco Ltd with respect to rent payment was incomplete since the payment voucher did not bear the description for the rent payment and was not properly supported since the rental lease and invoice were without any description or date.
- vii. The procurement documents for all the ward rental services were not provided for audit review.

Under the circumstances, the probity of the expenditure amounting to Kshs.1,220,000 could not be confirmed.

### **1.4. Unaccounted Mileage Allowance for Members of County Assemblies**

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Included in use of goods and services of Kshs.217,094,611 is an amount of Kshs.1,906,127 paid to the MCAs which was not supported with approved Automobile Association of Kenya applicable rates as per SRC Circular and had various anomalies as follows:-

- i. Some of the payment vouchers were supported by work tickets which were not relevant to the payments.
- ii. In some instances, the number of kilometers covered were not indicated by the claimants.
- iii. The engine capacity for the vehicles used were not indicated.

In the circumstances, the authenticity of the expenditure of Kshs.1,906,127 could not be confirmed.

#### **1.5. Unsupported Hospitality Expenditure**

Included in use of goods and services of Kshs.217,094,611 is hospitality supplies and services which in turn includes various payments amounting to Kshs.3,938,950 in respect of hotel catering services to various hotels. The payments were however, not supported with contract agreements with the hotels and suppliers as well as proof of acknowledgement of receipts of goods/services. This was contrary to Public Procurement and Assets Disposal Act, 2015 which requires that a procuring entity shall ensure that all inventory, stores and assets purchased are received but shall not be used until taken on charge and issued correctly. No proper explanation was provided for the anomalies.

Consequently, it has not been possible to ascertain the propriety of the expenditure of Kshs.3,938,950.

#### **1.6. Irregular Procurement of Routine Maintenance of Other Assets**

Included in use of goods and services of Kshs.217,094,611 is Routine maintenance - other assets of Kshs.3,165,213 which further includes payments of Kshs.1,370,000 made in respect of supply of items for the repair of Hansard system as per the LPO No.3033904 dated 28 September 2018 and invoice No.719 of 2 October 2017 from a local supplier. It was noted that the mode of procurement used was request for quotations. However, scrutiny of the quotations revealed that they lacked floating dates, date of return and also the opening dates and time were not indicated. The quotations therefore appeared incomplete which may lead to unfair award of contracts contrary to Public Procurement and Assets Disposal Act, 2015 which emphasizes on fairness, equitable, transparent and competitive manner on award of contracts of any nature.

Under the circumstances, the probity of the expenditure of Kshs.1,370,000 could not be ascertained.

## **1.7. Unsupported Training Expenses**

Included in use of goods and services of Kshs.217,094,611 is Kshs.14,674,692 which in turn includes Kshs.1,102,000 spent on training of staff. However, it was observed that the payments were not supported properly with details of list of the officers purported to have trained. Failure to properly support payments could lead to payment for services not rendered hence loss of public funds.

Consequently, it has not been possible to ascertain the probity of the expenditure of Kshs.1,102,000.

## **1.8. Unaccounted for Office and General Supplies and Services**

Included in use of goods and services of Kshs.217,094,611 is Kshs.639,680 for office & general supplies and services. The Assembly used low value procurement method to purchase office supplies and services. However, the S13 and S11 counter receipt vouchers and counter issue vouchers respectively were not availed for audit review and thus goods may have not been delivered for official use and thus loss of public funds.

In the circumstances, the probity of the expenditure of Kshs.639,680 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Garrisa 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 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 described in the Basis for Qualified Opinion section of my report, I have determined that there are no other key audit matters to communicate in my report.

### **Other Matter**

#### **1. Budgetary Control and Performance**

During the year under review, the approved budget of the County Assembly totaled Kshs.753,322,471 out of which a sum of Kshs.673,322,471 (89.4%) was allocated to recurrent expenditure and Kshs.80,000,000 (10.6%) to development expenditure. However, it was noted that 96% of recurrent was utilized leaving a balance of 4% while 62% of development was utilized leaving a balance of 38 % unspent. No proper explanation was given for under absorption of budget which leads to denial of service delivery to county residents.

<b>Item</b>	<b>Budgeted Allocation Kshs.</b>	<b>Actual Expenditure Kshs .</b>	<b>Absorption Rate</b>	<b>% of under absorption</b>
Recurrent Expenses	673,322,471	648,459,445	96%	4%
Development Expenses	80,000,000	49,545,063	62%	38%
<b>Total</b>	<b>753,322,471</b>	<b>698,004,508</b>		

## **2. Maintenance of Fixed Assets Register**

Annex 4 to the financial statements reflects a summary of the total fixed assets owned by the County Assembly valued at Kshs.214,962,445 as at 30 June 2018. However, County Assembly did not update the fixed assets register. In the absence of a detailed updated fixed asset register it was impossible to ascertain the balances and the make-up of the fixed assets disclosed. The land and some buildings inherited from the former defunct local authority had not been included in the fixed assets register.

In the circumstances, it was not possible to confirm the completeness of the fixed assets balance of Kshs.214,962,445.

## **3. Pending Bills**

The County Assembly had accumulated pending bills amounting to Kshs.28,564,791 as at 30 June 2018 as per Annex 1 to the financial statements. However, the pending bills schedule attached did not indicate the ageing analysis and therefore it was not possible to ascertain how long the debts had been outstanding. Had the bills been paid and charged to the 2017/2018 accounts, the financial statements would have reflected a deficit and not a surplus as shown in the financial statements. Failure to pay bills in the year they relate to distorts the financial statements for the year and adversely affects the provisions for the subsequent years they have to be charged to.

In view of the above, it has not been possible to ascertain the accuracy, validity and completeness of the pending bills amounting to Kshs.28,564,791 reported in the financial statements.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion 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**

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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 governance were not effective.

### **Basis for Conclusion**

#### **ICT Environment and Data Security**

Review of the County ICT environment revealed that there was an ICT Policy document in place. However, data security policy and disaster recovery plans were not spelt out. Further, formally documented and approved processes to manage upgrades made to all financial performance information systems were not provided for audit review.

The Assembly may fail to undertake adequate measures to safeguard its resources in the event of unforeseen disasters and lack of a consistent approach towards the addressing of handling ICT issues due to lack of ICT Policy.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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.

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.

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 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 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 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 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 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**

**24 January 2019**