

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF ISIOLO FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of County Assembly of Isiolo set out on pages 6 to 25, which comprise statement of financial assets as at 30 June 2017, 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, 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 Isiolo as at June 30, 2017 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 County Government Act, 2012 and the Public Finance Management Act, 2012.

In addition, and as required by Article 229 (6) of the Constitution, based on the audit procedures performed, I confirm that public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1.0 Cash and Cash Equivalents

The statement of financial assets as at 30 June 2017 reflects a cash and cash equivalents balance of Kshs.46,296,708 as at 30 June 2017 as follows;

Bank	Account No.	Bank statement Balance (Kshs)	Purpose
Central Bank of Kenya	1000195738	19,985	Recurrent
Central Bank of Kenya	1000195746	1	Development
Equity	0410261437860	25,201,474	Development
National bank of Kenya	00121001340301	21,075,248	Car loan
Total		46,296,708	

However, bank confirmation certificates were not provided for audit review. Further, Equity Bank Account No. 0410261437860 and National Bank Account No. 0012001340301 were held in commercial banks contrary to Section 82 of the Public Finance Management (County Government) regulations, 2015 that require such accounts to be held at the Central Bank.

In the circumstances, the County Assembly was in breach of the law and the accuracy of the cash and cash equivalents balance of Kshs.46,296,708 as at 30 June 2017 could not be ascertained.

2.0 Un surrendered Imprests

The County Assembly's manual imprest register reflects outstanding imprest totaling to Kshs.7,447,748 as at 30 June 2017. However, despite Integrated Financial Management Information Systems (IFMIS) being used to process transactions, imprest issuing and processing was not done through IFMIS. Further, officers were being issued with additional imprests before surrendering previous outstanding imprests.

In the circumstances, the accuracy and recoverability of the Kshs.7,447,748 outstanding imprests as at 30 June 2017 could not be confirmed.

3.0 Accounts Payables

The statement of financial assets reflects a nil accounts payable balance as at 30 June 2017. However, the IFMIS vote book status report indicates outstanding commitments totaling to Kshs.31,640,687 as at 30 June 2017, resulting in unexplained and unreconciled difference of Kshs.31,640,687. Further, the respective accounts payables supporting documents including payment vouchers, creditors ledgers and registers were not made available for audit review.

Consequently, it has not been possible to ascertain the accuracy, existence and authenticity of the nil accounts payable balance shown in the statement of financial assets as at 30 June 2017.

4.0 Non-current Assets

The statement of receipts and payments reflects acquisition of fixed assets balance of Kshs.224,581,735 as at 30 June 2017. However, the fixed assets register provided showed that twenty six laptops valued at Kshs.3,120,000 were issued to staff members, which included, twenty two laptops that were not available during physical verification. Further, two laptops issued to Mr. Abdullahi. M. Halake and Mr. Tunu A. Tunu had different serial numbers from the numbers recorded in the fixed assets register. In addition, ownership documents for two motor vehicles registration numbers 11CG002A and 11CG029A were not provided for audit review. The summary of fixed assets shows purchase of office equipment of Kshs.7,009,534 which however was not reflected in the statement of receipts and payments nor the statement of comparison of budget and actual amounts.

In consequence, the accuracy, ownership, existence and security of non-current assets balance stated at Kshs.224,581,735 as at 30 June 2017 could not be ascertained.

5.0 Human Resource Management

5.1 Casuals

Note 3 of the notes to the financial statements reflects a balance of Kshs.14,720,519 in respect to basic wages – temporary employee which included Kshs.11,660,000 in respect to casuals paid during the year under review. However, documents showing how the casuals were hired, authority to hire, allocation of work and duty stations, identification numbers, designations and muster roll showing days worked were not provided for audit review. Further, approved staff establishment showing shortage of staff that necessitated the hiring of casuals has not been seen.

In the circumstances, it has not been possible to ascertain that the Kshs.11,660,000 expenditure on casuals wages as at 30 June 2017 was a proper charge to public funds.

5.2 Compensation of Employees

The financial statements reflected a compensation of employees balance of Kshs.171,183,391 as at 30 June 2017. Included in this balance was Kshs.22,650,770, paid to various officers without being processed through the Integrated Payroll and Personnel Database (IPPD) casting doubts on double and ghost payments. No explanation was provided as to why the officers could not be paid through the IPPD.

As a result, it has not been possible to ascertain the propriety of the Kshs.22,650,770 expenditure as at 30 June 2017.

5.3 Ward Office Rent and Salaries

Records made available for audit review showed that the County Assembly spent Kshs.610,000 on ward office rent. However, valuation reports showing the amount to be charged as rent and agreement between the tenants and the landlords were not made available for audit review.

In the circumstances, it has not been possible to ascertain the existence of the ward offices which were rented at Kshs.610,000, including whether the County Assembly got an equivalent value for money.

5.4 Irregular Mileage Claims

The County Assembly spent Kshs.646,601 on Members of County Assembly (MCA) mileage claims as follows;

Date	Pv No.	Payee	Amount (Kshs)
29/9/16	44	Adan Ali Wako	212,991
22/11/16	77	Adan Ali	89,080
14/12/16	105	Abdi Sora	242,976
22/11/16	75	Abdi Sora	42,995
22/11/16	76	Peter Losu	58,560
		Total	641,601

However, the expenditure was not supported by details of the vehicles used including engine capacity, kilometers covered, rural home location and reasons for travel to the rural home.

In view of the foregoing, it has not been possible to determine the authenticity and accuracy of Kshs.641,601 claims including whether the Assembly got an equivalent value for money.

6.0 Non Maintenance of Stores Records

6.1 Fuel, Oils and Lubricants

Note 5 to the financial statements reflected a balance of Kshs.9,250,000 spent on fuel oil and lubricants. However, although a fuel register was maintained, certain information such as quantities of fuel received, their value, fuel balances and detailed order numbers were not included in the register. It was therefore not possible to confirm whether all the fuel purchased was received and consumed appropriately. In the circumstance, the accuracy and propriety of the expenditure of Kshs.9,250,000 as at 30 June 2017 could not be confirmed.

7.0 Unaccounted for Expenditure – Use of Goods and Services

The statement of receipts and payments reflected an expenditure of Kshs.174,229,712 on use of goods and services during the year under review. However, included in this expenditure was Kshs.70,143,313 in respect to eleven (11) expenditure items which were not properly accounted for as follows;

	FS Amount Kshs	Supported Amount Kshs	Unsuported Amount Kshs
Communication Supplies Services	3,794,312	3,260,352	533,960
Domestic Travel and Subsistence	56,773,410	48,170,344	8,603,066
Printing Advertising and Info. Supplies	3,800,340	3,402,040	398,300
Rental of Produced Assets	20,192,982	9,400,000	10,792,982
Training Fees	4,307,700	3,939,300	368,400
Hospitality Supplies Services	6,988,920	5,416,920	1,572,000
Insurance	18,134,004	7,234,004	10,900,000

General Office Supplies Services	3,864,400	2,918,800	945,600
Refined Fuels and Lubricants for Transport	9,250,000	6,250,000	3,000,000
Construction of Building	15,843,905	9,446,303	6,397,602
Construction and Civil Works	87,596,094	60,964,691	26,631,403
Total	230,546,067	160,402,754	70,143,313

Further, use of goods and services balance of Kshs.164,247,173 in the statement of comparison of budget and actual amounts varies with an unexplained difference of Kshs.9,982,539.

In the circumstances, it has not been possible to ascertain the propriety of the Kshs.80,125,852 unsupported expenditure as a proper charge to public funds.

8.0 Foreign Travel and Subsistence

Note 4 to the financial statements reflects an expenditure of Kshs.6,265,004 spent on foreign travel and subsistence which included Kshs.4,404,414 spent on foreign travel and subsistence allowances to nine (9) officers to Dubai for nine days and two days at Nairobi. However, boarding passes, program of activities and copies of endorsed passports were not provided for audit review. Therefore, it was not possible to determine whether the officers went for the trip.

Under the circumstances, the validity and value for money for the expenditure of Kshs.4,404,414 could not be confirmed.

9.0 Rental of Produced Assets

Note 4 to the financial statements reflects an expenditure of Kshs.20,192,982 spent on rental of produced assets which included Kshs.4,560,000 spent on hire of motor vehicles. However, ownership documents such as copies of logbooks for the vehicles on hire including their registration numbers, insurance certificates, copies of temporary work tickets showing the distance covered, name of the drivers and name of the officers who authorized the journeys and list of people ferried were not provided for audit review. Further, review of requests for quotations provided did not show official time and dates of quotations closing. In addition, opening dates and the officials who opened the quotations were not indicated.

Under the circumstances, the propriety of Kshs.4,560,000 expenditure as at 30 June 2017 could not be confirmed.

10.0 Construction of Buildings

Further, the County Assembly entered into contracts with ten contractors for construction of ten ward offices at total contract cost of Kshs.44,530,005 on 29 June 2015 for a duration of 12 weeks ending 21 September 2015. However, as at the time

of this audit on 15 February 2018 five offices in Sericho, Oldonyiro, Garbatula, Kinna and Burat wards had not been completed despite the contract duration having elapsed and the contractors having left the site. Therefore, the projects appeared to have stalled. Records provided for audit review show that as at 30 June 2017, the Assembly had paid Kshs.30,418,805, out of which Kshs.15,843,905 was paid during the year under review. However, ownership documents for the ten pieces of land where the ward offices were constructed were not provided for audit review.

Further, during physical verification, it was observed that three offices in Ngaremara ward, Cherab ward and Chari ward were issued with certificates of practical completion and handing over certificates, though works valued at Kshs.462,400 had not been done. In addition, included in the bills of quantities for the construction of seven offices each located in Chari, Burat, Kinna, Cherab, Ngeremara, Bula pesa and Wabera wards was Kshs.200,000 and Kshs.100,000 for contingency and project management respectively all totaling to Kshs.2,100,000. However, details showing how the amount was accounted for were not provided for audit review.

In the circumstances, the propriety and value for money for the expenditure of Kshs.30,418,805 total payment for the contracts on construction of ward offices could not be ascertained.

11.0 Irregular Procurement of Office Furniture and Equipment's

Note 4 of the notes to the financial statements reflected an expenditure of Kshs.7,009,534 spent on purchase of office furniture and equipment which included Kshs.2,896,400 spent on procurement of office desks and chairs. However, the County Assembly used request for quotation method contrary to Section 105(a) of Public Procurement and Assets Disposals Act 2015 that require request for quotations to be used only when the value is equal to or below the prescribed maximum value required by regulations. Legal notice no 106 of Public Procurement and Disposal (Amendment) Regulations, 2013 set the maximum limit for use of request for quotation on procurement of goods at Kshs.2,000,000. No explanation was provided as to why the management did not adhere to the prescribed maximum value as required by the law.

In the circumstances, the Assembly was in breach of the law and it was not possible to ascertain that the Kshs.2,896,000 office desks and chairs expenditure had the best value for money.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Isiolo 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 and Other Matter sections of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1. Budget Control and Performance

The approved budget for the County Assembly of Isiolo for the year under review was Kshs.585,649,165 comprising of Kshs.377,924,581 (65%) for recurrent vote and Kshs.207,724,584. (35%) for the development vote. However, the statement of comparison of budget and actual amounts reflected Kshs.522,794,021 resulting in under expenditure of Kshs.62,855,144.

Further, the statement of receipts and payments and the respective bank statements reflected receipts totaling to Kshs.555,000,000 during the year which comprised of Kshs.377,900,000 for recurrent and Kshs.177,100,000 for development expenditures respectively. Therefore, the County Assembly had a revenue shortfall of Kshs.30,649,165 which translated to non-delivery of public services of equivalent value promised to and expected by the residents of Isiolo County.

2. Failure to Adhere to Public Finance Management Act 2012

During the financial year under review, 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 addition, quarterly cash flow reports supported by approved procurement plan as required by Section 43 (3),(4),(6) of the Public Finance Management Act 2012 were not provided for audit review. In the circumstance the County Assembly contravened the Public Finance Management Act 2012.

3. Failure to Adhere to Public Procurement and Assets Disposal Act 2015

During the year under review, the head of procurement did not prepare and submit monthly progress report for all procurement contracts as required by Section 152 of Public Procurement and Assets Disposal Act 2015. Further, quarterly report stating compliance with Sections 157(12),(13) and 158(3) containing disaggregated data indicating the number of youth, women and persons with disability whose goods and services have been procured was not provided. In addition, no documentary evidence was provided that the Assembly published and publicized all contract awards on its notice boards at conspicuous places, and website. In the circumstances, the Assembly was in breach of the Public Procurement and Assets Disposal Act 2015.

4. Non Establishment of Audit Committee

As at 30 June 2017, the County Assembly had not established an audit committee as required by Section 42.(1) (e) of Public Finance Management (County Government) Regulation 2015 and guidelines required by gazette notice number

2690 of 15 April, 2016 on audit committee, guidelines for County Government. The audit committee would have performed various roles stipulated in the act which would have ensured that an effective internal control mechanism is established in the Assembly.

In the circumstance the County Assembly contravened the Public Finance Management (County Government) Regulation 2015 and it was not possible to confirm whether the Assembly had established an effective internal control mechanism.

5. Internal Control Effectiveness - Information, Communication and Technology (ICT) Environment

Review of the Assembly's ICT environment revealed that there was no formal approved ICT policy in place as at 30 June 2017. The policy would have included data security and disaster recovery plans. Further, the ICT organization structure was not provided for audit review.

In the circumstances, the security and reliability of the County Assembly's data integrity and the management information system could not be confirmed.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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 such 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.

In preparing the financial statements, management is responsible for assessing the Assembly's ability to continue to sustaining its services, disclosing, as applicable, matters related to sustainability of services and using going concern of accounting assumption unless the management either intends to liquidate the Assembly's 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.

Those charged with governance are responsible for overseeing the Assembly's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Assembly's 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 Assembly's 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 Assembly's 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

16 July 2018