

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Mandera set out on pages 1 to 17 which comprise the statement of financial assets and liabilities 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, except for the effect of the matters discussed in the Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Assembly of Mandera as at 30 June 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 comply with Public Finance Management Act, 2012 and the County Government Act, 2012.

Further, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, except for the matter described in the Other Matter section of my report, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Fixed Assets Register

The summary of fixed assets reflects a balance of Kshs.11,889,466 as at 30 June 2017, which relates to purchase of fixed assets such as motor vehicle, furniture and Information Communication Technology (ICT) equipment which were procured during the financial year under review. The balances and nature of the fixed assets disclosed were not supported with sufficient evidence since the County Assembly did not maintain a fixed assets register as required by Section 136 of the Public Finance Management Regulations, 2015.

Under the circumstances, it has not been possible to ascertain the completeness and accuracy of the balances and nature of the fixed assets disclosed in the financial statements as at 30 June 2017.

2. Unaccounted for Ward Fund Expenses

The County Assembly of Mandera paid ward expenses amounting to Kshs.20,640,000 as at 30 June 2017. However, there were no approved structures for the employees working at the ward offices. Further, recruitment was not conducted by the County Assembly Public Service Board but instead it was illegally carried out by the Members of the County Assembly (MCA's). No authority pertaining to this recruitment has been seen hence the positions were not competitively sourced. In addition, there was no documentary evidence to show that statutory deductions of the staff were made from the employees' salaries and remitted to the relevant bodies. Muster rolls were also not maintained for the casual workers.

In view of the foregoing, it has not been possible to confirm the propriety, accountability and value for money for the expenditure of Kshs.20,640,000 incurred as ward fund expenses as at 30 June 2017.

3. Unaccounted for Travel and Subsistence Allowance

Audit scrutiny of payment vouchers and other supporting documents relating to domestic travel and subsistence allowances revealed that an amount of Kshs.9,798,244 was paid to MCAs and other staff who were attending workshops and other official duties at Nairobi and other areas. However, the payments were not supported with invitation letters, training programs and attendance register. The mode of transport used was not indicated since the payments were not supported by bus tickets, work tickets or air tickets. .

Further, some cases the nature of training, date and location of the training were not disclosed or made available for audit review

Under the circumstances it has not been possible to ascertain the propriety of the expenditure of Kshs.9,798,244 incurred on travel and subsistence allowances as at 30 June 2017.

4. Unsupported Training Expenses

Examination of payment vouchers and other supporting documents revealed that the Assembly spent Kshs.6,288,100 on training. However, the payments were not supported with the relevant documentations such as invitation letters, training programs and list of participants to confirm the training. Further, the mode of transport used was not indicated.

In view of the foregoing, the amount used for the training of Kshs.6,288,100 could not be confirmed as at 30 June 2017.

5. Unaccounted for Mileage Allowance

During the year under review, the Assembly made payments of Kshs.23,780,060 to Members of the County Assembly in respect of mileage claims. However, the mileage claims were not supported with copies of the motor vehicle logbooks and work tickets of

the vehicles used to ascertain the ownership, number of kilometers covered and to confirm that MCAs travelled to their destinations.

Further, it was noted that claims paid to the MCA's were not supported with approved AA applicable rates as per Salaries and Remuneration Commission's circular .In addition some of the payment vouchers were supported with work tickets which were not authorized.

Under the circumstances, the validity of the mileage claims of Kshs.23,780,060 paid to the MCA's during the year could not be confirmed as a proper charge on public funds.

6. Unsupported Expenditure on Foreign Travel

During the financial year under review, the County Assembly of Mandera spent Kshs.6,244,244 on travel and subsistence allowances for foreign trips undertaken by members and officials of the County Assembly . However, a review of the expenditure revealed that the payments were not supported with relevant documents such invitation letters, clearance letters from the county assembly service board and Ministry of Devolution and Foreign affairs, copies of passports, visas and travel insurance for the members. Further, although the foreign trips made by the MCAs were reportedly for education and bench marking exercises, there were no reports maintained on the same hence there was no evidence to confirm that the MCAs travelled and attended the said functions.

Under the circumstances it has not been possible to ascertain the propriety of the expenditure of Kshs.6,244,244 on foreign travel.

7. Irregular Procurement and Unsupported Expenditure on Office Furniture and Office Equipment

The County Assembly procured office furniture and general equipment's amounting to Kshs.8, 807,988 during the year under review. However, no written contract agreement was entered into between the procuring entity and the companies providing the services as required by Section 87(1) of Public Procurement and Asset Disposal Act, 2015.

Notifications to unsuccessful bidders were not done as per Section 87(3) of Public Procurement and Asset Disposal Act, 2015. Further, according to the Act, the inspection and acceptance committee should inspect the goods and ensure that they are received in good condition and also goods or services meet the technical standards defined in the contract. However no such report was made available for audit review.

The purchased furniture and equipment were not received through S13 or taken on charge in store ledgers as required by the law.

In view of the foregoing anomalies, it has not been possible to confirm the propriety of the expenditure of Kshs.8,807,988 incurred on purchase of office furniture and other equipment as at 30 June 2017.

8. Irregular Payment of Medical Insurance Cover

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The County Assembly of Mandera procured Medical Services amounting to Kshs.2,800,000 during the year under review. However, no written contract agreement was entered into between the procurement entity and the company providing the services as required by Section 87(1) of the Public Procurement and Asset Disposal Act, 2015. Further, a copy of the insurance policy was not made available for audit review.

Consequently, the expenditure of Kshs.2,800.000 could not be confirmed as a proper charge on public funds.

9. Unsupported Expenditure for Motor Vehicle Repairs

Audit review scrutiny of the expenditure on motor vehicle repairs revealed that the County Assembly of Mandera spent a total of Kshs.1,678,073 on motor vehicles expenses. However, proper procedures were not adhered to in making the payments as there was no certificate of inspection issued by the mechanical department (public works) indicating the nature of repairs and estimated costs to ascertain whether it was economical to repair the motor vehicles. It was also noted that the repairs and defects were not taken on charge in the logbook (GP 55) and the work tickets were not made available for audit to confirm the repairs were indeed carried out.

Under the circumstances, it has not been possible to ascertain the propriety of the expenditure on repair of motor vehicles of Kshs1,678,073 as at 30 June 2017.

10. Pending Bills

The financial statements as shown in Annex1 revealed that the County Assembly had accumulated pending bills amounting to Kshs.35,168,434 as at 30 June 2017, However, a review of the pending bills schedule provided for audit revealed that the ageing time was not indicated and therefore it was not possible to ascertain how long the debts had been outstanding. Further the supporting documents such as invoices, demand notices, contract numbers or suppliers' statements were not provided for audit verification to confirm proper procedures were followed in procurement and the validity of the expenditure.

In view of the foregoing, the authenticity, accuracy and completeness of the pending bills balance of Kshs.35,168,434 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Mandera 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 qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified opinion section, 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 of Mandera was Kshs.856,092,930 out of which a sum of Kshs.700,168,112 (81.79%) was allocated to recurrent expenditure and Kshs.155,924,818 (18.21%) to development expenditure. However, the Assembly received Kshs.572,845,037 for recurrent expenditure and spent Kshs.572,830,440 or 99.8% of the budget.

The County Assembly therefore attained a good absorption rate during the year under review.

2. Lack of Internal Audit Department and Committee

A review of the overall Internal control environment of County Assembly of Mandera as at the time of audit revealed that there was no formal risk assessment process put in place to mitigate risk. Further, the County Assembly lacked an examination unit and Internal Audit department. In addition, there was no Audit Committee as at the time of audit.

Under the circumstances, management can easily override controls. Further, in such instances, cases of fraud and errors may not be detected and corrected in a timely manner.

No proper explanation was given for the irregularities noted.

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 sustain services, disclosing, as applicable, matters related to going sustainability of services.

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 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, 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 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 consolidated and separate 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 business activities of the 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.



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

Nairobi

16 July 2018