

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MANDERA 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 Mandera set out on pages 1 to 31, 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 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 County Assembly of Mandera 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 complies with Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Compensation of Employees**

Included in the compensation of employees amount of Kshs.292,514,974 is personal allowances paid as part of salary of Kshs.118,111,973 which in turn includes Kshs.16,198,734 incurred in respect of Members of County Assembly (MCA) mileage claims. However, these claims were not supported with copies of the vehicle logbooks owned by the MCAs or where leased a binding lease agreement for the vehicles, work tickets and driver's license to ascertain the ownership of the vehicles and the kilometers covered to visit the wards.

In the circumstances, the probity of Kshs.16,198,734 could not be ascertained.

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

##### **2.1. Unsupported Training Expenses**

Included in the use of goods and services of Kshs.282,418,524 is an amount Kshs.21,861,730 in respect of training expenses which in turn includes Kshs.10,759,040

which was not properly supported with invitation letters, training programs, training need assessment, user request and mode of participants selection as well as how the training venues were identified and procured.

In view of the foregoing, the propriety of the expenditure of Kshs.10,759,040 could not be ascertained.

## **2.2. Domestic, Travel and Subsistence**

Included in the use of goods and services figure of Kshs.282,418,524 is an amount Kshs.103,978,894 in respect of domestic, travel and subsistence expenses which in turn includes Kshs.10,676,914 incurred on domestic travel and subsistence allowances to MCAs and other staff attending workshops and other official duties outside the county. However, the payments were not supported with invitation letters and training programs. In some instances, the mode of transport used was not indicated since the payments were not supported with bus tickets, work tickets or air tickets.

Under the circumstances, it is not possible to ascertain the propriety of the expenditure of Kshs.10,676,914.

## **2.3. Foreign Travel and Subsistence**

Included in the use of goods and services amount of Kshs.282,418,524 is foreign travel and subsistence expenses of Kshs.16,705,891 which in turn includes Kshs.9,989,325 spent on travel and subsistence allowances for foreign trips undertaken by Members of the County Assembly and other officials which did not have supporting documents such as invitation and admission letters to the said trainings, symposia and conferences. Further, there was no duly approved training programs, needs assessment report, clearance/approval letters from the County Assembly service board, the Ministry of Foreign Affairs and Ministry of Devolution, course timetable and fee structures for the tuition participation fees paid. In addition, air tickets, boarding passes, copies of passports and visas used to support the expenditure were also not availed for audit review.

Although the foreign trips by the MCAs and officials were reportedly for education and bench marking exercises, the payments were not supported with end user reports, hence there was no evidence to confirm that the officials travelled and attended the said functions. The benefits derived from these trips to the residents of Mandera County could also not be established.

Under the circumstances, it has not been possible to ascertain the probity of Kshs.9,989,325 incurred on foreign travel and subsistence.

## **2.4. Unsupported Hospitality Supplies and Services**

Included in the use of goods and services of Kshs.282,418,524 is hospitality supplies and services of Kshs.13,517,262 which in turn includes Kshs.7,960,000 on hospitality supplies and services expenses. However, the expenditure was not appropriately supported with requisite documents and approvals by the accounting officer of the County Assembly or the County Assembly Service Board for the services rendered.

Under the circumstances, it has not been possible to ascertain the probity of the expenditure of Kshs.7,960,000.

## **2.5. Rental of Produced Assets**

Included in the use of goods and services of Kshs.282,418,524 is rentals of produced assets expenses of Kshs.10,545,000 which in turn includes Kshs.5,324,740 relating to ward office rents and hire of motor vehicles. However, Section 3 and 4 of the County Assembly of Mandera Service Board Regulations 2013, requires that the county department of health, public works and lands to inspect the offices identified by members to ascertain whether they are fit for human habitation and meets basic public health standards while department of public works was to confirm whether office buildings are structurally sound and the department of lands and housing was supposed to assess value of the offices in order to confirm the market renting price.

However, the inspection reports of these multi-departmental assessments were not availed for audit review. Further, there were no lease agreements between the MCAs and the owners of various premises. Similarly, the logbooks and work tickets for the vehicles that were alleged to have been hired were not maintained.

In view of the foregoing, it has not been possible to confirm the probity of the expenditure of Kshs.5,324,740 for the year ended 30 June 2018.

## **3. Inaccuracies in the Statement of Cash Flows**

The statement of cash flows reflects the net cash flows from operating activities at Kshs.573,122,950 and a net increase in cash and cash equivalents at Kshs.585,664,859 both of which are inaccurate and do not show the correct position. In addition, the cash and cash equivalents at the beginning of the year has not been captured in the statement.

Consequently, the accuracy of the financial statements for the year ended 30 June 2018 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 judgment, 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 were no key audit matters to communicate in my report.

## Other Matter

### 1. Fixed Assets Register

A summary of the fixed assets register under Annex 4 to the financial statements discloses the value of fixed assets for the year under review as Kshs.45,225,751 However, the data captured in the document provided as assets register is not linked to the information disclosed on Annex 4 of summary of fixed assets register. Further, the alleged assets register lacked identification or serial numbers, acquisition date, description of asset, location, class, and cost of acquisition, accumulated depreciation, and net book value of the assets. Therefore, the information used to support the fixed assets was not in line with the prescribed format as per IPSAS 17.

In view of the foregoing, it was not possible to ascertain the validity, completeness and accuracy of the assets balance of Kshs.45,225,751.

### 2. Variances between IFMIS Reports and Financial Statements

A Comparison between financial statements presented for audit and IFMIS generated reports for County Assembly of Mandera between 1 July 2017 and 30 June 2018 in relation to total payment details for both recurrent and development budgets revealed a variance of Kshs.2,428,582.55 and Kshs.31,910,320.00 respectively as analyzed below:-

<b>Budget Vote</b>	<b>Financial Statements Kshs.</b>	<b>IFMIS Report Kshs.</b>	<b>Variance Kshs.</b>
Recurrent	585,664,859.25	588,093,441.80	2,428,582.55
Development	0	31,910,320.00	31,910,320.00
<b>Total</b>	<b>585,664,859.25</b>	<b>620,003,762.80</b>	<b>34,338.902.55</b>

There was a variance of undisclosed expenditure of Kshs.34,338,902 reported in IFMIS but not in financial statements. However, no proper explanation was given for the variance.

Consequently, the accuracy of balances in the financial statements and the IFMIS report as at 30 June 2018 could not be confirmed.

### **3. Budget Performance Analysis**

During the year under review, the Assembly had a recurrent budget of Kshs.802,350,157 with no development budget. The County Assembly of Mandera incurred an actual recurrent expenditure of Kshs.585,523,407.50 thus attaining an absorption rate of 73% with a balance of 27% of the budget not utilized. Failure to implement budgeted for programs denies the residents of the much needed services.

#### **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 Report on 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**

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit so as 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 procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls section of my report, I confirm that, nothing 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. Lack of Internal Audit Committee**

A review of the overall internal control environment of the Assembly as at the time of audit revealed that the internal audit department was not functional as required by law and the Assembly had not constituted an audit committee.

When internal audit committee is not in existence then the management can easily override controls in such instances, cases of fraud and errors may not be detected and corrected in a timely manner. Further the Assembly was in breach of Public Finance Management Act, 2012 and Section 167(1) of Public Finance Management County Government Regulations, 2015 which requires county governments to establish an audit committee.

Consequently, the Assembly was in contravention of the law.

## **2. Risk Management Policy Framework**

During the financial year under review, the Assembly operated without a documented risk management policy framework contrary to the requirements of Treasury Circular No.3/2009 of 23rd February 2009 which require all heads of public institutions to develop and implement a risk management frame work as a fundamental step towards establishing an accountable and innovative public service. In addition, there was no effective reporting system that includes hotlines, report centers and whistle blower policy.

In view of the foregoing, it was not possible to confirm how the accountability was guided.

## **3. IT Internal Controls**

A review of the Assembly's ICT environment revealed that there was no formal approved ICT Policy in place as at 30 June 2018 which includes data security policy and disaster recovery plans. Further, formally documented and approved processes to manage upgrades made to all financial/performance information systems were not provided for audit.

Under the circumstances, the organization may fail to undertake adequate measures to safeguard its resources in the event of unforeseen disasters.

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 sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Assembly 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.

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 Assembly's 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 Assembly policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment 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 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 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**

**18 February 2019**