

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MARSABIT FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of County Assembly of Marsabit set out on pages 10 to 28, which comprise the statement of assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flow and summary statement of appropriation 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 Marsabit 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 do not comply with the Public Finance Management Act, 2012.

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

### **Basis for Adverse Opinion**

#### **1.0 Presentation of Financial Statements**

The International Public Sector Accounting Standards (Cash Basis) reporting template prescribed by the Public Sector Accounting Standards Board requires that a report on the follow up of previous year's audit recommendations and summary of the fixed assets register be included as part of the annexures to the financial statements. However, no summary of Fixed Assets has been attached in the financial statements and also no report on follow-up on previous year's audit and its recommendation has been included on annex to the financial statements as at 30 June 2017.

In the circumstance, the presentation of the financial statements for the year ended 30 June 2017 did not comply with the prescribed format by the Public Sector Accounting Standards Board under the International Public Sector Accounting Standards (Cash Basis).

#### **2.0 Accuracy and Completeness of the Financial Statements**

The financial statements for the year under review reflected a balance of Kshs.21,505,896 under Printing and Advertising expense while the respective schedules reflected a balance of Kshs.21,838,477 resulting into a variance or understatement of the financial statements by Kshs. 332,581.

In the circumstances, the accuracy and completeness of the financial statements as at 30 June 2017 could not be confirmed.

### **3.0 Cash and Cash Equivalents**

The statement of assets as at 30 June, 2017 reflects a cash and cash equivalents balance of Kshs.354,626. However, the balance excludes balances for the twenty (20) ward bank accounts in operation during the year under review.

Further, bank reconciliation statements, bank statements and bank balance confirmation certificates for the twenty (20) ward bank account were not made available for audit verification. As a result, it has not been possible to confirm the outstanding balances of the twenty (20) bank accounts as at 30 June 2017.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.354,626 as at 30 June 2017 could not be confirmed.

### **4.0 Domestic Travel and Subsistence Allowance**

The statement of receipts and payments for the year under review reflects an expenditure of Kshs.90,999,999 on domestic travel and subsistence allowance. However, the following anomalies were observed:

- i. Voucher No 1050 of Kshs. 420,000 paid to several MCAs while attending Kalacha Festival in Northern Kenya (4-8 August, 2016) was supported by an invitation letter addressed to one M.C.A, but 10 additional officers were paid night outs including 8 MCAs and 2 staff members. No report on outcome of the cultural festival has been provided and its benefit to the Assembly. Further, the members were paid 5 night outs but work ticket showed only 3 night-outs were earned.
- ii. Voucher No 1117 of Kshs. 1,056,300 paid to MCAs and staff attending EACC training in Isiolo had no needs analysis conducted or correspondence between the training institution and the Assembly. Travel details further showed that the members were in Nanyuki and not Isiolo and further six (6) members did not attend the training but were still paid.
- iii. Voucher No. 1451 of Kshs. 1,764,000 paid to MCAs to operationalize Marsabit County Disaster Vote in Naivasha (5-11Feb. 2017) did not have reasons as to why the MCAs had to sit out of the Assembly premises. Further, a review of the work tickets showed that the MCAs were travelling to Nairobi and other parts of the Country every morning and spending time out of Naivasha during this period instead of attending the seminar in Naivasha.
- iv. Voucher No 1607 of Kshs.3,864,000 paid to MCAs and staff while attending bills deliberation (12-18 March 2017) had no information or explanation as to why the MCAs had to sit outside the County Assembly premises and more so why discussions on the County bills were held in Nairobi and not in Marsabit County?

- v. Voucher No 1581 of Kshs.1,512,000 paid to facilitate Alternative Dispute Resolution panel meeting in Nairobi (1-11Feb) was supported by an unsigned attendance list.
- vi. Included in the domestic travel and subsistence expenditure of Kshs.90,999,999 was Kshs.182,000 paid to a staff member vide voucher number 1126, warrant number 2424512 to facilitate PIC and PAC members of the County Assembly to follow up and report on failure to initiate water projects in Uran Ward. A review of the supporting documents revealed that the payment was made to nine (9) members of the County Assembly and three (3) staff members who traveled to Uran on 21st October 2016 and returned on the 23rd October 2016. However, it was noted that during the same time (19-22 October 2016) two of these MCAs and one member of staff were also paid allowances totaling to Kshs.197,000 to carry out civic education in North Horr Sub-County vide voucher number 1387, warrant number 2424506 resulting to a double payment of 2 days (21 and 22 October 2016).

In the circumstances, the propriety and value for money of the expenditure of Kshs.90,999,999 on domestic travel and subsistence allowance as at 30 June 2017 could not be confirmed.

## **5.0 Unsupported Medical Insurance Cover**

During the year under review, the County Assembly spent Kshs.11,985,322 on insurance which included Kshs.10,985,322 for a medical cover for the County Assembly members of staff provided by the AAR Insurance Company Kenya Limited. The commitment letter was signed on 14th Nov, 2016 ref No. MCA/PROC/AL MIC/16-17/VOL 1(03) by the County Assembly Clerk for the service to commence with immediate effect. However, it was not possible to authenticate the expenditure as proper charge to the public funds since the medical insurance cover policy document was not made available for audit review.

In consequence, the propriety of the expenditure of Kshs.10,985,322 as at 30 June 2017 could not be confirmed.

## **6.0 Pending Bills**

The financial statements did not disclose any pending bills as at 30 June 2017. However, a list of pending bills as at 30 June 2017 of Kshs.41,700,425 was made available for audit review. Included in the Kshs. 41,700,425 pending bills was Kshs.20,054,659 whose vouchers, local purchase orders and/or invoices were not made available for audit review.

Under the circumstances, the existence, validity and accuracy of the pending bills of Kshs.20,054,659 as at 30 June 2017 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 Marsabit 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 matter described in the Basis for Adverse Opinion and Other Matter sections, I have determined that there are no Key Audit Matters to communicate in my report.

### **Other Matter**

#### **1.0 Failure to Establish an Audit Committee**

During the year under review, the County Assembly did not have an audit committee in place as required by Section 155 (5) of the Public Finance Management (PFM) Act, 2012 and Section 167 (1) of the Public Finance Management (County Governments) regulations 2015.

Further, although the County Assembly had established an internal audit department, the department was not fully functional as the internal audit unit was part of the finance department and lacked an internal audit charter. In addition, there were no risk assessment processes in place to identify financial and operational risks for mitigation.

The County Executive was therefore in breach of the PFM Act, 2012 and the PFM (County Governments) Regulations, 2015.

#### **2.0 Budgetary Control and Performance**

The statement of comparison of budget and actual amounts (Recurrent and Development combined) reflected an approved budget of Kshs.550,031,349 comprising of Kshs.500,000,000 (91%) recurrent and Kshs.50,031,349 (9%) development. However, the statement of receipts and payments for the year under review reflected exchequer releases amounting to Kshs.506,505,933 out of the budget of Kshs.550,031,349 resulting to unreleased exchequer issues amounting to Kshs.43,525,416 as at 30 June, 2017.

In addition, the combined statement of comparison of budget and actual amounts reflected receipts totaling to Kshs.506,705,933 which differs from the Kshs.506,505,933 reflected in the statement and receipts and payments by an unexplained and unreconciled Kshs.200,000. Further the Assembly had spent Kshs.456,241,452 out of Kshs.500,000,000 of the recurrent budget resulting to an under expenditure of Kshs.43,758,548 (9%).

The Kshs.43,525,416 revenue short fall and the Kshs.43,758,548 under expenditure may have resulted in a denial of equivalent services to the County residents

#### **3.0 Information, Communication Technology (ICT) Environment**

During the year under review, the County Assembly did not have an approved ICT policy to enable it manage business processes for the delivery of services in an effective and efficient manner. The County Assembly also lacked a comprehensive ICT inventory.

Lack of an approved ICT policy may lead to data confidentiality, accuracy, reliability, integrity and availability being compromised. Further the IT operations may not be effectively managed and aligned to support the operations of the County Assembly. In addition, lack of a comprehensive ICT inventory may lead to loss of ICT assets.

Consequently, financial data integrity cannot 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 County 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 County 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.

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Those charged with governance are responsible for overseeing the County 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 scepticism 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 County 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 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 consolidated/ 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'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**