

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

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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 9 to 37, 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 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 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 do not comply with the Public Finance Management Act, 2012 and the County Government Act, 2012.

### **Basis for Adverse Opinion**

#### **1.0 Cash and Cash Balances**

##### **1.1 Accuracy of the Statement of Cash Flows**

The statement of cash flows reflected a cash and cash equivalent balance at the end of the year of Kshs.40,507,486 while statement of assets and liabilities reflected a balance of Kshs.11,325,147 for the same item resulting to an unexplained and unreconciled variance of Kshs.29,182,339.

In the circumstances, the accuracy of the cash and cash equivalent balance of Kshs.11,325,147 reflected in the statement of financial assets and liabilities as at 30 June 2018 could not be confirmed and that the validity, accuracy and completeness of the cash flow statement for the year ended 30 June 2018 could not be ascertained.

##### **1.2 Bank Reconciliation Statement - Equity Bank Account**

Note 13A reflects bank balances of Kshs.11,325,147 which includes a bank reconciliation statement for Equity bank account with a balance of Kshs.830,868. However, included in the reconciliation is receipts in bank statement not in cash book of Kshs.598,818 which were not analyzed and supported.

In the circumstances, the accuracy of Kshs.11,325,147 as at 30 June 2018 could not be confirmed.

### **1.3 Bank Reconciliation Statement - Central Bank of Kenya Account**

Note 13A reflects bank balances of Kshs.11,325,147 in respect to the Assembly's four (4) accounts. Although, bank reconciliation statements for two of the accounts - Central Bank of Kenya development account and recurrent account with balances of Kshs.9,087,121 and Kshs.1,407,158 respectively all totaling to Kshs.10,489,279 were availed for audit, the respective cash books and bank confirmation certificates were not availed for audit review. In the circumstances, the validity and accuracy of cash and cash balance of Kshs.11,325,147 as at 30 June 2018 could not be ascertained.

### **1.4 Fund Balance**

The statement of financial assets and liabilities reflects a nil balance brought forward for year 2016/2017. However, the previous year audited financial statements reflected a net financial position of Kshs.354,626 and which ought to have been the opening fund balance for year 2017/2018.

In the circumstances, the accuracy of the net financial position balance of Kshs.11,325,147 as at 30 June 2018 could not be confirmed.

### **2.0 Inaccuracies of the Financial Statements**

Note 13B to the financial assets and liabilities reflects cash balance comparative figure as nil while the respective note 13B reflects accounts payable comparative amount of Kshs.380,755.

Further, the statement of financial assets and liabilities reflect note 8 comparative balance of Kshs.380,755 being accounts payable deposits and retentions while note 8 reflect fund balance brought forward comparative nil balance.

In the circumstances, the accuracy of the financial statements for the year ended 30 June 2018 could not be confirmed.

### **3.0 Pending Bills**

Annex 1 to the financial statements reflected pending accounts payable balance of Kshs.50,591,573 which included a total of Kshs.28,515,029 in respect to gratuity for members and County Assembly staff pension. However, the detailed analysis of these bills is not availed for audit review.

In the circumstances, the accuracy, validity and completeness of Kshs.50,591,573 pending bills balance as at 30 June 2018 could not be confirmed.

### **4.0 Use of Goods and Services**

#### **4.1 General Supplies and Services**

Note 3 to the financial statements reflects use of goods and services balance of Kshs.363,568,599 which includes office and general supplies and services balance of

Kshs.23,354,819. However, the respective supporting schedule availed for audit review reflected a balance of Kshs.24,185,687 resulting to an unexplained variance of Kshs.830,868.

In the circumstances, the propriety of unsupported expenditure of Kshs.830,868 on office and general supplies and services for the year ended 30 June 2018 could not be confirmed.

## **4.2 Domestic Travel and Subsistence Allowance**

### **4.2.1 Induction of Members of County Assembly (MCAs) in Nairobi**

Note 3 to the financial statements reflects use of goods and services balance of Kshs.363,568,599 which includes domestic travel and subsistence allowance of Kshs.79,959,189 which further included Kshs.2,940,000 paid to MCAs while attending an induction course in Nairobi. However, included in this payment is Kshs.518,000 that was paid to eight (8) MCAs who did not sign the attendance register for the entire period, an indication that the MCAs may not have attended the induction course.

In the circumstances, the propriety of the Kshs.518,000 expenditure on induction for the year ended 30 June 2018 could not be confirmed.

### **4.2.2 Unsupported Subsistence Allowances**

Note 3 to the financial statements reflects use of goods and services balance of Kshs.363,568,599 which includes domestic travel and subsistence allowance of Kshs.79,959,189 which further included Kshs.5,073,100 paid to various officers in respect to subsistence allowance. However, included in these payments is Kshs.2,731,400 paid to eleven (11) officers while attending an oversight training in Nairobi for 8 days which is not supported with back to office reports, programs, attendance registers, invitation letters, travel documents and acknowledgements of receipt of the imprest.

In the circumstances, the propriety of the Kshs.2,731,400 expenditure on subsistence allowance for the year ended 30 June 2018 could not be confirmed.

## **4.3 Doubtful Expenditure on Foreign Travel**

Note 3 to the financial statements reflects use of goods and services balance of Kshs.363,568,599 which includes a foreign travel balance of Kshs.6,941,308 out of which Kshs.2,370,130 was incurred by trade members while travelling to an undisclosed destination in Ethiopia to attend a trade summit. However, the relevant supporting documents including bus tickets, taxi receipts, a letter reference MCA/HR/GEN/59 of 2018 to Principal Secretary Devolution and Planning and back to office reports were not availed for audit review. In addition, the booking pass for four (4) persons were not provided for audit review.

In the circumstances, the regularity and value for money of the Kshs.2,370,130 expenditure on foreign travel for the year ended 30 June 2018 could not be confirmed.

#### 4.4 Payment of Transport Allowance to Members of the County Assembly (MCAs)

Note 3 to the financial statements reflects use of goods and services balance of Kshs.363,568,599 which included a domestic travel and subsistence allowance balance of Kshs.79,959,189 which further included Kshs.2,000,500 paid to the various MCAs as transport allowance which was not supported by any authority from the Salaries and Remuneration Commission (SRC). All the payments were made at a flat rate of Kshs.30,000 to each MCA. Further, included in the Kshs.2,000,500 expenditure is Kshs.80,500 paid to one MCA who did not sign the attendance register for all the seven (7) days the MCAs were attending the 5<sup>th</sup> Annual Governors devolution conference held in Kakamega County from 21<sup>st</sup> to 27<sup>th</sup> April 2018.

In the circumstances, the propriety of the Kshs.2,000,500 expenditure on transport allowance 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 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(s) described in the Basis for Adverse Opinion section, I have determined that there are no key audit matters to communicate in my report.

#### Other Matter

##### 1.0 Budgetary Control and Performance

##### 1.1 Overall Budget Performance

The County Assembly of Marsabit had an approved budget estimates of Kshs.650,960,640 voted for the financial year 2017/2018 comprising of Kshs.50,000,000 for development and Kshs.600,960,640 for recurrent expenditure. The County Assembly's actual expenditure amounted to Kshs.589,488,742, resulting to net under absorption of Kshs.61,471,898 or 9% of the voted amount as summarized below;

Item	Budget Allocation 2017/2018 (Kshs)	Actual 2017/2018 (Kshs)	Under Absorption (Kshs)	Absorption in %
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Development	50,000,000	40,912,879	9,087,121	82%
Recurrent	600,960,640	548,575,863	52,384,777	91%
<b>Total</b>	<b>650,960,640</b>	<b>589,488,742</b>	<b>61,471,898</b>	<b>91%</b>

The overall under absorption of the approved budget of Kshs.61,471,898 or 9% indicates that some development activities planned for during the year were not undertaken. This may have had a negative impact on the delivery of goods and services to the residents of Marsabit County.

## 1.2 Recurrent Expenditure

The statement of Comparison of budget and actual amounts – recurrent, reflects a budget of Kshs.600,960,640 for the year under review. However, the total amounts spent is Kshs.548,575,863 leading to an under-expenditure of Kshs.52,384,777 as shown in the table below;

Item	Budget (Kshs)	Actual (Kshs)	Under Expenditure (Kshs)	Absorption %
Compensation of employees	153,926,378	153,926,398	-20	100%
Use of goods and services	388,841,737	363,568,599	25,273,138	94%
Other grants and transfers	3,500,000	3,500,000	0	100%
Social security benefits	25,867,735	1,852,706	24,015,029	7%
Acquisition of assets	28,824,790	25,728,160	3,096,630	89%
<b>Total</b>	<b>600,960,640</b>	<b>548,575,863</b>	<b>52,384,777</b>	<b>91%</b>

There is need for the management to look into it's budgeting mechanism with a view to focusing on the areas which will have positive impact into improving delivery of goods and services to uplift the standards of living for citizens of Marsabit County.

## 1.3 Development Expenditure

The statement of comparison of budget and actual amounts - development reflects a budget for the year under review of Kshs.50,000,000 for the construction of Assembly Chamber and

an expenditure of Kshs.40,912,879 leading to an under-expenditure of Kshs.9,087,121 as follows;

<b>Item</b>	<b>Budget Allocation 2017/2018 (Kshs)</b>	<b>Actual 2017/2018 (Kshs)</b>	<b>Under Expenditure (Kshs)</b>	<b>Absorption %</b>
Development Expenditure (Construction of Assembly Chamber)	50,000,000	40,912,879	9,087,121	82%

The under expenditure of Kshs.9,087,121 is an indication of lack of proper budgeting process. Therefore, there is need for the management to prioritize it's budgeting process with a view to focusing on areas where funds will be fully utilized to improve standards of living for citizens of Marsabit County.

#### **1.4 Revenue Analysis**

The combined statement of comparison of budget and actual amounts: recurrent and development reflected total receipts of Kshs.600,813,889 out of the budgeted receipts of Kshs.650,960,640 resulting to revenue shortfall of Kshs.50,146,751. The revenue shortfall may be an indicator of either revenue leakage which means that there is need of the management to tighten the controls on revenue or over budgeting and which means that there is need of the management to re-look at it's budgeting mechanism with a view to having a realistic budget.

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

#### **Conclusion**

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

#### **Basis for Conclusion**

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

The International Public Sector Accounting Standards (Cash Basis) reporting template prescribed by the Public Sector Accounting Standards Board (PSASB) requires that a report on the follow up of previous year's audit recommendations be included as part of the annexures to the financial statements. A report on follow up on previous year's audit and its recommendations which was included at Note 3 of the other disclosures to the financial statements as at 30 June 2018 showed that all issues had been resolved. However, the resolution resolving the issues were not availed for audit review. In addition, the key entity information and management page had no telephone contact information for the key management staff as required by the PSASB financial preparation format. Further, the head

of accounts who has signed the financial statements did not indicate his Institute of Certified Public Accountants (ICPAK) number and the statements were not dated.

In the circumstances, the presentation and disclosure of the financial statements for the year ended 30 June 2018 did not comply with the prescribed format under the International Public Sector Accounting Standards (Cash Basis) as prescribed by the PSASB and the Public Finance Management Act, 2012.

## **2.0 Over Commitment of Salary**

Note 2 to the financial statements reflects Kshs. 153,926,398 for compensation of employees for the year ended 30 June 2018. However, a review of the Assembly's Payroll revealed that six (6) employees received net pay of below 1/3 of their basic pay. This is contrary to Section 19(3) of the Employment Act, 2007 which states that the total amount of deductions from the wages of an employee shall not exceed two thirds (2/3) of such wages.

Consequently, the Assembly is in breach of the law.

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, GOVERNANCE AND RISK MANAGEMENT SYSTEMS**

### **Conclusion**

As required by Section 7(1) (a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective

### **Basis for Conclusion**

#### **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 Government) Regulations, 2015. Therefore, no sittings were held contrary to Section 172 (1) of the Public Finance Management (County Government) Regulations, 2015 which states that the audit committee shall meet at least once in every three months.

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 Assembly was therefore in breach of the law.

## **2.0 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 and an Information Technology (IT) steering committee. Lack of an approved ICT policy may lead to compromise in data confidentiality, accuracy, reliability, integrity and availability. 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 while lack of a steering committee may lead to laxity in ICT policy formulation and implementation.

Consequently, financial data integrity could not be confirmed.

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, risk management and governance.

In preparing the financial statements, management is responsible for assessing the County Assembly's ability to continue 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 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 resources are applied in an effective way.

Those charged with governance are responsible for overseeing the County 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 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 County Assembly's 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 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 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 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 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**

**28 January 2019**