

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MARSABIT FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Marsabit set out on pages 8 to 32, which comprise of the statement of financial assets and liabilities as at 30 June, 2019, statement of receipts and payments, statement of cash flows and the statement of comparative 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Assembly of Marsabit as at 30 June, 2019, 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 the Public Finance Management Act, 2012 and the County Governments, Act 2012.

Basis for Qualified Opinion

1.0 Unsupported Expenditure - Use of Goods and Services

As disclosed under Note 3 of the financial statements, the statement of receipts and payments reflects use of goods and services amounting to Kshs.371,039,132. However, a review of the payment records revealed that Management expended an amount of Kshs.19,514,510 on foreign travel which further includes Kshs.5,463,500 in respect to expenditure incurred by MCAs together with County Assembly staff for accommodation and travel expenses while on foreign trips to Dubai and London. However, Management did not provide the supporting documents such as training needs assessment, back to office reports, passports, boarding passes, training programme and payment to the training institutions for audit review.

Further, an amount of Kshs.511,000 was spent to facilitate MCAs travelling to Isiolo to attend a one (1) day regional stakeholders' workshop from 30 to 31 October, 2018. However, Management paid nightout allowances for MCAs for five (5) days resulting to an over-payment of three (3) extra days totalling Kshs.204,400. The payments were not supported by motor vehicle work tickets, daily attendance registers and training programmes.

In addition, Management made payments amounting to Kshs.24,000,000 for Ward employees and Ward operation expenses. However, Management did not provide

supporting documents for Kshs.748,710 disbursed to Korr/Ngurnit, Laisamis and Maikona Ward offices.

In the absence of sufficient and relevant supporting documents, the accuracy and validity of Kshs.6,416,610 included under use of goods and services in the statement of receipts and payments for the year ended 30 June, 2019 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 Management in accordance with ISSAI 130 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. There were no key audit matters to report in the year under review.

Other Matter

1.0 Budget Control and Performance

The statement of comparative budget and actual amounts: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.741,999,313 and Kshs.635,237,582 respectively resulting to an under-funding of Kshs.106,761,731 or 14% of the budget. Similarly, the statement reflects final payments budget and actual on comparable basis of Kshs.741,999,313 and Kshs.618,901,305 respectively resulting to an under expenditure of Kshs.123,098,008 or 17% of the budget.

The underfunding and under expenditure affected the planned activities and could have impacted negatively on service delivery for the public.

2.0 Unsupported Pending Accounts Payables

Note 4.10.1 of other disclosures in the financial statements reflects Kshs.16,336,277 being additional pending bills during the year under review. However, the respective supporting documents including invoices, delivery notes, certificates for work completed and classification of the pending bills were not made available for audit verification.

Further, Note 4.10.1 disclosed the brought forward balance of pending bills from the year ending 30 June, 2018 as Kshs.50,591,573 which were to be transferred to the County Executive for payment on behalf of the County Assembly. However, available records including copies of payment vouchers showed that only Kshs.44,954,571 was transferred resulting to an unexplained variance of Kshs.5,637,002.

In the circumstances, the accuracy and existence of the pending payables balance of Kshs.16,336,277 as at 30 June, 2019 could not be confirmed.

3.0 Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. Under the progress on audit recommendations, only two (2) issues were addressed thereby excluding sixteen (16) issues whose progress was disclosed. However, Management has not resolved all the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019.

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 matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources 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

1.0 Unauthorized Expenditure - Use of Goods and Services

During the year under review, Management made payments amounting to Kshs.6,658,200 for domestic travel and subsistence allowance to Members and staff of the County Assembly for conducting report writing and internal training outside Marsabit County. However, Management did not provide approval for the expenditure contrary to Section III (ii) of The National Treasury Circular No. 20/2015 dated 4 November, 2015 on commitment controls and budget which restricted such expenditure.

Management is therefore in breach of the Law.

2.0 Irregular Other Grants and Transfers

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects other grants and transfers of Kshs.5,600,000 in respect of membership fees, dues and subscriptions paid to the County Assembly Forum and to the Society of Clerks At The Table (SOCATT) of Kshs.5,500,000 and Kshs.100,000 paid to County Assembly Forum. However, Management did not provide supporting evidence including legal backing for the Forum and SOCATT for audit review.

However, the two entities to which the County Assembly paid subscription to were not anchored in the law and thus the expenditure incurred could not be confirmed as a proper charge to public funds.

3.0 Unutilized Office Furniture

Note 6 of the financial statements reflects an amount of Kshs.48,147,264 under Acquisition of Assets which includes Kshs.4,073,136 in respect of Purchase of Office Furniture and Equipment which further includes Kshs.3,998,000 spent on procurement of office furniture for Ward offices. However, physical verification in the month of October, 2019 revealed that the furniture was lying idle in the stores four (4) months after delivery as it had not been issued to the Ward offices.

In the circumstances, I am unable to confirm whether there was value for money for the Kshs.3,998,000 expenditure.

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, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, 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

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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 overall 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 overall governance

In preparing the financial statements, Management is responsible for assessing the County Assembly's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to dissolve the County Assembly or to cease operations.

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 financial reporting process, reviewing the effectiveness of how the County Assembly 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 overall 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 of Kenya. 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 overall 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 policies and procedures may deteriorate.

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.
- 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 applicable 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 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 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

31 March, 2021