

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of County Assembly of Samburu set out on pages 1 to 23, 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, statement of comparison of budget and actual amounts: recurrent, and development and budget execution by programmes and sub-programmes 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 paragraph, the financial statements do not present fairly, the financial position of County Assembly of Samburu 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 Inaccurate Statement of Cash flows

The statement of cash flows reflects comparative cash and cash equivalents balance at the end of the year of Kshs.2,090,353.00 instead of Kshs.10,573,405.00. Further, cash and cash equivalents at the beginning of the year have wrongly been stated at zero instead of the correct balance of Kshs.10,573,405.00. In addition, the decrease of Kshs.15,527,402.00 in accounts payables - deposits and retentions have not been included in the statement of cash flows. Consequently, the accuracy of the statement of cash flows could not be confirmed.

2.0 Cash and Cash Equivalents

2.1 Outstanding Imprests

The statement of financial assets and liabilities reflects outstanding imprest balance of Kshs.3,232,305 as at 30 June 2017 as detailed in annexure 5 to the financial statements. However, it has not been explained why the imprest holders failed to account or surrender the imprests by 30 June 2017. Further, no explanation has been given as to why no recoveries were made from defaulters' salaries as required by Regulation 93 (6) of the Public Finance Management (County Governments) Regulations 2015.

3.0 Statement of Receipts and Payments

3.1 Misclassification of Expenditure - Scholarship and Other Educational Benefits

Included in the statement of receipts and payments is scholarship and other educational benefits amounting to Kshs.998,697. However, the schedule presented in support of the expenditure indicated the nature of all the transactions was not related to this line item.

In the circumstances, the completeness of the expenditure could not be confirmed.

3.2 Misclassification of Expenditure - Government Pension and Retirement Benefits

The statement of receipts and payments reflects social security and benefit on government pension and retirement benefits figure of Kshs.30,213,446. However, schedules presented for audit in support of the expenditure included payments totaling Kshs.20,354,416.95 that were wrongly classified under this item.

No explanation has been given for the misclassification.

4.0 Unsupported Pending Bills

Note 11.A and annexure 1 to the financial statements reflects pending accounts payable balance of Kshs.8,186,290.36 as at 30 June 2017. However, no supporting documents in form of bills of quantities, invoices, local purchase orders were presented in support of the pending bills making it not possible to ascertain the propriety of the balance.

In the circumstances, the accuracy and the nature of the expenditure incurred 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 Samburu 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 matters described in the Basis for Adverse Opinion and Other sections of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1.0 Budget Control

1.1 Over Expenditure on Use of Goods and Services

During the financial year, the County Assembly overspent on the following items as shown below:

Audit Components	Current year final budget	Current year actual Expenditure	Over Expenditure
	Kshs.	Kshs.	Kshs
Routine Maintenance - Other Assets	0.00	397,260.00	397,260.00
Specialized Materials and Supplies	0.00	1,111,419.00	1,111,419.00
Purchase of Office Furniture and General Equipment	0.00	461,700 .00	461,700 .00
Purchase of Specialized Plant, Equipment and Machinery	0.00	3,877,244 .00	3,877,244 .00
Utilities Supplies and Services	100,000.00	624,495.70	524,495.70
Communication, Supplies and Services	1,732,143.00	4,066,927.00	2,334,784
Domestic Travel and Subsistence, and Other Transportation Costs	25,304,000.00	56,641,785.00	31,337,785
Hospitality Supplies and Services	3,500,000.00	7,874,288.00	4,374,288
Office and General Supplies and Services	6,300,000.00	7,693,039.00	1,393,039
Fuel Oil and Lubricants	4,000,000.00	10,957,248.00	6,957,248
Other Operating Expenses	3,000,000.00	9,582,546.00	6,582,546
Routine Maintenance -	2,000,000.00	6,061,253.00	4,061,253

Vehicles and Other Transport Equipment			
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The County Assembly did not prepare a supplementary budget to regularize the over expenditure and no explanation or documents were produced to justify the over expenditure.

In the circumstance, the County Assembly did not exercise financial discipline.

2. Irregular Expenditure

An expenditure of Kshs.1,023,000 was incurred to pay members of the public who attended various public participation forums within the County. It was observed that imprests were issued through warrants Nos.2517442, 2517402, 2521966 to facilitate the payments. However, it was not explained why members of the public were paid allowances for attending public forums which are voluntary and no law is in place authorizing such payments.

In the circumstances, the expenditure could not be confirmed as a proper charge to public funds.

3. Unsupported Expenditure -Travel and Accommodation Allowances

An expenditure of Kshs.56,641,785 was incurred on domestic travel and subsistence during the year under review. However, examination of records produced for audit, disclosed that an expenditure of Kshs.10,348,426 was not supported with relevant documents such as invitation letters, bus tickets, work tickets, signed payment schedules and reports made upon return to confirm that the officers and Members of the County Assembly (MCAs) were out on a duty tour or official duties.

In the circumstances, the propriety of the expenditure could not be ascertained.

4. Delayed Implementation of Project

M/s Green County Construction Company Ltd of P.O. Box 5089-80401 Diani Kenya, was awarded contract No.CAS/PROC/046/2014-15 for construction of the County Assembly chambers at a contract price of Kshs.262,098,210. The duration of the contract was seventy-eight (78) weeks with a commencement date of 9 February, 2017.

Physical verification of the project on 13 February 2018, revealed that the construction works had been done up to foundation level which was approximately 15% complete and the contractor was not on site. The project is thus behind schedule since it has taken 52 weeks since the project begun.

It was also noted that the contractor has been paid sum of Kshs.42,325,400 vide payment voucher No.900 as at 30 June, 2017 and yet he is not on site.

In the circumstance, the project may stall leading to retendering which will escalate the cost further. Loss of public funds appears likely unless the County Assembly endeavors to have resumption of the construction works.

5. Unsupported Expenditure on Foreign Travel

According to records produced for audit, the County Assembly incurred an expenditure of Kshs.4,085,736 on subsistence allowances through Imprest no.2517407 being foreign travel subsistence allowance to officers and MCAs attending a Women Caucus in Ethiopia between 29 January and 2 February 2017. The payment/surrender was however not supported with relevant documents such as invitation letters/admission letters and evidence that the officers actually attended the training at the Institute of International Education.

In the circumstances, the propriety of the expenditure could not be confirmed.

6. Outstanding Car Loan and Mortgages

Former Members of the County Assembly had car loans and mortgages balances totaling Kshs.20,465,809.90 that remained outstanding at the expiry of their terms on 31 July 2017. However, no documentary evidence was produced for audit verification to confirm the loans were settled through other means after the expiry of the members terms of office. It is therefore, possible that the members had defaulted but the management has not instituted any measures to recover the funds; exposing the public funds to loss.

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.

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 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 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 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 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 sustaining 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 sustaining 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

16 July 2018