

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

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 26 which comprise the statement of financial assets and liabilities as at 30 June, 2019, and statement of receipts and payments, statement of cash flows and statement of comparison of 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, 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 the County Assembly of Samburu 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 do not comply with the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1.0 Presentation and Disclosures

The financial statements contain the following errors and omissions:

- i. The statement of financial assets and liabilities does not reflect the net financial assets balance amounting to Kshs.15,376,430 being the sum of cash and cash equivalents and accounts receivables-outstanding imprest balances amounting to Kshs.1,530,747 and Kshs.13,845,683 respectively.
- ii. The opening cash and cash equivalent balance of Kshs.6,624,177 has been omitted in the statement of cash flow.
- iii. Although Note 5.94 provides a list of the entities deemed as the County Assembly's related parties, the values of transactions entered with the parties during the year under review are not disclosed in the list.

In view of these anomalies, the financial statements do not provide sufficient and correct disclosure on the operations of the County Assembly for the year under review and further, do not comply with the requirements of International Public Sector Accounting Standard 1 and the format prescribed by the Public Sector Accounting Standards Board.

2.0 Inaccuracies in Financial Statements

In addition, the financial statements contain the following inaccuracies:

2.1 Accounts Payables

The statement of financial assets and liabilities reflects nil balances in respect to accounts payables-deposits and retentions for both the current and prior years. However, Note 15 to the financial statements discloses a comparative prior year balance of Kshs.15,527,402 being cash due to the County Executive. No explanation has been provided by Management for the anomaly.

2.2 Statement of Cash Flows

The statement of cash flows reflects a nil opening cash balance that however, differs with the prior year closing balance of Kshs.6,624,177. Further, the statement reflects a closing cash balance of Kshs.15,518,826 which differs with the net increase in cash and cash equivalents balance for the year amounting to Kshs.16,293,340. The difference amounting to Kshs.774,514 between the two sets of records, has not been explained or reconciled.

As a result of the two anomalies, the cash and cash equivalents balance at the end of the year is understated by Kshs.7,398,691.

2.3 Statement of Financial Assets and Liabilities

The statement of financial assets and liabilities reflects total financial assets and net financial position balances of Kshs.15,905,626 and Kshs.16,680,140 respectively resulting to an unexplained variance of Kshs.774,514 between the two balances.

Further, the comparative total financial assets balance amounting to Kshs.150,376,430 differs with net financial position balance of Kshs.123,649,224 reflected in the audited statements for the year ended 30 June, 2018 resulting to a difference of Kshs.26,727,206.35 which has not been explained or reconciled.

Consequently, the accuracy and completeness of the financial statements has not been confirmed.

3.0 Variance between the Financial Statements and Integrated Financial Management Information System (IFMIS) balances

Several of the balances reflected in the financial statements differ with identical account balances reflected in the Integrated Financial Management Information System (IFMIS) ledgers as at 30 June, 2019 as shown in the table below:

| Financial Statement (FS) Element - Component | Financial Statements (Kshs.) | IFMIS (Kshs.) | Variance (Kshs.) |
|---|-------------------------------------|----------------------|-------------------------|
| Statement of Receipts and Payments - Revenue | 544, 004,862 | 587,945,310 | (43,940,448) |
| Statement of Financial Assets and Liabilities- Net Financial Assets | 15,905,626 | 134,227,747 | (118,322,121) |
| Statement of Financial Assets and Liabilities- Net Financial Position | 16,680,140 | 134,337,747 | (117,657,607) |

| Financial Statement (FS) Element - Component | Financial Statements (Kshs.) | IFMIS (Kshs.) | Variance (Kshs.) |
|--|------------------------------|---------------|------------------|
| Total | 576,630,628 | 856,510,804 | (279,920,176) |

In view of the variances, the accuracy of the financial statements has not been confirmed.

4.0 Unexplained Compensation of Employees Expenditure Variance

The statement of receipts and payments reflects compensation of employees' expenditure totaling Kshs.265,627,249 as further disclosed in Note 4 to the financial statements. However, the aggregate expenditure reflected in the payroll for the year amounts to Kshs.199,408,769 resulting to an unexplained variance of Kshs.66,218,480.

Consequently, the accuracy and completeness of the compensation of employees' expenditure totaling Kshs.265,627,249 has not been confirmed.

5.0 Misclassified Expenditure

The statement of receipts and payments reflects use of goods and services expenditure totaling Kshs.164,890,664, as further disclosed in Note 5 to the financial statements. Included in the balance are domestic travel and subsistence expenses totalling Kshs.60,487,589 and foreign travel and subsistence totalling Kshs.18,939,812. However, records availed for audit revealed that the sum of Kshs.13,160,690 charged to foreign travel was actually spent on domestic travel.

Consequently, the foreign and domestic travel expenditure reflected in the statement of receipts as payments is misstated by Kshs.13,160,690.

6.0 Misstatement of Social Security Benefits

The statement of receipts and payments reflects social security payments totalling Kshs.24,432,535; as further disclosed in Note 9 to the financial statements. However, the schedule of actual payments reflects expenditure totalling Kshs.15,491,676 comprised of payments to the Local Authorities Pension Trust (LAPTRUST) Fund and pension and gratuity amounting to Kshs.6,541,320 and Kshs.8,950,356 respectively. The resulting variance of Kshs.8,940,859 has not been explained.

As a result of these anomalies, the accuracy and completeness of the expenditure on social security benefits totalling Kshs.24,432,535 for the year ended 30 June, 2019 has not been confirmed.

7.0 Unsupported Expenditure on Acquisition of Assets

The statement of receipts and payments reflects payments on acquisition of assets totalling Kshs.72,374,274, as disclosed in Note 10 to the financial statements. Included in the payment is the cost of office furniture and equipment, and specialized plant, equipment and machinery purchased at Kshs.1,352,760 and Kshs.1,023,000

respectively. However, contrary to Section 104 (1) of the Public Financial Management (County Government) Regulations, 2015 which requires receipts and payments of public monies to be authorized and documented, there were no records to show how the items were purchased and whether they were received and taken on charge as appropriate.

As a result of the anomaly, the ownership and existence of the assets reported to have been bought at an aggregate cost of Kshs.2,375,760 during the year under review has not been confirmed.

8.0 Unconfirmed Accounts Receivables - Outstanding Imprests

The statement of financial assets and liabilities reflects accounts receivables - outstanding imprests balance of Kshs.386,800, as further disclosed in Note 14 to the financial statements. However, the balance excludes imprests brought forward from the previous year totalling Kshs.13,845,683 whose surrender during the year has not been confirmed as the respective imprest surrender and journal vouchers have not been availed for audit review.

As a result, the accuracy and completeness of the receivables-outstanding imprests balance totalling Kshs.386,800 as at 30 June, 2019 has not been 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 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 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. There were no key audit matters to report in the year under review.

Other Matter

Budgetary Performance

The statement of comparison of budget and actual amounts; recurrent and development combined reflects actual receipts and expenditure on comparable basis of Kshs.544,004,862 and Kshs.527,324,722 respectively resulting to under-expenditure of Kshs.16,680,140 or 3% as detailed below:

| Receipt / Expense Item | Final Budget 2018/2019 (Kshs.) | Actual on comparable Basis (Kshs.) | Under /(Over) Expenditure (Kshs.) | % Variance |
|------------------------------|-----------------------------------|---|--|------------|
| Total Receipts | 549,006,348 | 544,004,862 | (5,001,486) | -1% |
| Compensation of Employees | 265,661,558 | 265,627,249 | 34,309 | 0% |

| | | | | |
|---------------------------|--------------------|--------------------|-------------------|-----------|
| Use of Goods and Services | 176,518,340 | 164,890,664 | 11,627,676 | 7% |
| Social Security Benefit | 22,476,090 | 24,432,535 | (1,956,445) | -9% |
| Acquisition of Assets | 84,350,360 | 72,374,274 | 11,976,086 | 14% |
| Total | 544,004,862 | 527,324,722 | 16,680,140 | 3% |

The under-expenditure amounting to Kshs.16,680,140 implies that the County Assembly did not implement all development projects and activities planned for the year.

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

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, 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 overall governance were not effective.

Basis for Conclusion

Lack of Risk Management Policy

Regulation 158(1)(a) and (b) of the Public Finance Management Act (County Government) Regulations, 2015 requires each Accounting Officer to develop risk management strategies which include fraud prevention mechanisms and internal controls that build robust business operations.

However, no evidence has been provided to show that a Risk Management Policy exists to guide the managerial operations of the County Assembly.

In the absence of a Risk Management Policy, Management lacks objective means to contain the adverse effects of unfavorable events that may affect the operations of the County Assembly.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires 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 the Management is aware of the intention to dissolve the County Assembly, or 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 that 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. 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 the 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 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 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 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

15 January, 2021