

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

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Taita Taveta set out on pages 1 to 32, 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 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of County Assembly of Taita Taveta 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 comply with the Public Finance Management Act, 2012 and the County Government Act, 2012.

### Basis for Qualified Opinion

#### 1. Exchequer Releases

The statement of receipts and payments for the year ended 30 June 2018 reflects exchequer releases of Kshs.556,125,370 while the Controller of Budget Report for the same year indicates exchequer releases to the County Assembly amounting to Kshs.516,950,000, resulting in unexplained nor reconciled variance of Kshs.39,175,370. Further, the Controller of Budget report reflects total expenditure amounting to Kshs.537,570,000 while the financial statements reflect expenditure of Kshs.555,267,191, again resulting in unexplained nor reconciled variance of Kshs.17,697,191.

Consequently, the accuracy and completeness of the exchequer releases of Kshs.556,125,370 for the year ended 30 June 2018 could not be confirmed.

#### 2. Unsupported Expenditure

The financial statements for the year ended 30 June 2018 had unsupported expenditure amounting to Kshs.16,425,095 as detailed below:

	<b>Expenditure Item</b>	<b>Note</b>	<b>Amount Not Supported (Kshs.)</b>	<b>Description of Expenditure</b>	<b>Anomalies Noted</b>
1	Insurance costs	5	2,117,976	Insurance of motor vehicles	The expenditure is not supported with motor vehicle valuation reports
2	Training expenses	5	2,643,060	Payment for training of County Assembly staff	Attendance register, evidence of travel and reports on training received were not availed for audit review
3	Routine Maintenance-Vehicles and other transport equipment	5	976,848	Payment for routine maintenance of vehicles	Mechanical pre-inspection and post inspection reports were not availed for audit review nor defects recorded in the work tickets and logbooks.
4	Domestic travel and subsistence	5	2,082,500	Payment of subsistence allowances to staff attending workshop in Flamingo Hotel Mombasa	Attendance register, evidence of the travel in form of bus or work tickets and reports on training were not availed for audit review
5	Domestic travel and subsistence	5	3,332,196	Allowances for Members of County Assembly and staff while on Exchange Programme With Legal and Human Rights Centre in Tanzania	Attendance register, evidence of the travel on form of boarding passes or air tickets or bus tickets and reports on training received were not availed for audit review
6	Hospitality, supplies and services	5	4,413,451	Payment for catering services and conference facilities	The expenditure was not supported with quotations, lists of those served, meetings attendance registers and minutes of meetings
7	Acquisition of assets	5	859,064	Supply of furniture	The expenditure was not supported with quotations and minutes of tender evaluation and award minutes. Further, the invoice for the expenditure was issued in year

	<b>Expenditure Item</b>	<b>Note</b>	<b>Amount Not Supported (Kshs.)</b>	<b>Description of Expenditure</b>	<b>Anomalies Noted</b>
					2016/2017 but the amount was not reported as a pending bill in that year's financial statements
	<b>Total</b>		<b>16,425,095</b>		

Consequently, the validity of expenditure amounting to Kshs.16,425,095 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 Taita Taveta 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 opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the issues described in the basis for qualified opinion section of my report, there were no Key Audit Matters to report in the year under review.

### **Other Matter**

#### **1. Budgetary Control and Performance**

The statement of comparison of budget and actual amounts - recurrent and development combined reflects approved expenditure budget of Kshs.602,943,870 and actual expenditure of Kshs.555,267,191, resulting in under absorption of Kshs.47,676,679 or 8 % as detailed below:

<b>Item</b>	<b>Final Budget (Kshs)</b>	<b>Actual Expenditure (Kshs)</b>	<b>Under Expenditure (Kshs)</b>	<b>% Under Expenditure</b>
Compensation of employees	281,324,687	261,766,420	19,558,267	7
Use of goods and services	283,097,660	256,332,860	26,764,800	9
Transfers to other government entities	25,000,000	25,000,000	-	0
Acquisition of Assets	13,222,570	12,130,291	1,092,279	8

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Item	Final Budget (Kshs)	Actual Expenditure (Kshs)	Under Expenditure (Kshs)	% Under Expenditure
Finance costs	298,953	37,620	261,333	87
<b>TOTAL</b>	<b>602,943,870</b>	<b>555,267,191</b>	<b>47,676,679</b>	<b>8</b>

The under absorption of Kshs.47,676,679 or 8%, especially on use of goods and services may have negatively impacted on goods and service delivery by the County Assembly of Taita Taveta. As a result, there is need for the County Assembly to evaluate its budget making mechanism with a view of allocating resources to priority areas for higher positive impact and utilization of the budget.

## 2. Variances between Financial Statements and IFMIS Figures

The statement of receipts and payments for the year ended 30 June 2018 reflects total payments of Kshs.555,267,191 while IFMIS payment details for the same year indicate total payments amounting to Kshs.621,648,562, resulting in unexplained nor reconciled variance of Kshs.66,381,371 as summarised below:

	Expenditure as Per Financial Statements (Kshs.)	Expenditure as Per IFMIS (Kshs.)	Variance (Kshs.)
Recurrent Expenditure	543,136,900	598,899,862	55,762,962
Development expenditure	12,130,291	22,748,700	10,618,409
<b>TOTAL</b>	<b>555,267,191</b>	<b>621,648,562</b>	<b>66,381,371</b>

Consequently, the accuracy and completeness of the payments amounting to Kshs.66,381,371 for the year ended 30 June 2018 could not be confirmed.

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

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusions on lawfulness and effectiveness in use of public resources section of my report, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

## Basis for Conclusion on Compliance with Lawfulness and Effectiveness

### 1. Compensation of Employees

Note 4 to the financial statements for the year ended 30 June 2018 reflects Kshs.29,399,467 in respect of personal allowances paid as reimbursements. Included in

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this amount is Kshs.12,027,200 on sitting allowances paid to Members of County Assembly during the year under review. However, records availed for audit review for three months from November 2017 to January 2018 indicated that Members of County Assembly were paid Kshs.211,000 for sessions not attended as shown below:

<b>Month</b>	<b>Amount Paid (Kshs)</b>	<b>Amount Payable as per sittings (Kshs)</b>	<b>Overpayment (Kshs)</b>
November 2017	367,000	291,000	76,000
December 2017	314,000	252,000	62,000
January 2018	289,000	216,000	73,000
<b>TOTAL</b>	<b>970,000</b>	<b>759,000</b>	<b>211,000</b>

The overpayment is contrary to the Salaries and Remuneration Commission Circular No. SRC/TS/CGOVT/3/61 of May 2013 which stipulates that “Committee sitting allowance are only payable to the chairperson, vice chairperson and member as and when they sit in committees”. Further, committee meetings attendance registers for the four-month period from February 2018 to June 2018 were not availed for audit review.

Consequently, expenditure on sitting allowances amounting to Kshs.211,000 for the year ended 30 June 2018 paid to Members of County Assembly is irregular.

## **2. Construction of Building**

Note 10 to the financial statements for the year ended 30 June 2018 reflects Construction of buildings expenditure amounting to Kshs.11,271,227. However, bank statements indicating remittance of 3% withholding tax or Kshs.363,909 and 6% Value Added Tax or Kshs.727,817 were not availed for audit verification, contrary to Tax Procedures Act No. 29 of 2015 which requires appointed tax withholding agents to withhold 3% of contractual fee and 6% of the taxable value on purchasing taxable supplies and in respect of building, civil or engineering works and remit the same directly to the Commissioner of Withholding Taxes.

Consequently, County Assembly of Taita Taveta is in breach of the Law and the validity of the remittance of taxes totaling Kshs.1,091,726 to Kenya Revenue Authority for the year ended 30 June 2018 could not be confirmed.

## **3. Irregular Appointment, Retention and Promotion of Staff**

Review of staff personal records maintained by the County Assembly of Taita Taveta revealed that a Senior Procurement Officer II was appointed on permanent and pensionable terms when he was fifty-nine (59) years old. However, upon attaining the mandatory retirement age of sixty (60) years, the County Assembly Service Board revised his terms of service to a five-year contract from February 2015 to February 2019 and later promoted him to Senior Procurement Officer I.

Further, County Assembly Service Board extended a driver’s contract upon attaining the mandatory retirement age of sixty (60) years in October 2017 for two years to October 2019. This is contrary to Section D (21) of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which requires all officers to retire from the Service

on attaining the mandatory retirement age of 60 years or 65 years for persons with disabilities.

Consequently, County Assembly is in breach of the Law.

#### **4. Accounts Receivable - Outstanding Imprests**

The statement of financial assets and liabilities as at 30 June 2018, reflects accounts receivable - outstanding imprests of Kshs.5,296,191. The balance includes Kshs.524,800 which has been outstanding for over six (6) months as at end of the financial year, contrary to Section 93(5) of the Public Finance Management (County Governments) Regulations, 2015, which requires a holder of temporary imprest to account or surrender the imprest within seven (7) working days after returning to duty station.

As a result, the recoverability of the imprests balance of Kshs.524,800 as at 30 June 2018 could not be confirmed.

#### **5. Pending Bills**

Annexure 1 to the financial statements for the year ended 30 June 2018 reflects pending bills amounting to Kshs.23,677,270. However, these pending bills were accumulated contrary to Section 53 (8) of the Public Procurement and Asset Disposal Act, 2015 which provides that "Accounting Officer shall not commence any procurement proceeding until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in its approved budget estimates." Further, it is apparent that the management did not confirm availability of funds before signing supply contracts with the third parties.

Consequently, the County Assembly is in breach of the Procurement Law and the propriety of the pending bills of Kshs.23,677,270 as at 30 June 2018 could not be confirmed.

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 SYSTEMS AND GOVERNANCE**

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for conclusion on effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not operating effectively.

## **Basis for Conclusion**

### **Internal Audit Function and Audit Committee**

During the year under review, the County Assembly of Taita Taveta did not have an Audit Committee, contrary to Section 155 (5) of the Public Finance Management Act, 2012. It was also found that the County Assembly's Internal Auditor reports functionally to the Clerk of the County Assembly, hence not independent.

Consequently, the County Assembly of Taita Taveta is in breach of the Law and the independence of the Internal Auditor may be compromised.

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 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.

In preparing the financial statements, management is responsible for assessing the County Assembly's ability to continue as a going concern, 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 money is applied in an effective manner.

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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review 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 noncompliance. 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 of Taita Taveta'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**

**18 February 2019**