

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Tana River County Assembly set out on pages 1 to 26, which comprise the statement of financial assets as at 30 June 2017, the statement of receipts and payments, statement of cash flows and 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 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 Tana River County Assembly 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 comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion and Other Matter sections 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 Qualified Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Tana River County Assembly 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 qualified audit opinion.

1. Transfers From the County Treasury/Exchequer

The statement of receipts and payments for the year ended 30 June 2017 reflects transfers from the county Treasury/Exchequer of Kshs.513,383,788. However, records maintained by the County Executive indicate a figure of Kshs.505,173,644, resulting in a variance of Kshs.8,210,144. Further, the transfers from the County Treasury/Exchequer figure of Kshs.513,383,788 varies from Kshs.549,270,000 contained in the Report of the Controller of Budget by Kshs.35,886,212. These variances have not been explained.

As a result, the accuracy and completeness of the transfers from the county Treasury/Exchequer totaling Kshs.513,383,788 for the year ended 30 June 2017 could not be confirmed.

2. Use of Goods and Services

The statement of receipts and payments for the year ended 30 June 2017 reflects use of goods and services expenditure totaling Kshs.214,529,077 as detailed in Note 5 to the financial statements. The following observations were made in relation to the expenditure:

2.1 Domestic Travel and Subsistence

Included in the use of goods and services' balance of Kshs.214,571,909 and as further disclosed in Note 5 to the financial statements is domestic travel and subsistence expenditure of Kshs.123,280,522. However, the respective payees and imprest surrender documents such as invitation letters, motor vehicle work tickets, bus tickets, boarding passes, attendance registers, and reports on the meetings or seminars relating to expenditure of Kshs.33,421,300 out of the balance of Kshs.123,280, 522 were not availed for audit review.

In the circumstance, the regularity and validity of domestic travel and subsistence expenditure of Kshs.33,421,300 could not be confirmed.

2.2 Hospitality, Supplies and Services

Included in the use of goods and services and as further disclosed in Note 5 to the financial statements is hospitality, supplies and services' expenditure totaling Kshs.14,950,794. The expenditure was incurred on subsistence and lunch allowances, hire of conference facilities and purchase of tea and snacks. However invitation letters, records on journeys made or seminars attended, purchase requisitions for goods purchased, minutes of meetings held and signed payment schedules for allowances received were not availed for audit verification.

Consequently, the propriety and completeness of the expenditure of Kshs.14,950,794 reported to have been incurred on hospitality supplies and services for the year under review could not be confirmed.

2.3 Routine Maintenance – Motor Vehicles and Other Transport Equipment

Note 5 to the financial statements reflects routine maintenance – motor vehicle and other transport equipment expenditure of Kshs.14,238,133, out of which Kshs.7,181,633 is in respect to motor vehicle repair expenses. However, the repairs were not recorded in the motor vehicle log books and work tickets and further, engineers' pre and post mechanical inspection reports and the report prepared by the inspection and acceptance committee were not availed for audit verification.

In the circumstance, the regularity and validity of routine maintenance – motor vehicles and other transport equipment expenditure of Kshs.7,181,633 for the year under review could not be confirmed.

2.4 Other Operating Expenses

Note 5 to the financial statements reflects other operating expenses of Kshs.8,828,430, out of which Kshs.4,470,640 is in respect of legal fees paid to a law firm which represented the County Assembly after it was sued for not allowing sufficient notice for public participation before enacting bills. Failure to give ample notice to the public is against the provisions of Section 87 of the County Governments Act, 2012 which provides that citizen participation in county governments shall be based upon a timely access to information, data, documents, and other information relevant or related to policy formulation and implementation.

In the circumstance, the the legal fees expenditure of Kshs.4,470,640 incurred in the year under review was nuggatory expenditure and would not have been incurred had the County Assembly management followed the Law on public participation in County Government matters.

3. Acquisition of Assets

3.1 Construction and Civil Works

Note 10 to the financial statements reflects construction and civil works' balance of Kshs.35,872,362. Out of this amounts Kshs.7,244,260.90 represents a payment made to a construction company for construction of drainage works, a septic tank, a soak pit and an ablution block at a contract sum of Kshs.6,808,306.80. However, the project's certificates of completion, approvals for cost variations, and the inspection and acceptance committee certificate were not availed for audit review.

3.2 Catering Equipment

Note 10 to the financial statements reflects construction and civil works balance of Kshs.35,872,361, out of which Kshs.8,667,843.10 was paid for supply of catering equipment at a contract sum of Kshs.9,904,080. However, records availed for audit review indicated that although the equipment were delivered on 19 September, 2016, at the time of audit verification on 14 November, 2017 -over one year after delivery, the equipment had not been put to use. The management attributed this situation to its failure to hire staff to work in the cafeteria.

Failure to put the equipment to use contradicts Section 160 (1) of the Public Procurement and Asset Disposal Act, 2015 which requires an Accounting Officer of a procuring entity to manage its inventory, assets and stores for the purpose of preventing wastage and loss.

3.3 Purchase, Installation and Commissioning of Exchange and Other Communication Equipment

Note 10 to the financial statements reflects construction and civil works balance of Kshs.35,872,361. Included in this amount is Kshs.6,278,980.25 paid to a construction company for the purchase, installation and commissioning of exchange and other communication equipment at a contract sum of Kshs.7,888,000.

However, the signed contract agreement indicating scope of works and duration of the contract was not availed for audit review. Further, on verification of the equipment on 14 November 2017, the supposedly new PABX/ voice connection handsets were found not to be working. The Windows Server 2012 was installed but the printer and mail-server were not configured and the cables were not connected at the server cabinets.

3.4 Installation of CCTV Surveillance System in the New Administration Block

The construction and civil works balance of Kshs.35,872,361 disclosed in Note 10 to the financial statements includes Kshs.918,275.85 in respect of installation of a CCTV surveillance system in the new administration block .However, the respective purchase requisition, quotations and bills of quantities were not availed for audit review.

Consequently, the propriety and value for-money on expenditure amounting to Kshs.23,109,360 expended on construction and civil works for the year ended 30 June 2017 could not be confirmed.

4. Accounts Receivable – Outstanding Imprests

The statement of financial assets as at 30 June 2017 reflects accounts receivables – outstanding imprests balance of Kshs.2,908,974. However, out of this balance, imprests totaling Kshs.1,623,175 were not supported with imprest warrants and further , surrender vouchers were not recorded in the imprests register. This is contrary to Sections 91 (2) and 93 (4) of the Public Finance Management (County Government) Regulations 2015 which require any officer authorized to hold and operate an imprest to make formal application through an imprest warrant and, the Accounting Officer to ensure that the imprest is recorded in the imprest register before it is issued. In addition, out of the aggregate balance of Kshs.2,908,974, imprests totaling Kshs.512,625 were overdue for surrender by more than six(6) months.

Further, of the outstanding imprests' balance of Kshs.2,908,974, Kshs.883,000 was in respect of multiple imprests issued to nine(9) employees of the County Assembly, contrary to Section 93(4)(b) of the Public Finance Management (County Governments) Regulations 2015 which states that the applicant should not have outstanding imprests.

Consequently, the regularity and recoverability of the outstanding imprests of Kshs.2,908,974 as at 30 June 2017 could not be confirmed.

5. Bank Balance

The statement of financial assets as at 30 June 2017 reflects a bank balance of Kshs.165,122,935 against which the following observations were made:

5.1 Mortgage and Car Loan Fund

Note 13A to the financial statements reflects Mortgage and Car Loans Fund balance of Kshs.109,997,665 at Kenya Commercial Bank (K) Limited which has remained unutilized for two(2) years since the Fund's establishment in the year 2014. Failure to utilize the funds is contrary to Section 116 (2) and (4) of the Public Finance Management Act, 2012 which stipulates that the administrator of a county public fund shall ensure that monies held in the fund, including any earnings or accruals referred is spent only for the purposes for which the fund is established.

Further, the financial statements of the fund have not been submitted for audit review, contrary to Section 47(1) of the Public Audit Act, 2015 which provides that the financial statements of every public entity shall be submitted to the Auditor-General within three (3) months after the end of the fiscal year to which the accounts relate.

Consequently, the management is in breach of the Law and as noted, the fund has not benefitted its intended beneficiaries.

5.2 Bank Reconciliation Statements

Excluded from the bank balance of Kshs165,122,935 as at 30 June 2017 is a sum of Kshs.24,973,924, being payments in bank statement not recorded in the cash book. The management has failed to explain the origin and purpose of these payments. In addition, bank statements showing dates of subsequent clearance of un-presented cheques totalling Kshs.24,850,167.70 by the bank were not availed for audit review.

Consequently, the accuracy, validity and completeness of the bank balance of Kshs165,122,935 could not be confirmed.

5.3 Gratuity Account

Note 13A to the financial statements reflects gratuity account balance of Kshs.33,147,389 held in Kenya Commercial Bank Limited. Further, the Fund's bank reconciliation statement as at 30 June 2017 reflects bank charges of Kshs.2,200 which were however entered in cashbook and expensed during the year under review.

Consequently, the accuracy, completeness and validity of the bank balance of Kshs.165,080,102 as at 30 June 2017 could not be confirmed.

6. Pending Accounts Payable

Annex 1 to the financial statements reflects pending accounts payable balance of Kshs.16,353,798.60 as at 30 June 2017 owed to contractors and suppliers of stationery, fuel, motor vehicle repairs, salary recoveries, hire of vehicles, retention

money and insurance. However, the management has not justified the failure to settle these debts given that the County Assembly realized a surplus of Kshs.26,472,607 during the year under review.

Consequently, the propriety of the pending accounts payable balance of Kshs.16,353,798.60 could not be confirmed.

Key Audit Matters

Key Audit Matters are those matters that, in my professional judgement, were of most significance to the audit of the financial statements for the current year. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1. Budgetary Control and Performance

1.1 Budget Absorption

The County Assembly of Tana-River had a total budget of Kshs.689,258,883 voted for the financial year 2016/2017, comprising of Kshs.226,816,009 for development and Kshs.462,442,874 for recurrent expenditure. Actual expenditure amounted to Kshs.486,911,182, resulting in an under-absorption of Kshs.202,347,701 or 29% of the budget as summarized below:

Item	Approved Budget (Kshs.)	Actual Expenditure (Kshs.)	Under Absorption in (Kshs.)	Under Absorption (%)
Development Vote	226,816,009	65,905,868	160,910,141	71
Recurrent Vote	462,442,874	421,005,314	41,437,560	9
Total	689,258,883	486,911,182	202,347,701	29

The under-absorption of Kshs.202,347,701 impacted service delivery by the County Assembly negatively during the year under review.

1.2 Development Budget

During the year, under review, the County Assembly of Tana River allocated Kshs.226,816,009 for development projects and spent Kshs.65,905,828, resulting in a net under-expenditure of Kshs.160,910,141 or 71 % as follows:

Item	Budgeted Amount (Kshs.)	Actual Expenditure (Kshs.)	Under Absorption (Kshs.)	Over-Absorption (Kshs.)	Under Absorption (%)	Over Absorption (%)

Construction and Civil works	35,250,000	35,872,362	-	622,362		2
Construction of Buildings	110,508,921	1,640,770	108,868,151	-	99	-
Refurbishment of non-residential Houses	45,444,690	22,980,578	22,464,112	-	49	-
Purchase of Desktop Computers and other ICT Equipments	7,412,158	5,412,158	2,000,000	-	27	-
Residential Building - Speakers Residence	28,200,240	-	28,200,240	-	100	-
TOTALS	226,816,009	65,905,868	161,532,503	622,362	71	-

As the table shows, the County Assembly did not utilize Kshs.160,910,141 or 71 % of its budget. This state of affairs impacted negatively on the County Assembly's operations and thus service delivery to the public.

1.3 Recurrent Budget

During the year under review, the County Assembly of Tana-River allocated Kshs.462,442,874 for recurrent expenditure but spent a total of Kshs.421,005,314, resulting in an overall under-expenditure of Kshs.41,437,560 or 9% of the budget as summarized below:

Expenditure Item	Budgeted Amount (Kshs.)	Actual Expenditure (Kshs.)	Under Absorption (Kshs.)	Over Absorption (Kshs.)	Under Absorption (%)	Over Absorption (%)
Compensation to Employees	215,740,045	206,476,237	9,263,808	-	4	-
Utilities Supplies and Services	1,400,000	1,198,603	201,397	-	14	-
Domestic travel and Subsistence Allowances	131,099,500	123,280,522	7,818,978	-	6	-
Foreign Travel Allowances	9,556,705	-	9,556,705	-	100	-
Printing, Advertising and other Information Supplies	11,050,659	10,050,659	1,000,000	-	-	9
Communication, Supplies and Services	2,089,532	2,199,334	-	109,802	-	5

Rental of Produced Assets	9,560,000	9,505,300	54,700	-	-	1
Training Expenses	8,200,000	3,833,988	4,366,012	-	-	53
Hospitalities Supplies and Services	14,622,570	14,950,794	-	328,224	-	2
Insurance Costs	18,300,000	14,008,440	4,291,560	-	-	23
Specialized Materials and Services	510,000	2,033,430	-	1,523,430	-	299
Routine Maintenance-vehicle and other transport Equipment	17,238,133	14,238,133	3,000,000	-	-	17
Office general Supplies and Services	8,525,730	10,332,364	-	1,806,634	-	21
Other Operating Expenses	13,750,000	8,828,430	4,921,570	-	-	36
Refund Ex-gratia and Other Service Gratuities	800,000	69,080	730,920	-	-	91
Total	462,442,874	421,005,314	45,205,650	3,768,090		12.6

The under-expenditure implies that planned projects were not implemented thereby curtailing services to the residents of the County.

2. Staff Recruitment

During the year under review, Tana River County Assembly absorbed nine (9) employees who were serving on internship or short-term contracts into permanent and pensionable terms. However, the management has not presented any documentary evidence showing that the positions were advertised as provided for in Section 1.1 of the County Assembly's Human Resource Policies and Regulations which stipulate that whenever a vacancy arises at the Assembly, an advertisement shall be issued and published. Further, four (4) employees were assigned designations/grades which are not provided for in the County Assembly's staff establishment.

Consequently, it has not been possible to confirm whether the employees were recruited competitively. Further, the County Assembly failed to comply with the grading structure provided for in the staff establishment.

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 and using the going concern assumption.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards of Supreme Audit Institutions (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.

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 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.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

16 July 2018