

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF TANA RIVER FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Tana River set out on pages 1 to 21, which comprise the statement of financial assets as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation: 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 County Assembly of Tana River 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 the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Use of Goods and Services

1.1. Unsupported Expenditure

Included in the use of goods and services figure of Kshs.228,466,221 is domestic travel and subsistence of Kshs.111,073,506 which in turn includes Kshs.19,602,650 paid to Members of County Assembly and other staff for attending workshops and other official duties outside their work station. However, the expenditure was not properly supported with relevant documents such as copies of imprest warrants, traveling documents, invitation letters, workshop and activity programs, attendance register and signed payment schedules. In addition, expenditure amounting to Kshs.2,333,556 in respect of travel and subsistence allowance for five members of Public Accounts Committee and one committee clerk attending a workshop in Singapore was not supported with copies of passports, boarding passes, workshop program and correspondence from host institution. The expenditure was also charged to domestic travel and subsistence allowance instead of foreign travel and subsistence allowance.

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

1.2. Un-reconciled Sitting Allowances

Included in the use of goods and services figure of Kshs.228,466,221 is payments totaling to Kshs.6,066,000 paid as sitting allowances to Members of County Assembly. The Assembly maintained an attendance register to record committee sittings by the respective members. However monthly attendance summaries were not prepared from the attendance register to determine the amount payable to each member at the end of the month. It was therefore not possible to confirm whether the amounts paid for sitting allowances through the payroll was for the correct number of sittings attended.

Consequently, the probity of the expenditure could not be ascertained.

1.3. Irregularities in Procurement of Air Ticketing Services

Included in the use of goods and services figure of Kshs.228,466,221 is an amount of Kshs.6,345,545 paid in respect of air ticketing. However, the firms appointed to provide air ticketing services were not in the approved list of prequalified suppliers and service providers. The payments were also not supported with tender documents such as advertisement for provision of services, tender opening and evaluation minutes and contract agreements contrary to Section 68(6) of the Public Procurement and Assets Disposal Act, 2015 which requires an accounting officer of a procuring entity to maintain a proper filing system with clear links between procurement and expenditure files that facilitates an audit trail. In the absence of properly evaluated tender documents, it was not possible to establish how the firms were identified and whether the services were procured from the most competitive sources.

In the circumstance the probity of the expenditure could not be ascertained.

1.4. Irregularities in Procurement of fuel, Motor Vehicle Repairs and Maintenance

Included in the use of goods and services figure of Kshs.228,466,221 is Kshs.6,126,652 spent on fuel and other motor vehicle expenses. It was however observed that the spare parts and the repairs were directly procured without raising quotations, evaluation and award of the contracts. In addition, purchase of fuel was not supported with quotations and local purchase orders. In view of the foregoing, the probity of the expenditure could not be ascertained.

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

The County Assembly's total approved budget for the year under review was Kshs.645,224,386 comprising of Kshs.190,729,209 for development expenditure and Kshs.454,495,177 for recurrent expenditure as detailed below:

Item	Approved Budget Kshs.	Actual Expenditure Kshs.	Variance Kshs.	% Absorption
Recurrent	454,495,177	438,294,368	16,200,809	96%
Development	190,729,209	18,995,284	171,733,925	10%

The Assembly therefore attained 96% and 10% absorption rate on the recurrent and development expenditure respectively.

Consequently, planned development projects were not realized due low absorption on development budget with a likelihood of affecting delivery of services.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Basis for Qualified Opinion, 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

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, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Governance and Risk Management Systems/Qualified Opinion section of my report, 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

1. Weaknesses in Internal Controls

The Assembly had no strong internal controls at the treasury as evidenced in the weakness noted:

- (i) There were no enforcement of internal controls designed for ensuring effective administration of public funds.
- (ii) Audit review of payments vouchers for expenditure worth Kshs.2,907,003 revealed that the expenditure was not examined, while payment vouchers worth Kshs.5,231,233 were not stamped 'PAID' as required.
- (iii) Further, vote book control certificate was not completed for payments worth Kshs.3, 616,233.

Under the circumstances the probity of the expenditure could not be ascertained.

2. Failure to Establish Audit Committee

The Assembly does not have an audit committee to oversee its financial operations and also to support the accounting officers with regard to their responsibilities for issues of risk, control and governance and associated assurances, as required by the Public Finance Management Act, 2012 Section 155(5) and Section 167(1). Where there is no audit committee the management can easily override controls and, in such instances, cases of fraud and errors may not be detected or corrected timely.

No explanation was provided for not complying with the law.

4. Lack of Functional Internal Audit Unit

The Assembly has an internal audit unit but it is not fully functional as it is manned by only one officer. The officer reports functionally and administratively to the Clerk of the Assembly hence the independence of the unit cannot be assured. The unit does not have an internal audit charter that define functions, roles and powers.

Under these circumstances, effectiveness of the internal audit unit could not be ascertained.

5. Lack of Risk Management Policy

The Assembly did not have a risk management policy for the County Government contrary to the requirements of Treasury Circular No.3/2009 of 23 February 2009 which required all heads of public institutions to develop and implement a risk management framework as a fundamental step towards establishing an accountable and innovative public service. It was also noted that management did not perform formal risk assessment during the year under review.

In view of the foregoing, it was not possible to confirm how accountability was guided.

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 effective 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 Assembly's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the 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 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 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 Assembly'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:

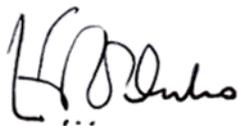
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for

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 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 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 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

21 January 2019