

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the County Assembly of Tana River set out on pages 1 to 36, which comprise the statement of financial assets as at 30 June, 2019, 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 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 the County Assembly of Tana River 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 the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Expenditure Domestic Travel and Subsistence

Included in the use of goods and services of Kshs.263,541,350 under Note 3 to the financial statements as at 30 June, 2019 is Kshs.170,951,077 for domestic travel and subsistence. This includes payments of Kshs.45,147,386 which was not supported with travel documents, meeting attendance registers, boarding passes and approved requisition. This was contrary to Section 104(1) of Public Finance Management (County Governments) Regulations, 2015 which requires that all receipts and payments vouchers of public moneys shall be properly supported by the appropriate authority and documentation.

Consequently, the accuracy and completeness of the expenditure of Kshs.45,147,386 for the year ended 30 June, 2019 could not be ascertained.

2. Irregular Procurement of Car Hire Services

Included in the use of goods and services figure of Kshs.263,541,350 under Note 3 to the financial statements is an amount of Kshs.4,986,410 in respect of rentals on produced assets. This includes Kshs.2,000,000 incurred on hire of motor vehicles which was directly procured without raising request for quotations and a Local Service Order (LSO).

In view of the above, the validity of the expenditure of Kshs.2,000,000 for the year ended 30 June, 2019 could not be confirmed.

3. Unsupported Payments on Acquisition of Assets

The statements of receipts and payments reflects acquisition of assets figure of Kshs.54,510,042 as at 30 June, 2019. However, audit review of the expenditure revealed that an amount of Kshs.11,008,685 was paid without the relevant supporting documents such as acceptance letters, tender notification letters, copies of advertisement, company profiles, request for quotation for both winning and unsuccessful bidders, authorized requisition by user department and invoices.

In the circumstances, the validity of the expenditure of Kshs.11,008,685 for the year ended 30 June, 2019 could not be ascertained.

4. Ownership of Motor Vehicle KBY 968C

The fixed assets register provided for audit verification revealed that the County Assembly owns a fleet of eleven motor vehicles. However, logbook for a Land Cruiser Registration No. KBY 968C and purchased by Tana River County Executive for use by the County Assembly has not been provided for audit verification. Verification of the registration information with the National Transport and Safety Authority (NTSA) revealed that the vehicle was registered under the County Executive.

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

Emphasis of Matter

1. Budget Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2019 reflects actual expenditure of Kshs.499,999,373 against final budget expenditure of Kshs.509,819,158 resulting in an under-expenditure of Kshs.9,819,782. Further, the actual expenditure for the year included an amount of Kshs.43,200,000 for Transfers to County Government Entities which had not been budgeted for.

2. Pending Bills

Note 4.10 to the financial statements indicate that the County Assembly had pending accounts payables totalling Kshs.26,629,727 (2018: Kshs.16,499,169) as at 30 June,

2019. During the year under review, the Management made nil payments while accumulating bills totalling Kshs.5,030,851. Management has not explained why the bills were not settled during the year they occurred. The County Assembly is at risk of incurring significant interest costs and penalties with their continued delay in payment.

Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

My opinion is not modified in respect of the above matters.

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. I have determined that there are no key audit matters to communicate in my report.

Other Matter

Prior Year Audit Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the Senate has not deliberated on the same.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Staff Numbers Beyond the Approved Limit

An audit review of the payroll revealed that as at 30 June, 2019 there were eighty (80) permanent employees in the County Assembly's payroll. This is contrary to the Commission on Revenue Allocation Circular Ref. No. CRA/FA/01 VOL 11 (22) which

capped the number of employees to sixty-five (65) for the cluster of County Assemblies under which the County Assembly of Tana River belongs. The County Assembly exceeded the required number by fifteen (15) employees.

Consequently, the County Assembly is in breach of the Commission on Revenue Allocation Circular No. CRA/FA/01 VOL 11 (22).

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, 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 effective.

Basis for Conclusion

1. Weaknesses in Internal Controls

During the year under review, expenditure totaling to Kshs.29,376,241 was not authorized by the Accounting Officer while payment vouchers worth Kshs.34,073,888 were not stamped 'PAID' after payment was done. The County Assembly therefore did not enforce a strong internal control as evidenced by the weaknesses noted. This could lead to double payments or payments of fictitious expenditure.

2. Lack of Functional Internal Audit Unit

The Assembly has established an Internal Audit Unit. However, the unit was manned by only one officer who reports functionally and administratively to the Clerk of the County Assembly, The unit does not have an internal audit charter that defines its functions, roles and powers of the function.

Under the circumstances, the effectiveness of the Internal Audit Unit could not be ascertained and its independence could not be assured.

3. Failure to Establish an Audit Committee

The Assembly has not established an Audit Committee contrary to Section 153 of the Public Finance Management Act, 2012 which requires County Government entities to establish audit committees in accordance with prescribed regulations to monitor the entities governance process, accountability process and control systems, offer objective advice on issues concerning risk, control, regulatory requirements and governance of the County Assembly.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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, risk management and governance.

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 Management is aware of the intention to dissolve the County Assembly or to 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 which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the County Assembly's financial reporting process, reviewing the effectiveness of how the Management 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 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 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 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 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 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

04 February, 2021