

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF WAJIR 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 Wajir set out on pages 8 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 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 Wajir 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.

Basis for Qualified Opinion

1. Variance Between the Trial Balance and the Financial Statements

A comparison between the trial balance and the financial statement showed material variances between the two set of documents and which were not explained or reconciled as listed below:

Component	Balances as Per Trial Balance Kshs	Balances as Per Financial Statements Kshs	Variance Kshs
Rentals of Produced Assets	17,027,667	5,729,387	11,298,280
Specialized Materials and Supplies	0	10,604,400	(10,604,400)
General Supplies Office and Services	12,790,058	13,872,018	(1,081,960)
Fuel Oil and Lubricants	995,000	0	995,000
Other Operating Expenses	19,189,119	19,796,039	(606,920)

Consequently, the accuracy of the balances reported in the financial statements as at 30 June 2018 could not be ascertained.

2. Summary of Fixed Assets

The statement of receipts and payments and the supporting note 5 to the financial statements reflected Kshs.26,415,136 being acquisition of assets during the year under review. The Assembly further had reported assets worth Kshs.77,069,428 in the financial statements for the financial year 2016/2017. However, The County Assembly did not analyse the fixed assets procured during the year under review and those previously held by the Assembly and further the management did not maintain assets register for the fixed assets held.

In the view of the foregoing, it has not been possible to confirm the total assets held by the Assembly as at 30 June 2018.

3. Pending Bills

Annex 1 to the financial statements reflect an amount of Kshs.83,167,960 being pending account payables consisting of Kshs.31,341,132 for supply of goods and Kshs.51,826,828 for supply of services. However, the Assembly did not give analysis of services rendered and goods delivered for the outstanding bills. The annex of the pending bills also did not indicate the LPO/LSO numbers against which the goods and services were ordered.

In view of the above, the validity and existence of the pending bills amounting to Kshs.83,167,960 could not be ascertained.

4. Compensation of Employees

4.1 Re-Allocation of Funds

The compensation of employees figure of Kshs.361,182,067 under note 2 to the financial statements includes an amount of Kshs.246,236,894 relating to basic salaries of permanent employees. However, scrutiny of the ledgers supporting the financial statements and the payment documents availed for audit scrutiny revealed that a total expenditure of Kshs.4,342,837 meant for payment of salaries for permanent employees were charged to payment of sitting allowances for MCAs and salaries for temporary employees.

Under the circumstances, the authenticity of the expenditure of Kshs.4,342,837 could not be confirmed.

4.2 Payment of Mileage Allowances

Included in the compensation of employees figure of Kshs.361,182,067 is an amount of Kshs.66,516,180 relating to personal allowances paid as part of salary which included

mileage allowances. The ledgers, payment records and other supporting documents availed for audit verification revealed that the County Assembly spent the entire allocation of mileage allowance on payment of mileage allowances to Members of the County Assembly. However, the following anomalies were noted:

- (i) The Assembly did not comply with the requirements of the quoted Kenya Gazette Notice which awarded the MCAs a fixed mileage allowances in a clustered four (4) zones. The mileage allowances, according to the Kenya Gazette Notice were to be paid through the payroll. It was explained that the Gazette Notice was suspended by a high court ruling. However, the said ruling was not made available for audit review hence no evidence of the alleged suspension. The County Assembly therefore paid the elected MCAs mileage allowances based on the SRC Circular of 2013. They were also paid the allowances based on the furthest location of the wards against the provision of quoted SRC circular which required the distance between the County Head Quarter and the MCA's homes of residence.
- (ii) The County Assembly in compliance with the Gazette Notice paid the nominated MCAs mileage allowances which had not been provided for in the SRC Circular. No explanation was made as to why the County Assembly had used both regulations at the same time. Further, since the Gazette Notice provided fixed mileage allowances in a clustered zone to be paid through the payroll, the County Assembly did not comply with this requirement. The Assembly paid the nominated MCAs based on the furthest distance of the wards where they allegedly hailed from. No reason was given for the Assembly's non-compliance with these regulations.
- (iii) The MCAs used copies of letters allegedly from surveys conducted by County Road Engineers on possible routes and distance covered by the MCAs during their visits to their wards. However, these surveys appear to have increased the distances between the County Assembly Head Quarter and the locations visited by the MCAs. The date when the survey was conducted and the officers involved were however not indicated. The alleged surveys also contradicted a similar survey conducted in 2014 and which the first Assembly used to pay mileage allowances to the former MCAs. A Kenya Roads Board road maps conducted in 2015 which is still in use showed a huge variance between the distance used by the MCAs in calculating their mileage allowances and the actual distance in their area of representations. The County Assembly appear to have lost funds through unrealistic mileage claims using unrealistic and incorrect distances allegedly formulated by the County Road Engineers.
- (iv) Scrutiny of the committee attendance registers and their minutes revealed that some of the MCAs claimed mileage allowances when they allegedly visited their wards at the same time they were in Wajir attending committee sessions at the County Assembly casting doubt as to how they could be in two places at the same time.
- (v) In some instances, the lease agreements supporting the payments of the mileage allowances were not signed by the MCAs and the owners of the vehicles used. Further, the work tickets of the vehicles used by the MCAs to visit their wards appear doubtful. It was discovered that the authorizing signature in the work ticket did not

match with the official signature of the respective MCAs. It was further noted that some of the work tickets did not indicate the registration number of the vehicles. The work tickets also showed the vehicles had covered constant mileages and distances in all the trips made by the MCAs. This cast doubt on the genuineness of the work tickets supporting the payments.

Under the circumstances, it has not been possible to ascertain the propriety mileage allowance amounting to Kshs.66,516,180.

4.3 Sitting Allowances Paid as Part of Salary

Included in basic salaries of permanent employees of Kshs.246,236,894 is an amount of Kshs.4,811,100 on payment of sitting allowances to MCAs. Scrutiny of the committee attendances registers and the minutes availed for audit revealed that some MCAs were paid the sitting allowances for the same days they were allegedly visiting their wards which they also claimed and paid mileage allowances. It was not clear how the MCAs could be on official duties at their wards while at the same time attending the committee sittings at Wajir.

In the view of the foregoing, the authenticity of the amount of Kshs.4,811,100 used to pay sitting allowances could not be confirmed.

5. Use of Goods and Services

5.1 Other Operating Expense

Included in the use of goods and services of Kshs.223,597,824 is an amount of Kshs.19,796,039 relating to other operating expenses which further includes Kshs.4,545,000 incurred on hire of motor vehicles. The car hire services were directly procured without raising request for quotations contrary to Section 105 of the Public Procurement and Assets Disposal Act, 2015. Some of the LSOs supporting the payments for the Assembly Speaker's car hire services were not properly authorized and dates were not indicated. It was also noted that copies of the work tickets supporting the payments were not properly filled since they did not indicate the previous work ticket number, the vehicle registration number, time in and out, mileage or kilometers covered and the fuel consumed thus casting doubt whether the vehicle was in used for the period paid.

Further, the Assembly paid an amount of Kshs.2,600,000 relating to expenditure incurred in the 2016/2017. There were no pending bills disclosed in the financial statements for the 2016/2017 financial year and no reason was given why the payments were not made during the expenditure related to.

Consequently, the probity of the expenditure amounting to Kshs.7,145,000 could not be confirmed.

5.2 Irregular Expenditure on Domestic Travel

Included in the use of goods and services figure of Kshs.223,597,824 is Kshs.90,520,447 on domestic travel and subsistence allowances. However, the following anomalies were noted:

- (i) An amount of Kshs.2,331,800 was incurred on payment of subsistence allowances to officers attending full time course at KSG Mombasa. The officers were paid subsistence allowances for the period they were attending full time courses ranging from four (4) weeks to six (6) weeks duration. No reason was given why the officers were not admitted to the institution. Cash payment of tuition fees and meals was also made to the college. No reason was given why the payments were not made by cheques through the college bank account. The payments were not supported with certificates of completion or attendance hence no evidence that the officers actually attended the courses.
- (ii) An expenditure of Kshs.2,504,000 was incurred on payment of subsistence allowances to MCAs attending an Export Promotion Council breakfast function in Tanzania between 28 June 2018 and 13 July 2018. The expenditure was irregularly charged to domestic travel and subsistence instead of foreign travel and subsistence and hence a re-allocation without requisite approvals. The MCAs were issued with imprest most of which were not properly authorized and signed by AIE holder and the imprest holders and dates indicated. It was also noted that the surrender vouchers were prepared in the month of July 2018 and hence the expenditure should have been charged to the 2018/2019 financial year. It was further noted that the MCAs were not in the list of those who were budgeted to attend the function.

In view of the above, it has not been possible to ascertain the propriety of the expenditure Kshs.4,835.800.

5.3 Payment for Rental Services

Included in the use of goods and services figure of Kshs.223,597,824 is an amount of Kshs.5,729,387 incurred on rentals of produced assets out of the which an amount of Kshs.750,000 was used as rental services for Speaker's house. However, the services were directly procured without competitive bidding in contravention with Section 103 of the Public Procurement and Assets Disposal Act, 2015.

Under the circumstances, it has not been possible to ascertain the probity of the rental services of Kshs.750,000.

5.4 Printing, Advertising and Information Supplies & Services

Included in the balances of use of goods and services balance of Kshs.223,597,824 under note 3 to the financial statements is an amount of Kshs.4,397,966 relating to printing, advertising and information supplies & services. However, the Assembly did not produce for audit review payment records and the supporting documents amounting to Kshs.1,882,142. It was therefore not possible to ascertain whether the payments were

made in accordance with Section 104(1) of Public Finance Management County Governments Regulations 2015.

It was further observed that the Assembly made payments amounting to KShs.1,575,824 on procurement of printing, advertising and information supplies & services. The payments however related to the financial years 2014/2015 and 2016/2017 and hence constituted pending bills which were not disclosed in the financial statements for 2016/2017.

In view of the above, the authenticity of the expenditure Kshs.3,457,966 could not be ascertained.

5.5 Irregular and Unaccounted for Foreign Travel and Subsistence

Included in the balances of use of goods and services balances of Kshs.223,597,824 under note 3 to the financial statements is an amount of Kshs.12,999,790 relating to foreign travel and subsistence out of which Kshs.3,671,490 was not properly supported with necessary documentation. It was therefore not possible to ascertain whether the payments were made in accordance with Section 104(1) of Public Finance Management - County Governments Regulations, 2015.

Further, scrutiny of the payment records and the supporting documents availed for audit scrutiny revealed that the Assembly paid an amount of Ksh.7,929,000 to various MCAs, the clerk, the speaker and other staff while on official trip outside the county. However, the following anomalies were noted: -

- a) Some of the payments were not supported with invitation letters, clearance from the County Assembly Service Board, Ministry of Devolution and Foreign Affairs. Copy of passports, visas, boarding passes and travel insurance were also not attached to the payment documents.
- b) There were no after trip reports indicating the locations visited by the MCAs. The payments were also not supported with certificate of attendance for some of the officers participating in these seminars hence no evidence that the MCAs and other staff indeed travelled.
- c) The Assembly spent an amount of Kshs.5,834,200 on foreign travel and subsistence. The payments were made to MCAs, the Clerk, the Speaker and a Committee clerk who attended International Trade Fair at Zanzibar between 28 June 2018 and 13 July 2018. The following anomalies were however noted: -
 - (i) An amount of Kshs.2,504,000 was incurred on payments of travel cost and subsistence allowances to four (4) MCAs who attended International Trade Fair at Zanzibar was irregularly charged to domestic travel. The funds were re-allocated without authority hence not spent for the intended for the purpose.
 - (ii) According to the approved budget for the trip, six (6) MCAs, the Speaker, the Clerk of the Assembly and one Committee clerk were planned to attend the function. However, additional five (5) MCAs were allowed to the function for

which no plausible reasons were given considering that the budget was not revised.

- (iii) Some of the MCAs who allegedly travelled out of the country on official duties were in Wajir attending committee sessions. The Committee members signed the attendance registers as evidence of attendance. It was therefore not clear how the MCAs went for the said trips and at the same time be attending committee sessions at Wajir.
- (iv) Some MCAs were paid fifteen (15) days accommodation and other travel expenses while attending the function. It was however noted that the MCAs were away for only nine (9) days. The officers were therefore irregularly paid allowances amounting to Kshs.1,364,400 for the days they were not attending the said function at Zanzibar.
- (v) According to the budget for the trip, an amount of Kshs.100,000 was provided for to cater for the officers' transport cost but it was not clear how the amount of Kshs.100,000 was arrived at. Further, the receipts obtained from taxi providers supporting the expenditure were doubtful since they had conflicting dates and were haphazardly issued out without regard to serial numbers. The rate charged for the taxi services were noted to be abnormally high and in one case Kshs.10,000 was charged for a taxi hire between Wilson Airport to Eastleigh to Jomo Kenyatta Airport.

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

6. Social Security Benefits

The Social Security Benefits figure of Kshs.32,645,398 includes Kshs.15,427,722 which did not have the requisite supporting documents as listed below: -

PV No.	Payee	Details	Amount (Kshs)
WCA -017	Lapfund	Gratuity	138,017
WCA -2012	Adan Duale Adid	Gratuity	575,439
WCA -2013	Osman Kuresh Abdille	Gratuity	575,439
WCA -3002	Meymuna Ali Haji	Gratuity	613,802
WCA -3003	Abdullahi Mohamed Abikar	Gratuity	636,819
WCA -5090	Adan Mohamed Mohamud	Gratuity	636,819
WCA -216B	LAPFUND	Gratuity	1,582,386
WCA -6001A	LAPFUND	Gratuity	2,131,122
WCA -109B	LAPFUND	Gratuity	2,198,067
WCA -074	LAPFUND	Gratuity	2,234,788
WCA -100A	LAPFUND	Gratuity	4,105,025
		Total	15,427,722

Under the circumstances, it has not been possible to ascertain the authenticity of the expenditure of Kshs.15,427,722.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Wajir 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. Except for the matters described in the Basis for Qualified Opinion section of my report, I have determined that there were no Key Audit Matters to report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

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 resources 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 AND GOVERNANCE

Conclusion

As required by Section 7(1) (a) of the Public Audit Act, 2015, based on the procedures performed, except for the matter described in the Report on Effectiveness of Internal Controls, Risk Management and Governance 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. Failure to Establish an Audit Committee

The Assembly has not established an audit committee contrary to Section 167(1) of the Public Finance Management (County Government) regulations 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.

2. Lack of Approved Staff Establishment

The Assembly appear not to have an approved staff establishment to indicate the authorized staffing levels in position for each category and variance. Further, no evidence was provided to indicate that the Assembly had carried out job evaluation to determine the staff requirements for each category. It was therefore, not possible to ascertain whether the Assembly had engaged the optimal number of employees for all categories.

3. Payment of Salaries Through Manual Payroll

Audit examination of payment records and manual payroll for the month of June 2018 revealed that the Assembly paid the salaries of 7 Members of County Assembly, one board member and 27 other staffs through manual payroll. Scrutiny of personnel files for some of the staffs paid through the manual payroll indicates that they have personnel numbers so they ought to have been paid through IPPD payroll.

No reasons given for using manual payroll to pay the staffs with personnel numbers instead of using IPPD Payroll.

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.

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 going concern basis of accounting unless the management either intends to liquidate the Assembly or to close 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 as a going concern or 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

1 February 2019