

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF WAJIR FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of County Assembly of Wajir set out on pages 1 to 25, which comprise the statement of financial assets and liabilities as at 30 June, 2019, statement of receipts and payments, statement of cash flows and the 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 the County Assembly of Wajir 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 and County Governments Act, 2012.

### **Basis for Qualified Opinion**

#### **1.0 Inadequate Disclosure of Pending Bills**

Paragraph 1 under other important disclosures in Annex 1 to the financial statements discloses pending bills totalling Kshs.83,167,960 as at 30 June, 2019 comprised of goods supplied but not paid for, Member of County Assembly (MCA) Gratuity, LAPFUND contributions, legal fees and other expenses. However, the disclosure does not show the pending bills, at the beginning of the year under review and payments made in the year. The disclosure therefore does not conform to the format prescribed by the Public Accounting Standards Board(PSASB).

In addition, the analysis does not disclose the period the bills relate to, the nature of goods and services on which the pending bills were incurred. Further, the change in the creditors balance from Kshs.150,452,590 as at 30 June, 2018 to Kshs.83,167,960 reported in the year ended 30 June, 2019 has not been explained.

Consequently, the financial statements for the year ended 30 June, 2019 do not comply with the prescribed reporting format.

## **2. Unsupported Balances**

### **2.1 Compensation of Employees**

### **2.1.1 Basic Wages to Temporary Employees**

Examination of records indicated that during the year under review, the County Assembly spent Kshs.29,727,024 on basic salaries of 145 temporary employees appointed by the MCAs and deployed to work in their respective Wards. However, there were no records showing that the County Assembly approved the appointments, and whether these were done as required in regulations. In addition, the terms of employment, including salary structure, and muster rolls indicating wages paid and the payees, among other relevant information, were not disclosed even though the Wajir County Assembly Service (Ward Offices) Regulations, 2015 require disclosure of this information.

In view of these anomalies, the occurrence and validity of expenditures totalling Kshs.29,727,024 incurred on payment of salaries for temporary employees has not been confirmed. As a result, the accuracy and validity of the compensation of employees aggregate expenditure amounting to Kshs.376,296,331 reflected in the statement of receipts and payments for the year ended 30 June, 2019 has not been confirmed.

## **2.2 Use of Goods and Services**

The statement of receipts and payments for the year ended 30 June, 2019 reflects use of goods and services balance of Kshs.291,158,048, as further disclosed in Note 5 to the financial statements. However, the following unsatisfactory matters were noted in regard to the balance:

### **2.2.1 Office and General Supplies**

A sum of Kshs.4,480,000 was incurred on purchase of office and general supplies and services during the year. However, there were no records to show receipt and issue from stores of supplies worth Kshs.3,450,000.

As a result, the receipt of the supplies purchased at Kshs.3,450,000 has not been confirmed.

### **2.2.3 Training Expenses**

Other expenditure records indicated that expenses amounting to Kshs.2,049,482 were incurred in training programmes during the year. However, invitations letters to participants, and return to office reports on the programmes were not presented for audit. As a result, the occurrence and propriety of the expenditures totalling Kshs.2,049,482 could not be confirmed.

### **2.2.4 Foreign Travel Expenditure**

Similarly, expenditure totalling Kshs.7,252,266 spent on foreign travel and subsistence was not adequately supported with records showing the training programmes attended, course invitation letters and imprests issued to participants. Also missing were copies of

boarding passes, letters granting authority to travel from the Ministry of Devolution and certificates issued to the participants.

### **2.2.5 Mileage Allowances**

Examination of mileage allowance records revealed that Kshs.140,037,396 was spent on the payment of allowances to MCAs during the year under review. However, payment records and other supporting documents availed for audit revealed that the Management did not adhere to Kenya Gazette Notice No:Vol.CXIX-No.89 which awarded the MCAs fixed mileage allowances in four (4) zone clusters. To the contrary, the claims were paid based on the furthest location in each MCA's Ward instead of the distance between the County Headquarters and the MCA's residence.

In addition, some of the claims were not supported with copies of the motor vehicle logbooks and the, signatures of persons who authorized the journeys were not identical with those shown in records submitted by the MCAs. In several instances, the distances used to calculate allowances were much higher in comparison to actual distances documented in the surveys conducted by the County Road Engineers. Further, nominated MCAs were paid mileage allowance.

In view of these anomalies, the occurrence, accuracy and validity of the expenditures could not be confirmed.

### **2.2.6 Domestic Travel and Subsistence Allowance**

Review of the expenditure records revealed the following anomalies in respect to payment of subsistence allowances:

- (i) allowances totalling Kshs.1,570,600 incurred in 2017/2018 financial year but not disclosed the year's financial statements were included in the expenditure for the year under review, and,
- (ii) foreign travel and subsistence allowances totalling Kshs.1,301,1600 were charged to domestic travel and subsistence without approval by the County Assembly.

In view of these anomalies, the expenditures are not correctly presented in the financial statements.

### **2.2.7 Sitting Allowances**

Nine (9) Members of the County Assembly (MCAs) were paid diverse allowances which records showed were, for each payee, earned on the same dates, even though they related to different functions and activities. The payments implied that the MCAs were in different places at the same time. As a result, the occurrence and propriety of the payments could not be confirmed.

### **3.0 Lack of Sufficient Records on Fixed Assets**

Records showing the items of fixed assets procured during the year under review and in previous years by the County Assembly were not presented for audit. Further, Management did not avail a fixed asset register for audit review.

As a result, I am unable to confirm the existence, valuation and ownership of assets totalling Kshs.22,118,807 shown in the statement of receipts and payments as having been purchased during the year under review. Further, the total value of assets owned by the County Assembly as at 30 June, 2019 has not been confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Wajir 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.

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

#### **Other Matter**

#### **Unresolved Prior Year's Audit Issues**

The report on progress made in resolving audit issues highlighted in the previous year's report indicates that five out of the seven issues had not been resolved as at 30 June, 2019. Management has indicated that it has nominated officers to follow-up on the issues.

## **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 matters described in the Basis for Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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. Irregular Wage Bill**

The statement of receipts and payments for the year ended 30 June, 2019 reflects compensation of employees expenditure totalling Kshs.376,296,331 and aggregate revenue of Kshs.719,759,837. Therefore, the total expenditure on wages is equivalent to 52% of the total revenue of the County Assembly for the year under review. The ratio exceeds the threshold of 35% prescribed for personnel emoluments and revenue in Section 25(1) of the Public Finance Management (County Governments) Regulations, 2015.

Consequently, Management breached the law on limitation of personnel emoluments expenditure. As a result, Management has breached the law by using funds intended for provision of services to the residents of Wajir County to pay staff salaries.

### **2. Unauthorized Reallocation of Expenditure**

The statement of receipts and payments reflects compensation of employee payments totalling Kshs.376,296,331, as further disclosed in Note 4 to the financial statements. The balance includes basic salaries for permanent employees totalling Kshs.258,400,913. A review of the expenditure and the ledgers supporting the payments revealed that during the year under review, Management reallocated Kshs.2,120,000 of the budget for the item to other office expenses. However, evidence of approval of the reallocation by the County Assembly was not availed for audit review.

### **3. Unauthorized County Assembly Forum Expenditure**

Records availed for audit indicated that the County Assembly paid Kshs.2,700,000 being subscription fees to the County Assembly Forum. However, no documentation was availed by Management to explain authority for the payment. As a result, the validity of the payment could not be confirmed.

In the absence of supporting evidence, it is not possible to confirm that the reallocation was lawful.

### **4. Unsupported Procurement of Advertising Services**

Examination of expenditure records indicated that a marketing firm was paid Kshs.1,200,000 being a long outstanding bill incurred in 2016 when the firm was said to have provided live media coverage of an event organized by the County Assembly. However, the payment was not supported with records showing how the service provider was appointed.

In the circumstance, the validity and propriety of the advertising and information supplies expenditure amounting to Kshs.1,200,000 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 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 Qualified Opinion, Basis for Lawfulness and Effectiveness in Use of Public Resources, Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections 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. Payment of Salaries Through Manual Payroll**

As in the previous year, Management maintained both the Integrated Payroll and Personal Database (IPPD) payroll with 248 employees and a manual payroll with 18 employees in the year under review. However, examination of the expenditure records revealed that, Management paid salaries of seven (7) MCAs, one Board Member and eleven (11) other staff through the manual payroll.

Personnel files for some of the staff paid through the manual payroll indicated that they had personal numbers and therefore qualified to be paid through the IPPD system. Therefore, there was no reason for them be paid through the manual system which has limited internal controls.

No plausible explanation has been provided by Management for operating the manual payroll.

#### **2. Lack of Audit Committee**

Section 167(1) of the Public Finance Management (County Government) Regulations requires every County Government entity to establish an Audit Committee in accordance with prescribed regulations to monitor the entity's accountability processes and control systems, and offer objective advice on issues concerning risk, control, regulatory requirements and governance of the County.

There were no records to show that the Management had established an Audit Committee to monitor its operations.

Consequently, Management was in breach of regulations on good governance.

### **3. Lack of Risk Management Policy**

Regulation 158(1) of the Public Financial Management (County Governments) Regulations requires all heads of public institutions to develop and implement a risk management framework as one way of establishing an accountable and innovative public service.

Review of records and interviews with Management, however indicated that the County Assembly had not established a Risk Management System. In addition, an effective reporting system that entailed hotlines, reporting centers and whistle blower facilities had not been established to support accountable and effective management of the financial and other managerial operations of the County Assembly.

Management has not provided any plausible explanation for these omissions.

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 overall 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the County Assembly's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of intention to dissolve the County Assembly, or 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 financial reporting process, reviewing the effectiveness of how the County Assembly 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 overall 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 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 overall 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

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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 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**

**22 January, 2021**