

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF GARISSA FOR THE YEAR ENDED 30 JUNE 2018**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of County Executive of Garissa set out on pages 1 to 58, which comprise the statement of financial assets and liabilities 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 Executive of Garissa 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. Acquisition of Assets**

##### **1.1. Irregular Award and Payment for Rehabilitation and Civil Works**

Included in acquisition of asset figure of Kshs.742,012,507, is Kshs.53,050,475.00 paid in respect of construction of civil works initiated and procured during the financial year 2017/2018. However, the contract agreement for the projects lacked the project completion dates. It was further observed that the Bill of Quantities (BQs) summary, supervision and monitoring cost and contingencies were not supported by recommendation of an evaluation committee neither was it approved by the accounting officer contrary to Section 139(2)(c) and (e) of Public Procurement and Asset Disposal Act, 2015 which requires an accounting officer of a procuring entity, on recommendation of an evaluation committee, may approve the request for use (i) contingencies and (ii) provisional sums.

In addition, the following anomalies were noted in respect of several projects;

- i. There was no accounting officer's recommendation or any other reason for the use of restricted tendering as required by Section 102(a-d) of PP&AD Act, 2015 for the following;

Proposed extension of Kotile water supply to Alijarire and Hubi, Ijara Sub-County- CGG/WS/T/034/2017-2018 and for proposed equipping of Hagalbul water supply, under contract Fafi Sub-County- CGG/WS/T/020/2017-18

- ii. For the proposed drilling and development of Dogob borehole, Balambala sub-county contract CGG/WS/T/004/2017-2018, there were no hydrological test survey and environmental impact assessment carried out. Further, the drilling was not supported with WRMA permit licenses as guarantee on quality and quantity of water. In addition, report on chemical analysis of water from relevant ministry was neither attached nor made available to confirm whether the water was fit for animal and human consumption.
- iii. Finwork developers Ltd was contracted to supply and install Submersible pumps. Although the items were received in stores, there was no evidence availed to confirm how they were subsequently issued to the user department. The designation of the inspection and acceptance committee was not indicated and it was not clear whether they had the capability to inspect the pumps for the right quality.

Under the circumstances, the propriety of the expenditure of Kshs.53,050,475 could not be ascertained.

## **1.2. Construction of Buildings**

### **1.2.1. Construction of Modern Sub-County Offices at Garissa Township and Masalani Town**

The County Executive awarded a tender for the construction of Sub-County Offices at Garissa Town and Ijara (Masalani Sub-County Headquarter) sub-county offices at a contract sum of Kshs.275,521,642 each. First payments of Ksh.27,548,276 were made to each of the two projects. However, the following anomalies were noted;

- (i) According to bills of quantities, prime costs and provisional sums amounting to Kshs.64,090,000 for Garissa Township project was not supported by recommendation of an evaluation committee neither was it approved by the accounting officer contrary to Section 139(2)(c)&(e) of the Public Procurement and Asset Disposal Act, 2015.
- (ii) Retention money of Ksh.2,754,827.585 for each of the two projects at Ijara(Masalani town) and Garissa town was not withheld to take care of defects liability period.

### **1.3. Construction of Warehouse at Garissa Referral Hospital**

The County Executive awarded a tender No. CGG/HEALTH/T/001/2017-2018 for the construction of a warehouse at Garissa Referral Hospital at a contract sum of Kshs.13,989,990. Out of this sum, the first payment of Kshs.3,558,514 had been paid. Physical verification conducted on 31 November 2018 revealed that the construction was still on-going. However, the following anomalies were noted;

- (i) According to BQs, prime costs and provisional sums amounting to Kshs.2,615,000 was not supported by recommendation of an evaluation committee neither was it approved by the accounting officer contrary to Section 139(2)(c)&(e) of the Public Procurement and Asset Disposal Act 2015.
- (ii) Certificate of interim payment was signed on behalf of the project manager without delegated authority.

In view of the foregoing, the propriety of Ksh.2,615,000 could not be ascertained.

#### **1.4. Incomplete Works on Routine Maintenance of Balambala - Denyere Road**

Included in acquisition of assets figure of Ksh.742,012,507 is Ksh.135,649,905 for the construction of the road which in turn includes a contract entered by Executive with Lilaf Contractors Ltd on 30 April 2018 for the proposed routine maintenance of Balambala-Danyere Road for a contract price of Kshs.26,075,533 with completion period being eight (8) weeks which ended 3 July 2018. However, physical verification conducted on 1 November 2018 revealed the following anomalies;

- (i) Only 5 hunched 900mm diameter culverts had been installed out of the 80 Culverts as per the Bill of Quantities.
- (ii) The contractor had been paid 30% of the contract sum amounting to Kshs.7,807,032, with the remainder of the works having stalled since the contractor was not on site by the time of inspection, four (4) months past the expected completion date raising uncertainty if the project will be completed.
- (iii) The original copy of the engineer's progress report was not availed for audit confirmation.

Under the circumstances, the probity of the expenditure of Kshs.26,075,533 could not be ascertained.

#### **1.5 . Incomplete Periodic Maintenance of Badah Farm Access Road**

Included under construction of roads of Kshs.135,649,905 is a contract entered by the Executive with Jire Construction Company Ltd on 6 April 2018 for the proposed periodic maintenance of Badah Farm Access Road for a contract price of Kshs.6,907,800 with a completion period of one (1) month commencing on 11 April 2018. A payment of Kshs.2,067,900 was made to the contractor on 26 June 2018 leaving a balance of Kshs.4,839,900. However, physical verification conducted on 1 November 2018 revealed the following anomalies;

- i. Road formation was not well done contrary to the availed project progress report.
- ii. No back filling was done on seven (7) culverts, thus making the road inaccessible.
- iii. Grading and gravelling was poorly done contrary to the project progress report that the grading works were done according to specifications.

- iv. The remainder of the works of approximately 70% had stalled since the contractor was not on site at the time of inspection, seven (7) months past the expected completion date.

In the circumstances, the probity of the expenditure of Ksh.2,067,900 could not be ascertained.

### **1.6. Incomplete Works - Town Beautification**

Included in the acquisition of assets figure of Kshs.742,012,507 is Kshs.305,007,519 in respect of rehabilitation of civil works. The Executive awarded a contract to Ashadin Construction and Supplies Limited to execute the road side beautification along Hass Petroleum Road to the Governor's office for a contract sum of Kshs.4,848,220. After completion of the works, the contractor was on 21 June 2018 paid Kshs.3,878,576 as the first payment on account. However, physical verification conducted on site on 31 October 2018 revealed the following anomalies;

- i. As per the BQs, the contractor did not supply 900 7ft cedar posts amounting to Kshs.360,000.
- ii. Supply and Installation of six (6) elevated water tanks at a cost of Kshs.180,000.00 was not done.
- iii. Supply of inputs which included; ten (10) wheelbarrows; one hundred (100) jembes; fifty-six (56) watering cans; and ten (10) hosepipes all totaling to Kshs.335,000 were not availed for audit.
- iv. There was no inspection and acceptance committee report and minutes as a proof that the contract was inspected before making payments to the contractor.

Under the circumstances, the probity of the expenditure of Kshs.3,878,576 could not be confirmed.

## **2. Use of Goods and Services**

### **2.1. Unsupported Domestic Travel and Subsistence**

Included in the use of goods and services of Kshs.1,374,347,489 is domestic travel and subsistence of Kshs.276,407,392 which in turn includes Kshs.21,694,000 incurred on accommodation allowances for officers who travelled for official trips within and outside the County. However, the following anomalies were noted;

- i. Some of the expenditures were not supported with travel documents such as air tickets, bus tickets, work tickets or invitation letters to support the expenditure.
- ii. In other instances, payment schedules supporting the expenditure lacked the date for which the events took place and job group of officers being paid, hence rate used could not be confirmed against SRC Circular.

- iii. In other cases, the authorizing officers of the work tickets were not among the teams that spent some days outside the working stations while carrying out official duties.

Under the circumstances, the probity of the expenditure of Kshs.21,694,000 could not be ascertained.

## **2.2. (a) Unsupported Expenditure on Specialized Materials**

Included in use of goods and services of Kshs.1,374,347,489 is Kshs.189,765,647 in respect of specialized materials and services which in turn includes Kshs.20,387,931 for supply and delivery of survey equipment to the departments of Lands and Survey in the County. However, the following irregularities were noted;

- i. According to evaluation minutes availed for audit verification, bidders were disqualified on basis of not providing manufacturer's warranty certificate, statement for catalogue and service manual and statement for training of staff before deployment. However, it could not be confirmed whether the same requirements were in the instructions to tenderers since bills of quantities of the bidders were not availed for audit review.
- ii. Local purchase order was not issued and thus it was not possible to confirm that items supplied were of the right quality and quantity.
- iii. The designation of the inspection and acceptance committee members were not indicated and thus not possible to ascertain their technical capabilities.
- iv. Stores ledgers and issue notes were not made available for audit scrutiny.

Under the circumstances, the probity of the expenditure for Kshs.20,387,931 of could not be ascertained.

## **(b) Unaccounted for Accessories**

Included under use of goods and services of Kshs.1,374,347,489 is Ksh.189,765,647 in respect of specialized materials and services which in turn include purchase of pumps, borehole accessories and other equipment totalling to Kshs.7,804,393 from various suppliers. However, audit review of the expenditure revealed the following anomalies; -

- i. Some of the items were received Vide S.13 counter receipt voucher but not taken on charge in stores ledgers.
- ii. There were no requests from the user departments,
- iii. There were no documentary evidence to show that the items were issued out vide S11(counter issue voucher).
- iv. Some payments were not supported by inspection and acceptance report verifying whether the items bought met the required standards.

In the circumstances, the probity of the expenditure of Kshs.7,804,393 could not be confirmed.

## **2.2. Unsupported Hospitality Expenditure**

Included under hospitality supplies and services of Kshs.107,810,546 is Kshs.6,645,000 in respect of hotel catering services but whose payment details were however not supported with attendance list of participants and contract agreements with the various engaged hotels.

Consequently, it has not been possible to ascertain the probity of the expenditure for Kshs.6,645,000.

## **2.3. Irregular and unsupported Routine Maintenance - Vehicle and Other Transport Equipment**

Included in use of goods and services of Kshs.1,374,347,489 is routine maintenance-vehicles and other equipment figure of Ksh.57,201,735 which in turn included Ksh.2,497,297 incurred on motor vehicle expenses. However, the following anomalies were noted;

- i. Spare parts and the repairs were directly procured without raising quotations or using any relevant procurement method.
- ii. Log books and work tickets were not made available for audit to confirm ownership and whether repairs were carried out.
- iii. There are no certificates of inspection issued by the public works mechanical department indicating the nature of repairs and estimated cost to ascertain whether or not it was economical to repair the motor vehicles,
- iv. The vehicles were not re-inspected after the repairs to confirm the completeness of the repairs

In view of the above anomalies the probity of the expenditure of Kshs.2,497,297 could not be ascertained.

## **2.4. Irregular Procurement of Office and General Supplies and Services**

Included under use of goods and services of Kshs.374,347,489 is Kshs.35,833,321 in respect of office and general supplies and services which in turn included purchase of office furniture and general equipment of Kshs.4,616,905. However, the following anomalies were noted;

- i. Restricted tendering mode of procurement was used but there was no plausible reason provided to justify the use of the restricted tendering contrary to Section 102(a-d) of Public Procurement and Asset Disposal Act, 2015. In addition, no records or information

was made available to justify time and cost factor spelt out in the same section of the Act.

- ii. There was no Inspection and Acceptance Committee minutes of meeting and report verifying the condition of the goods.
- iii. The supplies were not taken on charge in the stock cards and there was no issue note to confirm point of use.
- iv. Suppliers were awarded tenders despite having attached expired tax compliance certificates.

Under the circumstances, the probity of the expenditure of Ksh.4,616,905 could not be ascertained.

## **2.6. Unsupported Training Expenses**

Included in use of goods and services figure of Kshs.1,374,347,489 is training expenses of Kshs.8,356,461 which additionally include Kshs.780,000 incurred on training. However, the expenditure for the same was not supported with invitation letters, training programmes and participants' attendance register. Further, in cases where officers were advanced imprest to attend the training, no evidence of payments from the consultancy firms that were offering the trainings was provided for audit.

Under the circumstances, the probity of the expenditure Kshs.780,000 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Executive of Garissa 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 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 communicate in my report.

### **Other Matter**

## 1. Budgetary Control and Performance

### 1.1. Public Participation and Budget Approval

Scrutiny of documents on budget process revealed that there was no evidence to prove that members of the public were informed through advertisements as a way of informing them to participate in the budget hearing in all the County wards as required by the Constitution.

Further, it is a requirement that each and every department in the County should be involved in submitting their budget proposal estimate to County Executive Committee before consolidated budget is taken to County Assembly for approval. However, original documents like the minutes and list of attendants in the meetings were not availed to show that the departments were involved in budget making process.

In the circumstances, the budget for the year under review did not incorporate the views of all the departments as required by the Constitution on public finance.

### 1.2. Budget Performance

During the year under review, the approved budget for the County Executive was Kshs.7,705,340,266 (excluding Kshs.718,474,550 allocated to County Assembly) with Kshs.4,926,797,245 or 68% allocated to recurrent expenditure and Kshs.2,288,933,920 or 32% allocated to development expenditure as shown below:

#### Budget Absorption

Item	Budgeted Allocation Kshs.	Actual Expenditure Kshs.	Absorption Rate	% of Unspent Funds
Recurrent	4,926,797,245	4,303,389,246	87.3%	12.7%
Development	2,288,933,920	1,460,448,603	63.8%	26.2%
<b>Total</b>	<b>7,215,731,165</b>	<b>5,709,837,849</b>		

The approved recurrent budget for 2017/2018 financial year was Kshs.4,926,797,245 excluding Kshs.673,322,471 allocated to County Assembly. However, examination of the vote book control and expenditure returns as at 30 June 2018 revealed the County Executive's total recurrent expenditure was Kshs.4,303,389,246 resulting in under expenditure of Kshs.623,407,999 as detailed below:

#### Recurrent Expenditure

<b>Department</b>	<b>Approved Budget (Kshs)</b>	<b>Actual Expenditure (Kshs)</b>	<b>Difference (Kshs)</b>
Finance and Economic Planning	1,029,256,172	892,841,065	136,415,107
Agriculture, Livestock and Cooperatives	217,224,660	183,748,436	33,476,224
Roads and Transport	75,588,376	69,874,670	5,713,706
Education and Labour	503,581,361	424,146,426	79,434,935
Water and Irrigation Department	163,885,269	154,405,440	9,479,829
Energy, Environment and Natural Resources	55,625,358	39,671,066	15,954,292
Gender, Social Service, and Sports	59,400,559	50,060,981	9,339,578
Trade Enterprise, Development, and Tourism.	73,044,398	64,874,670	8,169,728
Department of Executive Services	370,655,961	291,389,094	79,266,867
Health and Sanitation	2,013,493,376	1,867,171,621	146,321,755
County Public Service Board	43,648,530	26,058,830	17,589,700
Land, Housing and Urban Development	321,393,225	239,146,947	82,246,278
<b>Total</b>	<b>4,926,797,245</b>	<b>4,303,389,246</b>	<b>623,407,999</b>

Similarly, the County development approved budget for 2017/2018 financial year was Kshs.2,288,933,920 excluding Kshs.80,000,000 allocated to County Assembly. However, examination of the vote book control and expenditure returns as at 30 June, 2018 revealed the County's total development expenditure was Kshs.1,460,448,603 resulting in under expenditure of Kshs.828,485,317 as analyzed below:

### **Development Expenditure**

<b>Department</b>	<b>Approved Budget Kshs.</b>	<b>Actual Expenditure Kshs.</b>	<b>Difference Kshs.</b>
Finance, revenue and Economic Planning	349,500,000	83,267,837	266,232,163
Agriculture, Livestock and Corporative	180,796,067	52,816,379	127,979,688
Roads and Transport	459,721,808	394,177,115	65,544,693
Education and Labour	61,647,035	29,460,374	32,186,661
Water and Irrigation Department	446,491,246	362,186,696	84,304,550
Energy, Environment and Natural Resources	24,073,213	16,322,975	7,750,238
Gender, Social Service, and Sports	27,058,000	11,306,098	15,751,902
Trade Enterprise, Development, and Tourism.	108,827,010	2,471,562	106,355,448
Department of Executive Services	157,084,722	30,000,000	127,084,722

<b>Department</b>	<b>Approved Budget Kshs.</b>	<b>Actual Expenditure Kshs.</b>	<b>Difference Kshs.</b>
Health and Sanitation	246,284,819	37,006,517	209,278,302
County Public Service Board			
Land, Housing and Urban Development	227,450,000	130,523,772	96,926,228
<b>Total</b>	<b>2,288,933,920</b>	<b>1,460,448,603</b>	<b>828,485,317</b>

In addition, the following variances were also noted in relation to expenditure record.

- i. The County reported in its financial statement as at 30 June, 2018 a total expenditure of Kshs.5,823,210,809 (excluding transfer to County Assembly). However, the total expenditure according to the vote book as at 30 June, 2018 was 5,709,837,849. A variance of Kshs.113,372,960 between the financial statement and the vote book was noted.
- ii. Summary statement of appropriation of combined recurrent and development (Including transfers to County Assembly) reflected total budget of Kshs.7,442,486,933 while the approved supplementary budget had a budget of Kshs.7,969,053,636 resulting in an unreconciled and unexplained difference of Kshs.526,566,703.

In the circumstances, the figures reported in the statement of receipts and payments could not be relied upon as no satisfactory explanations were provided.

## 2. Revenue

During the financial year under review, the County Executive generated its revenue amounting to Kshs. 90,193,915 compared to own revenue of Kshs. 80,723,998 collected in the prior year thus registering an increase of Kshs. 9,469,917 (11.7%). However, the revenue generated in the year under review fell short of the targeted amount of Kshs.250,000,000 by Kshs.159,806,085 thus resulting in an unexplained revenue shortfall. Details of revenue streams are as shown in table:

### Own Generated Revenue in Comparison

<b>Details</b>	<b>Amount Budgeted in FY 2017/2018 Kshs</b>	<b>Collected Revenue 2017/2018 Kshs</b>	<b>Shortfall Kshs.</b>
County Own Generated Receipts	250,000,000	90,193,915	159,806,085
<b>Total</b>	<b>250,000,000</b>	<b>90,193,915</b>	<b>159,806,085</b>

### Revenue Analysis and Comparison by Streams

	<b>2017/2018</b>	<b>2016/2017</b>	<b>2015/2016</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
<b>Receipts</b>			
Interest Received	-	-	-
Profits and Dividends	-	-	-
Rents	16,854,580	15,100,000	17,883,665
Other Property Income	-	-	-
Sales of Market Establishments	1,223,164	1,015,200	2,772,900
Receipts from Administrative Fees and Charges	7,172,284	6,425,641	7,976,220
Receipts from Administrative Fees and Charges - Collected as AIA	4,475,951	4,010,000	4,580,056
Fines, Penalties and Forfeitures	10,045,776	9,000,000	9,178,154
Other Receipts Not Classified Elsewhere	10,280,178	9,210,000	9,725,080
Business Permits	10,626,210	9,520,010	8,968,780
Cesses	9,655,266	8,650,142	9,460,890
Administrative Services Fees	5,022,888	4,500,000	3,523,385
Market/Trade Centre Fee	4,464,790	4,000,000	10,838,785
Vehicle Parking Fees	-	-	-
Public Health Facilities Operations	3,571,832	3,200,000	10,341,552
Environment & Conservancy Administration	1,339,437	1,200,000	2,519,869
Slaughter Houses Administration	3,787,264	3,393,005	3,545,930
Technical Services Fees	1,674,296	1,500,000	3,000,000
<b>Total</b>	<b>90,193,915</b>	<b>80,723,998</b>	<b>104,315,265.75</b>

### 3. Pending Bills

Annex 1 to the financial statements reflect accumulated pending bills amounting to Kshs.1,247,910,635 as at 30 June 2018. The pending bills are composed of Kshs.1,026,393,010 and Kshs.221,517,625 for development and recurrent expenditure respectively. However, the pending bills schedule provided for audit review did not indicate

the ageing analysis and therefore it was not possible to ascertain how long the debts had been outstanding. The County Executive did not maintain a permanent ledger for the pending bills and there was no proper movement schedule to show opening balance, additions, amount settled during the year and closing balance was also not provided for audit. The huge amount of outstanding pending bills implies that the County Executive irregularly entered into commitments without approved budgets or funds budgeted for goods, works and services were diverted to activities not budgeted.

Under the circumstances, the pending bills of 1,247,910,635 remains outstanding.

#### **4. Failure to Maintain Fixed Assets Register**

Annex 4 to the financial statements is the summary of fixed assets indicating total assets owned by the County Executive valued at Kshs. 9,080,269,699 as at 30 June 2018. However, the Executive did not maintain a fixed asset register and it was also noted that valuation of the reported assets was not done. Further, it was also noted that assets inherited from 3 defunct local authorities were not included as part of the County Executive assets.

In the absence of detailed fixed asset register, it was not possible to ascertain the balances and the make-up of the fixed assets disclosed.

Consequently, the accuracy and completeness of the assets of Kshs.9,080,269,699 could not be confirmed

### **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 section of my report, I confirm that nothing else 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**

##### **1. Non-adherence to Ethnic Balance Requirement**

As at 30 June 2018, the County Executive had 2,097 employees as per the IPPD data availed for audit. Analysis of the IPPD data indicated that employees from the dominant ethnic community were 1594 (76%) while the employees from the minority ethnic communities in the County were 503 (24%). Hence the Garissa County Public Service Board acted in contravention of the requirements of the National Cohesion and Integration Act, 2008 and County Governments Act, 2012.

Section 65 (1)(e) of the County Governments Act, 2012 on matters to consider during appointments states that in selecting candidates for appointment, the County Public Service

Board shall consider the need to ensure that at least thirty percent of the vacant posts are filled by candidates who are not from the dominant ethnic community in the county.

The County Public Service Board should ensure that recruitment at County level should observe the thresholds set by the County Government Act, 2012 and the National Cohesion and Integration Act, 2008.

## **2. Compensation of Employees**

The compensation of employees' figure of Kshs.3,159,371,416 is approximately 41.9% of the total revenue of Kshs.7,545,534,181 and thus exceeded the recommended ratio of 35% stipulated in Section 25(1) of the Public Finance Management (County Governments) Regulations, 2015. Consequently, the management is in breach of the law and the wage bill may not be sustainable unless adequate measures are put in place to contain the rising wage bill and increase collection of county own generated revenue.

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 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. ICT Environment and Data Security**

As reported in the 2016/2017 audit report, no effort has been put in place to have an approved ICT Policy in place which includes data security policy and Disaster Recovery Plans. In addition, formally documented and approved processes to manage upgrades made to all financial/ performance information systems were not provided for audit.

In case of a disaster significant delays or disruptions of activities may occur. Additionally, the County Government may not recover or restore critical infrastructure services and systems affecting all operations that rely on the Information Communication Technology.

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

The County Executive has not established an audit committee contrary to Section 167 of the PFM Regulations, 2015 which requires each County Government to establish an audit committee which shall support the accounting officers with regard to their responsibilities for issues of risk, control and governance and associated assurance and also to follow up on the implementation of the recommendations of internal and external auditors. Where there is no audit committee the management can easily override controls in such instances, cases of fraud and errors may not be detected or corrected in a timely manner.

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, risk management and governance.

In preparing the financial statements, management is responsible for assessing the County Executive's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using basis of accounting unless the management either intends to liquidate the County Executive 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 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 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 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 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 policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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 County Executive's 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 Executive 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 Executive 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.

A handwritten signature in black ink, appearing to read 'E. O. Ouko', with three dots below the name.

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

**Nairobi**

**01 February 2019**