

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF ISIOLO FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of County Executive of Isiolo set out on pages 1 to 66, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position 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 do not comply with the County Government Act, 2012.

Basis for Adverse Opinion

1.0 Accuracy of the Financial Statements

1.1 Variance Between the Financial Statement Balance and IFMIS Balances

The financial statements for the year under review and a similar set of financial statements generated from the Integrated Financial Management Information System (IFMIS) reflected huge variances on several balances as detailed below;

Item Category	IFMIS Balances Kshs	Financial Statements Balances Kshs	Variance Kshs.
RECEIPTS			
Exchequer Releases	5,430,704,842	3,775,000,000	1,655,704,842
Other Receipts	80,230,429	0	80,230,429
Proceeds From Domestic And Foreign Grants	68,504,974	65,635,096	2,869,878
Tax Receipts	137,101,919	114,130,920	22,970,999

Item Category	IFMIS Balances Kshs	Financial Statements Balances Kshs	Variance Kshs.
Returned CRF Issues	0	10,234,563	(10,234,563)
Transfers From Other Government Entities	107,580,577	136,747,275	(29,166,698)
Total	5,824,122,741	4,101,747,854	1,722,374,887
PAYMENTS			
Acquisition Of Assets	552,065,096	587,686,278	(35,621,182)
Compensation Of Employees	1,313,626,293	1,313,626,293	0
Other Grants And Transfers	263,966,645	362,444,656	(98,478,011)
Other Payments	7,937,885	36,080,152	(28,142,267)
Social Security Benefits	15,037,410	15,037,410	0
Transfers To Other Government Units	85,568,795	515,500,000	(429,931,205)
Use Of Goods And Services	561,745,788	561,745,788	0
Total	2,799,947,912	3,392,120,577	(592,172,666)
STATEMENT OF FINANCIAL ASSETS AND LIABILITIES			
Cash Balances	17,283,016,130		17,283,016,130
Accounts Receivables - Outstanding Imprest and Clearance Accounts	62,645,803	27,381,268	35,264,535
Bank Balances	4,449,386,950	726,504,403	3,722,882,547
Total Finance Assets	21,795,048,883	753,885,671	21,041,163,212
Accounts Payables - Deposits	(13,152,038,188)	0	(13,152,038,188)
Net Finance Assets	8,643,010,695	753,885,671	7,889,125,024
Fund Balance B/fwd	2,921,938,617	44,258,394	2,877,680,223
Surplus/deficit For The Year	5,996,176,116	709,627,277	5,286,548,839
Total Finance Position	8,918,114,733	753,885,671	8,164,229,062

No satisfactory explanation was provided as to why receipts totaling to Kshs.1,722,374,887 which were captured in IFMIS were not included in the financial statements as at 30 June 2018 and why an expenditure totaling to Kshs.592,172,666 reflected in the financial statements as at 30 June 2018 was spent outside IFMIS.

Further, no explanation was provided as to why the total net financial assets and total finance position of Kshs.7,889,125,024 and Kshs.8,164,229,062 which were captured in IFMIS were not included in the financial statements as at 30 June 2018.

In the circumstances, the accuracy of the financial statements balances as at 30 June 2018 could not be ascertained.

2.0 Unaccounted for Expenditure

The financial statements for the year under review reflected balances of Kshs.561,745,788, Kshs.362,444,656 and Kshs.587,686,278 in respect to use of goods and services, other grants and transfers and acquisition of assets respectively all totaling to Kshs.1,511,876,722. However, included in the Kshs.1,511,876,722 expenditure is Kshs.455,079,767 and whose supporting documents were not availed for audit review contrary to Sections 99 (3), 104(1) and 117(3) of the Public Finance Management (County Governments) Regulations, 2015 which stipulates that every entry in the accounts shall be supported by a voucher containing the full details, clear narrations and particulars of the item or items to which it relates and shall be supported by the appropriate authority and documentation and the accounting officer shall ensure appropriate mechanism are put in place for safeguarding and tracking them. The unsupported expenditures are listed below;

Items	Amount (Kshs)
Use of Goods and Services	47,082,199
Other Grants and Other Payments	274,017,466
Acquisition of Assets	64,770,618
Payments to Employees	69,209,484
Total	455,079,767

In the circumstances, it has not been possible to determine the authenticity and value for money for the Kshs.455,079,767 expenditure for the year ended 30 June 2018.

3.0 Other Capital Grants and Transfers

Note 9 to the financial statements reflected Kshs.57,921,678 expenditure in respect to other capital grants and transfers which included Kshs.1,200,000 transferred to Sericho and Merti health centres. However, scrutiny of the bank statements for the two health centres revealed that the funds were not received by the health centres.

In the circumstances, the propriety and accountability of the Kshs.1,200,000 expenditure allegedly transferred to health facilities during the year ended 30 June 2018 could not be ascertained.

4.0 Compensation of Employees

4.1 Irregular Salary Payments

The statement of receipts and payments reflected a Kshs.1,313,626,293 expenditure in respect to compensation of employees. However, review of the personal records revealed that five (5) officers were earning salaries and allowances which exceeded their scales entitlement by Kshs.1,444,214 contrary to Section C.2 (1) of the Human Resource Policies and Procedures Manual for the Public Service which states that the public service salary structure will be based on the grading levels spelt out in the various career progression guidelines.

In the circumstances, it was not possible to ascertain that the Kshs.1,444,214 is a proper charge to public funds during the year ended 30 June 2018.

5.0 Use of Goods and Services

5.1 Domestic Travel and Subsistence

Note 7 to the financial statements reflected a Kshs.89,134,440 expenditure in respect to domestic travel and subsistence which included Kshs.4,459,650 spent on night outs and lunch allowances. However, work tickets/bus tickets, invitation letters, designations and job group of payees, program of activities, attendance register and back to office reports were not provided for audit review.

In the circumstances, the propriety of the Kshs.4,459,650 expenditure for the year ended 30 June 2018 could not be ascertained.

5.2 Wasteful Expenditure on Foreign Travel and Subsistence

Note 7 to the financial statements reflected a Kshs.10,880,617 expenditure in respect to foreign travel and subsistence which included Kshs.424,916 paid to the Deputy Governor for attending a six (6) day seminar on Turkish University students alumni reunion in Istanbul Turkey which was personal in nature and therefore the use of public funds was contrary to Section 6 of Treasury Circular No 20/2015 which requires that only international workshops, seminars and study tours that are justified in terms of benefit to the people of Kenya should be undertaken.

In the circumstance, it was not possible to ascertain whether the Kshs.424,916 expenditure was a proper charge to public funds and whether it had equivalent value for money during the year ended 30 June 2018.

5.3 Rental of Produced Assets

Note 7 to the financial statement reflected Kshs.28,576,896 spent in respect to rental of produced assets which included Kshs.2,750,000 paid to Council of Governors as office rent for liaison office. However, agreement between the landlord and the Executive indicating the location, valuation report by ministry of housing on estimated rent to be charged, rent per month and other terms of reference was not provided for audit review.

In the circumstances, the propriety of Kshs.2,750,000 paid as rent for the year ended 30 June 2018 could not be ascertained.

5.4 Irregular Expenditure on Hospitality, Supplies and Services

Note 7 to the financial statements reflected a Kshs.121,338,362 expenditure in respect to hospitality, supplies and services which included Kshs.2,500,000 spent on supporting 5th devolution conference and Isiolo water and Sanitation Company, Kshs.896,000 spent on unspecified market survey all totaling to Kshs.3,396,000. However, approved request, program of activities and market survey report were not provided for audit review.

In the circumstances, it was not possible to ascertain the propriety and value for money for the Kshs.3,396,000 expenditure for the year ended 30 June 2018.

5.5 Fuels, Oil and Lubricants

Note 7 to the financial statements reflected a Kshs.33,181,258 expenditure in respect to fuels, oil and lubricants which included Kshs.4,309,200 spent on purchase of fuel. However, review of fuel registers it was observed that the fuel was not recorded in the fuel register. Further, work tickets and detailed orders showing how the fuel was consumed were not provided for audit review.

In addition, included in the expenditure of Kshs.4,309,200 was Kshs.762,440 spent by the department of Agriculture, for supply of 7780 litres of diesel at Kshs.98 per litre. However, records in the fuel register showed that only 895 litres was drawn by the department's vehicles resulting to 6885 litres worth Kshs.660,901 that was not accounted for by the department.

In the circumstances, the propriety of the Kshs.4,309,200 expenditure on fuel, oil and lubricants for the year ended 30 June 2018 could not be confirmed.

6.0 Outstanding Account Receivables (Debtors)

Annexure VI to the financial statements reflected outstanding account receivables (debtors) balance of Kshs.81,982,454 for the year under review. However, review of schedules and supporting documents provided revealed, Kshs.12,884,285 owed by two firms since 2005 as camp fee had not been paid. No explanation was provided as to why the firms had taken too long to clear the debts

In the circumstances, recoverability of other outstanding receivables of Kshs.12,884,285 as at 30 June 2018 is doubtful.

7.0 Pending Accounts Payable (Pending Bills)

7.1 Accuracy of Pending Accounts Payables (Pending Bills)

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Section 8.10 (1) on other important disclosures to the financial statements reflected pending accounts payable balance of Kshs.1,201,944,526 as at 30 June 2018 as follows;

Details	Annex	Amount (Kshs)
Pending Bills accrued during year 2017/18	IV (III)	179,832,249
Pending Bills over 1 Year	IV (II)	914,064,969
Pending Bill by defunct County Council	IV (I)	108,047,308
Total		1,201,944,526

However, a list of pending bills submitted for audit reflected bills totaling Kshs.1,021,459,187 resulting in unexplained and unreconciled balance of Kshs.180,485,339. Further, the Executive did not maintain creditor's records including creditor's ledger and creditor's registers.

In the circumstances, it was not possible to confirm the existence, completeness and accuracy of the pending bills balance of Kshs.1,201,944,526 reflected in the financial statements as at 30 June 2018.

7.2 Emergency Relief Food

Section 8.10 (1) on other important disclosures to the financial statements reflected pending accounts payable balance of Kshs.1,201,944,526 which included Kshs.201,669,500 spent in respect to emergency relief food as at 30 June 2018. However, the expenditures were not properly supported since survey to determine the number of people affected, the date and specific venue where food was distributed were not provided for audit review. In addition, the signatures and fingerprints^[PMC1] of different recipients appeared to be similar.

In the circumstances, the propriety of the Kshs.201,669,500 expenditure on emergency relief food during the year ended 30 June 2018 could not be confirmed.

7.3 Civil Works

Section 8.10 (1) on other important disclosures to the financial statements reflected pending accounts payable balance of Kshs.1,201,944,526 which included Kshs.197,321,299 spent in respect to civil works as at 30 June 2018. However, expenditures totaling to Kshs.197,321,299 were not properly supported since tender documents, measurements of work done and certificates of practical completion were not provided for audit review. Further, included in the expenditure of Kshs.197,321,299 is Kshs.14,990,818 for construction of drainage system in Kambi Garba, Bulla Nasei and Ashraf, desilting of dry river bed along Olla Bulla, opening of drainage and gabion installation along Isiolo secondary school and flush flood control Ashraff village. However, a physical verification revealed that no work had been done by the contractors even though payment vouchers totaling to Kshs.14,990,818 had been prepared and included

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among the list of pending bills. No explanation was provided as to why pending bills for work not done were included as part of pending bills.

In the circumstances, the propriety of the Kshs.197,321,299 expenditures on civil works during the year ended 30 June 2018 could not be confirmed.

7.4 Purchase of Goods and Services

Section 8.10 (1) on other important disclosures to the financial statements reflected pending accounts payable balance of Kshs.1,201,944,526 which included to Kshs.95,766,989 spent in respect to purchase of goods and services as at 30 June 2018. However, the expenditures were not supported by quotations, evaluation committee minutes and stores records showing to whom the goods were issued. Therefore it was not possible to confirm whether, goods and services were received and used by the County Executive.

In the circumstances, the propriety of the Kshs.95,766,989 expenditures on civil works during the year ended 30 June 2018 could not be confirmed.

7.5 Purchase of Assets

Section 8.10 (1) on other important disclosures to the financial statements reflected pending accounts payable balance of Kshs.1,201,944,526 which included to Kshs.6,625,321 spent in respect to purchase of assets during the year ended 30 June 2018. However, the assets were not supported since serial numbers to identify the assets such as laptops, and desktops, were not provided for audit review. Further, fixed assets register showing assets number and location were not provided for audit review.

In the circumstances, the valuation, ownership, existence, completeness, location and security of the non-current assets balance of Kshs.6,625,321 as at 30 June 2018 could not be ascertained

7.6 Hire of Motor Vehicles

Section 8.10 (1) on other important disclosures to the financial statements reflected pending accounts payable balance of Kshs.1,201,944,526 which included Kshs.39,306,000 spent in respect to hire of motor vehicles during the year ended 30 June 2018. However, the expenditures were not supported since details of journeys taken and reasons for hire of motor vehicles were not provided.

In the circumstances, the propriety of the Kshs.39,306,000 expenditure on hire of motor vehicles during the year ended 30 June 2018 could not be confirmed.

7.7 Consultancy Services

Section 8.10 (1) on other important disclosures to the financial statements reflected pending accounts payables balance of Kshs.1,201,944,526 which included Kshs.35,251,396 spent in respect to consultancy services during the year ended 30 June 2018. However, the expenditure is not supported by approved reports, minutes approving the draft and final report of consultancy undertaken and progress report on implementation of recommendations from the consultancy reports.

In the circumstances, the propriety of the Kshs.35,251,396 expenditure on consultancy services during the year ended 30 June 2018 could not be confirmed.

8.0 Acquisition of Assets

8.1 Construction of Water Projects

Note 11 to the financial statements reflected a Kshs.201,885,369 expenditure in respect to construction and civil works which included Kshs.17,891,415 spent in respect to construction of water projects. However, review of bills of quantities and physical verification carried out between 19 to 21 October 2018 revealed that Kshs.5,243,304 was paid for works such as fabrication of steel structure and mounting of water tanks, fencing, signposts, excavation and laying of pipes and supply of water pipes which were included in the bills of quantities. However, these works had not been done by the contractors even though completion certificates had been issued contrary to Section 48. (3) (c) of the public Procurement and Assets Disposal Act, 2015 which stipulates that goods, works or service shall be inspected and accepted or rejected immediately after delivery. No explanation was provided as to why the certificates of completion were issued and payments made for Kshs.5,243,304 works not done.

In the circumstances, the County Executive was in breach of the law and it was not possible to ascertain whether the County Executive got value for money equivalent to the Kshs.5,243,304 expenditure for the year ended 30 June 2018.

9.1 Construction of Road

Note 11 to the financial statements reflected a Kshs.201,885,369 expenditure in respect to construction and civil works which included Kshs.3,188,395 spent in respect to light grading of world vision residence to muriri road D484 at Makutano shopping centre (Airport sign Board). However, physical verification carried out on 21 October 2018 revealed that there was no evidence of work done though money had been paid contrary to Section 48. (3) (c) of the public Procurement and Assets Disposal Act, 2015 which stipulates that goods, works or service shall be inspected and accepted or rejected immediately after delivery. No explanation was provided as to why the payment was made for Kshs.3,188,395 works not done.

Further, as per the description provided in the bills of quantities and payment voucher, the road was to end at muriri road D484 at Makutano shopping centre (Airport sign Board).

However, Makutano shopping centre and airport sign board could not be traced during physical verification.

In the circumstances, the County Executive was in breach of the law and it was not possible to ascertain whether the County Executive got value for money equivalent to the Kshs.3,188,395 expenditure for the year ended 30 June 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Executive of Isiolo 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 adverse 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 matter(s) described in the Basis for Adverse Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1.0 Budgetary Control and Performance

1.1 Receipts

The summary statement of appropriation recurrent and development combined reflected approved budgeted receipts of Kshs.4,340,282,474 and actual income of KShs.4,101,747,854 resulting in net under receipts of Kshs.238,534,620 as summarized below;

Items	Current year Final Budget Figures Kshs.	Actual receipts Figures Kshs.	Variance Kshs.
Exchequer Releases	3,775,000,000	3,775,000,000	0
Proceeds from Domestic and Foreign Grants	87,806,266	65,635,096	(22,171,170)
Transfers from Other Government Entities	280,870,017	136,747,275	(144,122,742)
County Own Generated Receipts	182,861,337	114,130,920	(68,730,417)
Returned CRF issues	13,744,854	10,234,563	(3,510,291)
Total	4,340,282,474	4,101,747,854	(238,534,620)

From the above, the Kshs.238,534,620 deficit in the receipts points to unsatisfactory financial performance during the year.

1.2 Payments

The summary statement of appropriation recurrent and development combined reflected approved budgeted payments of Kshs.4,340,807,474 and actual payments of Kshs.3,392,120,577 resulting in net under expenditure of Kshs.948,686,897 as summarized below;

	Current year Final Budget Figures Kshs	Actual receipts Figures Kshs	Variance Kshs
Compensation of Employees	1,373,516,152	1,313,626,293	59,889,859
Use of goods and services	744,556,635	561,745,788	182,810,847
Emergency Relief and Refugee Assistance	266,000,000	246,338,158	19,661,842
Transfers to Other Government Entities	545,967,572	515,500,000	30,467,572
Other grants and transfers	205,551,120	116,106,498	89,444,622
Government Pension and Retirement Benefits	22,220,889	15,037,410	7,183,479
Acquisition of Assets	1,182,995,106	587,686,278	595,308,828
Other Payments	0	36,080,152	(36,080,152)
Total Payments	4,340,807,474	3,392,120,577	948,686,897

In overall, the County Executive under spent its budget by Kshs.948,686,897 of the total budget allocation. The funds could have been allocated to other deserving areas that would improve delivery of goods and services to the residents of Isiolo County. This may also be an indication of improper planning and defective budgetary preparation process. The residents of the county did not get expected services equivalent to Kshs.948,686,897 under expenditure for the year ended 30 June 2018.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of

Public Resources section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Presentation of the Financial Statement

The International Public Sector Accounting Standards (Cash Basis) reporting template revised in 2018 prescribed by the Public Sector Accounting Standards Board (PSASB) require that budget execution by programs and subprograms be included in the financial statements. However, a review of the budget execution by programs and subprograms included in the financial statement revealed that the programs and subprograms were not included.

In view of the foregoing, the presentation of the financial statements for the year under review did not conform to the approved financial reporting templates.

2.0 Cash and Cash Equivalents

2.1 Irregular Operation of Dollar Account

Note 13A to the financial statements reflected Kshs.234,056 held in a revenue dollar account at the Consolidated Bank, contrary to the provisions of the Section 76 (2) of the Public Finance Management (county government) regulations which require all foreign currency designated bank accounts be held at the central Bank.

In the circumstances, the County Executive was in breach of the law.

2.2 Irregular Operation of Bank Accounts

Note 13A to the financial statements showed that the County held twelve bank accounts which included five (5) accounts held in commercial banks. However, prior authority of the County Treasury to open the bank accounts as required by Section 82 (4) of the Public Finance Management (County Government) Regulations, 2015 was not provided for audit review. Further, no explanation was provided as to why the bank accounts were not opened at the Central Bank of Kenya as required by Section 82 (1) (b) of the same regulation which stipulates that all county governments bank accounts shall be opened at the Central Bank of Kenya except for imprest bank accounts for petty cash.

In the circumstances, the County Executive was in breach of the law.

2.3 Bursary Fund Account

Note 13A to the financial statements reflected a balance of Kshs.34,151,540 held in the Bursary Fund Account as at 30 June 2018. However, no explanation was provided as to why this balance was not issued as bursary to needy students in the County contrary to

Section 83 (1) (c) of the Public Finance Management (County Government) Regulations, 2015 which require county treasury to avoid accumulation of idle balances.

In the circumstances the County Executive was in breach of the law and the Kshs.34,151,540 balance as at 30 June 2018 translated into a denial of equivalent services to the County residents.

3.0 Outstanding Imprests

Annexure III to the financial statements reflected Kshs.27,381,268 in respect to outstanding imprests. However, officers were being issued with additional imprest before surrendering the imprest previously held by them contrary to Section 93 (4) (b) of Public Finance Management (County Government) Regulation 2015, which require that before issuing temporary imprest, an applicant should not have an outstanding imprests.

In the circumstances, the County Executive was in breach of the law.

4.0 County Own Generated Revenue

4.1 Failure of Automated Revenue Collection System

The statement of receipts and payments reflected County own generated revenue of Kshs.114,130,920. However, a contract worth Kshs.64,153,600 was entered into with a supplier on 23 February 2015 for supply and implementation of an automated revenue collection system that was abandoned in March 2018 due to problems with connectivity to the County Executive server. Therefore, it appeared the investment was a wasteful expenditure. No explanation was provided as to why feasibility study and testing had not been done before investing in the system.

Further, twenty-eight (28) point of sale (POS) gadgets distributed to revenue collectors had not been returned as at the time of the audit contrary to Section 132. (1) (2) of the Public Finance Management (County Government) Regulations 2015 which stipulates that proper control systems should exist for assets and that movement and conditions of assets can be tracked. No explanation was provided why it had taken too long to return the gadgets since collection of unaccounted for revenue using the gadgets could still be ongoing.

In the circumstances, the County Executive was in breach of the law and it was not possible to ascertain whether, the County Executive got value for money equivalent to the Kshs.64,153,600 expenditure for the year ended 30 June 2018.

4.2 Failure to Surrender Receipt Books

The statement of receipts and payments reflected County own generated revenue of Kshs.114,130,920. However, review of unsurrendered receipts books report from Local Authorities Integrated Financial Operations Management Systems (LAIFOMS) revealed that receipts books with face value of Kshs.12,372,100 issued between 27 January 2012

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and 30 June 2018 had not been surrendered and accounted for. In addition, forty-nine (49) miscellaneous receipt books and two (2) single business permits books issued between the same period with undetermined value had not been surrendered and accounted for as at 30th June 2018. However, the revenue collectors were issued with additional receipt books before surrendering and accounting for receipt books issued earlier contrary to Section 63 (1), (4), (5) of the Public Finance Management (County Government) Regulations 2015 which require that all money collected shall be properly accounted for and be deposited in a designated bank account and shall not be used by any public officer failure to which disciplinary measures shall be taken against the officer.

In the circumstances, the County Executive was in breach of the law and it was not possible to ascertain whether, the County Executive got value for money equivalent to the value of the unsurrendered and unaccounted for receipts during the year ended 30 June 2018.

4.3 Failure to Record Purchased Receipt Books

Note 7 to the financial statements reflected a Kshs.14,827,546 expenditure on printing, advertising and information supplies and service which included Kshs.762,440 spent in respect to supply and delivery of receipt books with a total book value of Kshs.85,625,000. However, the receipt books serial numbers were not recorded in the counter foil receipt book register (CRBR), the delivery note and counter receipt voucher no 7241299. In the absence of records showing how the books were recorded and issued in CRBR, the books may either have not been delivered or they may have been used to collect revenue which might have not been accounted for, contrary to Section 63 (1), (4), (5) of the Public Finance Management (County Government) Regulations 2015 which require that all money collected shall be properly accounted for and be paid in a designated bank account and shall not be used by any public officer failure to which disciplinary measures shall be taken against the officer. The County Executive could therefore have lost Kshs.85,625,000.

In the circumstances, the County Executive was in breach of the law.

4.4 Failure to Conduct Stock Take During Handing Over

The statement of receipts and payments reflected County own generated revenue of Kshs.114,130,920. However, records made available showed that the head of revenue and an officer in charge of recording and issuing receipt books were redeployed in April 2018. However, a formal handover/take over report on receipts books held by the County Executive were not provided for audit review. Further, a visit to the strong room on 17 October 2018 where unused receipts books were kept, revealed that County Executive's un used receipts books and ones that were used by the defunct County Council of Isiolo were mixed up and not orderly arranged, contrary to Section 117 (2) of the Public Finance Management (County Government) Regulations 2015 which require the accounting officer to keep his or her stock of accountable documents under lock and key, issuing them in accordance with the daily needs of the service, and keeping an

accurate up-to-date record of their use by means of continuity control sheets. It was therefore not possible to determine the number and value of receipt books held by the Executive as at 30 June 2018.

In the circumstances, the County Executive was in breach of the law.

4.5 Variation in Revenue Collection and Banking's

The statement of receipts and payments reflected County own generated revenue of Kshs.114,130,920 which included Kshs.5,675,018 collected from Isiolo County Referral Hospital. The County Executive entered into a contract with a commercial bank on revenue collection automation at Isiolo County Referral Hospital. However, the agreement containing terms and condition of the contract was not provided for audit review. Further, comparison of invoicing and banking revealed that Kshs.5,828,450 was invoiced while Kshs.5,675,018 was banked by the bank resulting in unexplained variances of Kshs.153,432 as follows;

Month	Invoiced Amount (Kshs)	Amount Collected by KCB (Kshs)	Variance (Kshs)
February 2018	1,279,700	1,254,000	25,700
March 2018	1,027,910	1,024,480	3430
April 2018	956,060	925,330	30,730
May 2018	1,271,450	1,247,438	24,012
June 2018	1,293,330	1,223,770	69,560
Total	5,828,450	5,675,018	153,432

Further, it was not possible to ascertain whether the Executive collected all revenues invoiced contrary to Section 63 (1), (4), (5) of the Public Finance Management (County Government) Regulations 2015 which require that all money collected shall be properly accounted for and be paid in a designated bank account and shall not be used by any public officer failure to which disciplinary measures shall be taken against the officer.

In the circumstances, the County Executive was in breach of the law.

4.6 Collection of Revenue by Tour Operator

The statement of receipts and payments reflected County own generated revenue of Kshs.114,130,920, which included Kshs.50,147,800 (43.9%) park fees collected by a tour operator on behalf of the County Executive based on contract agreement dated 1 February 1997 for a period of twenty four (24) months that expired on 31 March 1999 and no renewal was made thereafter. However, the tour operator continued collecting revenue up to 30 June 2018 long after the contract had expired contrary to Section 62.(1) of the Public Finance Management (County Government) Regulations 2015 which require that the receiver of revenue shall, in accordance with Section 158 of the Public Finance Management Act 2012, authorize a public officer or any of the county government entities

to be a collector of revenue for county government for the collection of, and accounting for, such items of revenue as the receiver of revenue may specify. Further, it was not possible to determine the terms and conditions used in collection of park fees by the tour operator.

In the circumstances, the County Executive was in breach of the law.

4.7 Irregular Payment from Revenue Collection Account

The statement of financial assets and liabilities reflected a balance of Kshs.726,504,403 as at 30 June 2018 in respect to cash and cash equivalents which included Kshs.234,056 balance held at consolidated bank of Kenya for Revenue (Kenya Shilling). However, an analysis of the bank statements revealed that Kshs.36,052,737 was paid directly from the account to different payees due to court orders against the County Executive contrary to Section 63 (4), (7) and 80 of the Public Finance Management (county government) Regulations 2015 which require that no money should be paid or used before banking to County Exchequer Account. Further, court orders and supporting documents for the expenditures were not provided for audit review.

In addition, review of the bank statements revealed that revenue collected and banked in the revenue collection account were not transferred to county revenue fund account within five (5) working days after receipt as required by Section 81(2) of the Public Finance Management (County Government) regulations 2015.

In the circumstances, the County Executive was in breach of law.

4.8 Spending of Revenue - Garbatulla Sub County Hospital

The statement of receipts and payments reflected County own generated revenue of Kshs.114,130,920. However, review of revenue collection process at Garbatulla sub county hospital revealed that all revenue collected were recorded in a book instead of a control sheet. Further, the receipt books used for revenue collections, banking slips and counter receipt book register (CRBR) for controlling receipt books issued and received were not provided for audit review. Also, cards sold to patient were not serialized thus not possible to determine whether all cards received were issued and paid for.

In addition, analysis of revenue collections revealed that the hospital collected and spent Kshs.178,020 contrary to the requirement of Section 81 (2) of Public Finance Management (County Government) regulations 2015 that require receivers of revenue to deposit into the county exchequer account all receipts due to the County Revenue Fund as soon as possible and in any case not later than five (5) working days after receipt thereof.

In the circumstances, the hospital was in breach of the law.

5.0 Human Resource Management

5.1 Recruitment of Early Childhood Development Education (ECDE) Teachers

The statement of receipts and payments reflected Kshs.1,313,626,293 expenditure in respect to compensation of employees. However, during the year under review, the Executive recruited two hundred and sixty-four (264) early childhood development education (ECDE) teachers who were deployed into various ECDE centers. However, the appointment letters stated that the teachers were to be on probation for a period of 6 months and regular reviews were to be conducted to assess the performance of each and every teacher and their continued employment as teachers was dependent on the successful completion of probationary period and performance in subsequent years of service. However, specific terms of service after the probation period stating whether the teachers were on permanent basis or on contract for specific period was not provided for audit review contrary to Section 10. (3) (c) of the employment Act 2007 which stipulates that a written contract of services shall state where the employment is not intended to be for an indefinite period, the period for which it is expected to continue or, if it is for a fixed term, the date when it is to end.

In the absence of specific terms of service, the continued employment of ECDE teachers appear to be illegal and the County Executive was in breach of the law.

5.2 Hire of Casuals Without County Public Service Board Authority

Note 6 to the financial statements reflected a Kshs.80,384,408 expenditure in respect to basic wages of temporary employees which included Kshs.13,263,461 spent on wages of casual employees recruited during the year under review. However, approved establishment showing deficiency of staff to be filled by casuals and authority from the County Public Service Board to hire casuals were not provided for audit review as required by Section 63. (1) (2) (a) of the County Government Act 2012 which stipulates that the County Public Service Board has the power to make appointments including promotions in respect of offices in the county public service at the request of the relevant county chief officer of the department to which the appointment is to be made.

In the circumstances, Executive was in breach of the law and it is not possible to determine whether the casuals were hired on a need basis and whether the Executive got value for money equivalent to the Kshs.13,263,461 expenditure for the year ended 30 June 2018.

6.0 Use of Goods and Services

6.1 Rental of Produced Assets

Note 7 to the financial statements reflected a Kshs.28,576,896 expenditure spent in respect to rental of produced assets which included Kshs.4,750,000 spent on hire of

Toyota Prado registration number KBZ 898S from a firm at Kshs.25,000 per day for the deputy governor while his official vehicle was at a garage for repair.

However, approved request for hire of transport services, evaluation committee minutes, notification of award letter and contract agreement were all dated 21 August 2017. Further, the date and time of opening quotations was not indicated. In addition, copy of the logbook of the hired motor vehicle was not provided for audit review. No explanation was provided as to why approved request for hire of transport services, evaluation committee minutes, notification of award letter and contract agreement were all done on the same date.

In the circumstance, it was not possible to determine whether, the supplier was competitively sourced as required by Section 227 of the Constitution of Kenya 2010 so as to give the Executive value for money.

6.2 Irregular Payments on Training Fees

Note 7 to the financial statements reflected a Kshs.12,993,221 expenditure on training fees which included Kshs.3,634,810 spent on training of employees. However, training bond of employees trained, training policy, training needs assessment and an approved training plan were not provided for audit review. Further, evaluation and follow up on the progress of trainees and impact of training on the employee performance were also not provided contrary to Sections H1 (5), H3 (3) and Section H4 3(iii) of the Public Service Commission Human Resource Policies and Procedures manual for Public Service of May 2016 which stipulates that, all training shall be based on identified training needs, should emphasize on training for performance improvement that address individual, organizational and national goals and that departments should have an effective evaluation and feedback system to assess the impact of training on performance.

In the circumstances, the County Executive was in breach of the law and it was not possible to ascertain, whether the Kshs.3,634,810 expenditure on training fees for the year ended 30 June 2018 had an equivalent value for money.

6.3 Doubtful Delivery of Goods and Services on Specialized Materials and Supplies

Note 7 to the financial statements reflected a Kshs.111,381,945 expenditure in respect to specialized materials and supplies which included Kshs.28,617,790 spent on purchase of goods and services. However, records showing how the items received were recorded in stores ledger, approved requisition for issue of goods from the stores by the users, the person to whom the goods were issued and opinion by procurement professional on the procurement process were not provided for audit review contrary to Section 162. (1) of the Public Procurement and Assets Disposal Act, 2015 which stipulates that all inventory, stores and assets purchased are received, but shall not be used until taken on charge.

In the circumstances, the County Executive was in breach of the law and it was not possible to ascertain whether the County Executive got value for money equivalent to the Kshs.28,617,790 expenditure for the year ended 30 June 2018.

6.4 Doubtful Purchase of Office General & Supplies Services

Note 7 to the financial statements reflected a Kshs.17,867,237 expenditure in respect to office general & supplies services which included Kshs.14,249,199 spent on purchase of goods and services. However, records showing how the items received were recorded in stores ledger, approved requisition for issue of goods from the stores by users, to whom they were issued and opinion by procurement professional were not provided for audit review contrary to Section 162. (1) of the Public Procurement and Assets Disposal Act, 2015 which stipulates that all inventory, stores and assets purchased are received, but shall not be used until taken on charge.

In the circumstances, the County Executive was in breach of the law and it was not possible to ascertain whether the County Executive got value for money equivalent to the Kshs.14,249,199 expenditure for the year ended 30 June 2018.

6.5 Non-Competitive Procurement of Legal and Other Services

Note 7 to the financial statements reflected Kshs.38,882,375 expenditure in respect to other operating expenses which included Kshs.18,250,345 in respect to procurement of legal and other services. However, approved requisition from the user department specifying services to be procured, advertisement on legal & consultancy services, invitation to tender/Request for quotation from updated list of suppliers, opening of tenders by the tender opening committee, evaluation of tenders by the evaluation committee, minutes of evaluation committee, recommendation for contract award, local purchase order, inspection & acceptance certificate and invoices were not provided for audit review contrary to Section 60 (1) of the Public Procurement and Asset Disposal Act, 2015 which stipulates that a procuring entity shall prepare specific requirements relating to the goods, works or services being procured that are clear, that give a correct and complete description of what is to be procured and that allow for fair and open competition among those who may wish to participate in the procurement proceedings.

In the circumstances, the County Executive was in breach of the law and it was not possible to ascertain whether the County Executive got value for money equivalent to the Kshs.18,250,345 expenditure for the year ended 30 June 2018.

6.6 Irregular Payment of Routine Maintenance of Motor Vehicle & Other Transport Equipment

Note 7 the financial statements reflected a Kshs.13,600,197 expenditure in respect to routine maintenance of motor vehicles and other transport equipment which included Kshs.7,850,050 spent on repair of motor vehicles. However, pre and post inspection of motor vehicles by the Ministry of Transport and infrastructure for mechanical defects and

work ticket showing that the vehicles went to the garage were not provided for audit review contrary to Section 149 (2) (m) of the Public Finance Management Act 2012 which require accounting office to manage the assets of the entity to ensure that it receives value for money when acquiring, using or disposing its assets.

In the circumstances, the County Executive was in breach of the law and it was not possible to ascertain whether the County Executive got value for money equivalent to the Kshs.7,850,050 expenditure for the year ended 30 June 2018.

7.0 Irregular Procurement of Emergency Relief and Refugee Assistance

Note 9 to the financial statements reflected a Kshs.246,338,158 expenditure in respect to emergency, relief and refugee assistance. However, quotations, tenders, evaluation committee minutes showing how the suppliers were procured were not provided for audit review. Therefore, the suppliers appeared to have been single sourced. Further, review of list of registered suppliers revealed that the suppliers were included in the list of registered suppliers, documents showing names of suppliers who submitted their names for registration as suppliers, evaluation committee minutes and approval by accounting officer for their inclusion to the list of registered suppliers were not provided for audit review contrary to Section 60 (1) of the Public Procurement and Asset Disposal, 2015 which stipulates that a procuring entity shall prepare specific requirements relating to the goods, works or services being procured that are clear, that give a correct and complete description of what is to be procured and that allow for fair and open competition among those who may wish to participate in the procurement proceedings.

In the circumstances, the County Executive was in breach of the law and it was not possible to ascertain whether the County Executive got value for money equivalent to the Kshs.246,338,158 expenditure for the year ended 30 June 2018.

8.0 Acquisition of Assets

Note 11 to the financial statements reflected a Kshs.587,686,278 expenditure in respect to acquisition of assets. However, review of supporting schedules and documents provided for audit revealed the following anomalies;

8.1 Irregular Procurement on Refurbishment of Buildings

Note 11 to the financial statements reflected a Kshs.3,084,087 expenditure in respect to refurbishment of buildings which included Kshs.1,314,996 that was not supported by approved requisition from the user department for the goods and services to be procured, request for quotation from updated list of registered suppliers, opening of tenders by the tender opening committee, minutes of evaluation committee and recommendation for contract award contrary to Section 60 (1) of the Public Procurement and Asset Disposal, 2015 which stipulates that a procuring entity shall prepare specific requirements relating to the goods, works or services being procured that are clear, that give a correct and

complete description of what is to be procured and that allow for fair and open competition among those who may wish to participate in the procurement proceedings.

In the circumstances, the County Executive was in breach of the law and it was not possible to ascertain whether the County Executive got value for money equivalent to the Kshs.1,314,996 expenditure for the year ended 30 June 2018.

8.2 Construction and Civil Works

8.2.1 Consultancies Services

Note 11 to the financial statements reflected a Kshs.201,885,369 expenditure in respect to construction and civil works which included Kshs.5,784,000 and Kshs.2,958,000 all totaling to Kshs.8,742,000 spent in respect to ground water testing and baseline survey for water connection to households, schools and health centres within the County. However, records of work done including data collected from the study and minutes approving the report for adoption were not provided for audit review contrary to section 104 (1) of the Public Finance Management (County Government) Regulations, 2015 with stipulates that payments shall be shall be supported by the appropriate authority and documentation.

In the circumstances, the County Executive was in breach of the law and it was not possible to ascertain whether the County Executive got value for money equivalent to the Kshs.8,742,000 expenditure for the year ended 30 June 2018.

8.2.2 Doubtful Delivery of Pipes and Fittings for Water Projects

Note 11 to the financial statements reflected a Kshs.201,885,369 expenditure in respect to construction and civil works which included Kshs.9,980,937 spent in respect to supply of pipes and fittings to water projects. However, records showing how the items were received, recorded in stores ledger, approved requisition for issue of goods from the stores by users, to whom the goods were issued, and opinion by procurement professional on procurement process were not provided for audit review contrary to Section 48. (3) (c) of the public Procurement and Assets Disposal Act, 2015 which stipulates that goods, works or service shall be inspected and accepted or rejected immediately after delivery.

In the circumstances, the County Executive was in breach of the law and it was not possible to ascertain whether the County Executive got value for money equivalent to the Kshs.9,980,937 expenditure for the year ended 30 June 2018.

8.3 Irregular Procurement of Office Furniture and General Equipment

Note 11 to the financial statements reflected an expenditure of Kshs.22,391,560 in respect to purchase of office furniture and general equipment which included Kshs.652,000 in respect to purchase of computers, printers and other IT equipment.

However, serial numbers of laptops and other equipment's purchased at Kshs.652,000 were not indicated. Further, stores ledger and assets register showing how the assets were recorded, to whom issued and their location was not provided for audit review contrary to Section 162. (1) of the Public Procurement and Assets Disposal Act, 2015 which stipulates that all inventory, stores and assets purchased are received, but shall not be used until taken on charge.

In addition, review of the relevant quotations revealed that the brand name Hewlett Packard (HP) was used to describe two laptop valued at Kshs.209,000 during procurement contrary to Section 60 (4), of the Public and Asset Disposal Act, 2015, which require that technical requirements should not refer to a particular trademark, name, patent, design, type, producer or service provider or to a specific origin.

In the circumstances, the valuation, ownership, existence, completeness, location and security of the assets worth Kshs.652,000 as at 30 June 2018 could not be ascertained and the County Executive was in breach of the law.

8.4 Wasteful Expenditure on Survey and Design of County Local/Wide Area Networks (LAN/WAN)

Note 11 to the financial statements reflected a Kshs.128,698,340 expenditure in respect to purchase of specialized plant, equipment and machinery which included Kshs.2,000,000 spent on survey and design of County LAN/WAN to enable connectivity with Sub County offices. However, approval to carry out such survey, record of work done including data collected, approval of report for adoption by the County Executive and network drawing showing how the connections would be done were not provided for audit review contrary to Section 104 (1) of the Public Finance Management (County Government) Regulations, 2015 with stipulates that payments shall be supported by the appropriate authority and documentation. No explanation was provided why the relevant supporting documents were not provided for audit review.

Further, a review of documents provided for audit revealed that the request for the survey was made and approved on 12 December, 2017, quotations were evaluated on 19 December, 2017 and certificate of completion issued on 22 December 2017. The duration for carrying out the survey, data collection, analysis and report preparation on the LAN/WAN appeared too short, casting doubt on whether the survey was actually carried out.

In the circumstances, the County Executive was in breach of the law and it was not possible to ascertain whether the County Executive got value for money equivalent to the Kshs.2,000,000 expenditure for the year ended 30 June 2018.

8.5 Purchase of Certified Seeds, Breeding Stock and Live Animals

Note 11 to the financial statements reflected a Kshs.1,467,960 expenditure in respect to purchase of certified seed, breeding stock and live animals. However, the respective

procurement documents, records showing how the beneficiaries were identified and stores records showing the issuance of the seeds was not provided for audit review contrary to Section 162. (1) of the Public Procurement and Assets Disposal Act, 2015 which stipulates that all inventory, stores and assets purchased are received, but shall not be used until taken on charge. Further, no report was presented showing whether the responsible department conducted tests to ascertain viability and quality of the seeds suitability for the soils before procurement was done.

In the circumstances, the County Executive was in breach of the law and it was not possible to ascertain whether the County Executive got value for money equivalent to the Kshs.1,467,960 expenditure for the year ended 30 June 2018.

8.6 Irregular Payment for Hydro Geological Survey Services

Note 11 to the financial statements reflected a Kshs.67,841,310 expenditure in respect to research studies, project preparation design and supervision which included Kshs.4,820,000 spent on hydro-geological survey for Malkadaka, Lakole, Awarsitu, Kobe, Dadach, Guracha and Bulesa through payment made to a company on 14th May 2018. However, approval to carry out the hydrological survey, record of work done including data collected, approved report and minutes approving the report for adoption by the Executive were not provided for audit review. Further, the quotations; were not signed, stamped and dated by bidders and the name and address of suppliers were also not indicated. In addition, evaluation committee minutes and the company profile showing whether, the firm had the technical qualification to carry out the survey was not provided for audit review contrary to Section 104 (1) of the Public Finance Management (County Government Regulations, 2015 with stipulates that payments shall be supported by the appropriate authority and documentation.

Further, review of documents provided for audit revealed that the local service order was raised on 7 May 2018 and payment prepared and authorized on 14 May 2018. However, the respective certificate for completion ref. MWEENR&CC/ICOMP CERT/VOL.1/(5) was issued on 14th June 2018 long after payment had been authorized.

In the circumstances, the County Executive was in breach of the law and it was not possible to determine whether the hydrological survey worth Kshs.4,820,000 was actually undertaken and whether the County Executive go equivalent value for money for the year ended 30 June 2018.

9.0 Summary of Non-Current Assets Register

Annexure V to the financial statements reflected non-current assets at a historical cost of Kshs.15,205,836,960 as at 30 June 2018. However, as similarly reported in the previous years, the County Executive of Isiolo had not taken over assets and liabilities amounting to Kshs.14,155,106,914 and Kshs.158,259,036 from the defunct Councils in Isiolo as at 30 June 2018. Further, the Executive did not maintain an updated fixed assets register. In addition, the County Executive, was yet to establish policies and procedures on assets

management as required by Part XII of Public Finance Management (County Government) financial regulations 2015. Also the assets were not coded or tagged for ease of identification and tracking as required by Section 132 (b) of the Public Finance Management (County Government) regulation which require accounting officer to ensure that movement and conditions of assets can be tracked.

In the circumstances, the valuation, ownership, existence, completeness, location and security of the non-current assets balance of Kshs.15,205,836,960 as at 30 June 2018 could not be ascertained.

10.0 Failure to Prepare Quarterly Cash flow Projections

During the financial year, the County Executive did not prepare quarterly cash flows projection that were supported by approved procurement plan as required by Section 43 (3), (4) of the Public Finance Management (County Government) Regulations 2015. Further, the county treasury did not publish and publicize quarterly liquidity position reports reflecting the impact of revenue collection efforts, spending and county public debt operations on the cash position of County Executive as required by Section 43 (3), (4) of the Public Finance Management (County Government) Regulations 2015.

In the circumstance the Executive was in breach of the law.

11.0 Failure to Prepare and Publish Contract Awards

During the financial year under review, the County Executive did not prepare, publish, publicize all contract awards and submit them to Public Procurement Regulatory Authority as required by Section 138 (1), (2) of the Public Procurement and Assets Disposal Act 2015. Further, monthly progress reports of all procurement contracts prepared and submitted to the accounting officer as required by Section 152 of the Public Procurement and Assets Disposal Act 2015 was not provided for audit review.

In addition, a report to Public Procurement Regulatory Authority on preferences and reservations indicating compliance with Section 157(4) of the Public Procurement and Assets Disposal Act, 2015, containing disintegrated data indicating the number of youth, women and persons with disability whose goods and services had been procured by the Executive was also not provided.

Further, reports on quarterly and annual inventory and stock take as required by Section 162 (2) of of the Public Procurement and Assets Disposal Act 2015 were not provided for audit review.

In the circumstances, the Executive was in breach of the law.

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, because of the significance of the matters discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1.0 Non Establishment of Audit Committees

As at 30 June 2018, the County Executive had not established an audit committee as required by Section 42. (1) (e) of Public Finance Management (County Government) Regulation 2015 and guidelines required by gazette notice number 2690 of 15 April, 2016 on audit committee, guidelines for County Government. The audit committee would have performed various roles stipulated in the regulation and guidelines.

In the circumstance, the County Executive contravened the law. Also, it was not possible to confirm that the Executive had established an effective internal control mechanism.

2.0 Information Technology Systems

Review of the Executive's information communication technology (ICT) environment revealed that there was no formal approved ICT policy in place during the year ended 30 June 2018. The policy would have included data security and disaster recovery plans. Further, the ICT organization structure was not provided for audit review.

In the circumstances, the security and reliability of the County Executive's data including the management information system could not be confirmed.

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, 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 Isiolo County Executive's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the County Executive of Isiolo 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 Isiolo County Executive's 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 Isiolo County Executive'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.

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 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 Isiolo County Executive'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 Isiolo County Executive's ability to continue as a going concern or 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 of Isiolo 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 of Isiolo 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

6 February 2019