REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF MANDERA FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Mandera set out on pages 1 to 37, which comprise the statement of assets and liabilities as at 30 June, 2019, statement of receipts and payments, statement of cash flows and the 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 the County Executive of Mandera as at 30 June, 2019 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with County Governments Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Inaccuracies of the Financial Statements

1.1. Statement of Assets and Liabilities

As disclosed under Note 21 A to the financial statements, the statement of assets and liabilities reflects bank balances of Kshs.1,831,237,438. A review of the recurrent and developments accounts at the Central Bank of Kenya (CBK) indicated nil balances while the CBK revenue fund account has a balance of Kshs.1,608,234,894. However, the bank reconciliation statements and cash books for the above bank accounts reflected balances of Kshs.20,639,429, Kshs.16,476,796 and Kshs.1,607,902,997 under the recurrent, development and for revenue fund account respectively.

Further, under the current year, a nil balance is reflected as fund balance brought forward and not the closing balance of Kshs.2,477,666,724 reflected in the audited financial statements in 2017/2018.

In addition, the Management did not include in the financial statements a copy of the bank reconciliation statements reports (F.O 30) from IFMIS as required by the template issued by the Public Sector Accounting Standards Board.

1.2. Statement of Cash Flows

The statement of cashflows and Note 21A to the financial statements, reflects the cash and cash equivalents balance at the end of the financial year ending 30 June, 2018 as Kshs.2,512,768,513. However, the statement reflects nil cash balance at the beginning of the year under review, understating the cash and cash equivalents by Kshs.2,512,768,513.

Further, the statement reflects an amount of Kshs.109,495,859 as the movement of accounts payables and not the actual balance of Kshs.74,394,070 being the difference between the previous year's balance of Kshs.35,101,789 and the current year's balance of Kshs.109,495,859.

In addition, the balances reflected in the cash flows statement differs significantly with the balances in the IFMIS report as detailed below: -

Component	Financial Statement Kshs.	IFMIS Report Kshs.	Variance Kshs.
Total payments from operating expenses	13,666,793,162	11,456,116,731	2,210,676,431
Net cash flow from operating activities	7,731,655,605	5,344,844,295	2,386,812,309
Net cash flow from investing activities	5,900,418,167	5,523,080,158	377,338,009
Net increase in cash and cash equivalent	1,831,237,438	(178,235,863)	2,009,473,301
Cash and cash equivalents as at 1 July, 2018	0	(613,987,636)	613,987,636
Cash and cash equivalents as at 30 June, 2019	1,831,237,438	(792,223,499)	2,623,460,937

In absence of any reconciliation between the Integrated Finance Management Information System reports and the respective statements, the accuracy of the financial statements could not be confirmed.

1.3. Statement of Receipts and Payments

Review of the financial statements presented for audit revealed variances in receipts and payments and statement of cash flows and summary statement of appropriation and Integrated Finance Management Information System (IFMIS), report figures as detailed below:-

	Financial Statements	IFMIS Report	Variance

Component	Kshs.	Kshs.	Kshs.
Receipts			
Exchequer release	10,777,608,554	10,409,190,294	368,418,260
Returned CRF	2,477,666,724	0	2,477,666,724
Total Receipts	**13,255,275,278**	**10,409,190,294**	**2,846,185,984**
Payments			
Compensation of employees	2,368,014,846	2,751,878,724	(383,863,878)
Use of goods and services	2,340,068,061	2,793,860,121	(453,792,060)
Transfer to other government units	845,040,877	540,060,330	304,980,547
Other grants and transfers	427,846,538	189,315,000	238,531,538
Acquisition of assets	5,900,418,167	5,523,080,158	377,338,009
Other payments	63,663,094	108,038,944	(44,375,850)
Total Payments	**11,945,051,583**	**11,906,233,277**	**38,818,306**

1.4. Summary Statement of Appropriation

The summary statement of appropriation - recurrent reflects final expenditure budget and actual expenditure on comparable basis of Kshs.6,633,042,110 and Kshs.6,155,929,074 respectively resulting to an under expenditure of Kshs.477,113,036 or 7% of the budget. However, IFMIS vote book reflects total expenditure of Kshs.6,132,732,364 which differed with the statement balance by an unreconciled variance of Kshs.23,196,710.

Similarly, the development vote reflects final expenditure budget and actual expenditure on comparable basis of Kshs.7,076,915,298 and Kshs.5,789,122,509 respectively resulting to an under expenditure of Kshs.1,287,792,789 or 18% of the budget. However, IFMIS vote book reflects total expenditure of Kshs.5,790,346,483 which differed with the statement balance by unreconciled variance of Kshs.1,223,974.

Consequently, the accuracy and completeness of the financial statements for the year ended 30 June, 2019 could not be confirmed.

2. Unsupported Other Grants and Transfers

As disclosed under Note 15 to the financial statements, the statement of receipts and payments reflects other grants and transfers of Kshs.427,846,538. The figure includes Kshs.251,424,394 incurred to procure various supplies for supply of food to Internally Displaced Persons and Early Childhood Development centers. However, Management did not provide supporting documents as evidence that 6% value added tax totalling Kshs.13,004,710 was deducted and submitted as per requirements of Kenya Revenue Authority.

Further, the Management had budgeted for Kshs.200,000,000 for relief food for the year under review but spent Kshs.251,424,394 resulting to an over expenditure of Kshs.51,424,394 that was not supported. Physical verification carried out during the month of December, 2019 revealed that food amounting to Kshs.16,671,000 was still in the stores and infested by weevils making it unsuitable for human consumption. No proper explanation was given for not distributing the food eight (8) months after procurement.

In addition, the amount includes Kshs.12,795,600 spent on drought mitigation through quotations. However, Management did not avail tax compliance certificate and prequalified list for all the suppliers while some payments were recorded and charged to erroneous accounts while others were not captured in the vote book contrary to Section 51 of the Public Finance Management (County Governments) Regulations, 2015.

Consequently, the accuracy, completeness and validity of the other grants and transfers of Kshs.427,846,538 reflected in the statement of receipts and payments could not be ascertained.

3. Irregular Procurement of Vehicles

During the year under review, the Management paid Kshs.17,325,000 against the budgeted amount of Kshs.18,270,000 for the purchase of an armored vehicle for the Governor. However, the Management procured the vehicle with an engine capacity of 4500cc contravening Section 137(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires that official vehicles purchased for use by the Governor shall not exceed 2600cc for the saloon cars and 3000cc for 4x4 utility vehicles. Further, it was noted that full payment of Kshs,17,325,000 was made on 10 May, 2019 but audit verification on 4 December, 2019 revealed that the vehicle had not been delivered.

Further, the Management procured six (6) ambulances worth Kshs.63,070,000 using government negotiated Supplies Branch contract. However, although the vehicles were supplied and delivered, the Management did not avail, for audit review, tender documents, tender evaluation, inspection and acceptance report and a contractual agreement with the supplier, contrary to Section 135(2) of the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, it has not been possible to determine the value of the motor vehicles procured during the year under review.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Executive of Mandera Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1. Pending Bills

Annex 2 to the financial statements reflects an amount of Kshs.310,860,504 which was a carried over liability from the year ending 30 June, 2018. The Management budgeted Kshs.103,438,421 for pending payables during the year under review. However, it was observed that the Management closed the financial year 2018/2019 with a positive cash flow balance of Kshs.1,831,237,438 and failed to pay-off the pending bills that dated as far back as 2014/2015 financial year. However, Management did not avail, for audit review, supporting documents by way of creditors' ledgers, payment voucher numbers, local purchase orders or service orders and invoices.

In view of the foregoing, the source, completeness, authenticity and existence of the pending bills balance of Kshs.310,860,504 as at 30 June, 2019 could not be confirmed.

2. Prior Year Matters

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the Senate has yet to deliberate on the same.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Non-Implementation of Budgeted Projects

A review of the Executive's budgeted projects for the financial year 2018/2019 revealed that projects worth Kshs.1,130,486,177 for various departments were not implemented. No satisfactory explanations have been rendered contrary to the values and principles of public service as provided for under Article 232 (1– c) of the Constitution which requires responsive, prompt, effective, impartial and equitable provision of services.

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

2. Non Compliance with the Public Finance Management (County Governments) Regulations, 2015

2.1 Procurement of Construction of Roads

Included in the acquisition of assets balance of Kshs.5,900,418,167 reflected under Note 17 to the financial statements is an expenditure of Kshs.1,344,003,018 relating to construction of roads, which in turn includes Kshs.312,600,170 in respect of payments made to various contractors. However, a review of the procurement process of the expenditure revealed that the Management incurred Kshs.312,600,170 on construction of roads but the tender advert did not reflect details of the contracts such as tender numbers, description of the projects to be procured and eligibility requirements. Other contracts were not advertised contravening Section 74 and 96(2) of the Public Procurement and Asset Disposal Act, 2015. Further, the projects were not processed in the procure- to- pay module of IFMIS but these were treated as direct charges to IFMIS that are not in the budget and allow direct invoicing without procure- to -pay procedures.

2.2 Construction of Irrigation Projects

During the year, Management engaged in the construction of two (2) irrigation schemes with a total contract sum of Kshs.516,577,495. However, Management did not provide supporting documents such as evidence of pre-feasibility study, public participation and environmental impact assessment. This was contrary to the requirements of Section 115(1) of County Governments Act, 2012, and the Environmental Management and Coordination Regulations, 2003.

In addition, Koromey irrigation scheme project was advertised without specifying the tender number assigned to the project, description of the project being procured including time limit for completion and applicable preferences and reservations. The same was also not reflected in the Government's tender portal or County Government's website contrary to the requirement of Section 74 of the Public Procurement and Asset Disposal Act, 2015.

2.3 Street Lights Tender

The Management incurred Kshs.94,324,689 on supply, delivery and installation of solar street lights in the Shafshafey and Bulla Barwaqo and Khalalio in Mandera East. However, Management did not avail, for audit review, copies of the logbooks or lease agreement for the equipment except for one copy of a logbook for one lorry. In addition, last three (3) years financial statements and six (6) months current bank statements and certified copy of incorporation for the winner were also not availed contrary to the tender requirements.

Further, for Khalalio solar lighting, Management did not avail the tender register and the tender did not specify the tender number assigned to the project, description of the project being procured including time limit for completion and applicable preferences and reservations. This is contrary to Section 74 of the Public Procurement and Asset Disposal Act, 2015.

2.4 Supply and Delivery of Motor Vehicles

The Management advertised a tender for the purchase of nine (9) motor vehicles in a newspaper on 24 December, 2018 and the closing date was indicated as 8 January, 2019. Audit review revealed that the tender was not opened on 8 January, 2019 as required but seven (7) days later on 15 January, 2019 contravening Clause 2.18 of the tender document. The tender advertisement did not describe the number of vehicles, the make and the model of vehicles to be procured contravening Section 74 of the Public Procurement and Asset Disposal Act, 2015. There were also variances between the tender opening minutes and the evaluation report. The bid document required that the tenderers must submit tender security of Kshs.1,500,000 valid for 120 days, however, the tender advertisement required a tender security of Kshs.1,200,000. The price schedule form in the bid document submitted by one firm had no description of the item the company was intending to supply but instead quoted the price of Kshs.99,236,760 while, the tender form which was filled and signed on 10 January, 2019 quoted tender amount as Kshs.99,536,760 resulting to a variance of Kshs.300,000 between the tender and the price schedule forms. Further, the bid document under the preliminary evaluation had several requirements but the evaluation committee did not include them in the evaluation criteria contrary to the Section 139 of the Public Procurement and Asset Disposal Act, 2015.

The Management is therefore in breach of the law.

2.5 Purchase of Vehicle for the Deputy Governor

During the period under the review, the Management procured a motor vehicle at a cost of Kshs.12,000,000 for use by the Office of the Deputy Governor. The tender was to be closed on 8 January, 2019 at 10.00am and was supposed to be opened immediately on the same day. However, the tender was opened on 15 January, 2019. Further, the engine capacity of the vehicle was 5600cc contrary to Section 137(2) of the Public Finance Management County Government Regulations, 2015 which limits the capacity to 2400cc for saloon cars and 3000cc for 4x4 utility vehicles.

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

3 Lack of County Budget and Economic Forum (CBEF)

The Executive had not constituted the County Budget and Economic Forum (CBEF) as at 30 June, 2019 in line with Section 137 of the Public Finance Management (County Governments) Regulations, 2015. In the circumstances, it was not clear how consultation by the Executive on Preparation of County Plans, the County Fiscal Strategy Paper and the Budget Review and Outlook Paper for the county, and matters relating to budgeting, the economy and financial Management at the county level as required by Section 137 of the Public Finance Management Act, 2012 were conducted without a County Budget and Economic Forum (CBEF) during the year under review.

Consequently, the Management 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, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Lack of Financial Manuals

The Management did not provided evidence that it had published financial manuals as required by Section 91(1) of the Public Finance Management (County Governments) Regulations, 2015. It may not be easy to control revenue and expenditure Management within the County Executive.

Consequently, I am unable to confirm whether, controls work effectively as intended.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the County Executive's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to dissolve the County Executive or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the County Executive monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them 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 overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Executive ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County 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.

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

25 February, 2021