

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Marsabit set out on pages 7 to 54, which comprise the statement of assets as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation; recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of County Executive of Marsabit as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the County Government Act, 2012.

Basis for Qualified Opinion

1.0 Cash and Cash Equivalents

1.1 Missing Documents

The financial statements reflects cash and cash equivalents balance of Kshs.937,599,800 held in twelve (12) bank accounts of which two (2) bank accounts' bank reconciliation statements, cash books and bank confirmation certificates were not availed for audit review.

In the circumstances, the accuracy of the cash and cash equivalents balances of Kshs.937,599,800 as at 30 June 2018 could not be confirmed.

1.2 Variances Between Bank Balance and Bank Confirmation Certificate

In addition, the development account bank reconciliation for Kenya Commercial Bank, Marsabit branch reflected a bank balance of 1,776,021.38 while the certificate of bank balance reflected a balance of 153,204,366.38 resulting to un-explained variance of Kshs.151,428,345.

In the circumstances, the accuracy of the certificate of bank balance of 153,204,366.38 as at 30 June 2018 could not be confirmed.

2.0 Variances Between Financial Statements Balances and Integrated Financial Management Information System (IFMIS) Figures

The financial statements for the year ended 30 June 2018 reflects balances that were at variance with balances from similar statements generated from IFMIS as summarized below;

Item	Financial Statements Balance Kshs.	IFMIS Balance Kshs.	Variance Kshs.
Receipts			
Exchequer Releases	6,583,600,000	13,226,396,162	(6,642,796,162)
Other Receipts	92,005,709	184,126,572	(92,120,863)
Proceeds from Domestic and Foreign Grants	368,125,274	46,372,884	321,752,390
Tax Receipts	0	368,430,357	(368,430,357)
Total Receipts	7,043,730,983	13,825,325,975	-6,781,594,992
Payments			
Acquisition of Assets	1,992,270,571	1,134,466,606	857,803,965
Compensation of Employees	1,731,053,123	1,735,592,472	(4,539,349)
Other Grants and Transfers	484,528,823	461,234,223	23,294,600
Other Payments	0	130,550,000	(130,550,000)
Social Security Benefits	13,292,400	69,660,000	(56,367,600)
Subsidies	0	3,970,000	(3,970,000)
Transfers from other Government Entities	0	446,554,930	(446,554,930)
Transfers to other Government Units	1,111,065,229	154,177,236	956,887,993
Use of Goods and Services	1,447,985,198	1,175,754,884	272,230,314
Total Payments	6,780,195,344	5,311,960,351	1,468,234,993
Statement of Assets			
Accounts Payables – Deposits	122,154,676	24,282,707,519	(24,160,552,843)
Accounts Receivables - Outstanding Imprest and Clearance Accounts	0	226,822,744	(226,822,744)
Bank Balances	937,599,800	3,964,312,201	(3,026,712,401)
Cash Balances	0	38,997,907,128	(38,997,907,128)
Fund Balance B/fwd.	551,909,485	10,238,516,887	(9,686,607,402)
Surplus/deficit for the Year	263,535,640	9,406,475,484	(9,142,939,844)

The variances between the two records had not been explained or reconciled as at 30 June 2018.

In the circumstances, the accuracy of the financial statements balances for the year ended 30 June 2018 could not be ascertained.

3.0 Deposits and Retentions

The financial statements reflects deposits and retentions balance of Kshs.122,154,676. Records made available revealed that a centralized bank account was maintained for all the retention monies in respect of construction works during the year under review. However, the deposits and retentions cash book had not been updated as at 30 June 2018.

In the circumstances, the validity and accuracy of the Kshs.122,154,676 balance reflected in the financial statements as at 30 June 2018 could not be confirmed.

4.0 Arrears on Land Rates Revenue

Note 3 to the financial statements reflects Kshs.5,479,682 in relation to land transaction charges for the year ended 30 June 2018. However, records maintained by the Lands office revealed that nine (9) registers used in the collection of land rates were last updated in September, 2015. These registers reflects outstanding land rates balance of Kshs.19,204,096.

Management has not explained strategies put in place to collect the balances of Kshs.19,204,096 for the year ended 30 June 2018 including whether all the related land transaction charges were disclosed in the financial statements for the year under review.

In the circumstances, the validity, accuracy and completeness of the Kshs.5,479,682 land transaction charges reflected in the financial statements could not be ascertained.

5.0 Use of Goods and Services

5.1 Unaccounted for Training Expenses

Note 5 to the financial statements reflects use of goods and services figure of Kshs.1,447,985,198 which included training expenses of Kshs.101,915,571 which further included Kshs.2,809,800 in respect to various payments for staff attending trainings. However, included in the Kshs.2,809,800 was Kshs.1,652,500 whose supporting documents including back to office reports, participants' attendance register, facilitation payment schedule and acknowledgement by the intended beneficiaries were not availed for audit review. Further, there was no justifiable reasons for the meetings to be held outside the Executive's offices.

In the circumstances, the regularity and value for money of the Kshs.1,652,500 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

5.2 Procurement of Revision Text Books

The financial statements reflects use of goods and services figure of Kshs.1,447,985,198 which included Kshs.64,898,922 for office and general supplies and services which further included Kshs.3,000,000 for the supply and delivery of assorted revision text books. However, no stores records including ledger cards in support of the supplies were availed for audit review.

In the circumstances, the accuracy, completeness and existence of office and general supplies and services figure of Kshs.3,000,000 could not be confirmed.

6.0 Un-supported Transfer to the National Hospital Insurance Fund

The financial statements reflects transfer to other government entities figure of Kshs.1,111,065,229 which includes an amount of Kshs.60,000,000 transferred to the National Hospital Insurance Fund (NHIF) for medical cover. However, the respective supporting documents and schedules were not availed for audit review.

In the circumstances, the validity and accuracy of the Kshs.60,000,000 transfer to NHIF could not be ascertained.

7.0 Presentation and Disclosure of Financial Statements

Sentence six of paragraph three at page five (5) of the financial statements makes reference to the year ended 30 June 2017 instead of the financial year ended 30 June 2018 while page six (6) reflects an alleged report of the independent auditors which did not originate from the Auditor-General. In addition, the table of contents page and the key entity information and management page bear the same page number- '1' while, the entity contact information was not provided.

Further, the International Public Sector Accounting Standards (Cash Basis) reporting template prescribed by the Public Sector Accounting Standards Board (PSASB) requires that a report on the follow up of previous year's audit recommendations and summary of the fixed assets register be included as part of the annexures to the financial statements. However, the summary of the fixed assets at annex 4 of the financial statements is just a template with no figures, while a report on follow up on previous year's audit and its recommendations had not been included in the financial statements for the year ended 30 June 2018.

The template further requires the Head of Treasury to indicate his/her Institute of Certified Public Accountants of Kenya (ICPAK) membership number in the financial statements but no membership number was indicated.

In the circumstances, the presentation and disclosure of the financial statements for the year ended 30 June 2018 did not comply with the prescribed format.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Executive of Marsabit in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, 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 Revenue Analysis

The combined summary statement of appropriation - recurrent and development for the year under review reflects total budgeted receipts of Kshs.7,629,333,214 and actual receipts of Kshs.6,588,630,660 resulting to a budget shortfall of Kshs.1,040,702,554 as analyzed below;

Revenue Type	Budget (Kshs)	Actual on Comparable Basis (Kshs)	Variance/ Budget shortfall (Kshs)	Percentage
Proceeds from Domestic and Foreign Grants	410,146,483	367,632,695	42,513,788	89.6
Exchequer Releases	7,089,186,731	6,128,992,256	960,194,475	86.5
Other Receipts (Local Revenue)	130,000,000	92,005,709	37,994,291	71
Total	7,629,333,214	6,588,630,660	1,040,702,554	86.4

The shortfall of Kshs.1,040,702,554 on revenue represents budgeted goods and services that were not delivered to the County residents of Marsabit. In addition, the local revenue actual collections dropped by Kshs.36,622,857 from Kshs.128,628,566 in the financial year ended 30 June 2017 to Kshs.92,005,709 in the year ended 30 June 2018. The management did not provide satisfactory explanation for the drastic reduction. Nevertheless, this could be an indication that there was no effective revenue collection mechanism during the year under review.

Further, the statement of receipts and payments for the year under review reflected total receipts of Kshs.7,043,730,983 while the combined summary statement of appropriation reflected total receipts of Kshs.6,588,630,660 resulting to an unexplained or reconciled variance of Kshs.455,100,323.

1.2 Development Expenditure Analysis

The summary statement of appropriation (development) for the year under review reflected an approved budget of Kshs.3,434,381,592 and an actual expenditure of Kshs.2,760,255,877 resulting to an under expenditure of Kshs.674,125,715 as detailed below;

Component	Final Budget 2017/2018 (Kshs.)	Actual on Comparable Basis (Kshs.)	Under-expenditure (Kshs.)	Utilization (%)
Use of Goods and Services	311,007,010	210,584,496	100,422,514	68
Transfers to Other Government units	255,000,000	215,632,518	39,367,482	85
Acquisition of Assets	2,428,374,582	1,894,510,040	533,864,542	78
Other Grants and Transfers	440,000,000	439,528,823	471,177	100
TOTAL	3,434,381,592	2,760,255,877	674,125,715	80

From the analysis, it was observed that the County Executive underspent by Kshs.674,125,715 on various votes which is an indication of undelivered goods and services to the County residents of Marsabit. Further, the actual development receipts amounted to Kshs.2,601,906,692 while the actual expenditure as per statements of receipts and payments was Kshs.2,760,255,877 resulting to an over-expenditure of Kshs.158,349,185 whose source of funding could not be ascertained.

1.3 Recurrent Expenditure Analysis

The summary statement of appropriation (recurrent) for the year under review reflects an approved expenditure budget of Kshs.4,296,493,497 against actual expenditure of Kshs.4,019,939,467 resulting to an under expenditure of Kshs.276,554,030 as detailed below;

Component	Final Budget 2017/2018 (Kshs.)	Actual on Comparable Basis (Kshs.)	Under-expenditure (Kshs.)	Utilization %
Compensation of Employees	1,767,904,081	1,731,053,123	36,850,958	98
Use of Goods and Services	1,302,251,300	1,237,400,702	64,850,598	95
Transfers to Other Government units	1,063,079,166	940,432,711	122,646,455	88
Social Security Benefit	18,126,903	13,292,400	4,834,503	73
Acquisition of Assets	145,132,047	97,760,531	47,371,516	67
TOTAL	4,296,493,497	4,019,939,467	276,554,030	94

From the analysis, it was observed that the County Executive underspent by a total of Kshs.276,554,030 on various votes translating to 94% utilization/absorption. The County residents therefore did not get services equivalent to the Kshs.276,554,030 under-utilized during the year under review. The Citizens of Marsabit County did not receive goods and services planned for despite the fact that the County Government had cash at bank of Kshs.937,599,799 as at 30 June 2018.

1.4 Variances Between the Approved Budget and Actual Expenditure

A review of the IFMIS approved estimates and actual payments revealed variances on thirteen (13) items as shown in the table below;

Item Category	Final Approved Estimate (Net) (Kshs.)	Actual Payments (Kshs.)	Variance (Kshs.)	Variance %
Acquisition of Assets	2,638,506,629	1,134,466,606.40	-1,504,040,022.60	-57.00
Compensation of Employees	1,767,904,081	1,735,592,472.30	-32,311,608.70	-1.83
Exchequer Releases	13,167,200,000	13,226,396,162	59,196,162	0.45
Other Grants and Transfers	485,350,000	461,234,223	-24,115,777	-4.97
Other Payments	132,200,000	130,550,000	-1,650,000	-1.25
Other Receipts	1,514,496,196	184,126,572	-1,330,369,624	-87.84
Proceeds from Domestic and Foreign Grants	121,468,784	46,372,884	-75,095,900	-61.82
Social Security Benefits	78,126,903	69,660,000	-8,466,903	-10.84
Subsidies	5,000,000	3,970,000	-1,030,000	-20.60
Tax Receipts	0	368,430,357.40	368,430,357.40	99,999.00
Transfers from other Government Entities	455,501,448	446,554,930	-8,946,518	-1.96
Transfers to other Government Units	359,568,526	154,177,236	-205,391,290	-57.12
Use of Goods and Services	1,613,258,310	1,175,754,884.15	-437,503,425.85	-27.12

The variances between the budgeted and actual amounts for the year ended 30 June 2018 have not been explained and the budget therefore appears unrealistic. Further, Finance Management Services of Kshs.1,125,045,516 reflected in the Appropriation Act estimates was not captured in the IFMIS Approved Budget. No explanation was availed as to why the budget which was approved by the Assembly was not uploaded in IFMIS.

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

1.0 Compensation of Employees

1.1 Use of a Manual Payroll

The statement of receipts and payments for the year ended 30 June 2018 reflects an expenditure of Kshs.1,731,053,123 in respect of compensation of employees. However, the County operated two payroll systems namely the manual payroll system and the Integrated Payroll and Personnel Database (IPPD) whereby Kshs.17,523,253 was paid to one thousand and thirteen (1,013) employees through the manual payroll. However, it was not possible to ascertain the accuracy of this amount including whether the employees were genuine since use of the manual system requires manual calculation of deductions, net pay and constant monthly and/or annual updates which could be subject to errors. It was not possible to establish why management did not pay all its employees using the IPPD.

1.2 Operating Without an Updated Staff Establishment

An audit of the personnel records and the payroll showed that the Executive had a total staff of 2312. However, management had not prepared a personnel establishment document and this was contrary to the requirements of Section 5(2)(f) of the County Government Act, 2012 which requires County Governments to establish and staff its public service. The County Government therefore engaged staff without proper mechanisms of identifying existence of vacancies during the year under review.

Consequently, the County Executive was in breach of the law during the year under review.

1.3 Retaining Employees Past the Mandatory Retirement Age

An audit review of the Executive's payroll revealed that two employees reached retirement age of 60 years as at 1 July 2015 and 1 January 2012 respectively. However, the two continued to be in the payroll during the year ended 30 June 2018.

Further, one of the employees was engaged on contractual basis on 31 January 2018 for a period of 3 years and a perusal of his personnel file revealed that the application letter and certificates were not attached. The retention of employees who are past the retirement age was contrary to the requirements of the Human Resource Policies and Procedures Manual for Public Service 2016 section D.21 which requires that all officers shall retire from the service on attaining the mandatory retirement age of 60 years and 65 years for persons with disabilities and/or as may be prescribed by the government from time to time.

The Executive, was therefore in breach of the law.

1.4 Irregular Recruitment

An audit review of the recruitment processes revealed that the County recruited 919 employees out of which 423 were duly employed by the County Public Service Board in exercise of the powers granted by the County Government Act, 2012 while the remaining 496 were recruited via delegated instrument by Chief Officers and the County Secretary. However, the Board, had withdrawn the delegated powers of the County Public Service Board Human resource functions through a circular referenced CPSBM/CHRAC/003 dated 18 October 2017 and therefore the 496 staff were irregularly hired contrary to the recruitment

regulations Section 74 and Section 59 (1) (b) of County Government Act, 2012.

Further, a review of sampled personnel files revealed that officers lacked crucial documents for employment including advertisements, application letters, department requisitions, shortlisting and interview and list of appointments.

In the circumstances, the County was in breach of the law during the year under review and all expenditure associated with the 496 irregularly recruited staff during the year under review may not be termed as proper charge to the public funds.

1.5 Over Commitment of Salary

A further audit review of the payroll revealed that seven (7) employees received net pay which was below 1/3 of their basic pay contrary to Section 19(3) of the Employment Act, 2007 which states that the total amount of deduction of the wages of an employee shall not exceed 2/3 of such wages.

No explanation from management was availed for the over recovery beyond the legally set limit of one third (1/3).

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

1.6 Irregular Payment of Acting Allowance

The Executive's human resource records showed a staff establishment of 2312 employees. However, a review of sampled personnel files for these employees revealed that four (4) employees were awarded acting allowance by the office of the County Secretary. This was contrary to Section 59(1) of the County Government Act, 2012 which requires that the County Public Service Board is to appoint persons to hold or act in offices of the county public service.

The Executive was therefore in breach of the law during the year under review.

1.7 Irregular Salary Payment

The statement of receipts and payments for the year under review reflects compensation of employees totaling to Kshs.1,731,053,123. However, a review of the personnel emoluments revealed that a County Advisor who was employed by the Teachers Service Commission (TSC) was recruited by the Executive before clearing with and being released by his former employer. Documents availed for audit showed that the officer reported on duty on 21 December 2017 while his salary was stopped as from 1 August 2018 approximately seven (7) months later and by then he had been paid a gross salary of Kshs.1,357,933 for the seven months. The stoppage of salary was due to the fact that the officer was yet to clear and be released by his former employer. The engagement of the officer while he was still employed by another public entity was in contravention of the Public Officers Act 2003 and Leadership and Integrity Act, 2012 Chapter 26 on gainful employment. Further, the officer's personal file did not have an application letter for the post of County Advisor.

In the circumstances, the Kshs.1,357,933 expenditure was irregular and not a proper charge to public funds.

1.8 Repair of Motor Vehicles

The figure of Kshs.1,447,985,198 under use of goods and services includes routine maintenance of vehicles and other transport equipment amount of Kshs.49,427,063 which further includes a payment of Kshs.522,000 for repair of motor vehicle. However, a mechanical inspection report attached to the payment documents revealed that a different motor vehicle registration was presented for inspection. Further, the firm that purportedly did the repairs submitted an invoice which was not serially numbered, was hand written and had a different firm name from the one that was appearing in the quotation. In addition, the post inspection report was not attached as required by circular referenced CGM/DRWT/STVol 1 (002) of 10 October 2017 (mandatory pre and post inspection reports on motor vehicle repairs).

In the circumstances, the regularity and the value for money for the Kshs.522,000 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

2.0 Failure to have in Place an Asset Disposal Plan

During the year under review, the County Executive of Marsabit did not prepare an asset disposal plan as required by Section 53 (4) of the Public Procurement and Assets Disposal Act, 2015.

In the circumstances, the County was in breach of the law during the year under review.

3.0 Acquisition of Assets

3.1 Procurement of Desktop Computers, Laptops and Printers

An amount of Kshs.1,000,000 was incurred in the purchase of desktop computers, laptop and printers but the quotations that were issued out did not have clear specifications as the same indicated a general term of “desktop computer, laptop and printer” despite the fact that computers and related IT items have clear specifications which equally determines the pricing.

In the circumstances, the value for money on the Kshs.1,000,000 expenditure could not be confirmed.

3.2 Construction of Roads

An expenditure of Kshs.49,235,336 was incurred on the construction of six (6) roads within the County as shown in the table below

		Amount
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No.	Name of the Road	(Kshs.)
1.	A2 – Uran Road	8,000,000
2.	Kiwanja Ndege St. Peters Kubi Bagassa Road	9,060,040
3.	Godoma – Waititi Gambala Road	9,200,000
4.	Rawan – Funan Qumbi Road	9,792,111
5.	Bori Town Road	9,695,645
6.	Golole Yashare Road	3,487,540
Total		49,235,336

The roads were done through spot improvement and grading. However, a physical verification carried out in the month of November 2018 on the six roads revealed that they did not have adequate drainage system and road drifts while the long slabs that had been constructed were not strong enough to withstand storm waters. Further, the roads had already formed furrows and gulleys on both sides and the gravelling had not been compacted leaving out loose materials. In addition, Road A2 – Uran Road which had a budget of Kshs.8,000,000 was contracted at Kshs.19,249,753 resulting to an unbudgeted expenditure of Kshs.11,249,753 which was also not provided for under the pending bills list for the County in the financial year under review.

In the circumstances, it has not been possible to ascertain if the citizens of Marsabit County got value for money on the roads expenditure of Kshs.49,384,203.

3.3 Bongole Tourist Resort

An amount of Kshs.11,982,457 was paid out to various prequalified contractors to carry out works at Bongole Tourist Resort. The works included construction of a kitchen, completion of laundry, reception block, temporary staff house and ablution block. Other works were Landscaping, fencing, rain water harvesting and piping works as detailed below;

Voucher No	Contract No	Projects	Amount (Kshs)
546	1387	Erection of Kitchen & Completion of Laundry at Bongole Resort	1,698,066
271	1267	Erection of Kitchen & Completion of temporary staff house at Bongole Resort	1,039,916
356	1227	Erection of Kitchen&Completion of Reception block at Bongole Resort	2,872,065
695	822	Landscaping and Beautification at Bongole Resort	1,597,610
286	1388	Fencing works and rain water harvesting at Bongole Resort	1,989,980
582	1344	Piping from Source to Bongole Resort at Saku	1,599,136
241	1266	Erection of Kitchen &Completion of Abolution block at Bongole Resort Saku	1,185,684
TOTAL			11,982,45

However, a physical inspection of the facility carried out on 5 November 2018 revealed that the resort had not been operationalized despite having been fully completed and furnished in 2016-2017 financial year at the cost of Kshs. 7,679,300 in addition to the current year's expenditure of Kshs. 11,982,457 all totaling to Kshs. 19,661,757.

In the circumstances, the propriety and value for money for the Kshs. 11,982,457 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

3.4 Lack of Proper Controls in Assets Management

The statement of receipts and payments reflects acquisition of fixed assets worth Kshs. 2,301,262,778 and Kshs. 1,992,270,571 during the 2016/2017 and 2017/2018 financial years respectively. However, these amounts including the accumulated balances were not reflected in the summary of fixed assets register at annex 4 to the financial statements as the same were reflected as blank. Further, during the financial year under review, the County spent Kshs. 19,081,693 on purchases of vehicles and other transport equipment. However, verification of the vehicles and equipment revealed that the asset register in place had not been updated with details on opening and closing balances, additions and disposals. In addition, no records were made available to show that the fixed assets inherited from the defunct local authorities were included as part of the Executive assets for the financial year under review.

Consequently, the ownership, completeness, accuracy, security and location of the fixed assets worth Kshs. 1,992,270,571 reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

4.0 Use of Goods and Services

4.1 Procurement of Radio Live Coverage Services

An amount of Kshs. 470,000 was paid to a radio station for supply of live radio coverage for official events in the County Executive where Kshs. 120,000 was spent on covering the swearing in of County Executive Committee Members and Kshs. 350,000 for live coverage of Mashujaa day. However, no procurement documents were available for audit review while a contract with the radio station which was attached did not show the rate, scope of work and amount of money to be charged for each of the services offered.

This was contrary to the Public Procurement and Asset Disposal Act, 2015, Section 68 (2) (d) (ii) which states that the records for a procurement shall include - for each tender, proposal or quotation that was submitted - the price, or basis of determining the price, and a summary of the other principal terms and conditions of the tender, proposal or quotation.

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

4.2 Procurement of Office and General Supplies and Services

An amount of Kshs. 11,588,200 was paid out for supplies of various assorted items during the year under review which included motor vehicle tyres, tubes, printing papers, cartridges, branded caps and t-shirts. However, an audit verification for the assorted items revealed that local purchase orders (LPOs), invoices and stores receipts voucher (S13) attached to the payments were not dated while specifications of the items requested for were not described in the quotations.

Further, there were no tender opening and evaluation minutes, letters of offer, inspection and acceptance reports and updated stores records. This was contrary to the Public Procurement and Asset Disposal Act, 2015, Section 68 (2) (d) (iii) which states that the records for a procurement shall include - for each tender, proposal or quotation that was submitted - a summary of the proceedings of the opening of tenders, evaluation and comparison of the tenders, proposals or quotations, including the evaluation criteria used as prescribed.

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

5.0 Non Preparation of Financial Statements for County Social Protection Fund

Included in the cash and cash equivalents balance of Kshs.937,599,800 is Kshs.26,034.20 in respect to the County Social Protection Fund which according to Section 116 of Public Finance Management Act, 2012 is supposed to prepare its own/separate Fund accounts and submit the same for audit.

In the circumstances, the County 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, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter 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

Information, Communication Technology (ICT) Environment

During the year under review, the County Executive did not have an approved ICT policy to

enable it manage business processes for the delivery of services to the public in an effective and efficient manner. The Executive also lacked a comprehensive ICT inventory and an Information Technology (IT) steering committee.

Lack of an approved ICT policy may have led to data confidentiality, accuracy, reliability, integrity and availability being compromised. Further, the IT operations may not have been effectively managed and aligned to support the operations of the Executive during the year under review. In addition, lack of a comprehensive ICT inventory may have led to loss of ICT assets while lack of a steering committee may have led to laxity in ICT policy formulation and implementation during the year.

During the year, the County spent Kshs.13,761,842 to purchase ICT equipment. However, without an ICT policy, such investments are at risk as there are no defined structures to safeguard the equipment.

Consequently, the reliability and integrity of the Executive's data during the year under review 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, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the County Executive of Marsabit's ability to continue 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 or to cease operations, or have no realistic alternative but to do so.

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

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

Those charged with governance are responsible for overseeing the 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 audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the County Executive of Marsabit'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 County Executive's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County 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.



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

Nairobi

18 February 2019