

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF ISIOLO FOR THE YEAR ENDED 30 JUNE, 2020**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of County Assembly of Isiolo set out on Pages 1 to 21, which comprise the statement of financial assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Assembly of Isiolo as at 30 June, 2020, 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 Public Finance Management Act, 2012 and County Governments Act, 2012.

### **Basis for Qualified Opinion**

#### **1.0 Unconfirmed Balances**

Balances reflected in the financial statements in respect to prior year adjustments, cash flows for operating activities and pending bills accounts contain errors and anomalies, as outlined below:

##### **1.1 Prior Year Adjustments**

The statement of cash flows reflects net credit adjustments totalling Kshs.5,375,758 made in respect to the prior year adjustment balance and Kshs.27,948,745 on the 2018/2019 comparative balance respectively. However, supporting documents for the adjustment amounting to Kshs.5,375,758 were not provided for audit review and as a result, their validity was not confirmed. Further, the audited financial statements for the year ended 30 June, 2019 reflected a nil balance in respect to the account. As a result, the validity of the adjustment amounting Kshs.27,948,745 reflected in the financial statements for the year under review was not confirmed.

##### **1.2 Cash Flows from Operating Activities**

The statement of cash flows further reflects previous year cash flows from operating activities balance amounting to Kshs.410,644,815. However, in the audited financial statements for the year ended 30 June, 2019, the account reflected a balance of Kshs.409,819,543. The difference of Kshs.825,272 between the two sets of records was not explained.

In view of these discrepancies, the accuracy of the statement of cash flows for the year ended 30 June, 2020 could not be confirmed.

### **1.3 Pending Bills**

Notes 7.10.1 and 7.10.3 reflect nil balances in respect to pending accounts payables and other pending payables. The Notes indicate that additional information on the bills is reflected in Annex 1 and Annex 3 of the financial statements respectively. However, the two annexures reflect a single balance amounting to Kshs.20,965,903. Reference to one balance in relation to the two accounts appears to have been made in error.

In the circumstances, the financial statements may not reflect the true and fair view on pending accounts payables and other pending bills.

### **2.0 Incomplete Fixed Asset Register**

Annex 4 to the financial statements reflects a summary of fixed assets register that contains various fixed assets with an aggregate value of Kshs.473,621,777. However, the actual register does not disclose important information on the assets such as historical cost, condition of the asset, identification by user and location, and the date the asset was acquired.

Consequently, the disclosures made in respect to the assets are not sufficient and as a result, the accuracy and completeness of the assets owned by the County Assembly as at 30 June, 2020 could not be confirmed. In addition, the assets were not adequately safeguarded from misplacement or loss.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Assembly of Isiolo 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. I have determined that there were no key audit matters in the year under review.

### **Other Matter**

#### **Budget Control and Performance**

The statement of comparison of budget and actual amounts - recurrent and development combined for the year ended 30 June, 2020 indicates the County Assembly's final budget for the year totalled Kshs.498,755,158 and actual expenditure Kshs.476,934,097

resulting in under-expenditure of Kshs.21,053,061 or 4% of the budget for the year which management attributed to delay in receipt of voted provisions.

## 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. Unbudgeted Payments**

Examination of records on purchase of goods and services indicated that payments amounting to Kshs.1,000,000 and Kshs.500,000 were paid to the County Assembly Forum (CAF) and The Society of Clerks at the Table (SOCATT) respectively.

However, there was no evidence to confirm that the payments were included in the budget for the year under review. As a result, the validity of the payments totalling Kshs.1,500,000 could not be confirmed.

#### **2. Failure to Prepare Quarterly Financial Reports**

Audit review of the financial reporting system indicated that contrary to Section 166(1) of the Public Finance Management Act, 2012, Management did not prepare quarterly financial and other operational reports during the year under review. The provision requires the Accounting Officer in each public entity to prepare, publish and publicize a report for each quarter of the financial year in respect of the activities of the entity and not later than one month after the end of each quarter.

Consequently, Management did not fulfill all accountability reporting requirements set in 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**

### **1. Lack of an Information, Communication and Technology (ICT) Policy**

Review of the activities of the Information Communication Technology (ICT) Unit confirmed that as in previous years, Management had not established and documented a policy on investment and use of the ICT resources of the County Assembly. Further, the approved organizational structure for the ICT Unit was not provided for audit review.

In the absence of an approved policy and organizational structure, the County Assembly's ICT resources are unlikely to be used optimally. In addition, controls and risks in use of the resources, including data security and disaster recovery plans may not be effective.

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

As similarly reported in the previous year, Management has not established an Audit Committee to provide oversight on the financial and other operations of its financial affairs as required in Section 167(1) of Public Finance Management (County Governments) Regulation, 2015.

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

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

## **Responsibilities of Management and those Charged with Governance**

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

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

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 Assembly'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 of the Financial Statements**

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.

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 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 County Assembly'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 applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Assembly's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Assembly to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the County Assembly to express an opinion on the financial statements.
- Perform such other procedures, as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**21 October, 2021**