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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Lamu set out on pages 1 to 22, 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, 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 Lamu as at 30 June, 2020 and 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 Governments Act, 2012.

Basis for Qualified Opinion

1.0 Use of Goods and Services

The statement of receipts and payments reflects goods and services payments totalling Kshs.127,204,114 as further reflected in Note 4 to the financial statements. Examination of records on the expenditure indicated that some of the payments were not supported with sufficient and relevant records:

1.1 Hospitality Supplies and Services

Payments totalling Kshs.3,120,541 spent on hospitality supplies were not adequately supported with records showing how the expenditure was incurred. The missing records included local purchase orders for goods procured, signed payment schedules for allowances paid to officers, transportation and attendance records, among others.

In the circumstance, the occurrence and probity of the payments totalling Kshs.3,120,541 on hospitality supplies and services as at 30 June, 2019 could not be confirmed.

1.2 Domestic Travel and Subsistence

Expenditures totalling Kshs.14,573,000 spent on domestic travel and subsistence were not supported with invitation letters and travel documents to confirm occurrence of the journeys cited and records of attendance and back-to-office reports prepared thereafter. As a result, the occurrence and validity of the payments could not be confirmed.

1.3 Training Expenses

Expenditure records indicated that Kshs.13,934,603 was spent on training activities in the year under review. However, examination of the respective payment vouchers and other supporting documents indicated that payments totalling Kshs.10,635,922 were not supported with invitation letters, list of participants, air tickets and return to office reports.

1.4 Foreign Travel

Expenditure amounting to Kshs.19,764,641 incurred on staff on foreign trips was not supported with documents indicating that the payees had travelled out of the country. The missing documents included travel clearance certificates, air tickets, boarding passes and travel insurance. In addition, the records indicated that some of the officers travelled before the actual commencement dates for the prorammes and were as a result paid several days of subsistence allowances while idling in waiting.

In view of these issues, the occurrence and validity of the payments totalling Kshs.51,392,785 included in the goods and service balance totalling Kshs.127,204,114 reflected in the statement of receipts and payments has not been confirmed.

2.0 Fixed Assets

Annex 4 - summary of fixed assets - register attached to the financial statements discloses the value of the County Assembly's fixed assets as at 30 June, 2020 totalled Kshs.532,356,69 out of which assets worth Kshs.86,164,116 were purchased in the year under review. However, the following anomalies were noted in respect to the processes followed in purchasing the assets:

2.1 Failure to Maintain Fixed Assets Register

The County Assembly did not maintain a fixed assets register contrary to Section 136(1) of the Public Finance Management Regulations, 2015 which requires the Accounting Officer to maintain a register of assets as prescribed in relevant laws. As a result, the value and nature of the fixed assets that make the balance of Kshs.532,356,698 as at 30 June, 2020 could not be confirmed.

In addition, physical verification conducted at the entity revealed that the assets were not tagged to reveal information on their purchase and locations. Consequently, the audit could not confirm whether all the furniture procured in the year under review was received.

2.2 Lack of Ownership Documents

The assets balance totalling Kshs.532,356,698 includes land, buildings and structures worth Kshs.372,787,736 for the Speaker's official residence. However, ownership documents for the property were not provided for audit and therefore its ownership by the County Assembly could not be confirmed.

2.3 Insufficient Disclosure of Assets

The assets balance does not include the value of the County Assembly's Building and Therefore, the balance is incomplete.

In view of these issues the valuation, completeness, and ownership by the County Assembly of the assets valued at Kshs.532,356,698 as at 30 June, 2020 reported in Annex 4 to the financial statements could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs).I am independent of County Assembly of Lamu 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 other key audit matters to communicate in my report.

Other Matter

1.0 Budgetary Control and Performance

The approved budget of the County Assembly for the year under review was Kshs.600,000,000 out of which Kshs.405,000,000 or 67.5% was allocated to recurrent expenditure and Kshs.195,000,000 or 32.5% to development expenditure. The allocations were spent as indicated below:

Item	Budgeted Allocation Kshs.	% of Allocation	Actual Expenditure Kshs.	Ratio of Budget Spent	Ratio of Budget Not Spent
Recurrent Expenses	405,000,000	68%	291,408,727	72%	28%
Development Expenses	195,000,000	33%	75,326,116	39%	61%
Total	**600,000,000**		**366,734,843**		**39%**

As the data indicates, the absorption rate for recurrent expenditure was 72% and for development expenditure only 39%, with an overall 39% of the budget for both votes absorbed. The low funds absorption rate implied that a significant portion of the projects and activities due for implementation by the County Assembly in the year under review were not executed. This may have hampered the County Assembly from effectively exercising its legislative and oversight roles in the year under review.

2.0 Pending Accounts Payable

Disclosed under Annex 1 to the financial statements are pending accounts payables totalling Kshs.4,295,720 comprised of bills for construction of building totalling Kshs.3,940,780 and supply of services totalling Kshs.354,940. No satisfactory explanation was provided by Management for the failure to pay the bills. Delay in payment of pending bills slows down economic activity by denying businesses funds for working capital and reinvestment. It may also lead to avoidance of trading with public entities.

3.0 Prior Year Issues

The audit report for the previous year had highlighted several matters that included unconfirmed expenditure balances and irregular expenditures among other issues. The matters had not been resolved as at 30 June, 2020.

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 the 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 High Wage Bill

The statement of receipts and payments indicates that the County Assembly spent Kshs.153,366,180 on salaries, wages and allowances in the year under review. The expenditure was equivalent to 40% of the total revenue of the County in the year amounting to Kshs.384,104,710 and surpassed the recommended ratio of 35% prescribed in Regulation 25(1) of the Public Finance Management (County Governments) Regulations, 2015. Management therefore, breached the law and expectations on prudent use of public funds. Further, the overspending on personnel emoluments may have constrained funding for the service delivery functions of the County Assembly.

2.0 Unused Staff Housing Mortgage Scheme

In March 2018, Management entered into a Memorandum of Understanding with a local bank for administration of a staff mortgage scheme. The County Assembly was to remit Kshs.100,000,000 which the bank would use to issue mortgage loans to eligible members of staff. However, only Kshs.40,000,000 was remitted and although a bank certificate on the deposit was provided for audit review, there were no records of staff mortgage loans funded by the Scheme. As a result, it was not possible to confirm whether any value was obtained from the sum totalling Kshs.40,000,000 deposited with the bank.

3.0 Irregular Subscriptions

Examination of records indicated two payments were made totalling Kshs.1,800,000 in respect to subscription fees for the County Assembly Forum amounting to Kshs.1,300,000 and Society of Clerks-At-The-Table amounting to Kshs.500,000. However, the two entities are not recognized in law as qualified to receive subscriptions sourced from public funds.

In the circumstance, the payments made to the entities were irregular.

4.0 Irregular Disposal of Assets

During the year under review, the County Assembly disposed off nineteen (19) assorted fixed assets with a total book value of Kshs.3,520,599, as indicated in the disposal list. However, there was no record confirming that a report on unserviceable, obsolete or surplus assets was made to the Disposal Committee before the assets were listed for disposal. In addition, there were no records indicating that the Disposal Committee had verified and processed all the asset disposal recommendations in liaison with the Head of Procurement as required by Section 163 and Section 64 of the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, Management may have breached the law on disposal of public assets.

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

1.0 Failure to Establish an Audit Committee

Management had, in the year under review, not established an Audit Committee contrary to Regulation 67 of the Public Finance Management (County Governments) Regulations, 2015 which requires County Government entities to establish Audit Committees in accordance with prescribed regulations.

In absence of an Audit Committee, the County Assembly's governance and accountability processes and internal control systems were inadequate.

2.0 Lack of Internal Audit Department

During the year under review, the County Assembly did not have an Internal Audit Unit contrary to Section 155 of the Public Finance Management Act, 2012, which requires every County Government entity to establish means for conducting internal audit according to the guidelines issued by the Public Sector Accounting Standards Board.

The failure to establish an Internal Audit Unit, implied that the County Assembly's internal control system was inadequate. In addition, the risk of ineffective management of public funds and non-compliance with public finance management and other laws and regulations was high.

3.0 Lack of Information Technology Policy

A review of the use of Information and Communication Technology (ICT) in the County Assembly indicated that Management had not established a policy on management of the County Assembly's ICT resources. As a result, documentation of data recovery procedures and data security policy, among other important aspects of ICT management, had not been addressed. Further, there was no Steering Committee to oversee the ICT function and provide guidance and oversight on formulation and implementation of applicable policies.

In view of these weakness, utilization of ICT by the County Assembly may not be effective.

4.0 Failure to Maintain Manual Cash Books

Audit review of the County Assembly Treasury records indicated that cashiers did not maintain manual cashbooks to record daily transactions but instead used electronic spreadsheet with limited security features. Therefore, control on the security and validity of the financial data generated at the County Assembly Treasury was inadequate.

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 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 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 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 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 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 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 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