

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MANDERA 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 Mandera set out on pages 1 to 25 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 effects 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 Mandera 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 County Governments Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Use of Goods and Services

As disclosed in Note 3 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.178,545,883 under use of goods and services. However, audit review of the expenditure for component revealed the following anomalies;

1.1 Unaccounted Expenditure for Domestic Travel and Subsistence

Included in the expenditure on use of goods and services is an amount of Kshs.36,513,777 relating to domestic travel and subsistence allowances. Examination of payment records and other supporting documents revealed that payments amounting Kshs.6,416,900 were not supported with imprest warrants and a copy of events attendance register. Further, an amount of Kshs.790,300 was paid to officers as quarter per diem while their accommodation had been fully met by the Assembly.

In the circumstances, the accuracy and propriety of domestic travel and subsistence allowances of Kshs.7,207,200 for the year ended 30 June, 2020 could not be confirmed.

1.2 Printing, Advertisement and Information Supplies and Services

The expenditure on use of goods and services also includes an amount of Kshs.11,966,996 spent on printing, advertising and information supplies and services. However, an amount of Kshs.2,465,006 was not supported with requisition from the user departments while some of the goods were not received vide counter receipt vouchers (S13). Further, there was no evidence availed on how the goods were utilized.

In the circumstances, the accuracy and propriety of Kshs.2,465,006 for printing, advertising, and information supplies and services as at 30 June, 2020 could not be confirmed.

2. Unsupported Expenditure-Office Furniture

The statement of receipts and payments reflects an expenditure of Kshs.140,156,966 under acquisition of assets which, as disclosed in Note 5 to the financial statements, includes an amount of Kshs.14,755,810 incurred on purchase of office furniture and equipment. However, the office furniture worth Kshs.14,450,810 was procured without a requisition from user department and were not taken on charge in the stores ledger. Further, counter requisition and issue notes were not provided for audit. In addition, some of the furniture was procured using quotation method of procurement but was above the threshold matrix for quotation.

Consequently, the accuracy and validity of the expenditure on office furniture and equipment of Kshs.14,450,810 as at 30 June, 2020 could not be confirmed.

3. Other Expenses

The statement of receipts and payments reflects an expenditure of Kshs.29,520,622 described as other payments. As disclosed in Note 7 to the financial statements, the expenditure was incurred in the financial year 2018/2019. However, examination of payment records and other supporting documents revealed the following anomalies: -

- i. The expenditure was not reported as a pending bill during the financial year 2018/2019.
- ii. A review of IFMIS records revealed that the expenditure was charged to interest on foreign borrowing instead of other expenses.
- iii. Some goods were procured using request for quotations when their value was higher than the threshold for quotation. Further, procurement was initiated without requisition from user department.
- iv. In addition, contracts for supply of goods and services were awarded to suppliers who had no certificate of incorporation, tax compliance and Kenya Revenue Authority PIN certificate.

In view of the above anomalies, the accuracy and validity of the expenditure on other expenses of Kshs.29,520,622 as at 30 June, 2020 could not be confirmed.

4. Compensation of Employees

During the year under review, the Assembly paid mileage allowances amounting to Kshs.21,230,784 to Members of the County Assembly. However, the following audit observations were made: -

- i) There was no report from public works to confirm the distance between the ward offices and the County Assembly offices hence the correct distances claimed could not be confirmed.
- ii) The work tickets supporting the mileage allowance contained incorrect speedometer readings. The dates indicated the vehicles were only moving during the weekends. Some of the vehicles used by the Members of the County Assembly had defective speedometer hence the actual distance covered could not be established.
- iii) Some of the payments were not supported with mileage allowance claim forms while others had no indication of distance claimed by the Members of the County Assembly.
- iv) In some cases, Members of the County Assembly were paid mileage allowance while they were actually away on official duty outside the County.

In the circumstances, the accuracy of the expenditure of Kshs.21,230,784 on mileage allowances as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly 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. Budgetary Control and Performance

The statement of comparison of budget and actual amount-recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.960,662,123 and Kshs.733,174,263 respectively resulting to an under-funding of Kshs.227,487,860 representing 24% of the budget. Similarly, the County Assembly spent Kshs.733,030,959 against an approved budget of Kshs.960,662,123 resulting to an under-expenditure of Kshs.227,631,164 or 24% of the budget. The underfunding and underperformance affected the planned activities and projects which may have impacted negatively on service delivery for the public.

2. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2020. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, the unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

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, I confirm that, nothing 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

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 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

Failure to Maintain an Updated Fixed Assets Register

Annex 3 to the financial statements on the summary fixed assets reflects a balance of Kshs.269,440,467 being total assets owned by the Assembly as at 30 June, 2020. However, the fixed assets register provided for audit review did not reflect details on the value, acquisition date, class, category and condition of assets contrary to Section 136 of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer to maintain a register for all assets under their control which should include dates of acquisition among other details.

The County Assembly was therefore, 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 its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of intention to dissolve the County Assembly 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 Assembly 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 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 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

28 September, 2021