

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MARSABIT 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 Marsabit set out on pages 1 to 45, 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 Marsabit 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 the Public Finance Management Act, 2012 and the County Governments Act, 2012.

Basis for Qualified Opinion

Unsupported Expenditure - Singapore Workshop on Governance and Corruption

The statement of receipts and payments reflects an expenditure of Kshs.382,849,907 under use of goods and services which, as disclosed in Note 5 to the financial statements, includes an amount of Kshs.9,349,368 relating to foreign travel and subsistence allowance. The latter balance includes an amount of Kshs.6,511,459 paid to Members of the County Assembly (MCAs) and Staff of the County Assembly for attending a workshop on governance and corruption in Singapore for five (5) days. However, the training needs assessment, back to office reports, passports, boarding passes, training programme and evidence of payment to the training institutions were not provided for audit .

In the circumstances, the accuracy and propriety of the expenditure of Kshs.6,511,459 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 Marsabit 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

Budgetary Control and Performance

The statement of comparison of budget and actual amounts - recurrent and development combined reflects final budgeted receipts of Kshs.816,944,722 and actual receipts of Kshs.611,712,727 resulting to a budget shortfall of Kshs.205,231,995 or 25%. Similarly, the County Assembly spent Kshs.611,091,586 against an approved budget of Kshs.816,944,722 resulting to an under-expenditure of Kshs.205,853,136 or 25% of the budget. The underfunding and underperformance constrained execution of planned activities and delivery of services to the residents of Marsabit County.

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 matter 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. Irregular Payments to County Assembly Forum and Society of Clerks at The Table

The statement of receipts and payments reflects an expenditure of Kshs.1,400,000 under other grants and transfers which, as disclosed in Note 8 to the financial statements, was in respect of membership fees, dues and subscriptions paid to the County Assembly Forum and to the Society of Clerks at The Table (SOCATT) as follows:-

Voucher No	Details	Amount (Kshs.)
17	Being payment for the annual subscriptions due for County Assembly Forum	300,000
123	Being payment for the Society of Clerks At The Table (SOCATT)	500,000

346	Being payment for the annual subscriptions due for County Assembly Forum	600,000
Total		1,400,000

However, the expenditure of Kshs.1,400,000 was not budgeted for contrary to Section 50 (2) of the Public Finance Management (County Governments) Regulations, 2015 which states that expenditure commitments for goods and services shall be controlled against spending and procurement plans approved by the responsible Accounting Officer, based on allocations and allotments from approved budgets. Therefore, it could not be confirmed if the expenditure was a proper charge to public funds.

In the circumstances, the value for money for the expenditure of Kshs.1,400,000 for the year ended 30 June, 2020 could not be confirmed.

2. Irregular Recruitment Processes

The statement of receipts and payments reflects an expenditure of Kshs.167,275,153 under compensation of employees. Review of personnel documents revealed that the County Assembly of Marsabit recruited an Audit Committee Chairperson, Audit Committee Members, Internal Auditor, Secretarial Assistant II and support staff. However, out of one hundred (100) applicants for the position of support staff, nineteen (19) applicants were not considered for shortlisting since they come from other counties. This is contrary to Section B.5 of the Public Service Commission Human Resource Policies and Procedure Manuals, 2015 which states that recruitment will be undertaken on the basis of fair competition and merit; representation of Kenya's diverse communities; adequate and equal opportunities to all gender, youth, members of all ethnic groups, persons with disabilities and minorities.

Further, the County Assembly Service Board required the applicants to submit a certificate of clearance from the Ethics and Ant-Corruption Commission, Higher Education Loans Board, Criminal Investigation Department, Credit Reference Bureau, the Kenya Revenue Authority and a certificate of a professional body. However, five (5) successful applicants who were paid a total of Kshs.1,633,400 did not meet the respective criteria as detailed below.

Position	Missing Documents	Allowances/ Salary Paid as at 30 June, 2020 (Kshs.)
Member of Audit Committee	Tax compliance certificate, Ethics and Anti-Corruption Commission clearance, clearance from Credit Reference Bureau and membership certificate of any professional body.	179,500

Member of Audit Committee	Clearance from Credit Reference Bureau and membership certificate of professional body	179,500
Secretarial Assistant II	Certificate of clearance from the Ethics and Anti-Corruption Commission, Higher Education Loans Board, Criminal investigation Department, Credit Reference Bureau and the Kenya Revenue Authority	424,800
Secretarial Assistant II	Certificate of clearance from Higher Education Loans Board, Credit Reference Bureau and the Kenya Revenue Authority	424,800
Secretarial Assistant II	Certificate of clearance from the Higher Education Loans Board, Credit Reference Bureau and the Kenya Revenue Authority	424,800
Total		1,633,400

In the circumstances, the Board was in breach of recruitment policies and the fairness and transparency of the recruitment processes for the year ended 30 June, 2020 could not be ascertained.

3. Unauthorized Overdrawn Imprest Bank Account

The statement of financial position reflects bank balances of Kshs.621,141 which, as disclosed in Note 13A to the financial statements, includes an amount of Kshs.57,146 relating to imprest account held in a local bank. However, review of bank statements revealed that the account was overdrawn by Kshs.50,520,128 on various dates attracting total bank charges of Kshs.1,260,448. The overdraft was not authorized contrary to Section 119(4) of the Public Finance Management Act, 2012 which states that an Accounting Officer for a county government entity shall not cause a bank account of the entity to be overdrawn beyond the limit authorized by the County Treasury or a Board of a county government entity.

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

4. Irregular Payments for East Africa Local Authorities Sport and Cultural Association Games in Uganda

The statement of receipts and payments reflects an expenditure of Kshs.382,849,907 under use of goods and services which, as disclosed in Note 5 to the financial statements, includes an amount of Kshs.9,349,368 relating to foreign travel and subsistence allowance. The expenditure on foreign travel and subsistence includes an amount of Kshs.505,370 paid to one Member of the County Assembly and Assembly staff for attending East Africa Local Authorities Sport and Cultural Association (EALASCA) games in Uganda. Review of the invitation letter revealed that the Kampala City Authority where the EALASCA games were to take place had invited all the speakers, clerks, chairperson of sports Committee and staff Coordinators in the forty-seven (47) county assemblies in Kenya. However, no evidence was provided for audit to confirm that the MCA and the staff were among those who were invited to warrant payments of Kshs.505,370.

In the circumstances, the value for money for the Kshs.505,370 expenditure for the year ended 30 June, 2020 could not be confirmed.

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires 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 the 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 of Kenya. 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 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

13 October, 2021