

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of County Assembly of Samburu set out on pages 1 to 25 which comprise the statement of financial assets and liabilities as at 30 June, 2020, the statement of receipts and payments, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the County Assembly of Samburu 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 do not comply with the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1.0 Discrepancies in the Management Report and Financial Statements

The Key Management Information Report and the financial statements contain the following discrepancies:

- i. The County Assembly's address at page iii is indicated as Nairobi, Kenya instead of Maralal, Kenya.
- ii. Several pages that would have made pages 4,5 and 6 to the financial statements are not numbered.
- iii. The statement of budget execution by programmes and sub-programmes at page 6, does not disclose sub-programmes.
- iv. The statement of cash flows at the incorrectly labeled page 2 is further incorrectly titled "Statement of Financial Assets and Liabilities".
- v. The related party transactions account summary reflected at page 24, has not been populated with balances transacted in the year under review.

- vi. Progress on follow up on prior year auditor's recommendations at page 25 is blank in spite the County Assembly's report for the year ended 30 June, 2019 having highlighted numerous unsatisfactory issues.

In view of these matters, the cited disclosures in the Management report and balances in the financial statements are not fairly stated and do not conform to the format prescribed by the Public Sector Accounting Standards Board (PSASB).

2.0 Variance Between the Financial Statement and Ledger Balances

The net financial assets and net financial position balances reflected in the statement of financial assets and liabilities and Integrated Financial Management Information System (IFMIS) ledger as at 30 June, 2020 do not tally, as indicated in the following table:

Component	Financial Statements Balance (Kshs.)	IFMIS Balance (Kshs.)	Variance (Kshs.)
Net Financial Assets	93	139,526,573	139,496,424
Net Financial Position	93	85,236,921	84,926,813

Consequently, the accuracy and completeness of the financial statements could not be confirmed.

3.0 Misclassified Expenditures

The statement of receipts and payments reflects use of goods and services payments totalling Kshs.171,956,443, as further disclosed in Note 5 to the financial statements. Included in the balance are payments totalling Kshs.39,667,927 charged to inappropriate expenditure heads as detailed below:

Correct Account Item Name	Incorrect Account Charged	Amount (Kshs.)
Office and General Supplies Services	Utilities, Supplies & Services	208,596
Office and General Supplies Services	Communication, Supplies and Services	1,029,400
Domestic Travel and Subsistence	Foreign Travel and Subsistence	20,078,412
Domestic Travel and Subsistence	Printing Advertising and Information	342,770
Domestic Travel & Subsistence	Training Expenses	5,544,115
Printing Advertising and Information	Hospitality Supplies and Services	2,958,879
Foreign Travel	Other Operating Expenses	2,414,536

Correct Account Item Name	Incorrect Account Charged	Amount (Kshs.)
Domestic Travel & Subsistence	Other Operating Expenses	4,137,340
Printing Advertising and Information	Other Operating Expenses	2,953,879
Total		39,667,927

In view of inclusion of inappropriate items in the use of goods and services reflected in the balance totalling Kshs.171,956,443, the balance is not fairly stated.

5.0 Unconfirmed Balances

5.1 Compensation of Employees

The statement of receipts and payments reflects compensation of employees expenditure totalling Kshs.283,367,873 whereas the disclosure in Note 4 to the financial statements reflects a balance of Kshs.283,057,857 in respect to the account resulting to an unexplained variance of Kshs.310,016.

In addition, records provided for audit indicated that the gross payroll expenditure and Member of County Assembly (MCA) mileage claims payments in the year under review totaled Kshs.234,756,829 and Kshs.40,914,480 respectively or Kshs.275,671,309 in aggregate. The resulting variance amounting to Kshs.7,696,564 between the compensation of employee's balance totalling Kshs.283,367,873 reflected in the financial statements and the underlying records was not explained.

Further, expenditure records indicated that during the year under review, the County Assembly incurred legal costs totalling Kshs.7,418,200 reflected in records as other operating expenses under the use of goods and services expenditure item. However, the costs have not been disclosed in the Notes to the financial statements.

5.2 Social Security Benefits

The statement of receipts and payments reflects social security payments totalling Kshs.17,270,675, as disclosed in Note 9 to the financial statements. However, the payroll records reflected payments totalling Kshs.10,028,459 comprised of Employer Contributions to Local Authorities Pension Trust (LAPTRUST) and Local Authorities Pension Fund (LAPFUND) totalling Kshs.9,898,511 and Kshs.129,948 respectively resulting to an unexplained variance of Kshs.7,242,216.

5.3 Opening Fund Balance

The statement of financial assets and liabilities reflects nil opening fund balance whereas the closing balance for the prior year was Kshs.16,680,140. The resulting variance of Kshs.16,680,140 between the two sets of records was not explained.

5.4 Cash and Cash Equivalents

The statement of financial assets and liabilities reflects cash and cash equivalents balance totalling Kshs.93 as at 30 June, 2020. However, the balance was not supported with a certificate of bank balance.

In addition, the statement of cash flows reflects a nil cash and cash equivalents balance at the beginning of the year even though the prior year's closing balance reflected in the audited financial statements amounted to Kshs.15,518,826.

Further, the bank balance for the County Assembly's salary account as at 30 June, 2020 totalling Kshs.1,234,636 has been omitted from the financial statements.

In view of these issues, the accuracy and completeness of the reported , compensation of employees, social security benefits, opening fund balance, and cash and cash equivalents balances reflected in 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 the Samburu County Assembly 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 adverse 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

Budget Control and Performance

The statement of comparison of budget and actual amounts; recurrent and development combined reflects budgeted receipts and actual on comparable basis totalling Kshs.555,297,034 and Kshs.490,297,034 respectively resulting to a revenue shortfall of Kshs.65,000,000 or 11.70% of the budget.

Failure to utilize all the budgeted funds may have constrained the implementation of planned development projects and delivery of services to the residents of Samburu County.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm 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, because of the significance of the matters discussed in the Basis for Adverse Opinion and Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Lack of Risk Management Policy

There were no records indicating that Management had established a risk management policy as required by Section 158(1)(a) and (b) of the Public Finance Management Act (County Government) Regulations, 2015.

In the absence of a risk management policy, the Management lacks objective means to identify, measure and mitigate risks with potential to disrupt the operations of the County Assembly.

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.

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 that 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 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 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

19 November, 2021