REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF TAITA/ TAVETA 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 Taita/ Taveta set out on pages 1 to 28, 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, development and 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 Taita/Taveta 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.

Basis for Qualified Opinion

1.0 Discrepancies in the Financial Statements

The financial statements contain the following errors and inaccuracies:

1.1 Variances Between Financial Statements and Integrated Financial Management System (IFMIS) Report

The statement of receipts and payments reflects receipts totalling Kshs.593,911,763 and payments totalling Kshs.593,880,350 whereas the Integrated Financial Management Information System(IFMIS) records as at 30 June, 2020 reflected receipts totalling Kshs.602,000,000 and payments totalling Kshs.509,450,725 respectively in respect to the County Assembly. The differences amounting to Kshs.8,088,237 in receipts and Kshs.84,429,625 in payments was not reconciled.

Consequently, the accuracy and completeness of the receipts and payments balances totalling Kshs.593,911,763 and Kshs.593,880,350 respectively reflected in the statement of receipts and payments for the year ended 30 June, 2020 could not be confirmed.

1.2 Overcast Cash Balance in the Statement of Cash flows

The statement of assets and liabilities as at 30 June, 2020 reflects cash and bank balance totalling Kshs.3,906,103. However, the amounts in the accounts included in the balance amount to Kshs.1,038,309 and therefore the financial statements' balance is overcast by Kshs.2,867,794.

Further, the statement of cash flows reflects a closing cash and cash equivalents balance totalling Kshs.3,906,103 and an opening balance of Kshs.1,006,896 resulting to a difference of Kshs.2,899,207 which does not tally with the net increase in cash and cash equivalents amounting to Kshs.31,413 reflected in the statement. As a result, the statement of cash flows is not balanced and is therefore inaccurate.

In view of these discrepancies, the accuracy and completeness of the statement of assets and liabilities as at 30 June, 2020 and the statement of cash flows for the year then ended could not be confirmed.

1.3 Unsupported Prior Year Adjustments

The statement of financial assets and liabilities reflects net debit prior year adjustments totalling Kshs.3,533,380 in the year under review and a net credit balance of Kshs.5,296,191 for the financial year 2018/2019. No explanation was provided for the adjustment.

In addition, the statement of assets and liabilities includes a balance of Kshs.3,533,380 described as prior year adjustment on accounts payables and bank account balances. However, records to support how the balance changed from a credit balance of Kshs.5,296,191 in the previous year to a debit balance of Kshs.3,533,380 in the year under review were not presented for audit. In the circumstance, the accuracy of the balance could not be confirmed.

1.4 Differences in Budget Balances

The statement of comparison of budget and actual amounts: recurrent and development combined reflects total budgeted expenditure totalling Kshs.627,775,000 which, however, differs with the balance of Kshs.582,775,000 reflected in respect to the account in the statement of budget execution by programmes and sub-programmes. The resultant difference of Kshs.45,000,000 was not explained.

1.5 Undisclosed Deposits and Retentions

The statement of financial assets and liabilities reflects nil balances for accounts payables-deposits and retentions for both 2018/2019 and 2019/2020 financial years. However, Note 19 to the financial statements reflects deposits and retentions totalling Kshs.3,800,000 held as at 30 June, 2020. The amounts are not, however, accounted for in the statement of assets and liabilities. As a result, the accuracy and completeness of the accounts payables as at 30 June, 2020 could not be confirmed.

1.6 Overstated Pending Bills

Note 1 and Note 2 on other important disclosures to the financial statements reflect pending accounts payables totalling Kshs.30,116,116 and pending staff payables totalling Kshs.3,147,010 as at 30 June, 2020 respectively. However, the following anomalies were noted in regard to the two sets of pending bills totalling Kshs.33,263,126:

1.6.1 Accounts Payables

The pending accounts payables balance totalling Kshs.30,116,116 reflected in Note 1 on other disclosures is comprised of supply of goods balance amounting to Kshs.15,022,791 and supply of services balance amounting to Kshs.15,093,325. However, a recast of the amounts included in the two balances yielded Kshs.7,332,014 and Kshs.284,171 respectively or Kshs.7,516,185 in aggregate. Therefore, the accounts payables balance reflected in the financial statements is overcast by KShs.22,499,931.

1.6.2 Pending Bills

In addition, other important disclosures to the financial statements reflect pending accounts payables totalling Kshs.30,116,116 incurred in the year under review. However, the bills included in the account yielded a sum of Kshs.7,616,185 and therefore the balance reflected in the financial statements is overstated by Kshs.22,499,931.

In view of these discrepancies, the accuracy and completeness of the pending bills balance totalling Kshs.33,263,126 reflected in the financial statements has not been confirmed.

Further, failure to pay the bills in due time has distorted the financial statements for the year under review and will adversely affect the budgetary provisions for the 2020/2021 financial year to which they are expected to be charged.

1.7 Unreconciled Exchequer Releases

The statement of receipts and payments for the year ended 30 June, 2020 reflects Exchequer releases totalling Kshs.587,000,000, whereas the County Treasury report for the year indicates that Exchequer releases to the County Assembly in the year under review amounted to Kshs.608,852,400. The difference of Kshs.21,852,400 between the two sets of records has not been reconciled.

Consequently, the accuracy and completeness of the Exchequer releases totalling Kshs.587,000,000 for the year ended 30 June, 2020 could not be confirmed.

1.8 Overstated Other Receipts

The statement of receipts and payments reflects other receipts totalling Kshs.6,911,763, as further disclosed in Note 3 to the financial statements. Included in the balance is Kshs.3,911,763 of returned Real Time Gross Settlement (RTGS) receipts treated erroneously as income in these financial statements.

Consequently, the other receipts balance totalling Kshs.6,911,763 is overstated by Kshs.3,911,763.

2. Unsupported Expenditure on Use of Goods and Services

The statement of receipts and payments reflects use of goods and services expenditure totalling Kshs.275,403,164, as further detailed in Note 5 to the financial statements. However, several items included in the balance were not supported with relevant documents as highlighted below:

2.1. Domestic Travel Expenditure

Included in the domestic travel and subsistence expenditure totalling Kshs.197,373,774 highlighted in Note 5 to the financial statements are unsupported payments amounting to Kshs.6,051,900.

2.2. Foreign Travel Expenses

Note 5 to the financial statements reflects foreign travel and subsistence expenses totalling Kshs.19,571,324, out of which Kshs.1,101,424 relates to costs of attendance at regional games in Kampala, Uganda. However, travel records including exit and entry stamps on passports used by the participants were not presented for audit.

2.3. Training Expenses

Note 5 to the financial statements further reflects training expenses totalling Kshs.4,291,987. However, payment vouchers totalling Kshs.2,360,775 were not supported with signed attendance lists and training programs.

In view of lack of insufficient documentation, the occurrence, measurement and validity of the payments for domestic and foreign travel as well as training expenses totalling Kshs.11,445,311 could not be confirmed.

3. Inaccurate Summary of Fixed Assets Register

Annex 4 to the financial statements reflects a summary of fixed assets register comparative balance of Kshs.69,318,940 which, however, differs by Kshs.25,807,523 with the audited balance of Kshs.95,126,463 for the year 2018/2019. No explanation was provided for the difference between the two sets of records. As a result, the completeness and accuracy of the fixed assets balance totalling Kshs.109,783,935 reflected in the summary of fixed assets 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 County Assembly of Taita/Taveta 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 to report in the year under review.

Other Matter

1. Budgetary Control and Performance

The summary statement of appropriation: recurrent and development combined for the year ended 30 June, 2020 reflects final receipts budget and actual on comparable basis totalling Kshs.627,775,000 and Kshs.593,911,763 respectively resulting to an under-funding of Kshs.33,895,649 or 5% of the budget. Similarly, the County Executive expended Kshs.593,880,350 against an approved budget of Kshs.627,775,000 resulting to under-expenditure of Kshs.33,895,649 or 5% of the budget. As a result, all the activities planned for the year were not implemented.

2. Incomplete Report on Prior Year Issues

Note 7 to the financial statements indicates that two issues raised in the report for the previous year had since been resolved. However, no information was provided on the other matters highlighted in the audit report of the previous year. Consequently, the report on progress on follow up on prior year auditor's recommendations is not complete and does not meet the requirements set 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, 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 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

Accounts Receivables - Outstanding Imprests

Note 14 to the financial statements reflects outstanding imprests totalling Kshs.665,586 as at 30 June, 2020. Examination of the imprests register indicated that the amounts had been outstanding for over six months.

Failure to recover the imprests from staff contravened Regulation 93(5) of the Public Finance Management (County Governments) Regulations, 2015 which requires a holder of a temporary imprest to account or surrender it within seven days after returning to the duty station.

Management is, therefore, in breach of regulations on issue and surrender of imprests.

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 SYSTEMS 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 has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Lack of Controls on Management of Fixed Assets

Section 149(2)(o) of the Public Finance Management Act, 2012 requires the Accounting Officer in each public entity to ensure that adequate systems and processes are in place to plan for, procure, account for, maintain, store and dispose of assets. These would include an asset register that is current, accurate and available to the relevant County Treasury. In addition, a functional internal control system should provide accuracy and clarity in accounting for the assets of the entity.

Annex 4 to the financial statements reflects a summary of fixed assets register balance of Kshs.109,783,935. However, the dates of acquisition and costs of the assets were not indicated in the fixed assets register and the assets were not tagged to disclose their location and users.

In view of these omissions, controls on the County Assembly's assets are inadequate and as a result, the assets are at risk of loss and misuse.

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 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 ability of the County Assembly 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 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 ability of County Assembly 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.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

12 October, 2021