

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF TANA RIVER 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 Tana River set out on pages 1 to 18, 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 between the 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 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 Tana River 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. Unsupported Expenditure - Use of Goods and Services

As disclosed in Note 3 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.245,815,464 in respect of use of goods and services. Examination of payment records and other supporting documents revealed the following unsatisfactory matters: -

1.1 Domestic Travel and Subsistence

The balance includes an amount of Kshs.156,813,980 under domestic travel and subsistence expenditure. Examination of payment records and other supporting documents revealed that expenditure amounting to Kshs.17,682,700 paid to Members of County Assembly and staff as subsistence allowance while on official duties outside their duty station was not supported with relevant documents such as travel documents, duly approved invitation for meetings or trainings. There was no report prepared by the officers after returning back to the office from the training attended.

1.2 Expenditure on Foreign Travel

The balance also includes an amount of Kshs.5,434,230 incurred on foreign travel and subsistence. However, examination of payment records and other supporting documents revealed that expenditure amounting to Kshs.926,182 incurred on training of Members of County Assembly in Singapore was not supported with relevant documents including passport, boarding passes, workshop program and a report on the training to the County Assembly.

1.3 Training Expenses

Included in the use of goods and services balance of Kshs.245,815,464 is Kshs.3,991,048 incurred on training expenses. However, examination of payment vouchers and other supporting documents revealed that payments amounting to Kshs.1,218,848 were not supported with training needs assessment report, travel documents and attendance register.

1.4 Routine Maintenance - Vehicles and Other Transport Equipment

Included in use of goods and services is an amount of Kshs.2,604,930 incurred on maintenance of vehicles and other transport equipment. However, examination of payments records and other supporting documents revealed that expenditure amounting to Kshs.2,581,550 was not supported with motor vehicle work tickets, reports on defects and pre- and post-inspection certificates.

1.5 Unconfirmed Office and General Supplies

Included in the use of goods and services balance of Kshs.245,815,464 is a balance of Kshs.16,001,200 incurred on office and general supplies. Audit review of the expenditure records revealed that an expenditure of Kshs.1,260,000 was not supported by procurement and payment documents.

In the circumstances, the propriety on the expenditure amounting to Kshs.23,669,280 included in the use of goods and services for the year ended 30 June, 2020 could not be confirmed.

2. Unsupported Acquisition of Assets Expenditure

As disclosed in Note 3 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.113,334,387 in respect of acquisition of assets which was paid for construction and civil works. However, examination of payment records revealed that expenditure amounting to Kshs.7,176,142 was not supported with the relevant documents such as Bill of Quantities, tender documents and other stores records.

Consequently, the propriety of the expenditure of Kshs.7,176,142 on acquisition of assets for the year ended 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 Tana River 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 are no other key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.160,000,000 and Kshs.139,898,676 respectively, resulting to an under-funding of Kshs.20,101,324 or 12.5% of the budget. Similarly, the County Assembly expended Kshs.116,380,545 against an approved budget of Kshs.160,000,000 resulting to an under-expenditure of Kshs.43,619,455 or 27% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

2. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: No. AG.4/16/3 Vol.1(9) dated 24 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. Failure to Adhere to the Commission on Revenue Allocation Guidelines

A review of the payroll system for the County Assembly revealed that there were eighty-one (81) employees as at 30 June, 2020. This is against the provision of the Commission on Revenue Allocation circular No. CRA/FA/01 VOL 11 (22) which had set the limit of the County Assembly employees to sixty-five (65) and therefore exceeding the required number by sixteen (16) employees.

In the circumstances, Management is in breach of the law.

2. Non-Compliance with the County Assembly's Human Resource Manual, 2015

During the year under review, six (6) employees of the County Assembly were paid salary advances amounting to Kshs.1,320,000. It was observed that the salary advances were more than the respective officers' one month's basic salary contrary to Section F (11) of the Tana River County Assembly Human Resource Manual 2015. Further, thirteen (13) Members of County Assembly were paid salary advances amounting to Kshs.5,525,000. However, there are no regulations governing issuance of advances to Members of County Assembly and therefore the salary advances were paid irregularly.

In the circumstances, Management is in breach of the law.

3. Failure to Use IFMIS in E-procurement

Review on the utilization of the e-procurement module in Integrated Financial Management Information System established that all procurement plans were developed in Integrated Financial Management Information System. However, it was established that only tendering and sourcing activities was done through e-procurement. The County Assembly therefore failed to adhere and implement the Executive Order No. 2 of 2018 Part IV (B) which required that with effect from 1 January, 2019, all public procuring entities undertake all their procurement through the e-procurement module.

In the circumstances, Management is in beach of the law.

4. Contributions to County Assemblies Forum

The balance of Kshs.245,815,464 under use of goods and services also includes a balance is Kshs.27,012,666 on other operating expenses. Examination of payment records and other documents revealed that the County Assembly made payment of Kshs.1,200,000 to the County Assemblies' Forum. However, there were no legal authority supporting the expenditure.

In the circumstances, Management is in breach of the law and the money paid to the forum may not have been spent for the purpose it was appropriated for.

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. Weak Internal Controls on Cash & Bank and Expenditure

Scrutiny of the payment vouchers and other supporting documents for the year under review revealed that payments amounting to Kshs.3,989,132 were made without passing through examination section. The vote book certificates for the same were not signed hence the internal controls for processing of payments were not working properly. The County Assembly prepared its bank reconciliation statement manually and not in IFMIS as required.

In the circumstances, the existence of an effective internal controls to ensure proper management of public resources.

2. Lack of Functional Internal Audit Unit

During the year under review, the County Assembly did not have a functional Internal Audit Department. The County Assembly did not appoint an internal auditor and does not have an appropriate arrangement for conducting internal audit according to the guidelines issued by the Public Sector Accounting Standards Board.

Further, the Management has not established an Audit Committee to monitor the governance processes, accountability processes and control systems, offer objective advice on issues concerning risk control and governance and associated assurance and also follow up on the implementation of the recommendations of internal and external auditors.

In the circumstances, it was not possible to confirm existence of effective overall governance measures in the County Assembly.

3. Lack of Updated Fixed Assets Register

Annex 2 - summary of fixed assets to the financial statements reflects a balance of Kshs.339,514,341 as at 30 June, 2020 in relation to non-current assets. A review of the fixed assets register in comparison with the balances disclosed in the financial statements revealed that the fixed assets register provided excludes assets inherited from defunct local authority and only captured office tools and equipment from various departments whose acquisition period and value could not be ascertained. There was no documented policies and procedures on management of assets and no valuation reports to indicate

whether the fixed assets were valued and inspected from time to time to establish their condition and security.

In view of the omissions, the internal control over the non-current assets was weak and the assets were not managed in an effective manner.

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 statement 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 services, disclosing, as applicable, matters related to the sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to dissolve the County Assembly or 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 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 statement 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 misstatement 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

08 December, 2021