

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF WAJIR 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 Wajir set out on pages 1 to 15, 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 the 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 Wajir 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 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 a balance of Kshs.297,264,520 in respect of use of goods and services. However, examination of records revealed the following unsatisfactory matters: -

1.1. Domestic Travel and Subsistence Allowances

The balance includes an amount of Kshs.194,322,665 incurred on domestic travel and subsistence. The amount represents payments made to Members of the County Assembly (MCAs) and staff for attending workshops and other official duties outside their work station. However, a review of the expenditure and the supporting documentation revealed that expenditure amounting to Kshs.5,952,800 was not supported with traveling documents, invitation letters, nomination letters to the participating staff, signed expenditure schedules with details of job groups and applicable rates for the job groups, attendance registers and training reports. The payments were not supported by training programmes initiated by the County Assembly Services Board.

Further, cash purchases amounting to Kshs.1,068,000 were made in respect of car hire, hire of halls and conferences but no imprest warrant issued or prior approval of the journeys made as required by regulations but instead members traveled and made claims upon return. It was therefore not clear how the MCAs and officials financed their trips.

1.2. Expenditure on Foreign Travel

The balance includes an amount of Kshs.11,744,068 in respect of foreign travel and subsistence. However, review of the expenditure and the supporting documentation revealed that an expenditure of Kshs. 4,809,895 was not supported with training programmes initiated by the County Assembly Services Board. Some of the MCAs and staff were not issued with safari imprest as required by regulations but instead made claims upon return. It was therefore, not clear how the MCAs and officials financed the trips costing substantial amounts. No report was prepared after the training, indicating the benefits to the Assembly from the trainings/conferences outside the Country.

Further, payments amounting to Kshs.1,219,400 was made in respect to foreign travel incurred during FY 2018/2019 but the amount had not been disclosed as pending bills in the financial statements during the previous year.

Consequently, the accuracy and validity of expenditure totaling Kshs.10,762,695 on use of goods and services could not be confirmed.

2. Irregular Payment of Mileage Allowances

During the year under review, the Assembly incurred expenditure amounting to Kshs.144,347,024 on Members of the County Assembly (MCAs) on mileage claims. However, examination of payment vouchers and other supporting documents revealed that an amount of Kshs.3,324,718 paid to various Members of County Assembly as mileage allowances were not supported with copies of the vehicle logbooks owned by the Members of County Assembly or a binding lease agreement for the vehicles and authorized work tickets. It was also noted that the signatures appended to some of the lease agreements and work tickets supporting the payments were different from those of the MCAs on the payment schedules and on the statutory declaration forms.

Further, Management paid mileage allowances amounting to Kshs.1,002,364 to some Members of the County Assembly (MCAs). It was however noted that the MCAs claimed the mileage allowances for the same days they were performing other official duties within and outside the County for which they were also paid subsistence allowances.

In addition, an amount of Kshs.12,928,272 was in respect of mileage claims that were incurred during financial year 2018/2019. No plausible explanations were given for not paying the mileage in the financial year 2018/2019. Further, Management had not disclosed pending bills in respect of the mileage allowance in its financial statements for 2018/2019.

Consequently, the propriety of expenditure amounting to Kshs.17,255,354 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 Wajir 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. Budget Performance and Control

Budget Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.790,194,403 and Kshs.689,909,182 respectively resulting to an under-funding of Kshs.100,285,221 or 12.7% of the budget. Similarly, the Assembly expended Kshs.689,909,182 against an approved budget of Kshs.790,194,403 which represented a 100% utilisation of all the realised receipts.

Further, it was noted that the under-absorption was caused by the failure by the Wajir County Executive to transfer part of the approved budget amounting to Kshs.100,285,221 which included Kshs.30,000,000 for development to the Assembly. The County Executive received 100% of the approved budget from the National Treasury, which included the approved allocation for the County Assembly.

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

2. Unresolved Prior Year's Audit Issues

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. The report on progress made in resolving audit issues highlighted in the previous year's report indicates that all the eight (8) issues had not been resolved as at 30 June, 2020 but Management has indicated that it has nominated officers to follow-up on the issues.

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 sections 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. Compliance with the Public Procurement and Asset Disposal Act, 2015

During the year under review, the Assembly procured CCTV Cameras worth Kshs.2,850,000 through request for quotations contrary to the requirements of Legal Notice No.106 of 18 June, 2013, on the amendments of the Public Procurement and Assets Disposal Act, 2015 which provides a new threshold matrix requiring value of goods and services above Kshs.2,000,000 to be procured through open tender. It was further noted that the expenditure was charged on other operating expenses account in the budget hence reallocation of funds. The Assembly did not notify the unsuccessful bidders as required under Section 87(3) of Public Procurement and Asset Disposal Act, 2015.

Further, a review of the Assembly procurement transactions for the 2019/20 financial year revealed that the Assembly did not procure goods, works and services through the e-procurement platform. This implies that the Assembly did not comply with the Executive Order No. 2 of 2018 on implementation of e-procurement.

Consequently, the Assembly was in breach the law.

2. Non-compliance with Staffing Level Ceiling

A review of the Assembly payroll for the month of June, 2020 indicates the Assembly had a total of one hundred and ninety-six (196) employees. The County Assembly of Wajir falls under Group 2 of the Commission on Revenue Allocation, CRA classification of County Assemblies. The CRA circular Ref: CRA/FA/01 VOL 11 (22) dated 28 June, 2018 on County Government Recurrent Expenditure ceilings addressed to County Governors and Speakers of County Assemblies, capped the maximum number of staff at 100, for all counties that fall under Group 2. This implies that the Assembly exceeded the maximum number of staff by ninety six (96).

Consequently, the Assembly was in breach the law.

3. Unsupported Pending Bills

Disclosed under Annex 1 to the financial statements for the year ended 30 June, 2020 is accumulated pending accounts payables balance of Kshs.248,935,652 comprising of compensation of employees and supply of goods, works and services. However, the pending bills balance was not supported with source documents such as Invoices and Local Purchase Orders and Local Service Orders. Further, a schedule of individual supplier accounts indicating name of supplier, contract amounts, amount paid during the year and outstanding balance at the close of the year, was not provided.

In the absence of supporting documents, it was not possible to confirm the authenticity of pending bills amounting to Kshs.248,935,652 disclosed in the financial statements.

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 sections 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. Summary of Fixed Assets

Annex 4 to the financial statements is the summary of fixed assets which reflects Kshs.81,165,921 being total assets owned by the Assembly as at 30 June, 2020. However, the asset register availed for audit review did not indicate the land and buildings occupied by the Assembly that was inherited from the defunct Wajir County Council. As a result, the asset register did not include all the fixed assets owned by the Assembly.

In the circumstances, existence of an effectiveness mechanism to safeguard the assets could not be ascertained.

2. Incomplete Data Capture in IFMIS

A review of ledgers supporting the financial statements figures indicated that payment transactions did not have description of the nature and purpose of the payments. The explanation provided for this omission was failure to capture the description of payments in IFMIS during invoicing. Failure to capture all the required data during processing of transactions in the accounting system leads to incomplete and unreliable reports generated from the system.

In the circumstances, it has not been possible to confirm whether reports generated from IFMIS were complete and reliable.

3. Failure to Establish Audit Committee

As reported earlier during the financial year 2018/2019, the Assembly had not yet established an audit committee assist in monitoring the accountability processes and control systems, and offer objective advice on issues concerning risk, control, regulatory requirements and governance of the County. There were no evidence that the Management had established an Audit Committee to monitor its operations.

Consequently, it has not been possible to establish the reliability of the system to ensure the presence of good governance mechanism.

4. Lack of Risk Management Policy

Review of records and interviews with Management, however indicated that the County Assembly had not established a Risk Management System. An effective reporting system that entailed hotlines, reporting centres and whistle blower facilities had not been established to support accountable and effective management of the financial and other managerial operations of the County Assembly.

I am unable to confirm the existence of a vibrant risk management policy to identify and forestall incidence(s) whenever any risk crystallizes.

5. Failure to Maintain Staff Establishment

The Assembly did not maintain a comprehensive approved staff establishment that indicates the optimal number of staff for each category, the number in post and the variance.

In the absence of an approved establishment it was not possible to ascertain whether the Assembly was operating within optimal level of staff establishment.

6. Recruitment of Ward County Employees

During the year under review, the Assembly paid an amount of Kshs.35,678,184 on basic wages of temporary employees based at the Ward offices. However, details of the employees, authority to hire, the process of hiring, terms of engagement and duties performed by the employees were not provided for audit review.

Consequently, the Assembly's internal control systems and processes are weak and could lead to fictitious persons being paid.

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 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 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 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 Assembly's 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 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 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 October, 2021