

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF MANDERA FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Mandera set out on pages 1 to 40 which comprise the statement of financial assets and liabilities as at 30 June, 2020, the statement of receipts and payments, statement of cash flows and the summary statement of appropriation - 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 Executive of Mandera 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

1. Inaccurate Statement of Cash Flows

As disclosed in Note 27 to the financial statements, the statement of cash flows reflects an increase in accounts payables- deposits and retentions of Kshs.116,327,304. However, the accounts payables increased by an amount of Kshs.6,831,445 from Kshs.109,495,859 reported as at 30 June, 2019 to Kshs.116,327,304 as at 30 June, 2020. Further, accounts payables comparative balance of Kshs.109,495,859 was not indicated in Note 27 to the financial statements.

Consequently, the accuracy of the statement of cash flows could not be confirmed.

2. Unsupported Expenditure on Insurance Services

The statement of receipts and payments reflects an expenditure of Kshs.1,880,140,321 under use of goods and services which, as disclosed in Note 12 to the financial statements, includes an amount of Kshs.294,020,749 incurred on insurance services during the year under review. The latter balance includes an expenditure of Kshs.72,296,554 that was not supported with payment vouchers and tender documents.

Under the circumstances, the accuracy and validity of the expenditure totalling Kshs.72,296,544 on insurance services could not be confirmed.

3. Unsupported Medical Supplies

The expenditure of Kshs.1,880,140,321 under use of goods and services also includes an amount of Kshs.827,035,542 incurred on specialized materials and services. The latter balance includes an amount Kshs.8,000,000 paid for the supply and delivery of medical supplies. However, the medical supplies were said to have been supplied during the previous financial year but were not disclosed as pending bills in the financial statements for 2018/2019 financial year. Further, contract documents for the medical supplies were not provided for audit review.

Under the circumstances, the accuracy and validity of expenditure of Kshs.8,000,000 incurred on purchase of medical supplies could not be confirmed.

4. Unsupported Payments on Repair of Motor Vehicles

The statement of receipts and payments reflects an expenditure of Kshs.1,880,140,321 under use of goods and services which, as disclosed in Note 12 to the financial statements, includes an amount of Kshs.54,584,222 incurred on routine maintenance of vehicles and other transport equipment. However, examination of the respective payment vouchers, procurement records and other supporting documents indicated that the expenditure was not supported with pre and post inspection reports from the Department of Transport and Infrastructure, requisition from user departments and motor vehicle work tickets. The repairs carried out on the vehicles were not recorded in the respective vehicle logbooks (GP55). Further, some of the spare parts were procured through framework agreement exceeding one-year.

In the circumstances, the accuracy and validity of the expenditure totalling Kshs.54,584,222 incurred on maintenance of motor vehicles and other transport equipment could not be confirmed.

5. Unsupported Payment - Rental of Produced Services

Included in the expenditure of Kshs.1,880,140,321 use of goods and services is an amount of Kshs126,945,514 incurred on rentals of produced services. The following anomalies were noted:-

- i) Payments totalling Kshs.10,035,000 were made to settle pending bills relating to the 2017/2018 and 2018/2019 financial years. However, the pending bills were not disclosed in the audited financial statements for the respective financial years.
- ii) Expenditure totalling Kshs.3,655,924 was not supported with valuation report to confirm whether the rate paid was economical and within the market rate.

- iii) Payments totalling Kshs.4,864,260 were paid to suppliers for hire of motor vehicles. However, the motor vehicles were hired through request for quotations but the suppliers were not in the list of prequalified contractors for the category. Further, some of the payments were not supported with quotations, tax compliance certificate and lease agreements.

Under the circumstances, the accuracy and validity of the expenditure of Kshs.18,555,184 incurred on rentals of produced services could not be confirmed.

6. Unsupported Expenditure - Acquisition of Assets

As disclosed in Note 17 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.4,559,610,341 under acquisition of assets. The following observations were made:-

6.1 Construction and Civil Works

The expenditure of Kshs.4,559,610,341 under acquisition of assets includes an amount of Kshs.1,750,639,293 spent on construction and civil works. However, examination of the supporting payments documents revealed the following anomalies: -

- i. Contracts worth Kshs.38,101,227 were not advertised in at least two daily newspapers of nationwide circulation contrary to Section 96(2) of the Public Procurement and Asset Disposal Act, 2015.
- ii. The nature of a payment amounting Kshs.2,056,904 described as project management fees was not disclosed.
- iii. Payments worth Kshs.84,044,121 were made without certificate of partial or practical completion.
- iv. Payments amounting to Kshs.91,065,974 were made to settle pending bills relating to previous years. However, the pending bill were not in the list of the pending bills reported in the financial year 2018/2019.
- v. Payments totalling Kshs.171,470,045 for construction and civil works were not supported with payment vouchers, procurement records and other supporting documents.
- vi. An amount of Kshs.69,999,685 was incurred on construction of Takaba Airstrip which is a National Government function. However, the Project was implemented without a written agreement between the two levels of Governments.

In view of the anomalies, the accuracy and validity of the expenditure totalling Kshs.456,737,956 incurred on construction and civil works could not be confirmed.

6.2 Refurbishment of Buildings

The expenditure of Kshs.4,559,610,341 under acquisition of assets also includes an amount of Kshs.152,741,107 incurred on refurbishment of buildings. However, an expenditure of Kshs.19,173,826 was not supported with inspection and acceptance certificates, user departments requisition, certificate of practical completion, and evaluation committee reports.

In the absence of the supporting records, the accuracy and validity of the expenditure of Kshs.19,173,826 incurred on refurbishment of buildings could not be confirmed.

7. Misclassifications of Expenditure

The statement of receipts and payments reflects an expenditure of Kshs.4,559,610,341 under acquisition of assets which, as disclosed in Note 17 to the financial statements, includes an amount of Kshs.1,604,006,036 on construction of buildings. However, Kshs.141,451,538 out of the amount was wrongly classified as construction of buildings and should have been included under other payments.

Under the circumstances, the accuracy of the reported balance Kshs.1,604,006,036 on construction of buildings could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Executive of Mandera 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 are no key audit matters to communicate in my report.

Other Matter

1. Budgetary Control and Performance

The summary statements of appropriation- recurrent and development combined reflects actual expenditure of Kshs.11,588,084,290 against approved budget of Kshs.13,118,313,035 resulting to an under expenditure of Kshs.1,530,228,745 or 12% of the budget. Further, the County Executive reported a total expenditure of Kshs.10,854,910,027 (excluding transfer to County Assembly of Kshs.733,174,263) while

the IFMIS vote book indicated a total expenditure of Kshs.10,817,960,514 resulting to an unexplained variance of Kshs.36,949,513. The under absorption of funds may have affected the planned activities thereby impacting negatively on service delivery to the public.

2. Late Exchequer Releases

During the financial year under review, the County Executive received Exchequer releases totalling to Kshs.1,993,475,250 in the month of June from The National Treasury as detailed below.

Date Funds Received in the Bank Account	Kshs.
15-June-2020	1,073,409,750
24-June-2020	920,065,500
Total	1,993,475,250

As a result of the delayed receipt of funds, the County Executive did not have sufficient time to spend its budget for the year.

3. Decline in Own Generated Revenue

A trend analysis on collection of own generated revenue for the past four (4) years between 2016/2017 and 2019/2020 revealed persistent failure to meet budgetary targets and poor performance as indicated below:

Year	Budgeted Revenue Kshs.	Actual Revenue Kshs.	Variance Kshs.	Percentage of Variance
2016/2017	265,643,523	55,843,625	209,799,898	79%
2017/2018	141,000,000	61,031,471	79,968,529	58%
2018/2019	179,089,080	95,421,471	83,667,609	47%
2019/2020	183,840,432	124,961,836	58,878,596	32%

The shortfall and decline in own generated revenue collection may be indications of revenue leakages and inefficient revenue collection system.

4. Pending Bills

As disclosed in Note 7.9(1) to the financial statements on pending accounts payable, the County Executive had pending bills amounting to Kshs.194,324,503 as at 30 June, 2020. Failure to settle pending bills is contrary to Section 41(2) of the Public Finance Management (County Governments) Regulations, 2015 which states that debt service payments should be a first charge on the County Revenue Fund and the Accounting

Officer should ensure this is done to the extent possible that the County Government does not default on debt obligations.

Under the circumstances, the Management was in breach of the regulations.

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 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. Covid-19 Funds Received by County Executive

The County Executive through Mandera County Referral Hospital received funds for Covid-19 response as detailed below;

Source	(Kshs.)	Bank and Branch	Recipient Bank Account
GOK conditional grants	91,323,000	Central Bank of Kenya	1000171472
Danida Funds	11,305,000	Central Bank of Kenya	1000171472
GOK Health Workers Allowances	31,845,000	Central Bank of Kenya	1000171472
County Own Resource	180,000,000	Central Bank of Kenya	1000171472
Mandera County Referral Hospital	300,000,000	Kenya Commercial Bank	1149105127
Total	614,473,000		

However, as at 30 June, 2020 funds totalling Kshs.134,473,000 from GOK conditional grant, Danida funds and GOK health workers allowances were still held in the revenue fund account due to lack approved budgets, work plans and procurement plans to facilitate spending. Further, the Mandera county referral hospital funds of Kshs.300,000,00 was received in July, 2021.

Under the circumstances, the public did not benefit from the funds earmarked for Covid-19 response during the year under review.

2. Procurement Irregularities - County Own Resources on Covid-19 Response

The County Executive awarded Covid-19 medical supplies contracts valued at Kshs.167,148,150 to three companies for the supply of medical equipment using an existing framework agreement. The following anomalies were noted:-

- i. The user requisitions for procurement of the medical supplies were done on 13 March, 2020 and 14 March, 2020 while the request for quotations were done on 11 March, 2020, that is, two and three days before the user departmental request were done.
- ii. Further, inspection and acceptance for one of the supplies was done on 3 March, 2020 while the evaluation was carried out on 11 May, 2020, two months after the inspection.
- iii. The companies awarded the contracts had no approvals from the Kenya Medical Supplies (KEMSA) allowing them to supply the drugs and medical equipment contrary to Section 3 of Kenya Medical Supplies Authority Act, 2013. The Section states that a national or county public health facility shall, in the procurement and distribution of drugs and medical supplies, obtain all such drugs and medical supplies from the Authority subject to the drug being duly registered by the board; and the drugs and medical supplies meet the standards of quality and are efficacious as authorized by the board.

Consequently, the County Executive was in breach of Public Procurement and Asset Disposal Act, 2015.

3. Irregular Purchase of Vehicles

Included in the acquisition of assets expenditure of Kshs.4,559,610,341 is an amount of Kshs.29,847,401 incurred on purchase of vehicles and other transport equipment. Information available indicates that Management procured two (2) Land Cruiser Toyota chase cars and Mitsubishi FM 657 at a total cost Kshs.21,591,160 using the supplies branch circular. However, the two Toyota Land Cruisers procured had an engine capacity of 4164cc contrary to Section 137 of the Public Finance Management (County Government) Regulations, 2015 which set the maximum capacity as 3000cc for the vehicle procured for official use for County Governors. Further, the Logbook for Mitsubishi Fuso FM657 was not provided for audit review. In addition, ten (10) motorcycles worth Kshs.1,999,000, procured during the year, were registered in the name of the vendor instead of the County Government Mandera.

Consequently, the propriety of the expenditure totalling Kshs.23,590,160 on purchase of motor vehicles and motorcycles could not be confirmed and Management was in breach of the Regulations.

4. Construction of Buildings

The statement of receipts and payments reflects an expenditure of Kshs.4,559,610,341 under acquisition of assets which, as disclosed in Note 17 to the financial statements, is an amount of Kshs.1,604,006,036 on construction of buildings. The latter balance includes an amount of Kshs.28,441,158 on variations made on two contracts worth Kshs.116,433,200. However, the variations were done before twelve (12) months elapsed

from the date of signing the contract agreement contrary to Section 139(4) of the Public Procurement and Asset Disposal Act, 2015.

Under the circumstances, the propriety of the expenditure of Kshs.28,441,158 on variations to the two projects could not be confirmed.

5. Construction of Roads

Included in the expenditure of Kshs.4,559,610,341 under acquisition of assets is an amount of Kshs.502,689,944 incurred on construction of roads, out of which a sum of Kshs.247,479,511 was incurred on bush clearing works across the County. However, an audit scrutiny of the annual development plan revealed that Management had not planned or budgeted to carry out any bush clearing works for the financial year under review. The bush-clearing projects were procured using request for quotation method of procurement and exceeded the threshold matrix for use of request of quotations for some projects.

Under the circumstances, the propriety of the expenditure of Kshs.247,479,511 on construction of roads 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 so as 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 standards require 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 governance.

In preparing the financial statements, Management is responsible for assessing the County Executive'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 Executive, 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 County Executive's 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 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 manner, 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 misstatements and instances of noncompliance. 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 County Executive of Mandera 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 County Executive'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 County Executive of Mandera to cease to continue sustaining 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 Executive of Mandera 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

28 September, 2021