

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF ISIOLO FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal control, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Isiolo set out on pages 1 to 20, which comprise the statement of financial assets and liabilities as at 30 June, 2021, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts 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 County Assembly of Isiolo as at 30 June, 2021, 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 Public Finance Management Act, 2012 and County Government Act, 2012.

Basis for Qualified Opinion

1. Unsupported Expenditure on Domestic Travel and Subsistence

The statement of receipts and payments reflects Kshs.154,033,281 in respect to use of goods and services and as disclosed in Note 3. This expenditure includes Kshs.85,279,457 in respect to domestic travel and subsistence out of which Kshs.510,000 was paid to County Ward Managers whose supporting documents including payment cheques or acknowledgement of receipt by the ward managers were not provided for audit review.

In addition, the Kshs.85,279,457 includes Kshs.664,500 in respect to allowances out of which Kshs.612,500 was paid to Member of the County Assembly for a trip to Lodwar. However, the report in support of the trip was not duly signed. Further, the amount of Kshs.664,500 includes Kshs.52,000 paid on 18 December, 2020 and whose supporting documents including work/bus tickets, certificate of attendance, back to office reports, invitation letters and approval letters were not provided for audit review.

In the circumstances, the Kshs.1,174,500 expenditure comprising of Kshs.510,000 and Kshs.664,500 for the year ended 30 June, 2021 could not be confirmed.

2. Inclusion of Expenditure Incurred in the Previous Year in this Year's Financial Statements

The statement of receipts and payments reflects Kshs.39,472,156 in respect to acquisition of assets as disclosed in Note 5. The amount includes Kshs.38,572,156 in respect to construction of buildings out of which Kshs.20,078,480 was paid to a firm on 01 March, 2021 for the construction of Assembly debating chamber and restaurant. However, the Kshs.20,078,480 expenditure included Kshs.18,493,676 related to 2019/2020 financial year and not the year under review. The Kshs.39,472,156 in respect to acquisition of assets expenditure for the year ended 30 June, 2021 is overstated by Kshs.18,493,676 incurred in the previous year

In the circumstance, the accuracy and completeness of Kshs.20,078,480 for construction of Assembly debating chamber and restaurant could not be confirmed.

3. Unsupported Expenditure on Rent for MCAs Offices

The statement of receipts and payments and as disclosed in Note 6 reflects Kshs.60,420,922 in respect to other payments which includes Kshs.17,135,000 paid to Garba Raha Hotel for rent of Members of County Assembly (MCAs) offices whose supporting documents including payment vouchers and lease agreement were not provided for audit review. Further, a payment voucher number 111-K provided for audit review reflected that Kshs.3,510,000 was paid on 31 December, 2020 to Garba Raha Hotel for rent up to 31 December, 2020. However, it was not established which account the amount was charged into.

In the circumstance, the accuracy and validity of Kshs.20,645,000 comprising Kshs.17,135,000 and Kshs.3,510,000 expenditures for the year ended 30 June, 2021 could not be confirmed.

4. Variance in Transfers from the County Treasury/Exchequer Releases

The statement of receipts and payments and as disclosed in Note 1 to the financial statements reflects Kshs.521,346,337 relating to transfers from the County Treasury/Exchequer releases. However, the County Executive financial statements reflects transfers to County Assembly of Kshs.559,346,337 resulting to a variance of Kshs.38,000,000. Further, review of records indicated the amount of Kshs.38,000,000 related to County Assembly Car Loan Scheme Fund which was disbursed directly to the Members Car Loan Fund instead of to the County Assembly.

In the circumstances, the accuracy and completeness of the Kshs.521,346,337 relating to transfers from County Treasury for the year ended 30 June, 2021 could not be confirmed.

5. Use of Goods and Services

5.1 Unsupported Expenditure on Hospitality Supplies and Services

The statement of receipts and payments reflects Kshs.154,033,281 in respect to use of goods and services and as disclosed in Note 3. The amount includes Kshs.7,272,100 in respect to hospitality, supplies and services out of which Kshs.1,300,000 was paid to a firm on 23 December, 2020 for provision of catering services for public participation for 900 participants. However, review of evidence provided revealed that only 162 people participated in the public participation.

In the circumstances, the value for money for the Kshs.7,272,100 expenditure for the year ended 30 June, 2021 could not be confirmed.

5.2 Unsupported Expenditure on Payment to County Assembly Forum (CAF)

The statement of receipts and payments and Note 3 reflects Kshs.154,033,281 in respect to use of goods and services. The amount includes Kshs.9,800,000 in respect to other operating expenses out of which Kshs.4,200,000 was paid as subscription to County Assemblies Forum (CAF). However, the enabling legislation supporting the contribution to the forum including documents showing how the funds were spent were not provided for audit review.

In the circumstances, the validity and completeness on the Kshs.4,200,000 expenditure for the year ended 30 June, 2021 could not be confirmed.

5.3 Unsupported Expenditure on Society of Clerks at the Table (SOCATT)

The statement of receipts and payments reflects Kshs.154,033,281 in respect to use of goods and services and as disclosed in Note 3. The amount includes Kshs.9,800,000 in respect to other operating expenses out of which Kshs.700,000 is in respect to subscriptions to Society of Clerks-At-The Table in Kenyan Legislatures (SOCATT). However, the supporting documents including budgetary allocation and how the funds were spent were not provided for audit review.

In the circumstances, the validity and completeness of the Kshs.700,000 expenditures for the year ended 30 June, 2021 could be confirmed.

6. Failure to Update the Fixed Assets Register

Summary of fixed assets register at Annex 4 reflects Kshs.513,093,933 in respect to summary of fixed assets. However, the fixed assets register provided for audit review revealed that details in the assets register were last updated up to year 2018. Further, the Assembly acquired more assets during the year under review which had not been captured in the asset register. Also, assets acquired from year 2019 to date were not disclosed in the assets register.

In the circumstances, the accuracy and validity of the Kshs.513,093,933 in respect to fixed assets as at 30 June, 2021 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 Isiolo 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 were key audit matters to report in the year under review.

Other Matter

Prior Year Issues

The audit report for the previous year highlighted several issues in respect of the financial statements, lawfulness and effectiveness of public resources, and effectiveness of internal controls and governance. Management's report on the progress made in resolving the issues, at Note 5 of other important disclosures indicates that issues relating to the financial statements had not been resolved as at 30 June, 2021. The report does not provide any information on the other issues highlighted in the report.

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. Failure to Consult the Attorney General Before Hiring Private Lawyers

The statement of receipts and payments reflects Kshs.154,033,281 in respect to use of goods and services and as disclosed in Note 3. The amount includes Kshs.9,800,000 in respect to other operating expenses out of which Kshs.3,500,000 was paid to a law firm for legal services contrary to Section 17(1) of the Office of the Attorney General Act, 2012 which states that no Ministry or Department shall engage the services of a consultant to render any legal services relating to the functions of the Attorney-General without approval of the Attorney General. Further, there were no court proceedings or attendance bonds to confirm the advocates presence in court to support the payments made. In addition, the amount of Kshs.3,500,000 includes Kshs.1,500,000 paid outside IFMIS system but was supported by three (3) un-numbered payment vouchers of Kshs.500,000 each.

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

2. Lack of a Procurement Plan

During the year under review, the Assembly did not have an approved procurement plan in place. This is contrary to Section 45(3)(a) of the Public Procurement and Assets Disposal Act, 2015 which states that all procurement processes shall be within the approved budget of the procuring entity and shall be planned by the procuring entity concerned through an annual procurement plan.

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

3. Lack of a Public Finance Management Standing Committee

During the year under review, the Assembly did not have the Public Finance Management Committee (Standing Committee) in place. This is contrary to Section 18(1) of the Public Finance Management (County Governments) Regulations, 2015, which stipulates that there, is established in every County Government entity a Public Finance Management standing committee to provide strategic guidance to the entity on Public Finance Management matters.

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

4. Failure to Prepare, Publish and Publicize Quarterly Financial Reports

The County Assembly did not prepare, publish and publicize quarterly financial reports as required by Section 166(1) of the Public Finance Management Act, 2012 which states that an Accounting Officer for a County Government entity shall prepare a report for each quarter of the financial year in respect of the entity. Section 166(4)(c) states that not later than one month after the end of each quarter, the County Treasury shall publish and publicize them.

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

5. Failure to Present the Financial Statements in Accordance with the Public Sector Accounting Standards Board (PSASB)

The Assembly's financial statements for the year ended 30 June, 2021 provided for audit review reflects the following anomalies:

- i. The date when the financial statements were signed is missing (not indicated) on pages xiii, 1, 2, 3, 4, 5 and 6.
- ii. The financial statements balances are not rounded off to the nearest shilling on pages 14, 15 and 18.

In the circumstances, the Assembly's financial statements were not prepared in accordance with the Public Sector Accounting Standards Board (PSASB) reporting template issued in June, 2021 and International Public Sector Accounting Standards (Cash Basis).

6. Unsupported Expenditure on Accommodation Allowance

The statement of receipts and payments reflects Kshs.154,033,281 in respect to use of goods and services and as disclosed in Note 3. The amount includes Kshs.85,279,457 in respect to domestic travel and subsistence out of which Kshs.700,000 was paid as transport and per diem allowances for 5 days to 16 officers for documenting Senate audit responses, an activity held at Rangelands Hotel in Meru County. However, supporting documents including documents showing how the hotel services were procured were not provided for audit review. Further, it has not been possible to ascertain if indeed the hotel services were procured. Also, the assignment was done outside the duty station contrary to Section 7 of the National Treasury Circular Number 20/2015 on commitment control and expenditure measures which curtails spending on domestic travel and other related expense by moving from headquarters to other towns for purpose of discussing strategy documents, consultants reports or even other assignment which would ordinarily be done in office or within the County.

The Management is in breach of the law.

In the circumstances, the validity and value for money for the Kshs.700,000 expenditure for the year ended 30 June, 2021 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 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 matters described in the basis for Qualified opinion 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.

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 controls, 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 or to 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 Assembly's financial reporting process, reviewing the effectiveness of how the Management 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 County Assembly 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

24 June, 2022