REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF ISIOLO FOR THE YEAR ENDED 30 JUNE, 2022

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 controls, 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 Executive of Isiolo set out on pages 1 to 53 which comprise of the statement of assets and liabilities as at 30 June, 2022, and the statement of receipts and payments, statement of cash flows and 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, the financial position of County Executive of Isiolo as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS Cash Basis) and comply with the Public Finance Management Act, 2012 and the County Governments Act, 2012.

Basis for Qualified Opinion

1.0 Non-Disclosure of Outstanding Land Rents and Rates

Note 23 to the financial statements reflects Kshs.43,382,290 in respect to account receivables which comprise only of outstanding imprests. However, revenue records provided for audit review reflects Kshs.82,906,825 in respect to outstanding land rent and land rates for the financial year ended 30 June, 2022 which was not disclosed in the financial statements. Further, there was no evidence provided to show what measures the Management had taken to ensure collection of the long outstanding receivables of rents and rates during the year under review.

In the circumstances, the accuracy of the disclosure of accounts receivables in Note 23 to the financial statements as at 30 June, 2022 could not be confirmed.

2.0 Unsupported Cash and Cash Equivalents

The statement of assets and liabilities and Note 22 (A) to the financial statements reflects Kshs.1,267,763,174 in respect to bank balances. However, records including Cashbooks, bank reconciliation statements, certificate of bank balances of seven bank accounts with running balances of Kshs.687,309 were not provided for audit review.

In the circumstances, the accuracy of the balance of Kshs.687,309 in respect to cash and cash equivalents as at 30 June, 2022 could not be confirmed.

3.0 Understatement of County Own Generated Receipts

The statement of receipts and payments and Note 10 to the financial statements reflects Kshs.90,327,797 in respect to County own generated receipts. However, the annual revenue reports and monthly revenue analysis from the Local Authority Integrated Financial Operations Management System (LAIFORMS) reflects Kshs.107,832,875 in respect to annual revenue collected resulting to unexplained variance of Kshs.17,505,078 between what is reported in the financial statements and LAIFORMS revenue records.

In the circumstances, the accuracy of Kshs.90,327,797 in respect to County own generated receipts as reported in the statement of receipts and payments could not be confirmed.

4.0 Outstanding Imprest

The statement of assets and liabilities as at 30 June, 2022 and Note 23 to the financial statements reflects Kshs.43,382,290 in respect to account receivables comprising of outstanding imprests and advances. Review of the imprest records revealed that

Kshs.43,931,011 of the balances were brought forward from the prior year and which was outstanding as at 30 June, 2021.

In addition, included in the Kshs.43,382,290 is Kshs.1,799,700 in respect to salary advance from the previous years that remained outstanding as of 30 June, 2022. It was not clear why the same had not been cleared through the respective individual salaries account. Further, supporting documents including requests for salary advance, approvals for the salary advances and monthly deductions from the respective officers' salaries were not made available for audit review.

In the circumstances, the recoverability of the outstanding imprest balance of Kshs.43,382,290 could not be ascertained.

5.0 Presentation of the Financial Statements

The financial statements for the year ended 30 June, 2022 did not include figures in respect to analysis of pending staff payables, other pending payables, related party transactions and contingent liabilities register in the annexes to the financial statements. This is contrary to the requirements of Public Sector Accounting Standards Board (PSASB) reporting template issued in June, 2022, which requires the annexes be included in the financial statements. Further, the date of approval of the financial statements by the CEC-Finance is not reflected in the Section of the approval of the financial statements and not indicated in the footer to the statements of receipt and payments, the statement of assets and liabilities, statement of cashflows and statement of comparison of budget and actual amounts contrary to the requirements of the reporting template issued by PSASB which requires the approval date of the financial statements to be included.

In the circumstances, the presentation of the financial statements was not in compliance with the reporting template issued by PSASB.

6.0 Irregular Payment of Rent for Office of the Governors Delivery Unit

Note 13 to the financial statements for the year ended 30 June, 2022 reflects Kshs.912,866,907 in respect to use of goods and services. This amount includes Kshs.143,966,995 in respect to rentals of produced assets which further includes Kshs.6,000,000 paid in respect to office space rented by the governor's delivery unit. The invoices were dated between March, 2019 and September, 2020. However, a scrutiny of the pending bills for the previous financial years of 2019 and 2020 revealed that these invoices were not listed or disclosed as part of the pending bills in the financial statements for the respective years. It was not clear why the same were not disclosed in the year when they were incurred.

In the circumstances, it was not possible to ascertain the authenticity, validity, and existence of the payment and whether it was as a proper charge to public funds.

7.0 Fixed Assets Register

Annex 6 to the financial statements reflects the summary of non-current assets at a historical cost of Kshs.17,708,499,054 as at 30 June, 2022 which includes Kshs.331,562,052 in respect to additions during the year However, as reported in the previous years, Management had not incorporated various assets and liabilities amounting to Kshs.14,155,106,914 and Kshs.158,259,036 respectively, from the defunct County Council of Isiolo as at 30 June, 2022. Further, the Management did not maintain an updated fixed asset register for the year under review contrary to Regulation 132(1) of the Public Finance Management (County Governments) Regulations, 2015 which stipulates that the Accounting Officer of a County Government entity shall take full responsibility and ensure proper control systems exists for assets.

In the circumstances, the accuracy, valuation, ownership, existence, completeness, location and security of the non-current assets of Kshs.17,708,499,054 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 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 no key audit matters to report in the year under review.

Other Matter

1.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on a comparable basis of Kshs.6,345,840,136 and Kshs.4,873,314,649, respectively, resulting to an under-funding of Kshs.1,472,525,488 or 23% of the budget. Similarly, the County Executive expended Kshs.4,742,835,841 against an approved budget of Kshs.6,345,840,135 resulting to an under-expenditure of Kshs.1,603,004,295 or 25% of the budget. Further, the statement also reflects Kshs.153,686,337 in respect to budgeted County's own generated revenue which includes Kshs.3,800,000 in respect to revenue estimates from liquor licenses. Even though this source of revenue was included in the budget, the liquor licensing bill had not been passed and the County Executive could not collect the liquor license fees.

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

2.0 Unresolved Prior Year Matters

In the audit report of the previous year, several paragraphs 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. Although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the Senate has not deliberated on the same.

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

1.0 Non-Preparation and Submission of the Financial Statements

1.1 Receiver of Revenue

The Management of the County Executive of Isiolo did not prepare and submit to the Auditor-General the financial statements in respect of revenue collected, received, and recovered by the receiver of revenue during the financial year under review contrary to Section 165(1) and (3) of the Public Finance Management Act, 2012 which states in part, that not later than three months after the end of the financial year, the receiver of revenue for the County Government shall submit the accounts to the Auditor-General.

1.2 Failure to Prepare Emergency Fund Financial Statements

Information available indicate that although the County Executive of Isiolo had established an Emergency Fund in line with the provisions of Section 110(1) of the Public Finance Management Act, 2012, the financial statements for the Emergency Fund were not prepared and presented to the Auditor-General for audit in line with Section 115 (1) of the Act, which requires the County Treasury to prepare and submit to the Auditor-General, financial statements in respect of the Emergency Fund for that year, not later than three months after the end of each financial year.

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

2.0 Non-Compliance with the Law on Fiscal Responsibility - Wage Bill

The statements of receipts and payments reflects an expenditure of Kshs.1,584,432,870 on compensation of employees representing 37% of the total receipts of Kshs.4,333,557,206. This is contrary to the provisions of Regulation 25(1) (a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which states that the County Executive member shall set a limit on the County

Government expenditure on wage and benefits for its public officers and that the limit set shall not exceed thirty five percent (35%) of the total County government's revenue.

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

3.0 Failure to Prepare and Publish Contract Awards

As reported in the previous year, Management did not prepare, publish, and publicize all contract awards as required under Section 138(1) and (2) of the Public Procurement and Asset Disposal Act, 2015. Further, monthly progress reports on implementation of procurement contracts were not provided for audit review. As a result, there was no evidence that Management monitored implementation of contracts regularly as required in Section 152 of the Public Procurement and Asset Disposal Act, 2015, which states that the head of the procurement function shall prepare monthly progress reports of all procurement contracts of the procuring entity and submit them to the accounting officer.

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

4.0 Failure to Prepare Quarterly Reports

As reported in the previous year, no evidence was presented for audit to confirm whether Management prepared quarterly cash flow projections and procurement plans as required in Regulation 43(3) of the Public Finance Management (County Governments) Regulations, 2015, which states that cash flow plans shall be broken down into a three-month rolling basis and that the quarterly cashflow projections shall be supported by procurement plans.

Further, the County Treasury did not publish and publicize quarterly liquidity position reports on the impact of revenue collection efforts, spending and County public debt operations as well as the cash position of the County Executive as required by Regulation 45(6) which states that the county treasury shall publish and publicize the quarterly liquidity position reflecting the impact of revenue collection effort, spending and county public debt operation on the cash position of the county government.

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

5.0 Failure to Remit Own Generated Receipts into County Revenue Fund

Note 10 to the financial statements for the financial year ended 30 June, 2022 reflects Kshs.90,327,797 in respect to County's own generated revenue. Records provided revealed that an amount of Kshs.45,927,847 held in a collection bank account at National Bank of Kenya had not been transferred to the County Revenue Fund account as at 30 June, 2022.

Further, it was noted that the only transfer of funds from this account to the County Revenue Fund was done on 1 July, 2021. This revenue account received revenue deposits on daily basis but the same was not transferred into the CRF account contrary to the Public Finance Management (County Governments) Regulations, 2015 Section 81(2) which requires revenue collected to be paid into the County Revenue Fund

(CRF) not later than five (5) days after the receipt. No satisfactory explanations were given for failure to transfer the funds into the CRF account on regular basis.

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

6.0 Non-Rotation of Suppliers

Analysis of the IFMIS payment details, payment vouchers and bank statements revealed that the County Executive regularly awarded contracts to twelve (12) suppliers from the list of registered/pre-qualified suppliers. The twelve (12) firms were awarded contracts totaling Kshs.320,928,567 across the County departments in the year under review contrary to Section 91(5) of the Public Procurement and Asset Disposal Regulations, 2020 which requires the accounting officer to ensure a fair and equitable rotation amongst the persons in the list of registered suppliers.

No justifiable reason was given to show why the Management preferred to award contracts to only the twelve (12) suppliers while ignoring the other 129 prequalified suppliers (firms). The principle of fairness and equitable rotation of suppliers was ignored.

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

7.0 Construction of Early Childhood Development Education (ECDE) Classroom

Note 18 to the financial statements for the year ended 30 June, 2022 reflects Kshs.362,746,932 in respect to acquisition of assets. This amount includes Kshs.18,995,450 in respect to construction of buildings which further includes Kshs.2,398,079 for construction of ECDE classrooms at Tuluroba by the Department of Education. However, the following anomalies were noted:

i) Construction services were procured from a firm whose single business permit had expired on the 31 December, 2019. This contractor was, therefore, not eligible to be awarded this tender.

ii) Opening and evaluation minutes were not provided for audit review casting doubt as to whether there was competitive bidding for these works.

iii) In addition, evidence provided for audit review showed that the contractor was single sourced contrary to Section 158 of the Public Procurement and Asset Disposal Regulations, 2020 which requires the procurement of goods, works and services to be competitively sourced.

iv) No evidence was provided to show that inspection and acceptance committee was put in place to inspect the works done contrary to Section 48 of Public Procurement and Asset Disposal Act, 2015.

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

8.0 Irregular Procurement of Oxygen Cylinders and Oxygen Plant Spare Parts

Note 13 to the financial statements for the financial year ended 30 June, 2022 reflects Kshs.912,866,907 in respect to use of goods and services which includes Kshs.184,094,398 in respect to specialized materials and service. This expense includes Kshs.2,623,000 paid to a firm for supply and delivery of Oxygen Cylinders and Oxygen Plant spare parts. Request for quotations was used as the preferred procurement method. However, the following anomalies were noted:

i) Evaluation minutes showed that only one bidder was evaluated for the tender.

ii) Quotations from the other bidders were not provided for review casting doubt whether the procurement was competitive. The County Government may have directly awarded the tender contrary to Section 105(2d) of the Public Procurement and Asset Disposal Act, 2015 which requires at least three persons to submit their bids prior to evaluation.

iii) The signed professional opinion from the head of procurement was not availed for audit review casting doubt as to whether it was raised contrary to the requirements of Section 84 of the Public Procurement and Asset Disposal Act, 2015.

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

9.0 Fixed Assets Management

9.1 Uninsured Non-current Assets

Annex 6 to the financial statements reflects Kshs.17,708,499,054 in respect to historical cost of non-current assets as at 30 June, 2022 for buildings, office equipment, transport equipment, ICT equipment and machinery. However, as reported in the previous year, out of this amount, only motor vehicles whose book value was Kshs.350,676,804 were insured leaving a balance of Kshs.17,357,822,250 in respect to the book values of the assets. This is contrary to Section 160(1) of the Public Procurement and Asset Disposal Act, 2015 which states that an Accounting Officer of a procuring entity shall manage its inventory, assets, and stores for the purpose of preventing wastage and loss and continuing utilization of supplies.

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

9.2 Non-Disposal of Unserviceable and Obsolete Assets

Annex 6 to the financial statements reflects Kshs.17,708,499,054 in respect to summary of non-current assets which includes Kshs.350,676,804 in respect to transport equipment. As reported in the previous year, defective and unserviceable motor vehicles have been grounded in parking yards in the County for a considerable long period of time. However, no explanation was given as to why the unserviceable motor vehicles and transport equipment's have not been bonded and earmarked for disposal in line with Section 163(1) of the Public Procurement and Asset Disposal Act, 2015 which requires that an accounting officer shall establish a disposal committee as and when prescribed for the purpose of disposal of unserviceable, obsolete, obsolescent, or surplus stores, equipment, or assets.

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

10.0 Unaccounted for Fuel Oil and Lubricants

Note 13 to the financial statements reflects Kshs.912,866,907 in respect to use of goods and services which includes Kshs.30,322,168 in respect to fuel oil and lubricants which further includes Kshs.17,849,438.00 paid to a Company for supply of fuel, oil and lubricants. However, though a framework agreement was used as the preferred procurement method for fuel, oil and lubricants, there was no evidence of mini competition performed amongst the framework suppliers' contrary to Section 114(3)(b) of the Public Procurement and Asset Disposal Act, 2015 which states in part that when implementing a framework agreement, a procuring entity may invite mini competition among persons that have entered into the framework agreement in the respective category.

There was also no evidence that call off orders were made by the buyer and the supplier accepted in line with Section 114(3)(a) of the Public Procurement and Asset Disposal Act, 2015 which states in part that, "when implementing a framework agreement, a procuring entity may procure through call-offs order among persons that have entered into the framework agreement in the respective category."

Further, updated fuel registers to control and monitor fuel consumption were not provided for audit review.

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

11.0 Compensation of Employees

11.1 Non-Adherence to the Requirements on Mandatory Retirement Age

Analysis of the staff records revealed that fifty-one (51) county officers were in service even after attaining the mandatory retirement age of sixty (60) years contrary to the provisions of the Public Service Commission Circular Ref No: PSC/ADM/13(7) dated 19 November, 2020 on mandatory retirement age of public officers that provides the mandatory retirement age to be 60 and 65 years for non-disabled and for people with disability, respectively.

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

12.0 Failure to Allocate 30% of all Procurements to Special Groups

Note 18 to the financial statements reflects Kshs.362,746,932 in respect to acquisition of assets. However, information available indicated that Management did not allocate at least 30% of its annual procurement budget for goods, works or services to enterprises owned by youth, women, and persons living with disability contrary to Section 149 of the Public Procurement and Assets Disposals Regulations, 2020 which requires that an accounting officer of a procuring entity shall allocate at least 30% of its annual procurement budget for the purpose of procuring goods works or services to enterprises owned by youth, women, and persons with disability.

Further, no evidence was availed for audit review to confirm the county executive submitted quarterly payment performance statistic to the National Treasury and the Authority demonstrating compliance with the obligation to pay invoices within sixty (60), days contrary to Section 150(4) of the same regulations which requires procuring entities to submit a quarterly payment performance statistic to the National Treasury and the Authority demonstrating compliance with the obligation to pay invoices within sixty (60) days for publication.

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

13.0 Operationalization of Municipality of Isiolo

Records reviewed including Board minutes showed that the Board met only twice in the financial year under review. This is contrary to the provisions of the Act which requires that the Board shall meet at least once per quarter (ie four times in the financial year). Matters concerning the Municipality may not have been articulated by the Board as required by the Act.

Further, Section 46(1) of the Urban Areas and Cities Act, 2011 requires that the Board shall cause to be kept proper books and records of its incomes, expenditure, assets, and liabilities, and (2) within a period of three months after the end of each financial year the Board shall submit them to the county executive committee member for onward transmission to the Office of the Auditor-General together with the statement of assets and liabilities.

However, even though the Board has been in existence since January, 2019, it has not kept, prepared, and submitted financial statements to the County Executive Committee Member for onward transmission to the Office of the Auditor-General contrary to the law.

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

14.0 Failure to Maintain a Retention Account

The financial statements for the year ended 30 June, 2022 reflects Kshs.362,746,932 in respect to acquisition of assets which includes Kshs.215,872,976 in respect to Construction of Buildings, Construction and Civil Works, and Overhaul and Refurbishment of Construction and Civil Works combined. However, the County Executive of Isiolo did not maintain a retentions account to deposit a specified percentage (10%) deductible from construction contract sums over the defect's liability period and from which the same is paid on expiry of that period. Further, records showing the total retention money deducted from contractor's contract sum, total amount paid, and the outstanding amount due to contractors in the year ended 30 June, 2022 were not maintained.

In the circumstances, the operation, completeness, and existence of retentions funds could not be confirmed.

15.0 Irregular Dollar Currency Bank Accounts

Note 22A to the financial statements reflects Kshs.1,267,763,174 in respect to bank balances as at 30 June, 2022. As reported in the previous year, the County Executive operated two revenue dollar accounts in two commercial banks in Isiolo town contrary to Section 76(2) of the Public Finance Management (County Governments) Regulations, 2015 which requires all foreign currency denominated bank accounts operated by public entities to be kept at the Central Bank of Kenya, unless exempted by the Cabinet Secretary for Finance.

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

16.0 Failure to Provide Project Implementation Status Report

Note 18 to the financial statements reflect Kshs.362,746,932 in respect to acquisition of assets for the year ended 30 June, 2022. This amount includes Kshs.18,995,450, Kshs.58,963,976, Kshs.165,949,895, and Kshs.30,927,631 in respect to construction of buildings, construction of roads, construction of civil works, refurbishment, and construction of civil works, respectively. However, the County Government of Isiolo did not provide an updated project implementation status report (PIS) for audit review to confirm the status of the budgeted and implemented projects in the year under review.

In the circumstances, it was not possible to confirm status of the projects that were planned, budgeted for and implemented in the year under review.

17.0 Non-Compliance with Law on Ethnic Composition

During the year under review, the total number of employees of the County Executive was one thousand six hundred and ten (1610) out of which seven hundred and sixty-three (763) or 47 % of the total number were members of the dominant ethnic community in the County. This is contrary to Section 65 (1)(e) of the County Government Act, 2012 which states that, in selecting candidates for appointment, the County Public Service Board shall consider the need to ensure that at least thirty percent of the vacant positions at entry level are filled by candidates who are not from the dominant ethnic community in the County.

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

18.0 Management of Imprest

18.1 Non- Accountability of Imprest Issued

Included in the statement of receipts and payments for the year ended 30 June, 2022 under use of goods and services is an amount of Kshs.912,866,907. This amount includes Kshs.188,460,431 that was issued to various officers in various departments in form of imprests but the amount was expensed and charged to various expenditure items on issue before it was accounted for contrary to Section 91(1), and Section 93(5) of the Public Finance Management (County Governments) Regulations, 2015 which require a holder of a temporary imprest to account for or surrender the imprest within seven (7) working days after returning to duty station.

18.2 Multiple Imprests

Records provided for audit review reflects that Kshs.12,841,900 was issued as additional imprest to various officers from various departments before surrender of imprest issued earlier contrary to Regulation 93 (8) of the Public Finance Management (County Governments) Regulations, 2015 which require an accounting officer or AIE Holder to ensure that no second imprest is issued to an officer before the first imprest is surrendered or recovered in full.

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

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, except for the matters described in the 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 were not operating in an effective way.

Basis for Conclusion

1.0 Lack of Approved Internal Audit Work Plan and Quarterly Reports

Review of records provided for audit from the head of internal audit revealed that the internal audit section did not have an annual work plan approved by the internal audit committee contrary to Regulation 163(2) of the Public Finance Management (County Governments) Regulations, 2015 which states in part that the annual work plan developed shall be submitted to the audit committee by 15 February each financial year, approved by the audit committee and shared with the accounting officer of the entity.

It was, therefore, not possible to establish how the department operates without an approved audit workplan and whether there was adequate audit coverage of all the county activities in the year under review.

In addition, there was no evidence of submission of internal audit report to the audit committee and evidence of action taken on the findings and recommendations arising from the internal audit reports contrary to Regulation 164(2) of the Public Finance Management (County Governments) Regulations, 2015, which states in part that the final report, including the actions taken by the accounting officer should be reported to the audit committee.

Further, there was no evidence of quarterly internal audit reports prepared and presented to the accounting officer of the entity in the year under review contrary to Regulation 164(1) and (2) of the Public Finance Management (County Governments) Regulations, 2015.

In the circumstances, the effectiveness of the internal controls processes of the County Executive could not be confirmed.

2.0 Lack of Assessment of Internal Audit Performance and Effectiveness

There was no evidence provided for audit review by the head of internal audit of performance assessment, appraisal reports and independence, and competency reports and professional assessment of its effectiveness undertaken by a professionally recognized body or institution. This contrary to Regulation 159. (1) to (3) of the Public Finance Management (County Governments) Regulations, 2015 which requires that each year the head of internal audit unit shall assess its own effectiveness through an internal performance appraisal and shall carry out annual review of the performance of the internal audit activity commenting on its effectiveness in the annual report to County Treasury.

Further, each year the Audit Committee shall carry out annual review of the independence, performance and competency of the internal audit unit and comment on their effectiveness in the annual report.

In addition, at least once every three years but not more than five years, internal audit unit shall undergo a professional assessment of its effectiveness undertaken by a professionally recognized body or institution.

In the circumstances, the performance, and effectiveness of the internal controls, could not be confirmed.

3.0 Lack of Risk Management Policy

As reported in the previous year, the County Executive did not have a Risk Management Policy in place, contrary to Regulation 153(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 which requires that internal auditors shall have a duty to give reasonable assurance through the Audit Committee on the state of risk management, controls, and governance within the organization.

In the circumstances, it was not possible to confirm the effectiveness of the internal controls, risk management and governance of the County Executive.

4.0 Lack of Independence of Internal Audit

A review of the County`s internal audit unit revealed that the department lacks functional and financial independence. The department was part of the County Executives' finance department and depended financially on the finance department to function. The internal audit department did not have an independent budget to enable it to accomplish its mandates.

In addition, the department was not sufficiently facilitated to ensure that it effectively completed its internal audit program. A review done on the audit reports revealed that there were instances the department was denied access to records thus limiting their scope contrary to Regulation 155(3) of the Public Finance Management (County Governments) Regulations, 2015 which requires the internal auditor to have direct and prompt access to all records, officials or personnel holding any contractual status and to all the premises and properties of the entity.

In view of the foregoing, the Internal audit department may not discharge its mandate adequately and may not be relied upon as the custodian of internal controls systems in the County Executive.

In the circumstances, and in the absence of an active audit committee the overall internal control system and risk management in the County Executive could not be ascertained.

5.0 Under-Collection of Own Generated Revenue

During the year under review, the County Executive budgeted to collect own generated revenue of Kshs.153,686,337 from various revenue sources as per the appropriations bill. However, the County Executive managed to collect and account for only Kshs.90,327,797 or 59% of the budgeted revenue collection in the year under review leading to under-collection of Kshs.63,358,540.

Further, the County Executive used a revenue collection system namely Local Authority Integrated Financial Operations Management System (LAIFORMS). This revenue collection system was largely manual and required the revenue collectors to manually collect the revenue, issue manual receipts, post to LAIFORMS and then bank the cash collected. This could have denied the County Executive part of the revenue.

In the circumstances, it has not been possible to determine if the County Executive through the use of LAIFORMS accounted for all the revenues collected in the year ended 30 June, 2022.

6.0 Lack of Functional Audit Committee

A review of the Governance Structures revealed that the County Executive had an Audit Committee which was appointed on 1 December, 2018 as evidenced by the Committee's appointment letters. The Committee's term of office ended on 1 December, 20,21. However, evidence adduced for audit review showed that the Committee members had not been re-appointed as of 30 June, 2022 contrary to Regulation 170(1) of the Public Finance Management (County Governments)

Regulations, 2015 which requires the audit committee members to be re-appointed for a further one term in case their term in office lapses.

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In the circumstances, the County Executive was in breach of the law.

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 controls 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 controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Isiolo County Executive'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 terminate the Isiolo 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 Isiolo County Executive'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 controls 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 controls 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 Isiolo County Executive's 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 controls.

- 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 going concern 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 Isiolo County Executive's ability 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 Isiolo County Executive 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 Isiolo County Executive 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 controls 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

27 February, 2023