

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY 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 Assembly of Isiolo set out on pages 1 to 20, which comprise of the statement of financial assets and liabilities as at 30 June, 2022, 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, 2022, 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

1.0 Unexplained Prior Year Adjustments

The statement of financial assets and liabilities under Note 9 to the financial statements reflects a negative prior year adjustment of Kshs.1,019,410.

However, no explanation was provided to describe the nature and the basis for the prior year adjustment contrary to the Public Sector Accounting Standards Board reporting template.

In the circumstances, the accuracy, and validity of the prior year adjustment of Kshs.1,019,410 could not be confirmed.

2.0 Summary of Fixed Assets

Annex 4 to the financial statements reflects Kshs.516,270,846 in respect to summary of fixed assets. However, as reported in the previous year, the fixed asset register availed has not been updated since 2018. Although the County Assembly acquired assets during the financial year under review totaling to Kshs.1,983,960, the same was not recorded in the asset register.

In addition, the value of fixed assets reflected in the fixed assets register provided for audit review was Kshs.101,595,202 while the total value of assets disclosed in the financial statements was Kshs.516,270,846, resulting to unexplained variance of Kshs.414,675,644.

In the circumstance, the accuracy, completeness and validity of Kshs.516,270,846 in respect to the summary of fixed assets 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 no key audit matters to report in the year under review.

Other Matter

1.0 Budgetary Controls and Performance

The statement of comparison of budget and actual amounts: recurrent and development combined for the year ended 30 June, 2022 reflects a final receipts budget of Kshs.550,252,680 and an actual receipt of Kshs.505,133,255 respectively resulting to underfunding of Kshs.45,119,425 or 8 % of the budget.

The under funding affected the planned activities of the Assembly and may have impacted negatively on service delivery to the public.

2.0 Unresolved Prior Year Matters

The audit report for the previous year highlighted several issues in respect of the financial statements, lawfulness, and effectiveness in use of public resources. Management has not resolved the issues nor disclosed the prior year matter as required by the Public Sector Accounting Standards Board reporting template and the circular REF: AG.4/16/3/VOL.II(66) of 6 July, 2022.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES¹

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 Lack of a Procurement Plan

As reported in the previous year, the County Assembly did not have an approved procurement plan in place. This is contrary to Section 45(3)(a) of the Public Procurement and Asset 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 circumstances, Management was in breach of the law.

3.0 Lack of a Public Finance Management Standing Committee

As reported in the previous year, 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 circumstances, Management is in breach of the law.

4.0 Failure to Prepare and Publish Quarterly Financial Reports

As reported in the previous year, 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. Further, 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 circumstances, Management was in breach of the law.

5.0 Irregular Procurement of Motor Vehicle Repair Services

The statement of receipts and payments and Note 3 to the financial statements reflects Kshs.132,904,916 in respect to use of goods and services which includes Kshs.463,316 paid to a firm for servicing of a motor vehicle. However, the documentary evidence including requisition for the repair services from the user department were not provided for audit review contrary to Section 71(1) of Public Procurement Regulations, 2020 which requires the user department to initiate the procurement process.

Further, pre-inspection report to determine the defects of the vehicle and post inspection report on the repaired motor vehicle to ascertain that the defects identified were repaired were also not provided for audit.

In addition, there was no evidence that the service provider was sourced competitively contrary to Section 112 (2) of the Public Procurement and Asset Disposal Regulations, 2020 which requires the head of the procurement function to prepare a request for quotation or proposal or tender to source and identify the service providers competitively.

In the circumstances, the Management was in contravention of Sections 71(1) and 112(2) of the Public Procurement and Asset Disposal Act, 2015.

6.0 Unlawful Contributions to Society of Clerks at the Table (SOCATT)

The statement of receipts and payments and Note 3 to the financial statements reflects Kshs.132,904,916 which includes Kshs.1,750,000 in respect to other operating expenses

Report of the Auditor-General on County Assembly of Isiolo for the year ended 30 June, 2022

which further includes Kshs.750,000 paid to the Society of Clerks at The Table (SOCATT).

However, a review of SOCATT operations reveal that this body do not draw their mandate from the Constitution of Kenya or an Act of Parliament. In addition, the final approved budget for the period 2021-2022 does not have a provision for the payment of these subscriptions. Therefore, the basis of the payments made to this institution is not legally supported and is contrary to Regulations 105 (1) of the Public Finance Management (County Governments) Regulations, 2015 which explains that an Accounting Officer may authorize payment vouchers provided such expenditure is in respect of and within the provision of the services in a County Treasury Warrant and in accordance with the law and regulations.

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 a Functional Audit Committee

Review of records availed revealed that the County Assembly had an Audit Committee which was appointed on 19 October, 2020 as evidenced by the appointment letters presented. However, under review contrary to Section 172(1) of the Public Finance Management (County Governments) Regulations 2015 which requires them to meet at least once every three months.

Further, contrary to Regulation 159(2) of the Public Finance Management (County Governments) Regulations, 2015, the Committee did not publish an annual report on the review of the independence, performance, and competence of the Internal Audit Unit. The law provides that in each financial year, the Audit Committee shall carry out an annual

review of the independence, performance and competence of the Internal Audit Unit and comment on its effectiveness in an annual report.

In the circumstances, the effectiveness of the audit committee in discharging its mandate could not be ascertained.

2.0 Facilitation of Internal Audit Department

A review of the County Assembly's internal audit function revealed that it was not adequately staffed and lacked requisite tools such as audit system and analytical techniques to effectively deliver on its mandate contrary to Regulation 155(2) of the Public Finance Management(County Governments) Regulations, 2015 which requires an accounting officer to ensure that the organizational structure of the internal audit facilitates the entity to accomplish its internal audit responsibilities.

Further, although the internal audit department had developed a work plan for the financial year under review, there was no evidence that it was approved by the audit committee and included in the County Assembly's budget in line with Regulation 163(2) of the Public Finance Management(County Governments) Regulations, 2015 which requires the annual work plan to be approved by the audit committee and shared with the accounting officer for the inclusion in the budget.

There was no evidence of trainings/seminars for the internal audit staff or the internal audit committee in the year under review.

In the circumstances, the ability of the Internal audit department to deliver on its mandate and provide an independent appraisal of the operations of the Assembly had been inhibited.

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 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 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 terminate the Assembly or cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Assembly's financial reporting process, reviewing the effectiveness of how the 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 control would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in
Report of the Auditor-General on County Assembly of Isiolo for the year ended 30 June, 2022

which the design or operation of one or more of the internal controls 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 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 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 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 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 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 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