

REPORT OF THE AUDITOR-GENERAL ON MANDERA MUNICIPALITY 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 the 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 Mandera Municipality set out on pages 1 to 19, which comprise the statement of financial position as at 30 June, 2022 and the statement of financial performance, statement of changes in net assets, statement of cash flows and the 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 Mandera Municipality 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 (Accrual Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unsupported Payments on Hire of Motor Vehicles

Included in the use of goods and services balance of Kshs.149,714,943 is the expenditure on hire of transport and equipment amounting to Kshs.91,925,057 as disclosed in Note 7 to the financial statements. Review of records revealed that payments totalling to Kshs.13,680,000 in respect of hire of motor vehicles for the supply of water were not supported with temporary work tickets and distribution of water schedules.

In the circumstances, the occurrence, accuracy and completeness of the expenditure of Kshs.13,680,000 in respect to hire of motor vehicles for the year ended 30 June, 2022 could not be confirmed.

2. Misstatements in the Staff Costs

The statement of financial performance reflects staff costs balance of Kshs.105,768,459 comprised of salaries and wages of Kshs.97,715,259 and social security contribution of Kshs.8,053,200 respectively as disclosed in Note 8 to the financial statements. However, review of human recourse records revealed that 1,400 casual employees were not paid their wages totalling to Kshs.41,157,200 for the months of March, April, May and June, 2022 and the unpaid wage amount was neither included in the staff costs balance nor in trade and other payables balance.

In addition, the master rolls for the months of March, April, May and June, 2022 were not provided for audit review. Further, it was noted that the staff costs included casual wages for the months of May and June, 2021 totalling Kshs.19,616,104 which relates to the financial year ended 30 June, 2021.

Finally, the social security contribution balance of Kshs.8,053,200 differed with the supporting schedules amount by Kshs.426,700.

In the circumstances, the accuracy and completeness of staff costs balance of Kshs.105,768,459 for the year ended 30 June, 2022 could not be confirmed.

3. Unsupported Purchase of Certified Seeds, Breeding Stock and Live Animals

Included in acquisition of assets balance of Kshs.87,811,293 is purchase certified seeds, breeding stock and live animals of Kshs.14,665,635 as disclosed in Note 10 to the financial statements. Review of the records revealed that assorted seedlings, fertilizer, manure and animal feeds were delivered to the Municipality headquarters and subsequently transferred to the Mandera County Department of Environment and Natural resources for distribution. However, it was noted that there were no counter receipt and issue notes to show how the supplies were received and issued to the intended beneficiaries.

In the circumstances, the validity, accuracy and completeness of purchase of certified seeds, breeding stock and live animals expenditure of Kshs.14,665,635 for the year ended 30 June, 2022 could not be confirmed.

4. Unsupported Trade and Other Payables

As disclosed in Note 14 to the financial statements is trade payables balance of Kshs.2,327,952. It was however noted that the account payables balance was not supported with schedules or ledgers analyzing description of goods supplied, dates and amounts payable to respective payees.

In the circumstances, the accuracy and completeness of the trade and other payables balance of Kshs.2,327,952 as 30 June, 2022 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Mandera Municipality 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. Budgetary Control and Performance

The statement of comparison of budget and actual amounts as at 30 June, 2022 reflects the final budgeted revenue of Kshs.369,123,414 and the actual revenue of Kshs.344,048,614, thus resulting in a shortfall of Kshs.25,074,800 representing 7%. Similarly, the Municipality spent Kshs.342,462,123 against an approved budget of Kshs.344,048,614 resulting to an underperformance by Kshs.1,586,271.

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

2. Unresolved Prior Year Matters

In the audit of the previous year, an issue was raised under the Report on Lawfulness and Effectiveness in Use of Public Resources and another one under the Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the issues remained unresolved as at 30 June, 2022. No explanation has been provided by Management for failure to resolve the issues as required by the Public Sector Accounting Standards Board guidelines.

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. Over-reliance on Transfers from the County Government

Review of the statement of financial performance as for the year ended 30 June, 2022 revealed that Mandera Municipality is financed solely through receipts allocated by the County Government contrary to Section 172(a) of Public Finance Management Act, 2012 which states that an urban area or city may also be funded through revenue arising from rates, fees, levies, charges and other revenue raising measures which is retained by the urban area.

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

2. Irregular Procurement of Office and General Supplies and Services

Included in the use of goods and services balance of Kshs.149,714,943 is office and general supplies and services balance of Kshs.13,832,128 as disclosed in Note 7 to the financial statements. Review of procurement documents revealed that Management used request for quotations to procure goods and services. However, procurements totalling to Kshs.4,873,577 were not supported with user requisition forms while another expenditure amounting to Kshs.510,000 was not supported with notification letters to both the winning and losing bidders contrary to Section 87(1)(3) of the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, Management was in breach of the law and value for money may not have been achieved from office and general supplies and services expenditure of Kshs.5,383,577 for the year ended 30 June, 2022.

3. Delayed Remittance of Statutory Deductions

Disclosed in Note 8 to the financial statements is staff cost balance of Kshs.105,768,459 with respect to staff cost of non-permanent employees engaged by the Municipality during the year under review. Analysis of statutory deductions from the manual payrolls for the year under review revealed that the National Social Security Fund (NSSF) deductions amounting to Kshs.3,812,000 were not remitted on time. This is contrary to Section 53(1) of the Retirement Benefits Act, 2012 which provides that where an employer who is a member of a scheme, having with the agreement of an employee who is a member of a scheme, made a deduction from the employee's emoluments for remittance to the scheme, fails to remit the deduction within fifteen (15) days of the deduction, the scheme may, after giving such employer not less than seven days' notice, institute proceedings for the recovery of the deduction. The details of the deductions are as tabulated below:

N.S.S.F

Month	Amount (Kshs.)	Remittance Date	Deadline	Penalty (Kshs.)
May-July 2021	1,672,000	02-Nov-2021	15-July-2021	250,000
August - Sept 2021	1,578,000	25-March-2022	15-Oct-2021	394,500
November-2021	562,000	23-May-2022	15-Dec-2021	140,500
Total	3,812,000			785,000

In addition, the Municipality also delayed the remittance of National Hospital Insurance Fund (NHIF) deductions amounting to Kshs.3,814,500. This is contrary to Section 16(1) of the National Hospital Insurance Fund Act, 2012 which provides that a person liable to pay a standard contribution under Section 15 shall pay such contribution through monthly deductions from his salary or other remuneration and the employer of such person shall be liable to deduct and to pay the contribution to the Board on behalf of and to the exclusion of that person. Further, Section 16 (2) and 19 (3) of the same Act provides that if an employer fails to pay a standard/special contribution in respect of any person employed by him that employer shall be liable to pay the penalty prescribed. The details of the deductions are as tabulated below:

N.H.I.F

Month	Amount (Kshs.)	Remittance Date	Deadline
March 2022	426,500	23-May-2022	9-April-2020
February 2022	427,000	11-April-2022	9-March-2022
January 2022	428,700	07-March-2022	09-Feb-2022
December 2021	420,000	13-January-2022	9-Jan-2022
Aug-Sept-Oct 2021	1,264,300	02-November-2022	09-Oct-2022
June & July 2021	848,000	06-September-2021	9-Aug-2021
Total	3,814,500		

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

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal 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 (Accrual 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 Municipality'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 Municipality 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 Municipality's financial reporting process, reviewing the effectiveness of how 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 controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Municipality'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 Municipality 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 Municipality 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

15 May, 2023