

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MANDERA FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of County Assembly of Mandera set out on pages 1 to 24 which comprise the statement of financial assets and liabilities as at 30 June, 2019, statement of receipts and payments, statement of cash flows and the statement of comparison of budget and actual amounts: 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Assembly of Mandera as at 30 June, 2019 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 complies with the County Governments Act, 2012 and the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Inaccuracy in the Financial Statements**

##### **1.1 Statement of Financial Assets and Liabilities**

The statement of financial assets and liabilities reflects a bank balance of Kshs.736,423. However, Note 13A to the financial statements reflects a balance of Kshs.1,246,411 resulting to an unreconciled variance of Kshs.509,987. Further, the fund balance brought forward of Kshs.100,231,070 varies with the closing balance in 2017/2018 of Kshs.571,678 resulting to an unreconciled variance of Kshs.99,659,392.

In addition, the deficit for the year of Kshs.99,494,647 varies with the surplus reflected in the statement of receipts and payments of Kshs.736,423 by unreconciled variance of Kshs.98,758,224.

##### **1.2. Statement of Cash Flows**

The statement of cash flows for the year ended 30 June, 2019 reflects nil cash and cash equivalents at the beginning of the year which varies with the closing balance in 2017/2018 of Kshs.571,678 resulting to unreconciled variance of Kshs.571,678.

Consequently, the accuracy and completeness of the cash and cash equivalents for the year ended 30 June, 2019 could not be confirmed.

## **2. Unsupported Expenditure - Use of Goods and Services**

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services of Kshs.249,172,487. However, domestic travel and subsistence allowance of Kshs.10,347,400 for workshops and other official duties outside the work station were not supported by documents such as copies of imprest warrants, bus tickets, air tickets, workshops invitation letters, activity programs, attendance register, signed payment schedules or back to office reports. Further, the balance includes Kshs.8,100,000 spent on Ward Offices but the lease agreements, approval for opening of bank accounts, bank statements, bank reconciliations and cashbooks for the Ward Offices were not availed for audit review. In addition, stationeries worth Kshs.1,498,850 was procured however, supporting documents such as stores ledger, counter requisition and issue notes were not availed for audit review.

In the circumstances, the accuracy, completeness and validity of the use of goods and services of Kshs.249,172,487 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be ascertained.

## **3. Unsupported Compensation of Employees**

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects compensation of employee of Kshs.333,561,605 which included Kshs.65,516,808 mileage allowances paid to Members of the County Assembly. An audit review of the expenditure revealed that the disbursement was paid from a bank account without using IFMIS vote control procedures and the lists of beneficiaries were not acknowledged by the bank contrary to Section 82(1) and Section 51 of the Public Finance Management (County Governments) Regulations, 2015.

Further, Management engaged casual employees during the year under review. However, records in respect of their recruitment, job description, terms and conditions of services and muster rolls were not availed for audit review.

In the circumstances, the accuracy, completeness and validity of the compensation of employees of Kshs.333,561,605 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Mandera Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

## **Other Matter**

### **1. Budget Control and Performance**

The statement of comparison of budget and actual amounts - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.1,021,895,035 and Kshs.733,921,877 respectively resulting to an under-funding of Kshs.287,973,158 or 28% of the budget. The underfunding affected the planned activities and projects which may have impacted negatively on service delivery to the public.

In the circumstances, the public may not have received the services as planned.

### **2. Prior Year Matters**

In the audit report of the previous year, several issues 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. However, the Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: PSASB/1/12 Vol.1(44) of 25 June, 2019

## **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 matter 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**

### **Compliance with the Public Finance Management (County Governments) Regulations, 2015**

The statement of receipts and payments reflects total receipts of Kshs.733,921,877 and compensation of employees of Kshs.333,561,605. This indicates that the wage bill

constitutes 46% of the total receipts which is contrary to Section 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 which requires that the wage bill should not exceed 35% of the total revenue.

Consequently, the Management is in breach of the regulation.

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 the matter described in the Basis for 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, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **Summary of Fixed Assets Register**

Annex 4 of the summary of fixed assets register attached to the financial statements discloses the value of fixed assets for the year under review as Kshs.115,433,501. However, the assets register availed for audit examination revealed that it does not have the minimum requirements of an assets register such as identification or serial numbers, acquisition date, description of asset, location, asset class, cost of acquisition, accumulated depreciation and net book values.

Consequently, I am unable to confirm the control measures put in place by Management to safeguard assets.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and those charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash

Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and 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 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 financial reporting process, reviewing the effectiveness of how the County Assembly monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in

an effective 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 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**25 February, 2021**