

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF KWALE FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Kwale set out on pages 6 to 30 which comprise the statement of financial assets as at 30 June 2017, the statement of receipts and payments, statement of cash flows and 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 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 Kwale as at 30 June 2017, 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.

In addition, as required by Article 229(6) of the Constitution, based on procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1.0 Use of Goods and Services

The statement of receipts and payments for the year ended 30 June 2017 reflects use of goods and services balance of Kshs.259,331,684 as detailed in Note 5 to the financial statements. The following observations were made:

1.1 Rentals of Produced Assets

Included in the use of goods and services is rent paid for ward offices amounting to Kshs.3,175,000. However, records availed for audit indicated that during the month of July 2016 the Assembly overpaid the landlords by Kshs.196,000. Although the management has explained that a letter has been written to the landlords with a view of recover the payments, they had not been recovered as at the time of the audit in the month of January 2018.

Consequently, it has not been possible to confirm the regularity and accuracy of Kshs.3,175,000 paid as rent for the year ended 30 June 2017.

1.2 Training Expenses

Included in the use of goods and services is training expenditure of Kshs.14,401,859. However, evidence was not availed for audit to confirm that need assessment was done and that a plan was prepared and approved by the County Assembly Service Board in line with Section 1.3 of the County Public Service Human Resource Manual, 2013 which requires that training needs assessment be conducted in every 2 years.

Consequently, the propriety and value-for-money on Kshs.14,401,859 incurred on training for the year ended 30 June 2017 cannot be confirmed.

1.3 Other Operating Expenses

Included in the use of goods and services are other operating expenses of Kshs.7,273,757 out of which Kshs.4,694,520 was incurred on legal fees. However, the payment voucher availed for audit was not signed by the Accounting Officer and further, contrary to procurement regulations, the fee note was raised on 19 January 2016 before the service order raised on 10 March 2017. In the circumstance, the propriety of the legal fees expenditure of Kshs.4,694,520 for the year ended 30 June 2017 cannot be confirmed.

2.0 Acquisition of Assets

2.1. Unexplained Variance

The statement of receipts and payments for the year ended 30 June 2017 reflects an amount of Kshs.120,643,721 in respect of acquisition of assets out of which Kshs.90,808,708 was spent on construction of buildings as detailed in Note 10 to the financial statements. However, vouchers availed for audit indicated that the amounts paid totalled Kshs.91,608,708 resulting to an unexplained variance of Kshs.800,000.

Consequently, the accuracy and completeness of construction of buildings expenditure balance of Kshs.90,808,708 as at 30 June 2017 cannot be confirmed.

2.2. Proposed Construction of Assembly Complex

Note 10 to the financial statements reflects acquisition of assets balance of Kshs.120,643,721. Included in this balance is construction of buildings expenditure totaling to Kshs.90,808,708 out of which Kshs.58,710,280 is a payment made to a construction company for construction of the County Assembly complex. The agreed contract sum amounted to Kshs.466,892,170, and as at 30 June 2016, the contractor had been paid a total of Kshs.302,943,142.. However, the engineer's certificate for Kshs.58,710,280 availed for audit review did not show work done to match the payments made as at 30 June 2017. Further, the terms and conditions of the contract indicated that the project was to be completed by 22 June 2017. However, field inspection in the

month of January 2018 revealed that the contractor was not on site and windows, doors and the roof were yet to be installed.

Consequently, it has not been possible to confirm the propriety of Kshs.58,710,280 paid for the construction of the County Assembly complex during the year under review. .

2.3. Construction of Speakers Residence

Note 10 to the financial statements reflects acquisition of assets balance of Kshs.120,643,721. Included in this balance is construction of buildings totalling to Kshs.90,808,708 out of which Kshs.7,929,500 was paid for construction of the Speaker's residence whose contract sum was Kshs.46,441,072. However, records availed for audit review indicated that the County Assembly has not been able to obtain ownership documents for a part of the construction site land measuring 0.41 hectares.

In the absence of ownership documents, it has not been possible to confirm ownership of the whole parcel of land and the building on which Kshs.7,929,500 of public funds had been spent as at 30 June 2017.

2.4. Construction of Ward Offices

Note 10 to the financial statements reflects acquisition of assets balance of Kshs.120,643,721. Included in this amount is Kshs.17,441,610 paid to four (4) local firms for constructing ward offices. However, ownership documents for the land occupied by these offices was not availed for audit verification.

Consequently, the valuation and ownership of the land on which works costing Kshs.17,441,610 were undertaken during for the year under review cannot be confirmed.

3.0 Outstanding Imprest

The statement of financial assets as at 30 June 2017 reflects a balance of Kshs.426,000 as outstanding imprests. These balance is comprised of staff advances amounting to Kshs.234,800 and imprest amounting Kshs.191,200. However records availed for audit review indicated that imprests totaling Kshs.191,200 had not been surrendered as at 30 June 2017 contrary to Section 93(5)5 of the Public Finance Management (County Governments) Regulations, 2015 which provides that a holder of temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station.

Consequently, the propriety of expenditures totaling Kshs.191,200 outstanding as imprest as at 30 June cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Kwale in accordance with ISSAI 30 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, except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1. Budgetary Control and Performance

1.1 Budget Absorption

During the year under review the financial budget of the County Assembly of Kwale totaled Kshs.828,162,680 comprised of development budget of Kshs.218,249,039 and recurrent budget of Kshs. 609,913,641. Actual total expenditure was Kshs.741,474,442 resulting to a net under-expenditure of Kshs.86,688,238 or 10% as analyzed below:

Item	Approved Budget (Kshs.)	Actual Expenditure (Kshs.)	Under/over Absorption in (Kshs.)	Under/Over Absorption (%)
Development Vote	218,249,039	117,765,651	100,483,388	46
Recurrent Vote	609,913,641	624,508,791	(14,595,150)	102
Total	828,162,680	742,274,442	85,888,238	10

The County Assembly attributed the under-absorption to non-receipt of disbursements, which situation impacted service delivery by the County Assembly negatively.

1.2 Development Budget

During the year under review the County Assembly of Kwale allocated Kshs.218,249,039 to development projects but spent Kshs.117,765,651, resulting to net under - expenditure of Kshs.100,483,388 or 46 %.

The County Assembly did not utilize Kshs.100,483,388 or 46 % of its budget. This state of affairs may have impacted negatively on the County Assembly's delivery of services to the residents of Kwale County. There is need, therefore, for the County Assembly to re-think on its budget formulation in order to make it as realistic as possible.

1.3 Recurrent Budget

During the year under review, the County Assembly of Kwale allocated Kshs.609,913,641 to recurrent expenditure but spent a total of Kshs.624,508,7905 resulting in over-expenditure of Kshs.14,595,149 or 2 % as summarized below:

Expenditure Item	Budgeted Amount (Kshs.)	Actual Expenditure (Kshs.)	Under Absorption (Kshs.)	% of utilization Difference to Budget
Compensation to Employees	225,704,669	224,316,564.40	1,388,105	99
Use of Goods	266,829,161	259,331,684	8,885,582	97
Transfer to other Government Entities		137,182,472	-137,182,472	
Acquisition of Assets	117,379,811	3,678,070	113,701,741	3
TOTAL	609,913,641	624,508,790	14,595,149	2

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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 such 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.

In preparing the financial statements, management is responsible for assessing the County Assembly's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting. 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.

Those charged with governance are responsible for overseeing the County Assembly's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 International Standards of Supreme Audit Institutions (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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the County Assembly's 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 County Assembly's ability to continue as a going concern or 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

16 July 2018