

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF KWALE FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Kwale set out on pages 1 to 27, which comprise the statement of financial assets and liabilities as at 30 June 2018, and 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 statement of financial position of County Assembly of Kwale as at 30 June 2018, 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 County Governments Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracies in the Financial Statements

The statement of financial assets and liabilities as at 30 June 2018 reflects debit opening fund balance of Kshs.1,052,350 while the certified financial statements for the previous year reflect a fund balance of Kshs.67,199,372, resulting to unexplained nor reconciled variance of Kshs.68,251,722.

Further, the statement of cash flows for the year ended 30 June 2018 reflects cash and cash equivalents opening balance of Kshs.30,493,595 while the certified financial statements for the previous year reflect a balance of Kshs.98,745,318, resulting to unexplained nor reconciled variance of Kshs.68,251,723.

Consequently, the accuracy and completeness of the opening balances reflected in these financial statements for the year ended 30 June 2018 could not be confirmed.

2.0 Variances Between Financial Statements and Integrated Financial Management Information System (IFMIS) Figures.

Note 5 to the financial statements for the year ended 30 June 2018 reflects an amount of Kshs.266,111,285 in respect of use of goods and services. However, figures for six (6)

expenditure items included in the component varied with Integrated Financial Management System payments details report availed for audit by Kshs.111,371,877 as detailed below:

Item	Financial Statement Amount	Integrated Financial Management Information System Amount	Variance
	Kshs	Kshs	Kshs
Domestic Travel & Subsistence	110,650,467	31,121,502	79,528,965
Foreign Travel & Subsistence	27,188,548	8,039,834	19,148,714
Printing, Advertising & Information supplies	12,485,796	9,790,106	2,695,690
Training Expenses	22,647,128	14,536,005	8,111,123
Communication supplies & services	6,875,910	6,541,910	334,000
Other Operating Expenses	22,312,349	20,758,964	1,553,385
Total	202,160,198	90,788,321	111,371,877

Consequently, the accuracy and completeness of the use of goods and service balance of Kshs.266,111,285 for the year ended 30 June 2018 could not be confirmed.

3.0 Unsupported Expenditure

The statement of receipts and payments for the year ended 30 June 2018 includes unsupported expenditure amounting to Kshs.32,118,725 as detailed below;

	Item	Note	Purpose	Amount (Kshs)	Observations
1.	Domestic Travel and Subsistence	5	Paid to travel agencies, being air travel charges	3,966,630	Identities of those travelling and evidence of travel in form of boarding passes were not availed for audit verification
2.	Domestic Travel and Subsistence	5	Subsistence allowances to staff and County Assembly Service Board members who were conducting interviews	3,054,800	Attendance list, evidence of travel and minutes/reports of the interviews were not availed for audit verification
3.	Foreign Travel and Subsistence	5	Paid to travel agents being air travel costs	4,176,784	Details of those travelling and evidence and purpose of travel in form of boarding passes were

	Item	Note	Purpose	Amount (Kshs)	Observations
					not availed for audit review
4.	Training Expenses	5	Paid to consultants as training fees	11,312,319	The expenditure is not supported with needs assessment, training plan and approval by the County Assembly Service Board
5.	Other Operating Expenses	5	Legal fees	5,195,000	The Payment vouchers for the expenditure not availed for audit verification
6	Acquisition of assets	10	Office equipment, furniture and fittings	3,566,192	The expenditure is not supported with schedules indicating the specific assets purchased, serial/registration number, date of purchase, delivery note and invoice.
7	Acquisition of assets	10	Other Machinery and equipment	847,000	The expenditure is not supported with schedules indicating the specific assets purchased, serial/registration number, date of purchase, delivery note and invoice.
	Total			32,118,725	

Consequently, the propriety and validity of expenditure amounting to Kshs.32,118,725 for the year ended 30 June 2018 could not be confirmed.

4.0 Compensation of Employees

The statement of receipts and payments for the year ended 30 June 2018 reflects compensation of employees amount of Kshs.197,117,769 as detailed in Note 4 to the financial statements. However, the supporting schedules availed for audit review indicated a figure of Kshs.179,026,468, resulting to unexplained nor reconciled variance of Kshs.18,091,301 as detailed below;

Item	Balance as Per Financial Statements (Kshs)	Balance as Per Support Schedule (Kshs)	Variance (Kshs)
Basic Salaries of Permanent Employees	95,700,084	87,486,198	8,213,886
Basic Wages of Temporary Employees	9,375,406	8,461,406	914,000
Personal Allowances Paid as Part of Salary	74,657,849	67,273,111	7,384,738
Pension and Other Social Security Schemes	17,384,430	15,805,753	1,578,677
Total	197,117,769	179,026,468	18,091,301

In addition, the Integrated Payroll and Personnel Database (IPPD) and excel payroll records availed for audit review reflect a total amount of Kshs.169,579,777 with respect to compensation of employees, resulting to again unexplained nor reconciled variance of Kshs.27,537,992.

Consequently, the accuracy and validity of compensation of employees expenditure amounting to Kshs.197,117,769 for the year ended 30 June 2018 could not be confirmed.

5.0 Construction of Speaker's Official Residence

Note 10 to the financial statements for the year ended 30 June 2018 reflects construction of buildings of Kshs.47,000,000, out of which Kshs.7,000,000 was paid for construction of the Speaker's official residence whose contract sum was Kshs.46,411,072. However, Kshs.5,000,000 paid vide payment voucher number CBK DD 12/12 of 19 December 2017 is excluded from this amount. Further, the contract sum was varied by Kshs.11,848,503 or 25.53% to Kshs.58,259,575, contrary to Section 139(6) of the Public Procurement and Assets Disposal Act, 2015 which states that 'where variations result in an increment of the contract price by more than twenty-five percent, such variations shall be tendered for separately'. Further, the county assembly has not been able to obtain ownership documents for part of the construction site land measuring 0.41 hectares. During physical verification of the project in the month of November 2018, it was observed that there was no clear demarcated access to the property.

Consequently, the propriety and value for money for Kshs.7,000,000 on construction of the Speaker's official residence for the year ended 30 June 2018 and the ownership of land on which it is constructed could not be confirmed.

6.0 Accounts Payable – Deposits and Retentions

The statement of financial assets and liabilities for the year ended 30 June 2018 reflects accounts payables – deposits and retentions balance of Kshs.34,249,989 as detailed in Note

15 to the financial statements. However, this balance excludes 10% retention of Kshs.102,139 deducted from a contractor undertaking construction of Member of County Assembly's office at Mkongani Ward during the period under review.

Consequently, the accuracy and completeness of accounts payable – deposits and retentions balance of Kshs.34,249,989 as at 30 June 2018 could not be confirmed.

7.0 Accounts Receivables

The statement of financial assets and liabilities as at 30 June 2018 reflects accounts receivables – outstanding imprests of Kshs.185,000. However, Imprest register availed for audit reflected an additional outstanding imprests balance of Kshs.432,000 as at 30 June 2018 which had not been disclosed in these financial statements.

Consequently, the accuracy and completeness of the accounts receivable balance of Kshs.185,000 as at 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of 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 other Key Audit Matters to communicate in my report.

Other Matter

Budget Performance

During the year under review, County Assembly of Kwale had a total budget of Kshs.716,956,402 for recurrent and development against an expenditure of Kshs.527,039,130 or 74% as detailed below;

Item	Budget Kshs	Actual Kshs	Under Absorption Kshs	Under Absorption %
Compensation of Employees	210,612,236	197,117,769	13,494,467	6
Use of goods and services	276,124,334	266,111,285	10,013,049	4

Acquisition of Assets	230,219,832	63,810,076	166,409,755	72
Total	716,956,402	527,039,130	189,917,272	26

The County Assembly underspent the allocated funds by Kshs.189,917,272 or 26%. However, no satisfactory explanation was provided for the under-absorption which may impact negatively on delivery of goods and services to the residents of Kwale county.

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. Spending from Imprest Account

The statement of receipts and payments for the year ended 30 June 2018 reflects total payments of Kshs.527,039,130. However, payment records availed for audit review indicate that funds amounting to Kshs.215,480,219 were transferred to Kenya Commercial Bank Imprest Account during the year under audit review. The funds were utilized to make various payments to suppliers, employees, Members of County Assembly and for office running expenses, contrary to Treasury Circular No. 14 of 9 September, 2015 which prescribes the type and purpose of accounts a county government entity should operate.

Consequently, the County Assembly was in breach of the law.

2. Irregular Issuance of Salary Advances

Records availed for audit review indicated that the county assembly issued salary advances amounting to Kshs.2,548,000 to staff and members of the county assembly during the year. However, the supporting salary advances register indicates that two members of the county assembly were issued with multiple salary advances totalling Kshs.950,000 without the previous salary advances being recovered in full, contrary to the Human Resource Policies and Section C.6 (4) of the Procedures Manual for the Public Service 2016.

Consequently, the County Assembly acted in contravention of the Law.

3. Proposed Construction of the County Assembly Complex

Note 10 to the financial statements for the year ended 30 June 2018 reflects construction of buildings amount of Kshs.47,000,000, out of which Kshs.40,000,000 was paid for construction of the county assembly complex, whose contract sum was Kshs.466,892,170. However, the supporting interim certificate No. six (6) dated 11 May 2018 for Kshs.50,964,401 was not itemized to show the actual works done as at that date. Further, out of the total contract amount, Kshs.402,106,925 or 86% had been paid as at 30 June 2018 yet at the time of field inspection in the month of November 2018, the contractor was not on site and doors, grilles, window panes/glazing, plastering, flooring, ceiling, electrical and mechanical, painting, tiling, fittings, drainage, plumbing, and landscaping works had not been done. The project was therefore behind schedule by over one year given that it was expected to be completed by 29 June 2017. It is also not possible to ascertain whether the remaining balance of Kshs.64,785,245 or 14% of the contract sum would be sufficient to complete the remainder of the project nor is it clear when it will be completed.

Consequently, it has not been possible to confirm the propriety of Kshs.40,000,000 spent on the project during the year and value for money for Kshs.402,106,925 spent on construction of county assembly complex as at 30 June 2018.

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 SYSTEMS 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 matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, 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

1. Review of Cash Book

Audit review during the year revealed that the county assembly maintained cash books for each of the four bank accounts operated during the year. However, examination of the cash books revealed that the same were not regularly reviewed by an authorized officer who

should ensure the same is up to date, balanced daily and cash in hand verified. Further, no Board of Survey Reports were provided to confirm compliance with year-end procedures on cash.

Consequently, the county assembly was in breach of the Law.

2. Information, Communication and Technology (ICT) Environment

A review of the county assembly's ICT environment revealed that the assembly had not established an IT steering committee nor have an approved ICT policy.

In the absence of IT Steering Committee and ICT policy, prevention or recovery of loss of data or sensitive information may be difficult or impossible.

3. Audit Committee

The County Assembly of Kwale has not established an internal Audit Committee contrary to Regulation 167 of the Public Finance Management (County Government) Regulations, 2015 which states that, 'Subject to paragraph (2) of this regulation, each county government entity shall establish an audit committee.

Consequently, the County Assembly is in breach of the Law.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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. In preparing the financial statements, management is responsible for assessing the ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the County Assembly of Kwale or to cease operations, or have no realistic alternative but to do so.

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 money is applied in an effective manner in line with article 229(6) of the Constitution of Kenya 2010.

Those charged with governance are responsible for overseeing the Assembly's financial reporting process, reviewing the effectiveness of how the entity 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 review is planned and performed to express a conclusion with limited assurance as to 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 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. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control 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 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 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 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 of Kwale to cease to continue as a going concern or 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 to express an opinion on the County Assembly of Kwale 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.



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

Nairobi

18 February 2019