

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of County Assembly of Machakos set out on pages 1 to 40, which comprise the statement of financial assets and liabilities as at 30 June 2017, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the County Assembly of Machakos 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 do not comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, I confirm that public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1. Presentation and Disclosures

The financial statements do not include explanations on significant under-utilisation and over-utilisation of budgeted provisions as prescribed in the reporting template issued by the Public Sector Accounting Standards Board. The statement of financial assets and liabilities, statement of receipts and payments and statement of cash flow indicate that the comparative figures have been restated while the statement of financial assets in addition indicate that the current year balances have been restated. Management has however not disclosed the reasons and extent of the restatement. Consequently, the financial statements do not comply with the format prescribed by the Public Sector Accounting Standards Board.

2. Inaccuracies in the Financial Statements

- i. The total expenditure as per statement of receipts and payments is reflected as Kshs.936,140,270 while IFMIS (vote book) reflects Kshs.882,860,547 (recurrent Kshs.745,593,047; development Kshs.137,267,500) resulting to an unexplained difference of Kshs.53,279,723.
- ii. The statement of comparison of budget and actual amounts for recurrent excludes an amount of Kshs.703,316 being actual expenditure on other payments but included in the statement of receipts and payments.

iii. The statement of financial assets reflects cash and cash equivalent balance of Kshs.15,385,230 as at 30 June 2017 (comprising of bank balances of Kshs.15,384,430 and cash in hand balance of Kshs.800). However, the following material omissions have been observed:

- The cash books closing balances as at 30 June 2017 in virtually all the cash books were not certified by the board of survey members.
- A balance of Kshs.4,492,190 as at 30 June 2017 held in a Tender Account No.1144054559 at the Kenya Commercial Bank, apart from not having been swept into the County Treasury General Revenue Fund (GRF), was excluded from the schedule of bank balances.
- A balance of Kshs.14,977,079 as at 30 June 2017 held in a Deposit Account No.000264543 at the Central bank was also excluded from the schedule of bank balances.

Consequently, the accuracy of the financial statements for the year ended 30 June 2017 cannot be confirmed.

3. Compensation of Employees

3.1. Basic Salaries for Permanent Employees

Note 4 to the financial statements reflects a figure of Kshs.169,962,923 under basic salaries for permanent employees while the Integrated Payroll and Personnel Database (IPPD) reflect Kshs.167,227,229. The difference of Kshs.2,735,694 has not been explained.

3.2. Acting Allowances

During the year under review, the County Assembly paid acting allowances at the rate of 20% of the substantive basic salary amounting Kshs.642,717 to three officers of the Assembly beyond the six months period stipulated in Chapter 14 of the Human Resource Policies and Procedure Manual for the Public Service, which the County Assembly had referred to when paying the acting allowances. Consequently, the validity of the acting allowances amounting to Kshs.642,717 paid to the three officers cannot be confirmed.

4. Accounts Payables

The statement of financial assets and liabilities reflects accounts payable balance of Kshs.92,188,357 (2015/16 – Kshs.103,077,187). The figure includes pending bills of Kshs.77,211,278 (2015/16-Kshs 198,910,961) as disclosed under Note 15 to the financial statements. However, under IPSAS cash basis of accounting, an expenditure is recognised when paid and hence pending bills should not appear in the statement of financial assets but are required to be disclosed only in form of an annex to the notes to the financial statements. Consequently, the accuracy of accounts payable balance of Kshs.92,188,357 as at 30 June 2017 cannot be confirmed.

5. Pending Bills

Note 15 to the financial statements reflects pending bills of Kshs.77,211,278 as at 30 June 2017 (2015/16 - Kshs 98,910,961). Had the pending bills been settled during the year under review, the Assembly would have reported a deficit of Kshs.61,826,848 as opposed to the current surplus of Kshs.15,384,430. Further, the annex on pending bills has not detailed out the ageing of the bills, details of the goods and services rendered, movements during the year and the reasons for delay in the settlement. As at the time of completion the audit, the bills were yet to be settled despite the treasury requirement of pending bills to take the first charge on the budget of the following year. No explanation has been provided for this anomaly.

6. Unresolved Prior Year Audit Issues

The matters highlighted below were raised in the Audit Report for 2015/16 but have remained unresolved to date:

6.1. Basic Pay

The expenditure of Kshs.381,080,919 on compensation of employees for 2015/16 included annual basic salaries for staff amounting to 154,043,786 which differed with the Integrated Payroll and Personnel Database (IPPD) system total annual basic pay amount of Kshs.35,187,892 by Kshs. of 118,855,894. The difference has not been explained or reconciled. Further, thirty (30) new employees introduced into the payroll on 1st September 2015 have not yet been supported with proof of recruitment and subsequent placement.

6.2. Temporary Employees

The expenditure on compensation of employees for 2015/16 also included basic wages for temporary employees amounting to Kshs.26,289,141. However, the temporary employees` wages analysis and casual payroll provided in support indicated amounts of Kshs.32,240,252, and Kshs.26,953,000, resulting in variances of Kshs.5,951,111 and Kshs.663,859 between the financial statements and records respectively, which have not been explained so far.

6.3. Unsupported Conference Fee for World Ploughing Championship in Bordeaux, France

As reported in the previous years, three Members of the County Assembly were paid conference fees totalling Kshs.756,000 while attending conference for World Ploughing Championship in Bordeaux, France. The expenditure has so far not been supported by documentary evidence to confirm that the event took place.

6.4. Media Partnership with M-Government Abu Dhabi 2014

As reported in the previous years, Members of the County Assembly made a trip to Abu Dhabi from 23 December 2014 to 3 January 2015 and were paid per diems amounting to Kshs. 2,673,900. However, no report has been provided so far to support the gains made by the County Assembly from the trip despite having spent such significant amount of money.

Further, no explanation has been made to date in respect of an additional claim of Kshs.150,000 made and paid to the Members as miscellaneous expenses despite full per diems having been paid.

6.5. Irregular Procurement of Security Services

As reported in the previous years, the County Assembly paid a total of Kshs.3,633,850 for security services in 2014/15, of which amounts of Kshs.742,400 and Kshs.413,983 were paid to two security companies. The tender committee minutes for the meeting held on 3 February 2015 awarded the security tender to another company at Kshs.12,500 per guard per month. The committee further resolved to contract the company for one year starting February 2015. The County Assembly, however, continued to engage the services of the earlier two companies that had not tendered at the monthly rates of Kshs.16,000 and Kshs.13,000 per guard up to June 2015, contrary to the resolution of the tender committee. These security companies were paid amounts of Kshs.222,720 and Kshs.192,983 for the service provided after February 2015 and as consequence, an expenditure of Kshs.415,703 was irregularly incurred against the recommendations of the tender committee. Further, although losses incurred by the County Assembly arising from failure to adhere to the Public Procurement Act and Regulations ought to be recovered from the responsible officers, no evidence has been provided to show that these recoveries were made as at 30 June 2017.

6.6. Overseas Travelling and Subsistence Allowances

As reported in 2015/16, the County Assembly Members and staff made various foreign trips during the previous years. In a number of cases the members were double paid per diems while at the same time a travel agency had been contracted to provide for full package of the trip including airport transfers, local transport and full board accommodation all totalling Kshs.24,287,027. Recommendation to recover the over payment from the concerned MCAs and staff of Kshs.24,287,027 is yet to be implemented.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Machakos County Assembly 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 adverse 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 matter described in the Basis for Adverse Opinion and Other Matter sections, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1. Budget as a Control Tool

The Assembly's total approved budget for the year under review was Kshs.1,095,699,438 against total actual expenditure of Kshs.936,140,270 for the same period resulting in under expenditure of Kshs.159,559,168 or 14.6% of the approved budget. The approved recurrent and development budgets were Kshs.914,139,368 (83%) and Kshs.181,560,070 (17%) while actual expenditure against the same was Kshs.914,139,368 and Kshs.139,696,301, respectively. Detailed analysis of individual expenditure items revealed various variances between the budgeted and actual expenditure as shown below:

Recurrent Budget

Category	Item description-component	Budget Kshs	Actual Kshs	Budget absorption %
Receipts		914,139,368	807,113,142	88
	Transfers from National Treasury	914,139,368	803,783,256	96
	Other receipts		3,329,906	
Compensation of employees		423,561,621	393,296,478	93
	Basic salaries-Permanent employees	176,205,261	169,962,923	96.46
	Basic salaries-Temporary employees	27,300,000	26,817,881	98.23
	Personal allowances paid as part salaries	159,172,714	140,299,701	88.14
	Pension and other social security Schemes	14,000,000	13,945,236	99.61
	Compulsory National Social Security Schemes	2,000,000	465,400	23.27
	Social benefits Schemes outside Govt-Gratuity	44,883,646	41,805,338	93.14
Use of goods and services		340,577,747	326,444,175	95.85
	Utilities, supplies and services-electricity, water	2,300,000	1,724,230.90	74.97
	Communication, supplies and services-telephone and internet	4,675,281	4,651,608.00	99.49
	Domestic travel and subsistence	192,822,164	195,279,999.05	101.27

	Foreign travel and subsistence	15,760,302	15,728,278.15	99.80
	National Celebration		30,000.00	
	Printing, advertising and information supplies & services	8,500,000	6,999,748.85	82.35
	Training expenses	27,390,000	27,380,078.00	99.96
	Hospitality supplies and services	3,280,000	2,689,847.10	82.01
	Insurance costs	28,200,000	26,780,538.00	94.97
	Specialised materials and services- uniforms	3,500,000	3,535,766.25	101.02
	Office and general supplies and services	7,230,000	4,665,942.00	64.54
	Ward office rent and Expenses	14,400,000	13,753,800.00	95.51
	Other operating expenses(cleaning, security, membership & subscription, legal fees	22,100,000	14,614,926.50	66.13
	Routine maintenance – vehicles and other transport equipment	6,220,000	3,102,574.30	49.88
	Fuel Oil and Lubricants	4,200,000	4,199,536.00	99.99
	Routine maintenance –other assets		1,307,302.00	
	Transfers to other Government units	150,000,000	76,000,000	49%
	Total	914,139,368	795,740,653	87%

Development Budget

Item description	Budget Kshs	Actual Kshs	% Budget absorption
Construction of non-Residential Buildings (HQ offices)	115,785,700	114,323,330	98.74

Refurbishment of Buildings (Non Residential)	3,000,000		0
Refurbishment of buildings - Chamber Renovations	2,000,000	455,111	22.76
Construction of civil works		729,900	
Purchase of Vehicles	11,700,000	11,037,931	94.34
Purchase of Office General Furniture	1,000,000	382,480	38.25
Purchase of Computers, Printers and other IT Equipment	2,000,000		0
Purchase of Household and Institutional Appliances	1,074,370	576,690	53.68
Other Infrastructure and Civil Works - parking shed	1,500,000		0
Purchase of Exchanges and other Communications Equipment	15,500,000		0
Purchase of other office equipment - Mace	5,000,000		0
Purchase of ICT networking and Communications Equipment	6,500,000	12,190,859	187.55
purchase of Police and Security Equipment - Walk through/Metal Detectors	1,500,000		0
Engineering and Design Plans	15,000,000		0
Total	181,560,070	139,696,301	77

2. ICT Internal Control Environment

The following weaknesses were identified in the County Assembly's IT internal control environment:

- Lack of a formally approved IT security policy to ensure data confidentiality, integrity and availability.
- Non-existence of an Information Technology strategic committee.
- Failure to implement an IT strategic plan that supports business requirements and ensures that IT spending remains within the approved IT strategic plan.
- Lack of training program to build IT capacity.
- Lack of a formally documented and approved process to manage upgrades and system changes made to all financial / performance information systems.

- There was no backup and retention policy. Lack of documented schedule for routine maintenance for IT infrastructure.

Recommendations to the County Assembly to develop an IT policy to address the above gaps is yet to be addressed by management.

3. Fraud Assessment

As reported in the previous period, I reiterate that the Machakos County Assembly has no system for identifying and responding to the risks of fraud within the entity. It is, therefore, highly exposed to fraud related risks and hence cases of fraud and errors may go undetected.

4. Internal Audit Function

The following weaknesses were identified regarding the functioning of the internal audit unit:

- The scope of internal audit function did not include evaluating and reporting on internal controls applicable to high risk areas as identified by management.
- Audit of the financial year as outlined in the annual audit plan was not fully achieved.
- Although progress audit reports conducted during the year were made available, responses from the management on the issues raised were not provided for audit verification.
- Internal audit unit was understaffed with only one auditor hence it may not have the necessary capacity to carry out the internal audit mandate.
- There was no documentary evidence to confirm that the internal auditor had been granted unrestricted access to all records and assets of the County.
- No audit committee was in place during the year under review to discuss the reports of the internal audit.

Responsibility 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 continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the

management either intends to liquidate the County Assembly 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.

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 of Kenya. 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 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 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 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.



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

Nairobi

16 July 2018