

REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MAKUENI 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 Makueni set out on pages 2 to 36, 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 statements 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 County Assembly of Makueni 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, based on the procedures performed, I confirm that public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1. Inaccuracies in the Financial Statements

(i) The statement of receipts and payments reflects expenditure of Kshs.256,875,047.55 on use of goods and services while the statement of comparison of budget and actual amounts reflects expenditure of Kshs. 256,884,037.55 for the same item.

(ii) The statement of receipts and payments reflects a surplus of Kshs.38,329,329.22 for the year ended 30 June 2017 while the statement of comparison of budget and actual amounts reflects a surplus of Kshs.38,333,340 for the same period.

(iii) The payments relating to separate expenditure heads reflected in the statement of receipts and payments casts to Kshs.695,392,449 and not the total payments of Kshs.695,329,249 shown.

The above anomalies have not been explained. Under the circumstances, the accuracy of the financial statements for the year ended 30 June 2017 cannot be confirmed.

2. Other Receipts

Other receipts totalling Kshs.45,382,718 as disclosed at Note 3 to the financial statements includes an amount of Kshs. 44,274,712 in respect of insurance claims and compensation

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for assets destroyed in a fire incident on 7 March 2016. However, the money was deposited in an expenditure account at the Co-operative Bank instead of the revenue account at Central Bank of Kenya in contravention of Section 119 (2) of the Public Finance Management Act, 2012. The receipt was, therefore, not properly accounted for under the circumstances.

3. Compensation of Employees

(i) The County Assembly made payments towards compensation of employees amounting to Kshs.356,959,230.73 during the year ended 30 June 2017 as disclosed at Note 4 to the financial statements. However, the IPPD and Excel payroll records reflects a total amount of Kshs.269,291,646 resulting in unreconciled difference of Kshs.87,667,584.73. Further, the total amount captured in the payment vouchers in respect to compensation of employees amounted to Kshs. 338,636,393 resulting again to unreconciled difference of Kshs.18,322,837.73.

(ii) In addition, the County Assembly made gratuity payments to the outgoing Members of County Assembly amounting to Kshs.44,576,794 in 2016/2017 financial year. However, data verified show that the amount payable was Kshs.49,243,263 resulting to unexplained difference of Kshs.4,666,469. Further, payment vouchers in respect to compensation of employees amounted to Kshs.338,636,393 resulting to unreconciled difference of Kshs.18,322,838.

Under the circumstances, the accuracy of compensation of employees' expenditure of Kshs. 356,959,230.73 for the year ended 30 June 2017 cannot be confirmed.

4. Use of Goods and Services

Included in the use of goods and services total expenditure of Kshs. 256,875,047.55 for the year ended 30 June 2017 is an amount of Kshs. 976,600 paid for media outreach. Out of this amount, journalists from various media houses were paid Kshs. 336,000. However, the payments to journalists were not supported by policy documents. Under the circumstances, the validity and propriety of the expenditure of Kshs. 336,000 can not be confirmed.

5. Acquisition of Assets

The County Assembly advertised for supply and installation of Hansard equipment on 5 November 2016 and listed the criteria to be followed during evaluation of bids. However, the evaluation committee meeting held on 23 November 2016 included bank statements which were not in the advertisement as part of the criteria. M/s Smoothel Data Solutions Limited was the lowest bidder at Kshs.3,043,431 and had met all the criteria stated in the advertisement and the tender document. The evaluation committee, however, resolved that the firm was not responsive for failure to attach current bank statements and recommended the contract to be awarded to M/s Starvicom Technologies Limited at a cost of Kshs.4,947, 800.

The County Assembly, therefore, spent an extra Kshs.1,904,369 on the supply and installation of the equipment due to the above irregularities. Further, the firm that was

awarded the contract had attached financial statements for only one year instead of two years. Under the circumstances, the validity and propriety of the expenditure of Kshs. 4,947,800 out of the total expenditure of Kshs.80,436,964.50 incurred on acquisition of assets in 2016/2017 financial year cannot be confirmed.

6. Cash and Bank Balances

The statement of financial assets and liabilities reflects cash and cash equivalents balance of Kshs.42,108,031.77 as at 30 June 2017. The balance included Kshs.30,220,089 in a recurrent account at Co-operative Bank of Kenya. The bank reconciliation statement for this account as at 30 June 2017 reflects cheques in the cashbook not yet recorded in the bank statements dating between June 2015 and April 2016 totalling Kshs.280,533 which were stale but had not been reversed in the cash book as at the time of the audit. No evidence has been presented to indicate that the cheques were subsequently reversed. Under the circumstances, the cash and cash equivalents balance of Kshs.42,108,031.77 as at 30 June 2017 is not fairly stated.

7. Pending Accounts Payables

7.1 The County Assembly had accumulated pending bills amounting to Kshs.27,181,097.01 as at 30 June 2017 and as listed in Annex 1 and 2 to the financial statements. Had the bills been settled during the year under review, the statement of receipts and payments would have reflected a reduced surplus of Kshs.11,148,232.21 instead of the surplus of Kshs.38,329,329.22 now shown.

7.2 The following anomalies have been noted also with respect to the pending bills:

- (i) The County Assembly did not maintain a pending bills/creditors register and therefore the completeness and accuracy of the pending bills payable balance of Kshs.27,181,097.01 cannot be confirmed.
- (ii) The pending bills schedule provided for audit verification was not analysed according to the age of the respective debts thereby making it difficult to establish how long the bills had remained outstanding.
- (iii) The pending bills included an amount of Kshs.7,557,707 in respect of the cost of extending insurance covers for two months. The Assembly did not satisfactorily explain the rationale for extending the cover instead of procuring annual insurance services as expected.

8. Fixed Assets

The County Assembly's fixed assets register as at 30 June 2017 reflects assets with historical cost totalling Kshs.346,751,151.86 made up of opening balance of Kshs.266,278,787.36 and additions during the year of Kshs.80,472,364.50. However, the

opening balance of Kshs. 266,278,787.36 includes assets of undetermined value that were destroyed in a fire accident on 7 March 2016.

Further, as reported in the previous year, included in the acquisition of assets figure of Kshs.78,490,330.90 for 2015/2016 financial year was an amount of Kshs.5,838,272 reportedly incurred on acquisition of household furniture and specialized plant, equipment and machinery, respectively. However, the amount was not supported with schedules indicating the specific assets purchased, serial/registration number, date of purchase, delivery note/invoice number, supplier, procuring department and cost of purchase. The existence and security of the assets stated can still not be confirmed.

Consequently, the existence, completeness and accuracy of the County Assembly's fixed assets balance of Kshs.346,751,151.86 as at 30 June 2017 cannot be fully confirmed.

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

Other Matter

1. Budget and Budgetary Control

The County Assembly's approved expenditure budget for the year ended 30 June 2017 was Kshs.749,375,340 comprising of a recurrent budget of Kshs.645,160,291 and a development budget of Kshs.104,215,049 as reflected in the statements comparison of budget and actual amounts. The following variances have been noted between the budgeted amounts and the actual expenditure:

1.1 Recurrent Budget

Out of the recurrent budget of Kshs. 645,160,291 for the year under review, the County Assembly spent Kshs. 628,450,896 resulting to an under-expenditure of Kshs.16,709,395 or about 2.59% as analysed below:

Expenditure Item	Approved Budget - Kshs	Actual Expenditure - Kshs	Variance - Kshs	Variance (%)
Compensation of Employees	357,341,353	356,959,231	382,122	0.11
Use of goods and services	270,977,932	256,788,638	14,189,294	5.24

Acquisition of Assets	15,733,000	13,595,021	2,137,979	13.59
Other payments	1,108,006	1,108,006	0	0
Total	645,160,291	628,450,896	16,709,395	2.59

No justification has been provided for the under expenditure of Kshs. 16,709,395 during the year under review.

1.2 Development Budget

(i) Out of the development budget of Kshs.104,215,049 for the year under review, the County Assembly spent Kshs.65,930,354 according to the projects analysis schedule while the statement of comparison of budget and actual amounts for development reflects actual expenditure of Kshs.66,937,344. The resulting difference in actual expenditure of Kshs.1,006,990 between the two sets of records has not been explained.

(ii) The details in the project analysis schedule are as shown below:

Project	Approved Budget - Kshs	Actual Expenditure - Kshs	Variance - Kshs	Variance (%)
Construction of speakers house	20,000,000	10,511,165	(9,488,835)	-47.4
Completion of office block 2nd floor	1,146,780	1,146,780	-	0.0
Construction and of furnishing Cafeteria.	1,296,370	1,296,370	-	0.0
Construction of office toilets-Prefabs	1,500,000	729,900	(770,100)	-51.3
Construction of Perimeter wall	4,450,000	4,449,650	(350)	0.0
Air Conditioning	4,990,000	4,987,508	(2,492)	0.0
ICT: LAN /Telephone set up	4,961,230	4,961,230	-	0.0
set up of Hansard equipment	4,947,800	4,947,800	-	
Supply of portable firefighting equipment	1,000,000	226,616	(773,384)	-77.3
Civil works-Partitioning and office block fitting.	12,919,270	12,800,858	(118,412)	
Parking and landscaping	226,616	-	(226,616)	-100.0
Refurbishment of existing offices	502,271	502,271	-	0.0
acquisition of land - speakers house	2,000,000	2,000,000	-	0.0
Proposed Chamber and Public Gallery	-	17,370,206	17,370,206	0
Total	59,940,337	65,930,354	5,990,017	10.0

Evidence of approval of the over-expenditure of Kshs.5,990,017 has not provided for audit verification.

2. Internal Audit Function

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Although the County Assembly has put in place an internal audit unit, the following weaknesses have identified with regard to the functioning of the unit:

- i. Internal audit reports for the year under audit were not provided for review. Consequently, it is not possible to confirm whether internal audit assignments were undertaken and responses by the management if any, during the year under review.
- ii. The scope of internal audit function did not include evaluating and reporting on internal controls applicable to high risk areas which may be identified by the management.
- iii. The internal audit unit has only one staff and hence understaffed. Though the officer has the necessary competencies, he may not be able to solely execute the mandate of the unit as expected.
- iv. The internal audit unit though functionally working under the audit committee has been placed administratively under finance department which may weaken its independence.
- v. The unit does not have an internal audit charter.

Under the circumstances, the independence and effectiveness of the internal audit unit have been compromised.

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 sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends 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 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 sustain 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 sustaining 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 of the entities or business activities 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