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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Makueni County Assembly set out on pages 7 to 42 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 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, 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 County Assembly of Makueni 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 Government Act, 2012 and Public Finance Management Act, 2012.

Basis for Qualified Opinion

Unsupported Foreign Travel Expenditure

During the year under review, the County Assembly incurred expenditure under use of goods and service amounting to Kshs.288,600,581. Included in this figure is an expenditure relating to foreign travel and subsistence expenses amounting to Kshs.9,403,447 that includes funds issued as per diems to the Speaker, the Clerk and Members of the County Assembly to travel to Singapore and Dubai to attend conferences. A review of the imprest surrender documents revealed no evidence of travel since air tickets, boarding passes, training fee receipts and back to office reports or certificates of attendance for reference had been attached to the surrender documents.

In the circumstances, it was not possible to ascertain the regularity of the expenditure of Kshs.9,403,447.

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, conclusion on lawfulness and effectiveness in use of public funds and conclusion on effectiveness of internal controls and governance, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

Previous Years' Matters

1. Inaccuracies in the Financial Statements

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

(ii) The statement of receipts and payments reflected 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 reflected 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 could not be confirmed. These unadjusted figures have been included in the current financial statements as comparative figures.

2. Other Receipts

Other receipts totalling Kshs.45,382,718 as disclosed at Note 3 to the financial statements include an amount of Kshs.44,274,712 in respect of insurance claims and compensation 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 in Note 4 to the financial statements. However, the IPPD and Excel payroll records reflect 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 in an unreconciled difference of Kshs.18,322,837.73.

(ii) In addition, the County Assembly made gratuity payments to the outgoing Members of the 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 in an unexplained difference of Kshs.4,666,469. Further, payment vouchers in respect to compensation of employees amounted to Kshs.338,636,393 resulting in unreconciled difference of Kshs.18,322,838.

Under the circumstances, the accuracy of compensation of employees' expenditure of Kshs.356,959,230.73 could not be confirmed.

4. Use of Goods and Services

Included in the use of goods and services total expenditure of Kshs.256,875,047.55 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 regularity of the expenditure of Kshs.336,000 could not be confirmed.

5. Irregular 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 as one of the criteria for evaluation which were not in the advertisement. M The lowest evaluated bidder at Kshs.3,043,431 and had met all the criteria stated in the advertisement and the tender document. However, the evaluation committee resolved that the firm was not responsive for failure to attach current bank statements and recommended the contract to be awarded to another firm 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 could not be confirmed.

6. Cash and Bank Balances

The statement of financial assets and liabilities reflected 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 reflected 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 was 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 was not fairly stated.

7. Fixed Assets

The County Assembly's fixed assets register as at 30 June 2017 reflected assets with a historical cost of Kshs.346,751,151 made up of opening balance of Kshs.266,278,787 and additions during the year of Kshs.80,472,364. However, the opening balance of Kshs.266,278,787 included assets of an undetermined value that were destroyed in a fire accident on 7 March 2016. Further, as reported in 2015/16, 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. 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 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Assembly of Makueni 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.

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

Failure to Prepare a Performance Report

Section 164(f) of Public Finance Management Act, 2012 requires County Governments to prepare and submit to the Auditor-General reports on their own performance. Management did not prepare and submit to the Auditor- General a report on performance against pre-determined objectives.

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 matters 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

1. Lack of ICT Policy

A scrutiny of the County Assembly of Makueni IT Internal controls shows that the County Assembly did not have an IT strategic Committee, IT Strategic Plan, IT Steering Committee, IT Security Policy, Emergency Procedures and an Approved Backup and retention strategy in place. This is contrary to the requirement of the laid down procedures at Section 110 of the Public Finance Management (County Governments) Regulations, 2015 relating to Information Technology Internal Controls.

Such controls as stipulated in the Public Finance Management (County Governments) Regulations, 2015 are instituted as appropriate access controls needed to minimize breaches in systems of information, confidentiality, data integrity and loss of business continuity. The access controls required to be instituted include uniform application forms for registration of new users, deregistration of users and modification of user roles. The County Assembly was in breach of the regulations.

2. Lack of a Disaster Recovery Plan/Business Continuity Plan

The County Assembly of Makueni lacks a Disaster Recovery Plan/ Business Continuity Plan contrary to Section 99 of the PFM Act, 2012. The Act stipulates the role of a disaster recovery plan as to secure the county government's ability to meet its obligations to provide basic services or its financial commitments, identify the financial problems and be designed to place the county government in a sound and sustainable financial condition as quickly as possible to avoid the risk of loss of data which would adversely affect the County Assembly's service delivery to its citizens if an unforeseen event take place and bring the day-to-day operations of the County Assembly to a halt.

3. Lack of a Risk Management Policy

The County Assembly of Makueni lacks a Risk Management Policy therefore contravening the requirements of the Public Finance Management (County Governments) Regulations 2015, Section 158(1). The regulation requires an accounting officer to ensure that the county government entity develops risk management strategies, which include fraud prevention mechanism; and the county government entity develops a system of risk management and internal control that builds robust business operations.

Failure to develop a risk policy exposes the County Assembly and in the event of a risk, there may not be strategies to counter that risk.

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, risk management and governance.

In preparing the financial statements, management is responsible for assessing the ability to continue sustaining 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.

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 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 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 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 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.

- 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 of Makueni 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

18 February 2019