

# REPORT OF THE AUDITOR-GENERAL ON COUNTY ASSEMBLY OF MAKUENI FOR THE YEAR ENDED 30 JUNE, 2019

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of County Assembly of Makueni set out on pages 1 to 24, which comprise the statement of financial assets and liabilities as at 30 June, 2019, and statement of receipts and payments, statement of cash flows and the 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 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 Makueni as at 30 June, 2019, 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.

### Basis for Qualified Opinion

#### 1. Accuracy of the Financial Statements

The County Assembly of Makueni presented financial statements for audit which exhibited discrepancies as highlighted below:

##### 1.1 Variances Between Financial Statements and IFMIS Balances

The financial statements presented for audit and the Integrated Financial Management Information Systems (IFMIS) balances reflected significant variances as detailed out below: -

Item	Financial Statements Balance (Kshs.)	IFMIS Balance (Kshs.)	Variance (Kshs.)
Compensation of Employees	339,571,383	334,418,272	5,153,111
Use of Goods and Services	377,166,435	371,987,158	5,179,277
Acquisition of Assets	89,424,521	88,613,659	810,862
Bank Balances	8,154,703	70,555,187	(62,400,484)
Cash Balances	-	2,452,932,274	(2,452,932,274)

<b>Item</b>	<b>Financial Statements Balance (Kshs.)</b>	<b>IFMIS Balance (Kshs.)</b>	<b>Variance (Kshs.)</b>
Other Debtors & Prepayments	-	147,000	-147,000
Outstanding Imprests	-	29,933,301	(29,933,301)
Deposits and Retentions	7,776,214	3,238,815,588	(3,231,039,374)
Fund balance b/f	9,953,634	(837,041,088.)	(846,994,722)
Prior year adjustments	(9,583,854)	-	(9,583,854)

No reconciliation statement or explanations have been availed for audit verification.

## **1.2 Compensation of Employees – Differences with the Payroll Summaries**

As disclosed under Note 4 to the financial statements, the statement of receipts and payments reflects expenditure on compensation of employees of Kshs.339,571,383 (2018: Kshs.307,621,150). However, payroll summaries presented in support amounted to Kshs.315,535,905 resulting to unexplained and unreconciled variance of Kshs.24,035,478.

## **1.3 Errors in Comparative Surplus Balance**

The statement of receipts and payments reflects comparative surplus balance of Kshs.5,694,382 which differs from the audited balance of Kshs.5,753,168 resulting to a variance of Kshs.58,786. Although Management has explained that the variance resulted from correction of an error in the prior year audited financial statements, no disclosure by way of notes have been made as required by IPSAS 3. Further, the correction has not been effected in all the elements of the financial statement including the statement of assets and liabilities.

Consequently, the accuracy, validity and completeness of the financial statements presented for audit for the year ended 30 June, 2019 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 Makeni Management in accordance with ISSAI 130 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. I have determined that there are no key audit matters to communicate in my report.

## Other Matter

### 1. Significant Increase in Expenditure on Use of Goods and Services

During the year under review the County Assembly expenditure on use of goods and services increased from Kshs.288,649,368 recorded in the previous year to Kshs.377,166,435 resulting to a significant increase of Kshs.88,517,067 or 30%. The increase mainly occurred under fuel oil and lubricants, other operating expenses, specialized materials and services, and utilities, supplies and services categories and as detailed out below:

Item	2018/2019 Amount (Kshs)	2017/2018 Amount (Kshs)	Increase (Kshs)	% Increase
Fuel, Oil and Lubricants	7,465,980	4,606,183	2,859,797	62
Other Operating Expenses	123,584,075	60,807,242	62,776,833	103
Specialized Materials and Services	1,396,976	705,600	691,376	98
Utilities, Supplies and Services	1,305,843	839,736	466,107	56
<b>Total</b>	<b>133,752,874</b>	<b>66,958,761</b>	<b>66,794,113</b>	<b>50</b>

However, there was no significant change in the level of activity in comparison to the prior year for the Assembly to incur the huge expenditure on use of goods and services.

Consequently, it has not been possible to confirm whether value for money has been realized from the expenditure of Kshs.377,166,435 on use of goods and services in the year under review.

### 2. Budget Under Absorption

The statement of comparison of budget and actual amounts indicates that the County Assembly expended an amount of Kshs.824,319,544 or 97% of the budgeted amount of Kshs.847,450,779. However, a review of the individual Sub-vote revealed that the County Assembly had a Development budget on acquisition of assets of Kshs.101,090,572 but only Kshs.79,469,727 or 79% was utilized on acquisition of assets. The under absorption of the approved budget is an indication of assets not acquired in the year under review as planned, for the benefit of the stakeholders.

Further, Management has not provided any explanatory notes for material deviations between the final budget and actual on comparable basis exceeding 10% in the statement of comparison of budget and actual amounts as prescribed in the reporting template and as required under Paragraph 24 of the International Public Sector Accounting Standards (IPSAS).

### 3. Prior Year Audit Matter

As previously reported, the County Assembly Management made payments totalling Kshs.288,600,581 in the financial year ended 30 June, 2018 in respect to use of goods and services. Included in this figure was Kshs.9,403,447 on account of foreign travel and subsistence paid out as per diems for the Speaker, the Clerk and Members of

County Assembly while traveling to Singapore and Dubai to attend conferences. However, the Management did not provide supporting documents such as air tickets, boarding passes, training fee receipts, back to office reports and certificates of attendance as proof of travel, for audit review. The matter remained unresolved as at 30 June, 2019.

## 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**

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 matter 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 governance were not effective.

### **Basis for Conclusion**

#### **Control Weaknesses over Expenditure Documents**

Included in the use of goods and services amount is Kshs.108,385,731 expenditure on domestic travel and subsistence. However, controls over domestic travel expenditure were noted to be weak. For instance, fuel receipts are not backed by ETR receipts which cast doubt on their authenticity and sampled receipts on hire of taxis services did not have journey details.

In view of the foregoing, the County Assembly could be exposed to the risk of payment of invalid expenditure.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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 overall 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Assembly's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to dissolve the County Assembly or to cease operations.

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.

Management is also responsible for overseeing the Assembly's financial reporting process, reviewing the effectiveness of how the Assembly 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 overall 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 overall 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 noncompliance. 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 County Assembly's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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 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 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 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**19 October, 2020**