

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

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of County Executive of Kwale set out on pages 31 to 91, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and summary statement of Appropriation; 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 financial position of County Executive 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 Government Act, 2012.

### Basis for Qualified Opinion

#### 1.0 Variance between Financial Statements and Integrated Financial Management Information System (IFMIS) Balances

The financial statements for the year ended 30 June 2018 availed for audit review have variances amounting to Kshs.40,801,421 between the financial statements and Integrated Financial Management Information System balances as detailed below;

Component	Financial Statement Kshs.	IFMIS Balance Kshs.	Variance Kshs.
Use of Goods:	1,200,435,220	1,146,342,29	54,092,930
Acquisition of Assets:	2,238,261,562	2,251,553,071	(13,291,509)
<b>Total</b>	<b>3,438,696,782</b>	<b>3,397,895,361</b>	<b>40,801,421</b>

Consequently, the accuracy and completeness of the expenditure totaling Kshs.3,438,696,782 included in the statement of receipts and payments for the year ended 30 June 2018 could not be confirmed.

#### 2.0 Use of Goods and Services

The statement of receipts and payments for the year ended 30 June 2018 reflects use of goods and services expenditure amounting to Kshs.1,200,435,220 as detailed in Note 12 to the financial statements. However, the following observations were made;

## 2.1 Other Operating Expenses

Included in the use of goods and services expenditure of Kshs.1,200,435,220 is Kshs.201,089,904 in respect of other operating expenses out of which Kshs.18,336,000 relates to legal expenses. However, no audit evidence was availed to confirm how the legal firms were evaluated and identified. Further, court reports, proceedings and rulings were not availed for audit verification.

Consequently, the propriety and accuracy of Kshs.18,336,000 on legal expenses for the year ending 30 June 2018 could not be confirmed.

## 2.2 Unsupported Expenditure

Included in the use of goods and services expenditure of Kshs.1,200,435,220 are expenditures totaling Kshs.8,950,438 which were not supported as detailed below;

No	Item/Component	Amount (Kshs)	Observations
1	Printing and advertising	6,753,613	Advertising awareness and publicity documents availed for audit review indicated that all advertisements were done through various local Newspapers contrary to Circular 09/2015 of 10 <sup>th</sup> July 2015 addressed to all Accounting Officers, which gave guidelines on centralization of public advertisements through Government Appointed Agencies
2	Training	2,196,825	<ul style="list-style-type: none"> <li>• Invitation letters to the specific training/seminars not availed</li> <li>• Motor vehicle work tickets, air tickets boarding passes not attached as evidence of travel</li> <li>• Schedule of payment of allowances not signed by the recipients to acknowledge receipt of the funds</li> <li>• Venue of the training /workshop not disclosed to confirm applicability of the rate used</li> <li>• Letter of admission into training school/colleges were not attached</li> </ul>
	<b>Total</b>	<b>8,950,438</b>	

Consequently, the propriety and accuracy of Kshs.8,950,438 included in the use of goods and services for the year ended 30 June 2018 could not be confirmed.

### **3.0 Acquisition of Assets**

The statement of receipts and payments for the year ended 30 June 2018 reflects Kshs.2,238,261,562 on acquisition of assets as detailed in Note 17 to the financial statements. However, the following observations were made:

#### **3.1 Acquisition of Land**

Note 17 to the financial statements reflects Kshs.3,625,000 incurred for acquisition of land. Records availed for audit review indicated that two parcels of land were acquired at a cost of Kshs.1,250,000 and Kshs.2,375,000 measuring 2.5 acres 5 acres respectively for construction of Kinango livestock market and a slaughter house. However, title deeds for the two parcels of land were not availed for audit review. Further, construction works for Kinango livestock market was ongoing on the parcel but there was no signboard detailing the ownership, financiers and the nature of project undertaken.

Under the circumstances, it has not been possible to confirm the propriety of Kshs.3,625,000 expenditure on acquisition of land for the year ending 30 June 2018.

#### **3.2 Construction of Roads**

Included in the construction of roads expenditure of Kshs.83,488,684 is Kshs.4,772,646 paid to a local contractor for upgrading 10 Kilometers Kabenderani – Mwangea – Mwandoni Road. Physical verification carried out on 20 November 2018 revealed that the actual payment was for 10 Kilometers while the actual work done was 9.1Kilometers resulting to an overpayment for 0.9Kilometers length of the road. The full payment for the 10 Kilometers was made instead of 9.1Kilometers.

Under the circumstances, it has not been possible to confirm the propriety of Kshs.4,772,646 spent on upgrading Kabenderani – Mwangea – Mwandoni Road for the year ended 30 June 2018.

#### **3.3 Rehabilitation of civil works**

Note 17 to the financial statements reflects Kshs.266,412,352 spent on rehabilitation of civil works. Included in the rehabilitation of civil works is Kshs.36,162,130 paid to a local contractor for construction of Mwakalanga Dam. However, physical verification of the project on 19 November 2018 revealed that excavation work had just started whereas the supervising Engineer's report had indicated that the excavation was complete.

Under the circumstances, it has not been possible to confirm the propriety of Kshs.36,162,130 spent on construction of Mwakalanga Dam for the year ended 30 June 2018.

### 3.4 Domestic Payables

Note 17 to the financial statements for the year ended 30 June 2018 reflects a figure Kshs.1,123,557,991 in respect of domestic payables (pending Bills). The following observations were made.

#### 3.4.1 Jasini Cause way

Included in domestic payables balance of Kshs.1,123,557,991 is an amount of Kshs.22,721,800 paid to a local contractor for Tender No. CGK/081/2016-2017 to construct a causeway in Vanga, Kwale County. Site verification carried out revealed that out of total works certified and paid, an amount of Kshs.13,418,800 could not be matched to any certificate of measured works as analyzed below;

<b>BQ</b>	<b>Certified Works</b>	<b>Physical Verification</b>	<b>Variance Kshs.</b>
Provide, place & compact rockfill to form causeway base as directed by engineer (Handpicked stone)	9000M <sup>3</sup> @ 2275/- = Kshs.20,475,000	290x8x1.5m (3480M <sup>3</sup> ) @ 2275/- = Kshs.7,917,000	12,558,000
Provide gravel weary course – excavation free haul, spread, water & compact gravel to specification on top of handpicked rockfill	900M <sup>3</sup> @ 1540/- = Kshs.1,386,000	900M <sup>3</sup> @ 1540/- = Kshs.1,386,000	None
Provide & install coated gabions as retaining walls & anti-erosion structures as directed by engineer	40 No. @ 13650/- = Kshs.546,000	Not done	546,000
Provide & place concrete class 20/25	20M <sup>3</sup> @ 12740/- = Kshs.254,800	Not done	254,800

<b>BQ</b>	<b>Certified Works</b>	<b>Physical Verification</b>	<b>Variance Kshs.</b>
Erect sign board as per specifications	2No. @ 30,000 = Kshs.60,000	Not done	60,000
<b>Total</b>			<b>13,418,800</b>

Under the circumstances, it has not been possible to confirm the propriety of Kshs.13,418,800 paid for the construction of the causeway for the year ended 30 June 2018.

### 3.4.2 Purchase of Drilling Materials, Chemicals, Tools and Accessories

Note 17 to the financial statements for the year ended 30 June 2018 reflects a figure Kshs.1,123,557,991 in respect of domestic payables (pending Bills). Included in this amount is Kshs.30,163,182 spent for supply and delivery of drilling equipment, chemicals, tools and accessories.

The following observations were made;

	<b>Payment Voucher</b>	<b>Amount Kshs.</b>	<b>Particulars</b>	<b>Observation</b>
1	005 WA-18	4,726,000	Supply of drilling materials, chemicals, tools and accessories.	Requisition from the user department was not availed.  No evidence was availed to confirm the goods were delivered to the point of use and utilized for the intended purposes
2	035WA – 18	8,288,360	Supply and delivery of drilling materials, chemicals, tools and accessories.	No evidence of a competitive process was availed.  No evidence was availed to confirm the goods were delivered to the point of use and utilized for the intended purposes
3	109WA-18	13,235,022	Supply of drilling equipment and chemicals	Requisition from the user department was not availed. No evidence was provided as to how the supplier was

	<b>Payment Voucher</b>	<b>Amount Kshs.</b>	<b>Particulars</b>	<b>Observation</b>
				<p>identified and selected for the supply of the equipment.</p> <p>No evidence was provided to confirm delivery to the point of use and utilization was for the intended purposes.</p>
4	006WA-18	3,913,800	to supply of drilling equipment and chemical	<p>Requisition from the user department was not availed.</p> <p>The actual bids or quotations were not availed.</p> <p>Minutes of evaluation committee were not availed to confirm how the winning bidder were selected.</p> <p>The Head of Procurement opinion was not availed for audit review.</p> <p>No evidence was provided to confirm the equipment were issued to the point of use and utilization was for the intended purposes.</p>
	<b>Total</b>	<b>30,163,182</b>		

Consequently, the propriety and accuracy of Kshs.30,163,182 spent on domestic payable for the year ended 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 Executive 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

### 1.0 Budgetary Absorption

During the year under review, the approved final budget for Kwale County Executive was Kshs.8,598,537,209 with Kshs.4,710,335,983 allocated to recurrent expenditure and Kshs.3,888,201,226 to development. The actual expenditure was Kshs.6,780,030,143 resulting to under absorption of Kshs.1,818,507,046 or 21% as summarized below;

Expenditure Item	Budgeted Amount Kshs	Actual Expenditure Kshs	Under absorption Kshs	Over absorption Kshs	Under absorption %
Compensation of Employees	2,394,446,081	2,281,688,568	112,757,513		5
Use of goods and services	1,499,140,955	1,200,435,221	298,705,735		20
Transfers to Other Government Units	0	541,730,108	0	541,730,108	
Other grants and transfers	839,023,554	517,529,683	321,493,871		38
Acquisition of Assets	3,837,643,143	2,238,261,563	1,599,381,580		42
Other Payments	28,283,456	385,000	27,898,456		99
<b>TOTAL</b>	<b>8,598,537,189</b>	<b>6,780,030,143</b>	<b>2,360,237,154</b>	<b>541,730,108</b>	

The under absorption of approved budget by Kshs.2,360,237,154 or 21% is an indication of activities and project in the annual work-plan not implemented by the County Executive and which is likely to have negative impact on delivery of goods and services to the residents of Kwale County. There is need therefore, for the County Executive to refocus on budget

process mechanism with a view to giving priority to the areas where projects may be implemented efficiently and effectively within the timeliness of the budget for the benefit of citizens of Kwale County.

Further, County Assembly approval for the over expenditure of Kshs.541,730,108 was not availed for audit review.

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

## 2.0 Inconsistent Revenue Collection

The statement of receipts and payments for the year ended 30 June 2018 reflects County own generated receipts of Kshs.226,210,459 compared to Kshs.221,011,186 collected in 2016/2017 financial year. However, scrutiny of the past three (3) years collections revealed inconsistency in various revenue streams as summarized below;

Details	2017/2018	2016/2017	2015/2016
Rent	3,798,234	3,346,450	10,152,379
Other Property Income	0	0	39,534,783
Receipts from Administrative Fees & Charges	0	4,832,314	0
Fines Penalties and Forfeitures	0	0	11,255,058
Business Permits	60,671,524	55,018,719	58,603,940
Cess	10,967,934	12,511,549	13,887,864
Poll Rates	40,176,080	53,682,884	0
Plot Rents	2,183,356	1,576,200	0
Other Local Levies	0	3,667,263	28,062,135
Administrative Service Fees	2,664,265	0	0
Various Fees	288,000	0	11,687,988
Council's Natural Resources Exploitations	15,578,472	18,562,866	21,195,193
Market/Trade Centre Fee	0	11,799,876	5,880,700



<b>Details</b>	<b>2017/2018</b>	<b>2016/2017</b>	<b>2015/2016</b>
Vehicle Parking Fees	0	11,054,159	11,028,074
Public Health Services	7,300,290	2,233,200	0
Public Health Facilities Operations	35,672,090	23,964,870	32,621,588
Environment & Conservancy Administration	2,109,200	2,224,400	0
Slaughter House Administration	852,294	1,554,954	840,189
Other Health & Sanitation Revenues	0	0	3,867,695
Tender Document Sale	0	0	2,305,500
Technical Services Fees	16,567,776	14,981,482	0
<b>TOTAL</b>	<b>226,210,459</b>	<b>221,011,186</b>	<b>248,617,586</b>

Management has not explained the above inconsistencies in revenue collection from the various streams. Further, revenue collection dimly increased by Kshs.5,199,273 or 2% in the year 2017/2018. This is an indication of inefficient revenue collection systems contrary to Section (157) (2) of the Public Finance Management Act, 2012 which requires that the receiver of County Government revenue ensures that the revenue for which the receiver is responsible, is collected or recovered and is accounted for.

Consequently, the County Executive may not fully finance its budget activities which may negatively affect goods and service delivery to residents of Kwale County.

### **3.0 Land Rates Arrears**

Audit review of the Local Authority Integrated Financial Operations Management systems (LAIFOM) ledger indicated land rates arrears amounting to Kshs.805,279,659 as at 30 June 2018.

Further, county revenue report for the financial year 2017/2018 indicated Land Rates Arrears as at 30<sup>th</sup> June 2018 was Kshs.883,548,584 while balance as per LAIFOM was Kshs.805,279,659 resulting in unreconciled variance of Kshs.78,268,925.

### **4.0 Project Verification**

Audit inspection undertaken in the month of November, 2018 for forty-nine (49) of the sampled projects implemented during the period under audit revealed the following observations:

	<b>Department</b>	<b>Project Name</b>	<b>Contract Sum Kshs</b>	<b>Status</b>
1.	Finance and economic planning	Building construction management-upgrading of Pungu revenue office	5,417,325.52	Complete
2.	Finance and economic planning	Proposed construction of Pungu revenue office section phase ii	5,954,398.32	Complete awaiting electrical connection
3.	Finance and economic planning	Accounting software; revenue system	57,838,351.22	Piloting stage
4.	Health services	Renovation of Msambweni laboratory block	2,122,731.00	Complete
5.	Health services	Supply of incenerator in Msambweni hospital	2,540,000.00	Complete
6.	Health services	Construction of Samburu theatre	9,779,488.20	On going
7.	Health services	Construction of accident and emergency in Kinango hospital	31,992,628.00	On going
8.	Health services	Construction of paedriatic unit at Kwale hospital	5,454,119.20	Complete but not in use
9.	Health services	Construction of a toilet in Kwale hospital	1,399,900.00	Complete
10.	Health services	Completion of paedriatic ward in Kwale hospital	10,818,879.20	Complete
11.	Health services	Renovation of maternity block in Kwale hospital	3,400,000.00	Complete
12.	Health services	Supply and installation of control panel in Kinango hospital	3,450,000.00	Complete
13.	Health services	Erection and completion of maternity complex at Msambweni	69,164,083.60	On going
14.	Health services	Supply of CT scan in Msambweni hospital	48,296,600.00	Delivered and in use

	<b>Department</b>	<b>Project Name</b>	<b>Contract Sum Kshs</b>	<b>Status</b>
15.	Health services	Renovation of Kinango hospital	2,973,600.00	Complete and in use
16.	Infrastructure	Proposed Jasini bridge	17,302,315.00	Not started
17.	Infrastructure	Jasini cause way	22,721,800.00	Ongoing
18.	Infrastructure	Proposed road opening at std gauge railway – Mwabila pry & Kafuduni – Mavirivirini 8.0 km	5,000,000.00	Works completed as per the bills of quantities
19.	Infrastructure	Proposed rehabilitation of Kwale township roads (9.3) Kms Tsimba Golini ward	1,447,800.00	Works completed as per the bills of quantities
20.	Infrastructure	Proposed spot improvement of stage ya Muhogo- Maro kwa Njenga, Mwabovo-Majimoto & Vitsangaleweni kwa masai roads in Dzombo ward	5,122,000.00	Works completed as per the bills of quantities
21.	Infrastructure	Proposed spot improvement of Perani-Mwamose (9.0) km , L/lunga hospital - Botola road , Lungalunga-Kidomaya (8.0) km and Mwalewa - Ngathini road in Vanga ward	4,818,750.00	Works completed as per the bills of quantities
22.	Infrastructure	Proposed spot improvement at Magombani - Mtsunga in Mwereni ward	5,350,000.00	Works completed as per the bills of quantities
23.	Infrastructure	Proposed spot improvement of Samburu - Chanzou road in Samburu Chengoni ward	2,120,000.00	Works completed as per the bills of quantities
24.	Infrastructure	Proposed pothole patching and surface dressing of road from a14 junction to Msabweni hospital	19,898,800.00	Works completed as per the bills of quantities

	<b>Department</b>	<b>Project Name</b>	<b>Contract Sum Kshs</b>	<b>Status</b>
25.	Infrastructure	Proposed culvert installation at Magwei-Ganda road in Kikoneni ward	3,062,440.00	Culverts construction completed
26.	Water services	Mazola-Chirima Cha Uha [2.6] at Puma Ward	8,007,590.00	Complete
27.	Water services	Construction of Sapo –Mbuluni pipeline[3] in Ndavaya	16,424,092.00	Complete
28.	Water services	Expansion of Kamale Chanzou water project-Samburu Chemgoni ward	26,155,129.00	Complete
29.	Water services	Construction of Taru Fuleye pipeline-Samburu Chemgoni ward	24,992,760.00	Complete
30.	Water services	Extension of Taru-fleye water pipeline	2,000,000.00	Complete
31.	Water services	Drilling materials-drilling, development and equipping of borehole water supply systems at Ng'ombeni dispensary - Waa Ng'ombeni ward-construction of borehole at Mtabwe - construction of borehole at Kinondo -drilling, development and equipping of two new boreholes at Kibarani and Fihoni - Kinondo ward-construction of borehole at Kijebe - Kinondo ward	13,349,786.00	Delivered
32.	Water services	Proposed construction of Mwakalanga dam - phase i	10,000,000.00	On going
33.	Water services	Lot 3-hiring of plant machinery for rehabilitation and construction water pans and dams-rehabilitation/construction of water pans and dams : Maweu /Chidzugani; Mwangoni dam in Puma ward; Bendege dam in Kasemeni ward; Chidzaya dam in Puma ward and one dam in Samburu Chengoni ward	9,425,000.00	Complete

	<b>Department</b>	<b>Project Name</b>	<b>Contract Sum Kshs</b>	<b>Status</b>
34.	Infrastructure	Propose rehabilitation of SGR bridge - Mavarata ECDE road (0.9 km)	3,935,140.00	Grading completed, pending 38mt of 900mm culverts , gravel works completed
35.	Infrastructure	Proposed cabro laying at Pungu slaughter road phase 1	5,043,817.00	Works completed as per the bills of quantities
36.	Infrastructure	Construction of Makwembe bridge	8,776,055.00	Not tendered
37.	Infrastructure	Proposed spot improvement of Vitsangalaweni - Kwa Masai road road (3.5 km)-krb (budget 4297000)	4,296,500.00	Culverts completed, grading done, gravel ongoing
38.	Infrastructure	Proposed rehabilitation of Samburu - Chanzou - ShauriMoyo (28 km) road in Samburu Chengoni ward- KRB (budget 4502200)	3,665,560.00	Burried drift construction completed, light grading completed, pending gravel 280cm
39.	Infrastructure	Proposed construction of 1 No. 15m high mast floodlights at Vanga cementary in Vanga ward.	1,397,000.00	Complete and in use
40.	Infrastructure	Proposed renovations of the 20m high mast floodlights at Vanga centre in Vanga ward.	1,100,000.00	Not started
41.	Education	Vinyunduni ECDE	5,150,155.00	In progress
42.	Education	Gede ECDE	5,199,999.28	Complete
43.	Education	Wamasa	5,200,448.20	Complete
44.	Education	Jeza ECDE	5,142,251.10	Complete
45.	Education	Kipambani ECDE	5,150,423.20	Complete
46.	Education	Nyarini ECDE	5,194,474.20	Complete
47.	Education	Tsole ECDE	5,150,000.00	Complete
48.	Agriculture	Renovation of Majimboni cattle dip(Kubo south)	3,790,914.80	Done and in use.

	<b>Department</b>	<b>Project Name</b>	<b>Contract Sum Kshs</b>	<b>Status</b>
49.	Health	Supply, delivery, installation and commissioning of a digital radiography diagnostic machine for Kwale hospital	16,600,000.00	Complete
50.	Health	Supply and delivery of standby generators for Msambweni and Kinango hospital	22,074,632.00	Complete
	<b>Total</b>		<b>564,667,736.04</b>	

The above observations are indications of weaknesses in project management which may affect service delivery to the residents of Kwale County. The County Executive should put in place proper project monitoring systems to ensure projects are implemented as per specifications and within the set timelines.

## **5.0 Construction of Buildings**

As reported in the previous year, included in the construction of building balance of Kshs.328,280,456 for the year ended 30 June 2017 as detailed at Note 17 to the financial statement. Included in this is an amount of Kshs.129,000,000 paid to a local construction company towards the proposed construction of County Headquarters offices for the year ended 30 June 2017. Site visit during the audit revealed that work was going on. However, no evidence to indicate timelines or any agreement signed between the contractor and the County Government of Kwale on when the remaining work will be completed.

Under the circumstances, it has not been possible to confirm the value for money paid by the County for the construction of County Headquarters.

## **6.0 Pending Bills**

Annex 2 to the financial statements for the year ended 30 June 2018 reflects pending bills balance of Kshs.2,303,830,381 which are mainly due to contractors. However, no evidence in form of contracts, invoices and Local purchase orders were availed for audit review. Further the pending bills of Kshs.2,303,830,381 compared to bank balances of Kshs.2,291,284,974 reflects an excess vote of Kshs.12,545,407. This is contrary to Section 51(1)(f) of the Public Finance Management (County Government) Regulations, 2015 which requires public officers not to exceed the limit authorized in the AIE.

Consequently, the accuracy and completeness of the pending bills of Kshs.2,303,830,381 sated as at 30 June 2018 could not be confirmed.

## 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 Report on Lawfulness and Effectiveness in Use of 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**

#### **1.0 Ethnic Composition**

Records availed for audit indicated that during the year the County Government of Kwale recruited four hundred and thirty-nine (439) new members of staff. A review of the composition of the new staff recruited indicated that 370 (84%) came from two dominant ethnic groups, this contravened the County Government Act 2012 Section 65(e) which requires that at least 30% of the vacant post at entry level be filled by candidates who are not from the dominant ethnic community of the County.

Consequently, the County was in breach of the law.

#### **2.0 Payment to Council of Governors**

Included in the use of goods and services expenditure of Kshs.1,200,435,220 is Kshs.153,976,954 in respect of hospitality, supplies and services out of which an amount of Kshs.8,839,845 was contributed to the council of Governors contrary to Section 37 of the Inter-Governmental Relations Act, 2012 which requires that the operational expenses of the Council of Governors be provided for in the annual estimates of the revenue and expenditure of the national Government.

Consequently, the county was in breach of the law.

#### **3.0 Payment to Kwale Water and Sewerage Company**

Included in the balance of acquisition of asset of Kshs.2,238,261,562 is an expenditure of Kshs.29,719,253.55 incurred by the County Government of Kwale on behalf of Kwale Water and Sewerage Company in respect of electricity bill and bulk water bill despite not having budgetary allocation contrary to Public Finance Management (County Government) Regulation, 2015 Section 43(2) which requires County Government entities to execute their approved budget based on annual appropriation legislation.

Consequently, the county was in breach of the law

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 matter described in the Report on Effectiveness of Internal Controls, Risk Management and Governance and Basis for Qualified Opinion sections 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**

#### **Audit committee**

During the period under review, it was observed that County Executive of Kwale had not established an Audit Committee. This contravened Section 42 (1) part e of Public Finance Management (County Government) Regulations, 2015 which requires the Accounting Officers to ensure all county entities have an Audit Committee in place.

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 County Government Executive ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the County Executive 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.

Those charged with governance are responsible for overseeing the County Executive of Kwale 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 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 Executive 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 of the County Executive of Kwale 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**