

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF MAKUENI FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Makueni set out on pages 7 to 53, which comprise the statement of financial assets as at 30 June 2017, and the statement of receipts and payments, summary statement of appropriations (recurrent and development combined), statement of cash flows 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 Executive 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 comply with the County Government Act, 2012 and 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, except for the matter described in the Other Matter section of my report, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Cash and Cash Equivalents

As disclosed at Note 21A and 21B to the financial statements, cash and cash equivalents balance of Kshs.1,401,820,598 as at 30 June 2017 comprises balances held in three banks under various accounts totalling Kshs.1,401,817,098 and cash balance of Kshs.3,500. Included in the bank balances is an amount of Kshs.141,969,876 under account number 1000238119 at the Central Bank of Kenya for which the bank reconciliation statement as at 30 June 2017 reflects long outstanding receipts in the cashbook not yet recorded in the bank dating as far back as July 2016 totalling Kshs.14,919,465. Further, the reconciliation statement reflects receipts in the bank statement not in the cashbook dating from December 2016 amounting to Kshs.11,696,133. No explanation has been provided for failure to investigate and clear the long outstanding items from the financial records.

Consequently, the accuracy of cash and cash equivalents balance of Kshs.1,401,820,598 as at 30 June 2017 cannot be confirmed.

2. Acquisition of Assets

2.1 Acquisition of Land

During the year under review, the County Government Departments spent Kshs.38,872,922 on purchase of fifteen (15) parcels of land as follows: Kshs.31,272,922 - Department of Lands, Physical Planning and Mining; Kshs.3,600,000 - Department of Water, Irrigation and Environment; and Kshs.3,000,000 - Department of Gender, Youth and Social Services. However, out of the fifteen parcels of land bought, only two parcels had title deeds while the remaining thirteen parcels did not have titles.

Following a request made by the Director General of Africa Medical Research Foundation (AMREF) to the County Government to donate at least 50 acres for construction of its university campus in Makueni County, the County Government opted to purchase a parcel of land for the foundation at a cost of Kshs.12,500,000 on 31 May 2016. A title deed number Makindu/Kisingo/2436 for the land was subsequently processed in the name of AMREF International University of P.O Box 78-90300 Makueni as the beneficiary of that acquisition and legal owner. To date, the land lies idle as no activity has been undertaken. The circumstances under which the County Government used public funds to procure the land for a private institution have not been explained satisfactorily.

2.2 Acquisition of Motor Vehicles

As disclosed in Note 17 to the financial statements, a total Kshs.2,993,877,085 was spent on acquisition of assets in the year under review. Included in this expenditure is an amount of Kshs.87,800,512 in respect of purchase of vehicles and other transport equipment. However, a review of the logbooks and other supporting documents revealed that logbooks for seven motor vehicles acquired at a total cost Kshs.38,824,954 had not been obtained.

Consequently, the ownership of the seven vehicles valued at Kshs.38,824,954 cannot be confirmed.

2.3 Support to Small Business Traders (Hawkers)

The County Executive through the Department of Trade, Industry, Tourism and Co-operatives bought two Lorries at a total cost of Kshs.9,900,000 to support small business traders (hawkers) within the county. The Lorries are used by hawkers to transport their wares from one market to another. Available information indicate that the hawkers are in charge of the daily operations of the Lorries, including fueling, maintenance and hiring of drivers. The Department has, however, not developed and communicated clear policy on the use of the county assets by the small traders to eliminate abuse of public assets and to ensure that the law governing use of public assets are not compromised. This is contrary to Section 149, Sub-section 2 (m) of the Public Finance Management Act, 2012 that require the Accounting Officer to ensure that assets of the entity are managed to ensure that the entity receives value for money when acquiring, using or disposing of its assets; and Sub-section 2(o) which require the Accounting Officer to ensure that the respective county government entity has adequate systems and processes in place to

plan for, procure, account for, maintain, store and dispose of assets, including an asset register that is current, accurate and available to the relevant County Treasury or the Auditor-General.

2.4 Construction of Multi-Purpose Hall at Wote

A local contractor, Kanini Kaseo Wholesalers, was awarded a tender for construction of a multi-purpose hall at Wote at a cost of Kshs.9,322,721 during the year under review. The cost elements included Kshs.757,650 for construction of concrete sitting terraces. However, physical verification of the project revealed that terraces were not done as indicated in the contract documents. Information available indicate that instead of the sitting terraces, the contract was varied and the contractor allowed to substitute the terraces with 200 banquet seats at Kshs.2,800 per unit bringing the total cost of the seats to Kshs.560,000. It is not clear why the contract was varied to substitute terraces with seats which had not been included in the original tender. It is also not clear how the balance of Kshs.197,650 being the difference between the cost of terraces and the cost of the seats was accounted for as the contractor was paid the entire contract sum of Kshs.9,322,721.

2.5 Construction of Workshops at PWD Rehabilitation Centre

The County Government through the Department of Gender, Youth and Social Services awarded construction of ICT, dressmaking and cosmetology, welding and carpentry workshops at PWD rehabilitation center to a contractor, M/S Trans Hydro Corporation Kenya Ltd at a cost of Kshs.11,814,124. The contract commenced on 3 March 2017 and the completion period as per the contract documents was eight weeks. However, the project was not completed as expected and remained incomplete as of November 2017. No documentary evidence has been provided for audit review to support any action taken on the contractor for breach of the contract terms.

3. Use of Goods and Services

3.1 Goods Not Delivered

The Department of Education and ICT awarded a contract for supply and delivery of children's swings, slides, sea-saw balances and climbing frames through a local purchase order number 2514624 dated 23 June 2016 to M/S Musyitech at a cost of Kshs.13,620,000. Playing equipment valued at Kshs.9,080,000 were delivered and invoiced on 8 November 2016, over four months after the local purchase order was issued contrary to Section 52. (1) of the Public Finance Management Regulations (County Government), 2015 which provides that a local purchase order or local service order shall be valid for a period of thirty days from the date of issue.. The remaining equipment worth Kshs.4,540,000 had not been delivered as of February 2018.

4. Transfer of Funds to Other Entities

During the year, the County Government transferred Kshs.60,000,000 to the Makueni County Sand Authority against an approved budget of Kshs.52,351,505 resulting to

unapproved expenditure of Kshs.7,648,495. No supplementary budget was submitted in support of the additional expenditure. Consequently, the propriety of the expenditure of Kshs.7,648,495 as at 30 June 2017 cannot be confirmed.

5. Accounts Receivable-Uncollected Revenue from Defunct Local Authorities

As disclosed in Note 26.4 to the financial statements, a balance of Kshs.161,734,820 being the sum of Kshs.147,410,623 and Kshs.14,324,197 for land rates and rent arrears, respectively has been outstanding from the defunct local authorities in the county. In addition, source documents for the inherited debtors were not provided for audit verification. Consequently, the accuracy and full recoverability of inherited debts totalling Kshs.61,734,820 as at 30 June 2017 cannot be confirmed.

6. Pending Payables/Bills

Notes 26.1 and 26.2 to the financial statements reflect pending accounts payables of Kshs.135,304,342 relating to construction, supply of goods and services and pending staff payables of Kshs.10,662,696 all totalling Kshs.145,967,038. However, pending payables ledger showing movement in individual balances and reference to the originating documents, such as invoices, contracts and payment vouchers have not been provided for audit verification. Consequently, the validity, completeness and accuracy of the total pending payables/bills of Kshs.145,967,038 cannot be ascertained.

Had the pending payables/bills of Kshs.145,967,038 been paid during the year, the County Executive would have reported a deficit of Kshs.2,240,519,462 instead of the deficit of Kshs.2,094,552,424 reported during the year. In addition, no satisfactory explanation has been provided for failure to settle the pending bills during the year given that the county executive had a closing cash and cash equivalents balance of Kshs.1,401,820,598 as at 30 June 2017.

7. Fixed Assets Register

As reported in the previous year, the fixed assets register as at 30 June 2017 does not reflect the assets inherited from the defunct local authorities in the County. In the circumstances, the completeness and accuracy of the fixed assets register non-current assets balance of Kshs.2,373,733,235 as at 30 June 2017 disclosed at Annex 4 of the financial statements cannot be confirmed.

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

Key Audit Matter

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 Key Audit Matters to communicate in my report.

Other Matters

1. Budgetary Analysis

1.1 Un-Utilized Budget

The summary statement of appropriations (recurrent and development combined) shows that the County Executive had an approved budget of Kshs.10,652,442,846 for the financial year 2016/2017. However, actual total expenditure was Kshs.9,075,012,556 thus leading to an under-expenditure of Kshs.1,577,430,290. Further, the IFMIS generated vote books revealed that only Kshs.9,007,497,752 was spent out of the total budget of Kshs.10,652,442,846 thus resulting in a budget absorption rate of 84.5%. The actual expenditure of Kshs.9,007,497,752 reflected in IFMIS vote books differed with the total payments of Kshs.9,075,012,556 reflected in the statement of receipts and payments for the year ended 30 June 2017 by Kshs.67,514,804. The variance has not been explained.

1.2 Recurrent Budget

The summary statement of appropriation – recurrent shows that the County Executive had a budget of Kshs.5,154,661,344 for recurrent expenditure during the year under review but actually spent Kshs.4,926,286,966 thus resulting to under-expenditure of Kshs.228,374,378. However, the IFMIS vote book for recurrent expenditure reflects a budget of Kshs.5,214,601,682 and actual total expenditure of Kshs.4,771,513,990 and overall under-expenditure of Kshs.443,087,692 or approximately 8.5% of the budget as detailed below:

Department	Revised Recurrent Budget 2016/17 (Kshs)	Actual Expenditure (Kshs)	Variance (Kshs)	Variance (%)
County Attorney's Office	38,193,981		(38,193,981)	-100.0
County Public Service Board	75,637,066	69,605,848	(6,031,218)	-8.0
Department of lands, Physical Planning & Mining	40,437,531	38,777,429	(1,660,102)	-4.1
Office of Governor	245,163,330	263,766,437	18,603,107	7.6
Department of Trade, Tourism & Cooperatives	58,396,124	53,948,385	(4,447,739)	-7.6
Department of Youth, Gender, Sports & Social services	57,961,562	55,762,787	(2,198,775)	-3.8
County Secretary	343,443,782	313,755,254	(29,688,528)	-8.6
Department of finance & Socio Economic Planning	671,516,934	510,984,004	(160,532,930)	-23.9

Department of Education & ICT	263,778,653	254,434,688	(9,343,965)	-3.5
Department of Transport & Infrastructure	141,733,078	135,742,787	(5,990,291)	-4.2
Department of Agriculture, Livestock & Fisheries development	205,471,505	196,431,366	(9,040,139)	-4.4
Department of water, Irrigation & Environment	151,272,707	184,858,972	33,586,266	22.2
Department of health	1,818,872,673	1,794,883,308	(23,989,365)	-1.3
Department of Devolution & Public Service	351,578,631	267,085,026	(84,493,605)	-24.0
Sand Authority	47,151,505		(47,151,505)	-100.0
County Assembly	703,992,622	631,477,699	(72,514,923)	-10.3
Sub Totals	5,214,601,682	4,771,513,990	(443,087,692)	-8.5

The actual expenditure of Kshs.4,926,286,966 reflected in the statement of appropriation-recurrent therefore differs with the IFMIS generated recurrent vote book actual expenditure of Kshs.4,771,513,990. The resulting variance of Kshs.154,772,976 has not been explained. In addition, the recurrent budget in the IFMIS vote book was recorded as Kshs.5,214,601,682 and not as Kshs.5,154,661,344 reflected in the final approved budget thus resulting in an unexplained variance of Kshs.59,940,338.

1.3 Development Budget

The statement of appropriation- development reflects a budget for the year under review of Kshs.5,497,781,502 against actual total expenditure of Kshs.4,148,725,591 thus resulting to an under-expenditure of Kshs.1,349,055,911 or 2458% of the budget. However, the IFMIS development vote book reflects actual total expenditure of Kshs.4,235,965,762 resulting in an under- expenditure of Kshs.1,261,815,740 or 23% of the budget as shown below:

Department	Revised Development Budget FY 2016/17	Actual Expenditure (Kshs)	Variance (Kshs)	Variance (%)
Department of lands, Physical Planning & Mining	149,486,156.47	115,390,964.00	(34,095,192.47)	-22.8
Department of Trade, Tourism & Cooperatives	315,528,565.60	222,068,440.00	(93,460,125.60)	-29.6
Department of Youth, Gender, Sports & Social services	455,683,023.82	402,112,666.00	(53,570,357.82)	-11.8
Department of finance & Socio Economic Planning	55,737,490.00	49,240,895.00	(6,496,595.00)	-11.7
Department of Education & ICT	462,375,857.34	360,764,441.00	(101,611,416.34)	-22.0
Department of Transport & Infrastructure	853,288,449.63	621,598,166.00	(231,690,283.63)	-27.2
Department of Agriculture, Livestock & Fisheries development	701,230,570.74	615,289,485.00	(85,941,085.74)	-12.3
Department of water, Irrigation & Environment	1,234,022,534.15	807,774,084.00	(426,248,450.15)	-34.5

Department of health	1,177,288,518.51	918,272,497.00	(259,016,021.51)	-22.0
Department of Devolution & Public Service	28,000,000.00	78,218,091.00	50,218,091.00	179.4
Sand Authority	5,200,000.00	60,000,000.00	(7)	-100.0
County Assembly	59,940,336.88	45,236,033.00	(14,704,303.88)	-24.5
Sub Totals	5,497,781,503	4,235,965,762	(1,261,815,741)	-23.0

Further, the IFMIS development vote book actual total expenditure of Kshs.4,235,965,762, differs with the actual expenditure balance of Kshs.4,078,650,982 stated in the statement of appropriation- development by Kshs.157,314,780, which variance has not been explained satisfactorily.

2. Development Projects Implementation and Management

The County Executive budgeted to spend Kshs.5,497,781,502 on development projects during the year under review. However, projects implementation status report as at 30 June 2017 indicates that 1,287 projects estimated to cost Kshs.5,187,328,384 had been earmarked for implementation as follows:

Department	No. Budgeted	Amount Budgeted (Kshs)	Total Expenditure (Kshs)	Variance (Kshs)	Completed Projects	Ongoing Projects	Stalled Projects	Projects not Started
Department of lands, Physical Planning & Mining	20	41,966,250	34,926,250	(7,040,000)	14	6	-	-
Department of Trade, Tourism & Cooperatives	80	315,528,566	222,068,440	(93,460,125)	51	23	-	6
Department of Youth, Gender, Sports & Social services	48	455,683,024	404,690,925	(50,992,099)	24	16	1	7
Department of Education & ICT	168	481,720,694	374,401,403	(107,319,291)	139	18	3	18
Department of Transport & Infrastructure	419	804,168,126	573,027,554	(231,140,572)	398	16		5
Department of	51	701,230,571	551,264,401	(149,966,169)	32	19	-	-

Agriculture, Livestock & Fisheries development								
Department of water, Irrigation & Environment	332	1,209,742,636	716,613,786	(493,128,849)	247	62	4	18
Department of health	169	1,177,288,519	917,053,874	(260,234,645)	132	12		25
Sub Totals	1,287	5,187,328,384	3,794,046,634	(1,393,281,751)	1,037	172	8	79

The variance of Kshs.310,453,118 between the projects approved in the budget of Kshs.5,497,781,502 and the amount of Kshs.5,187,328,384 reflected in the project implementation status has not been explained.

Further, the project implementation status report indicates that eight projects had stalled while a total of seventy-nine projects had not started. As a result, the county residents did not obtain value-for-money from the eight stalled projects and the yet to start seventy-nine projects. No explanation has been provided for the delays in commencing and completing the projects.

3. Human Resource

A review of the payrolls revealed that the County Executive staff numbered 3,226 as at 30 June 2017. Out of this number, 1,889 were in the Integrated Personnel Payroll Database (IPPD) and 1,337 in a different payroll for employees on contract terms and which was maintained in excel software. Further, review of the internal controls in the management of human resource and the IPPD staff list as at June 2017 revealed the following anomalies:

3.1 Lack of Staff Establishment

A review of the human resource processes and documentation showed that the County Executive did not have an approved human resource establishment to guide in the management and utilization of the human resource.

3.2 Staff Regional Balance

As stated earlier, in the absence of the biodata in the manual payroll, it is not possible to determine the constitutional thresholds on representation. However, of the 291 employees recruited during the year, the highest number were from the dominant community at 90.38% as detailed below.

Ethnic Group	Number	Proportion
KAMBA	263	90.38

KIKUYU	8	2.75
LUHYA	5	1.72
LUO	5	1.72
KISII	4	1.37
KALENJIN	3	1.03
MERU	1	0.34
EMBU	1	0.34
GIRIAMA	1	0.34
	291	100

The County Executive was therefore in breach of Section 65(i) (e) of the County Government Act, 2012 which provides that at least 30% of County Government workers should be from communities other than the one dominant in the County.

4. Internal Audit Function

The County Executive has an internal audit function in place. However, the scope of internal audit function did not include evaluating and reporting on internal controls. In addition, the unit did not have an annual audit plan and the internal audit charter was also not provided for audit verification. Further, the few audits planned for the financial year were not completed. In addition, for those audits performed during the year, management responses on the issues raised were not provided for audit verification. Further, no documentary evidence was made available to confirm that the Accounting Officer had authorized internal audit unit staff to have unrestricted access to all records and assets of the County. It was also noted that though the unit functionally works under the audit committee, it has been placed administratively under finance department which may weaken its independence.

Responsibilities 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 Executive's 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 or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the County Executive'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. 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.

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 Executive'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 Executive's ability 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 to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the County Executive 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