

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

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of County Executive of Makueni set out on pages 1 to 57 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 summary statement of appropriation: recurrent and development 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, the financial statements present fairly, in all material respects, the financial position of County Executive of Makueni as at 30 June 2018, and 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.

Basis for Opinion

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 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 conclusions on lawfulness and effectiveness as well as effectiveness of internal controls, risk management and governance, there were no other key audit matters to report.

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

1.0 Stalled/Projects Not Started

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During the year under review, the county had 26 projects worth Kshs.146,382,808 as at 30th June 2018 earmarked to be implemented through the various County Departments/ Ministries such as Transport, Health, Agriculture and Trade, which were either not started or stalled for various unexplained reasons. This is contrary to requirements of Section 153. (1) of the Public Finance Management Act ,2012 that stipulates that assets be managed in such a way as to ensure that the county government entity achieves value for money in acquiring, using or disposing of those assets.

Further, failure to implement projects on time could lead to cost escalation and may attract litigations by the contractors and the public will not benefit from the intended services that would have been offered by these projects had they been completed.

2.0 Budgetary Performance

2.1 Failure to Meet Targets in County Executive's Own Generated Receipts

The summary statement of appropriation : recurrent on County Own Generated receipts shows that the Own Generated Receipts amounted to Kshs.322,104,226 during the year ending 30 June 2018 compared to Kshs.219,073,418 (2016/2017) - an increase of Kshs.103,030,809 or 47%. The County Executive had budgeted to collect Kshs.753,695,417 but realized Kshs.322,104,226 occasioning a shortfall of Kshs.431,591,191 representing 57%.

Although management has attributed the high target to being too ambitious, there was no evidence of any positive steps being taken to improve its performance in future. If the County Executive does not put adequate controls to improve its revenue and further set realistic revenue budgets as required by Section 29 of the Public Finance Management County Government Regulations 2015 (2), it may not be able to achieve its mandate and may fail to implement earmarked projects and procure goods/services already budgeted for, thus hampering service delivery.

2.2 Failure to Absorb the Full Budgeted Amount

During the year under review the County executive Budgeted to incur expenditure totaling Kshs.9,674,896,012 but the County managed to absorb only Kshs.7,611,543,462 (79%) of the funds disbursed from the National Treasury, County Own Generated receipts and Conditional allocations to County Governments contrary to Section 43 (2) of Public Finance Management County Government Regulations 2015 on Budget Execution which requires that County Government entities to execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan. Although the County received all its National Allocation share, the County Own Generated Receipts fell short of the budgeted amount by 57%. Failure to absorb the funds budgeted for greatly hampers service delivery.

3. 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 a report on performance against pre-determined objectives for submission to the Auditor-General.

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 governance were not effective.

Basis for Conclusion

1. Lack of a Risk Management Policy

Makueni County Executive lacks a Risk Management Policy contrary to the requirements of the Public Finance Management- County Governments Regulations, 2015, 158. (1) which stipulates that the County Government entity develops risk management strategies, which include fraud prevention mechanism; and that the County Government entity develops a system of risk management and internal control that builds robust business operations. Failure to develop a risk management policy means that the County executive does not have a framework for management of risk and hence it is not possible to identify, assess and control risk. . As a result, it is not possible to define the entity's risk appetite and set the risk tolerance levels by identifying boundaries against unacceptable exposure to risk.

2. Lack of a Disaster Recovery Plan

The County executive lacks a Disaster Recovery Plan/ Business Continuity Plan contrary to provisions of Section 99 of the Public Finance Management Act, 2012 which stipulates that the role of a disaster recovery plan is 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.

Other functions of the recovery plan are to:

- i. Provide budget parameters which bind the County Government for a specified period or until stated conditions have been met;

- ii. Identify specific revenue raising measures that are necessary for financial recovery, including the rates at which tariffs should be set to achieve financial recovery and set out a specific strategy for addressing the entity's problems, including a strategy for reducing wasteful expenditure and increasing the collection of revenue, as may be necessary.
- iii. Identify the human resources and the source of those resources, describe the anticipated time frame for the recovery, and the milestones to be achieved; and also identify what actions are necessary for the implementation of the plan, distinguishing between actions to be taken by the entity and actions to be taken by other parties.

In the absence of this plan, the county executive will not achieve the functions in case of a disaster that affects its operations. The county executive is also in breach of leading practices.

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, disclosing as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the County 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.

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 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 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 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 January 2019