

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Makueni set out on pages 1 to 32, which comprise the statement of assets and liabilities as at 30 June, 2019, and statement of receipts and payments, statement of cash flows and the 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 matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of County Executive 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 - Variances Between Financial Statements and IFMIS Balances

The financial statements presented for audit and the Integrated Financial Management Information Systems (IFMIS) trial balance had significant variances which have not been reconciled as detailed below: -

Item	Financial statements Balance (Kshs.)	IFMIS Balance (Kshs.)	Variance (Kshs.)
Bank Balances	1,400,306,099	4,183,372,060	(2,783,065,961)
Cash Balances	-	45,237,870,272	(45,237,870,272)
Outstanding Imprests & Clearance account	1,880,210	786,058,967	(784,178,757)
Accounts Payable	162,658,164	32,240,877,744	(32,078,219,580)
Fund balance B/F	1,322,605,259	8,257,158,152	(6,934,552,893)

Consequently, the accuracy, validity and completeness of the financial statements for the year ended 30 June, 2019 could not be confirmed.

2. Land Without Ownership Documents

As disclosed in Note 9 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.977,698,540 under acquisition of assets which included an amount of Kshs.5,100,000 being the cost of purchase of four (4) parcels of land. Although the transactions were supported by sale agreements and allotment letters, the management did not avail the valuation reports, need assessment

reports and ownership documents such as title deeds for the respective parcels of land in question. Management has also not demonstrated the efforts it has taken towards securing the ownership documents.

Consequently, the ownership of the four (4) parcels of land bought at the cost of Kshs.5,100,000 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Executive of Makueni 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. There were no key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

1.1. Revenue Under-Collection

The summary statement of appropriation; recurrent and development combined, reflects final receipts budget and actual on comparable basis of Kshs.10,651,722,007 and Kshs.10,013,582,061 respectively resulting to an under-collection of Kshs.638,139,946 or 6% of the budget. Although there is a remarkable improvement in own generated resource collections in comparison to the previous year, there was an under collection by 36%. Management has not rendered explanations for the deviations from the budget for the year and the action plans being implemented to bridge the gap and enhance own generated revenue collection.

1.2. Under-Expenditure

The statement also reflects final expenditure budget and actual on comparable basis of Kshs.10,651,722,007 and Kshs.8,608,848,017 respectively resulting into an under absorption of Kshs.2,042,873,990 or 19% of the budget. The acquisition of assets accounted for the bulk of the under absorption of Kshs.1,705,481,693 or 83% of the total amount. This is indicative of the County Government's failure to implement all the planned projects and programmes for the year. No explanations have been rendered for the under absorption.

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. Irregular Payment to the Council of Governors

The County Executive paid Kshs.5,000,000 to the Council of Governors. However, the funding for the operations of the Council of Governors are provided for by the National Government in accordance with Section 37 of the Intergovernmental Relations Act, 2012.

Consequently, the County is in breach of the law.

2. Compensation of Employees

2.1 Expenditure on Compensation of Employees Above Allowable Ceiling

The statement of receipts and payments also reflects expenditure on compensation of employees of Kshs.3,240,640,048. The expenditure is approximately 41.4% of the total receipts of Kshs.7,826,400,064 for the year. This is contrary to Section 25(1)(a) and 25(b) of the Public Finance Management (County Government) Regulations, 2015.

Consequently, the County Executive is in breach of law.

2.2 Staff Ethnic Composition

Review of the staff establishment revealed that 92% of the one hundred and sixty-nine (169) employees recruited during the year were from one ethnic community in the County. This is contrary to section 65 (1) of the County Government Act, 2012 which provides that in selecting candidates for appointment, the County Public Service Board shall consider the need to ensure that at least thirty percent (30%) of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the county.

Consequently, the Management is in breach of the law.

2.3 Non-adherence with Human Resource Policies and Procedures

Examination of payroll records for the year revealed that fourteen (14) employees were receiving net pay that was less than one third of their basic salaries contrary to the provisions of Section C.1 (3) of the Human Resource Policies and Procedures Manual for the Public Service (2016) which states that public officers shall not over commit their salaries beyond two thirds (2/3) of basic salary.

Under the circumstances, the Management was in breach of the Human Resource Policies and Procedures Manual.

3. Loss at Kalamba Fruit Processing Factory

The County also operates a fruit processing plant at Kalamba area whose revenue budget for the year was Kshs.30,000,000. Actual revenue realized amounted to Kshs.28,564,965 representing 95% achievement of the budget.

Review of factory management accounts for the financial year ended 30 June, 2019, revealed a gross profit of Kshs.1,999,511 on net sales of Kshs.38,346,480 representing a 5% gross margin. The operating costs amounted to Kshs.2,701,967 resulting to a net loss of Kshs.702,456 before charging employee cost for the sixteen officers deployed to the plant. The factory, has significantly high overheads and is not making any profits. Unless the management strategize on the operations of the factory, its continued funding may not be effective in the use of public resources

In view of the foregoing, the sustainability and commercial viability of the factory may not be guaranteed.

4. Project Implementation

4.1 Stalled and Unused Completed Projects

A review of the project implementation status report for the year revealed that the County expended Kshs.57,506,122 on twenty-seven (27) projects during the year. The detailed analysis of the projects, physical location, amount paid and its status is at **Annex 1**. However, twenty-two (22) projects had been completed, but were yet to be commissioned and were idle. Further five (5) boreholes with a combined cost of Kshs.14,779,763 had stalled.

4.2 Construction of Kathekani Borehole

Contract for phase 2 works of Kathekani borehole project was awarded on 28 March, 2019 at a contract price of Kshs.3,724,050. The scope of works was installation of water distribution infrastructure. Phase I of the project had been awarded in 2016/17 financial year to a different contractor with the scope of drilling and equipping the borehole. However, field inspection during the month of September, 2019 revealed that there was no water on site as the Phase I contractor had not equipped the borehole. Consequently, the extent to which the borehole was drilled, including the hourly water yields and whether it was as per the specifications could not be confirmed. There is also lack of clarity on why Phase II works were contracted before the works under Phase I had been completed as this was a prerequisites.

From the foregoing, I am unable to ascertain whether the County Government will realize value for money from the expenditure in the projects amounting to Kshs.57,506,122 and award of Phase 2 works of Kathekani borehole project.

5. Idle Parcels of Land

The County Government had acquired six (6) parcels of land at a total price of Kshs.43,790,000 which had not been put into any economic use as at the time of this audit. It is not clear what the intention for the acquisition was and why it has not been implemented.

In the circumstances, it has not been possible to confirm the value for money from the expenditure of Kshs.43,790,000 on the acquisition of the six (6) parcels of land.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1.0 Weak Controls over Revenue Collection

During the year under review, the County Government had budgeted to collect market fee revenue of Kshs.34,500,000. However, actual collection amounted to Kshs.28,072,495 resulting to a shortfall of Kshs.6,427,505 or 19% of the budget. A physical inspection at Kathonzweni Market during the month of September, 2019 revealed that the market entrance fee was only collectible after 3pm and was explained to be due to shortage of revenue collection officers. Further random checks of physical wares being sold by the traders against amounts paid revealed incidences where amount charged and paid was for lesser quantities than what was being held in stock.

The County had also budgeted for livestock market fees receipts of Kshs.16,000,000 but only realized Kshs.7,773,035 resulting to a shortfall of Kshs.8,226,965 or 51% of the budget. A visit to Kathonzweni Livestock Market during the month of September, 2019 revealed instances where traders paid fees for a single animal but used it to move multiple animals out of the market undetected.

In the circumstances, the County Government's controls over the collection of market fees are weak making it susceptible to revenue leakages.

2.0 Lack of a Risk Management Policy

The County does not have in place a risk management policy that guides on assessment and evaluation of risk and development of the strategies to mitigate them. This is contrary to clause 158 (a) of the Public Finance Management Act (County Government) Regulations, 2015 which requires the Accounting Officer to ensure that a County Government entity develops risk management strategies, including fraud

prevention mechanisms, and a system of risk management and internal control that builds robust business operations.

Due to lack of a Risk Management Policy, the County Executive does not have a risk management framework and a risk register. As such, the County Executive may not be able to mitigate risks that affect its business.

3.0 Operations at the Agricultural Training Centre

The County Government operates an Agricultural Training Centre at Kwa Kathoka whose annual revenue budget for the year was Kshs.5,000,000. The Centre realized Kshs.4,949,200 representing 99% of its budget. However, a visit to the Centre, during the month of September, 2019 revealed that the potential of the facility had not been optimized. For instance, the seminar halls and accommodation rooms were idle, while there was lack of professionally trained staff in hospitality to effectively operate the facilities effectively.

In the circumstances, the County Government may not be optimizing the usage of the Centre and may not realise value for money from the investments made.

4.0 Resourcing of Internal Audit Department

A review of the internal audit function revealed that it was not adequately staffed and lacked requisite tools such as an audit system and analytical techniques to effectively deliver on its mandate.

Consequently, the ability of the Internal Audit Department to deliver on its mandate and provide independent appraisal of the operations of the County has not been realized.

5.0 ICT Department Operations

There is no approved ICT Policy, IT Steering Committee, or comprehensive ICT inventory in place. Lack of an approved ICT policy and the related governance structures and controls may lead to breach of confidentiality, integrity and availability of information.

6.0 Lack of Disaster Recovery Plan

The County does not have in place disaster recovery and business continuity plans contrary to provisions of Section 158(b)(1) of the Public Finance Management(County Governments) Regulations, 2015 which stipulates that the role of a disaster recovery plan is to secure the County Government's ability to meet its obligation 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.

Due to lack of a Disaster Recovery Plan, the County Executive may not be able to recover crucial process in the event of a disaster occurring.

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 County Executive's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Government is aware of the intention to dissolve the County Executive 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.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the County Executive 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 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 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 County Executive'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 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

19 October, 2020

Annex 1 –Stalled and Idle Projects-Department of Water, Environment, Sanitation and Climate Change

No.	Project Description	Sub-County	Ward	Budget (Kshs.)	Project Status
1	Ilovoto Weir	Kaiti	Ilima	541,357	Complete but Idle
2	Drilling of Kyumu /kinyongo borehole	Kaiti	Ukia	510,249	Complete but Idle
3	Rehabilitation of Mbaani water project (phase 1)	Kaiti	Ukia	1,455,000	Complete but Idle
4	Rehabilitation of Mbaani water project (phase 2)	Kaiti	Ukia	1,940,000	Complete but Idle
5	Ndauni Borehole	Kibwezi East	Masongaleni	1,940,000	Complete but Idle
6	Extension of Kathekani Water Project -Water Line to Miangeni, Pump to Kathekani Hill And Flow Through Gravity to Ngovu, Kyunguni, Kathekani, Landi	Kibwezi East	Mtito Andei	4,365,000	Complete but Idle
7	Drilling of Kilungu borehole	Kibwezi East	Thange	2,425,000	Complete but Idle
8	Extension of Kilui water project	Kibwezi West	Kikumbulyu South	4,142,870	Complete but Idle
9	Drilling of Mukameni borehole	Kibwezi West	Makindu	970,000	Complete but Idle
10	Rehabilitation of West ngosini Borehole	Makueni	Kikumini/Muvau	628,401	Complete but Idle
11	Rehabilitation of Kithuki Water Project	Makueni	Kitise/Kithuki	700,000	Stalled
12	Construction of Nguthunu earth dam	Makueni	Mavindini	2,425,000	Complete but Idle
13	Construction of Nguthini Earth dam / Matulani borehole	Makueni	Mavindini	1,940,000	Complete but Idle
14	Makutano borehole	Makueni	Mavindini	3,880,000	Stalled
15	Drilling of Kwa Mutavi Borehole	Makueni	Nzau/Kilili/Kalamba	970,000	Complete but Idle
16	Drilling and distribution of Kavingo borehole	Makueni	Wote/Nziu	2,425,000	Complete but Idle
17	Drilling and distribution of Kavingo borehole	Makueni	Wote/Nziu	2,247,465	Complete but Idle
18	Drilling and distribution of Kitheini borehole	Makueni	Wote/Nziu	1,762,465	Complete but Idle
19	Drilling and distribution of Kitheini borehole	Makueni	Wote/Nziu	970,000	Complete but Idle
20	Distribution of Kaiti- Kwakitila water project	Mbooni	Kako/ Waia	5,248,846	Stalled
21	Waia/Kako-Kako-kyaluma water project	Mbooni	Kako/ Waia	94,064	Stalled
22	Thwake water project	Mbooni	Kisau/Kiteta	1,455,000	Complete but Idle

No.	Project Description	Sub-County	Ward	Budget (Kshs.)	Project Status
23	Expansion of Kiumi Water Project including installation of electricity	Mbooni	Kithungo/Kitundu	4,856,854	Stalled
24	Mulima Water Project(piping)	Mbooni	Mbooni	4,181,553	Complete but Idle
25	Drilling & Distribution of Kwa Ndifatha borehole	Mbooni	Tulimani	3,880,000	Complete but Idle
26	Drilling of Itetani dispensary / Itetani girls secondary school borehole	Mbooni	Tulimani	1,552,000	Complete but Idle
27	Tulimani-Tulimani borehole & kyangwasi borehole	Mbooni	Tulimani	-	Complete but Idle
	Total			57,506,122	