REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF MAKUENI FOR THE YEAR ENDED 30 JUNE, 2020

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 31, which comprise the statement of assets and liabilities as at 30 June, 2020, 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 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, 2020, 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. Unconfirmed Balances

The following balances reflected in the financial statements differ with those reflected in the Integrated Financial Management Information Systems (IFMIS) trial balance as at 30 June, 2020 by a net credit balance of Kshs.19,861,508,968, as shown in the Appendix to this report.

As a result, the accuracy and completeness of the financial statements has not been confirmed.

2. Land Without Ownership Documents

The statement of receipts and payments reflects acquisition of assets payments totalling Kshs.1,501,460,426 as further disclosed in Note 9 to the financial statements. Included in the balance is Kshs.2,500,000 paid for purchase of two (2) acres of land in June, 2020. However, the need identified for the land was not disclosed and further the valuation report relied upon to make the purchase and the title deed transferred to the County Government were not presented for audit. In the absence of this information, value for money on the price paid for the land and its ownership and intended use by the County Government 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 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

The summary statement of appropriation: recurrent and development combined for the year ended 30 June, 2020 reflects final receipts budget and actual on comparable basis totalling Kshs.11,186,278,572 and Kshs.9,556,519,636 respectively, resulting to an under-funding of Kshs.1,629,758,936 or 15% of the budget. Similarly, the County Executive spent Kshs.8,591,014,554 against an approved budget of Kshs.11,186,278,572 resulting to an under-expenditure of Kshs.2,595,264,018 or 23% of the budget. The shortfall of revenue was the main cause of the under-expenditure which in turn constrained delivery of planned services.

2. Unresolved Prior Year Audit Matters

Note 7 to the financial statements indicates that two issues raised in the report for the previous year were resolved in the year under review. The Note, however, does not provide information on the progress attained in resolving several other issues highlighted in the report.

Consequently, the disclosures on follow-up of previous years issues are incomplete and do not conform to the reporting requirements set by the Public Sector Accounting Standards Board.

3. Delayed Exchequer Receipts

Revenue records indicated that the Exchequer receipts totaling Kshs.666,549,000 were received on 24 June, 2020, only one week to the end of the financial year under review on 30 June, 2020.

In view of the delay, the programmes and activities that the funds were extracted to finance were not implemented in due time.

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. Irregularities in Operations of Makueni County Fruit Development and Marketing Authority

Records examined indicated that the County Executive established an agro-processing entity namely, Makueni County Fruit Development and Marketing Authority, in July, 2017 and appointed the Board of Directors and Managing Director in January, and August, 2018 respectively.

However, audit review of the operations of the Authority revealed the following unsatisfactory matters:

1.1 Lack of Operational Autonomy

Examination of the Authority's financial records for the year under review indicated that, despite the Authority being established as a separate County entity, it was not granted sufficient autonomy by the County Executive. For example, the Authority's budget totalling Kshs.72,941,000 in the year under review was spent through the Ministry of Agriculture. As a result, the Management of the Authority did not have sufficient autonomy in implementing the budget and may, therefore, not be solely accountable for the results attained from the Authority's operations.

1.2 Failure to Submit Financial Statements for Audit

The Authority did not prepare and submit financial statements to the Auditor-General for audit as required by Section 19(1-3) of the Makueni County Fruit Development and Marketing Authority Act, 2017 and Sections 81(4)(a) and 185 of the Public Finance Management Act , 2012.

Consequently, the nature and extent of the operations of the Authority during the year under review, and its financial position as at 30 June, 2020, see could not be confirmed.

1.3 Misrepresented Bank Accounts

The legal name of the Authority defined in the enabling Act is 'Makueni County Fruit Development and Marketing Authority'. However, the bank account operated by the Authority is registered in name of 'Makueni Fruit Processing Plant'. Management did not provide an explanation for the anomaly in the bank account name. Consequently, the legal relationship between the two entities on one hand, and between 'Makueni Fruit Processing Plant' and the County Government on the other, has not been confirmed.

1.4 Non-Official Bank Signatories

In addition, two signatories to the Authority's bank account were not employees or officials of the County Executive despite the Authority's expenditures and revenues being public resources entrusted to the County Government. Further, the minutes of the Board of Directors meeting that authorized the opening of the bank account and nominated its signatories were not provided for audit review. Therefore, Management of the Authority has breached the law on accountable management of public resources.

2. Implementation of Projects

2.1 Stalled and Unutilized Projects

Review of records on development vote spending indicated that the County Government implemented thirty-one (31) projects valued at Kshs.63,073,334 during the year under review. However, twenty-nine (29) projects executed to completion at an aggregate cost of Kshs.55,276,523 were not commissioned for use by residents. Further, two (2) projects on which a total of Kshs.7,796,811 had been spent as at 30 June, 2020, had stalled.

No adequate explanation was provided by Management for the delay in commissioning the projects. As a result of the delay, the public services that the projects were expected to provide were not realized.

2.2 Delayed Implementation of Early Childhood Education Project

Procurement records indicated that a tender for construction of two(2) classroom blocks, an office, three (3) door pit latrine and installation of a 5,000-litre plastic water tank at Katumini Early Childhood Education (ECDC) Centre was awarded in February, 2020 at a contract sum of Kshs.3,203,433. Although the project was to be implemented in 90 days to 18 May, 2020 , it had, however, not been completed by the time of audit inspection in November, 2020. Further, only one Interim Certificate valued at Kshs.2,698,959, had been issued by the contractor.

In view of the delay, the objectives of the project were not attained.

3. Compensation of Employees

3.1 Limit on Personnel Emoluments Expenditure Not Observed

The statement of receipts and payments reflects compensation of employees expenditure totalling Kshs.3,409,529,862 as further disclosed in Note 5 to the financial statements. The expenditure was equivalent to 41.8% of the total receipts for the year, net of returned CRF Issues totalling Kshs.8,156,213,537. The spending exceeded the threshold of 35% prescribed in Section 25(1)(a) and 25(b) of the Public Finance Management (County Governments) Regulations, 2015.

In the circumstance, Management breached the law on fiscal responsibility. Further, the excessive spending on personnel emoluments took away limited resources needed to finance development projects and provide essential services.

3.2 Non-Compliance with Law on Ethnic Diversity in Employment

Review of the staff records indicated that 3,299 employees or 92% of the establishment of 3,589 staff were from the dominant ethnic community in the County. Section 7(2) of the National Cohesion and Integration Act, 2008 prescribes that no public establishment shall have more than one third (1/3) of its employees from the same ethnic community.

Consequently, the County Executive is yet to attain the prescribed threshold for ethnic diversity in employment.

4. Irregular Payment to the Council of Governors

Examination of records on payments made for goods and services indicated that a sum of Kshs.4,700,000 was paid to the Council of Governors as contribution to offsetting the Council's expenses. The payment was made contrary to Section 37 of the Intergovernmental Relations Act, 2012 which provides that the operational costs of the Council shall be funded from the budget of the National Government.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Overall 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

Lack of Disaster Recovery and Business Continuity Plan

Regulation 158 of the Public Finance Management Act (County Governments) Regulations, 2015 requires every Accounting Officer to develop risk management strategies that support robust business operations. However, as in previous years, Management did not have an approved Disaster Recovery and Business Continuity Plan for the County Government's operations.

As a result, service delivery by the County Executive is likely to be disrupted on occurrence of unfavorable events that may affect the County Government's operational systems.

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.

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 applicable 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 communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

25 October, 2021

Appendix

Differences between Financial Statements and Integrated Financial Management System Balances

Item Description	Financial Statements (Kshs.)	IFMIS Balances (Kshs.)	Variances (Kshs.)
Transfers to Other Governments Units	766,309,138	0	766,309,138
Bank Balances	972,496,995	(26,832,324,586)	27,804,821,581
Cash Balances	0	38,131,479,532	(38,131,479,532)
Accounts Receivables- Outstanding Imprests and Clearance Accounts	0	(12,745,578)	12,745,578
Accounts Payables	167,769,867	13,827,067,818	(13,659,297,951)
Fund Balance Brought Forward	1,239,528,145	(2,624,809,894)	3,864,338,039
Prior Year Adjustments	(1,400,306,099)	0	(1,400,306,099)
Surplus/Deficit for the Year	965,505,082	84,144,804	881,360,278
Total	**2,711,303,128**	**22,572,812,096**	**(19,861,508,968)**