

REPORT OF THE AUDITOR-GENERAL ON MAKUENI COUNTY SAND CONSERVATION AND UTILIZATION AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Makueni County Sand Conservation and Utilization Authority set out on pages 1 to 39, which comprise the statement of financial position as at 30 June, 2019, and statement of profit and loss and other comprehensive income, statement of changes in equity, statement of cash flows and the statement of comparison of budget and actual amounts 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 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 Makueni County Sand Conservation and Utilization Authority as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Public Finance Management Act, 2012 and Makueni Sand Conservation and Utilization Act, 2015.

Basis for Qualified Opinion

Material Uncertainty Related to Going Concern

The statement of profit and loss and other comprehensive income reflects own source revenue of Kshs.25,208,000 against an operating expenditure of Kshs.77,125,197. This is indicative of the Authority's inability to operate as a going concern. In order to sustain its operations, the County Government of Makueni funded the Authority to the tune of Kshs.34,033,653;(2018-Kshs.35,678,565). Further, the statement of financial position shows that the Authority had total current liabilities of Kshs.29,971,111 which exceeds its total current assets of Kshs.25,706,994 by Kshs.4,264,117. In addition, an analysis of the Authority's financial performance indicates a deterioration from a net profit of Kshs.6,949,123 in 2018 to a loss of Ksh.8,889,000 (a drop by Kshs.15,838,123) resulting in a negative balance of retained earnings of Kshs.10,987,994;(2018-Kshs.2,098,995).

The above conditions cast significant doubt on the ability of the Authority to continue as a going concern. However, this material uncertainty has not been disclosed in the financial statements in accordance with the standards.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Makueni County Sand Conservation and Utilization Authority 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

Under-Staffing of Revenue Collection Department

During the year under review, the Authority operated with a total of fifty-three (53) employees, out of whom fifty-two (52) were employed on contract basis. Further, of the employees on contract, 18 served in the role of revenue collection clerks which may not be adequate due to the vastness of the County. Out of the budgeted revenue collection of Kshs.30,000,000 from domestic sand cess, Kshs.25,000,000 was realized resulting in a shortfall of Kshs.5,000,000. This shortfall may be attributed to the shortage of revenue collection officers. The Authority may be losing revenue due to inadequate staffing.

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 Unauthorized Over-Expenditure

The statement of comparison of budget and actual amounts reflects over expenditure variances of Kshs.4,147,880 for which no explanations have been rendered as detailed below:

Expenditure	Final Budget (Kshs.)	Actual on Comparable Basis (Kshs.)	Variance (Kshs.)	Percentage %
Staff Costs	19,115,912	20,836,160	(1,720,248)	(9)
Directors' Emoluments	1,660,000	1,887,255	(227,255)	(14)
Electricity and Water	58,000	61,880	(3,880)	(7)
Transportation, Travelling and Subsistence	1,936,250	2,103,388	(167,138)	(9)

Expenditure	Final Budget (Kshs.)	Actual on Comparable Basis (Kshs.)	Variance (Kshs.)	Percentage %
Staff Training Expenses	60,000	71,200	(11,200)	(19)
Hospitality supplies and Services	1,050,935	1,385,220	(334,285)	(32)
Office and General Supplies and Services	630,000	897,222	(267,222)	(42)
Repairs and Maintenance	900,000	958,722	(58,722)	(7)
Coordination of Sand Management Committees	800,000	884,619	(84,619)	(11)
Support Community Innovate Infrastructure	1,340,000	1,912,120	(572,120)	(43)
Public Awareness on Sand Conservation	2,456,923	2,727,971	(271,048)	(11)
Construction Sand Dams and Extraction of Sand	7,500,000	7,551,677	(51,677)	(1)
Other Operating Expenses	810,000	1,188,467	(378,467)	(47)
Total	38,318,020	42,465,901	(4,147,880)	(11)

This is contrary to Section 41(1)(b) of the Public Finance Management (County Governments) Regulations, 2015, that states that total payments for a detailed budget line in a given fiscal year may not exceed the reallocations issued against that budget line and Section 45(2(a) of the Public Procurement and Asset Disposal Act, 2015, that requires the procurement of goods, works and services of a public entity to be within the approved budget.

To this extent, the Authority is in breach of law.

2.0 Lack of Approved Scheme of Service and Human Resource Policy

The Authority operates without an approved scheme of service and human resource policy contrary to the provisions of Section B2(1 and 2) of the Public Service Commission's Human Resource Policies and Procedures Manual for Public Service, 2016, which requires public service entities to prepare Human Resource Plans and to develop annual recruitment plans. Consequently, there was no basis for assessing the objectivity of the staff recruitment, placement and retention, promotion, career progression and compensation criteria being applied.

In the circumstances, the Authority breached the law.

3.0 Revenue Appropriation

As reported previously and contrary to the provisions of Section 35 of the Makueni County Sand Conservation and Utilization Act, 2015 the revenue from sale of sand was not shared proportionately to the Conservation Fund, Sand Authority, County Government and Local Community during the year under review. Instead, the amount has been

retained in the Authority's bank accounts and included under trade and other payables balance of Kshs.29,471,110; (2018-Kshs.13,857,435).

Therefore, the Authority is 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 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. Weak Controls Over Revenue Collection

Review of the controls around the revenue collection processes revealed the following control weaknesses: -

- Point of sale receipts issued for cess collected is done in one copy only without a duplicate copy for revenue accounting internally,
- Except for the receipt serial number, the Authority's official receipts lack unique security features, such as a watermark, which make them prone to counterfeiting without being detected,
- There is no provision for issuance of receipts for revenues received via the Mpesa till Number making it prone to abuse, and
- Authorization for the release of impounded trucks is by way of a letter whose approval is not restricted to senior officers and are not consistently referenced which could be abused.

2. Controls Over the Authority's Assets

The statement of financial position reflects property, plant and equipment balance of Kshs.4,781,890 which is further detailed under Note 11 to the financial statements. Included in the balance are loose assets which have not been tagged comprising of office equipment, furniture and fittings; computers and related equipment valued at

Kshs.514,632 and Kshs.488,148 respectively both totalling Kshs.1,002,780. In the absence of a fixed asset register and tagging of the individual assets, the loose assets are exposed to the risk of loss due to pilferage.

In the circumstances, the strength of the internal controls measures on assets worth Kshs.1,002,780 could not be confirmed.

3. Lack of Internal Audit Function

Section 153(1) of the Public Finance Management (County Governments) Regulations, 2015 requires the internal auditors to review and evaluate budgetary performance, financial management, transparency and accountability mechanisms and processes in County Government entities. However, although the Management indicated that the Authority had put in place an arrangement with the County Government of Makueni to get services of the County internal audit function from time to time, no reports were provided for audit review.

In the circumstances, the role of the Authority's internal audit function for the year under review could not be confirmed

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 Financial Reporting Standards (Accrual 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 Authority's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless Management is aware of the intention to terminate the Authority 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.

The Board of Directors is responsible for overseeing the Authority's financial reporting process, reviewing the effectiveness of how the Authority 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 overall 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 Authority's 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 Authority'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 Authority 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 Authority 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

02 December, 2021