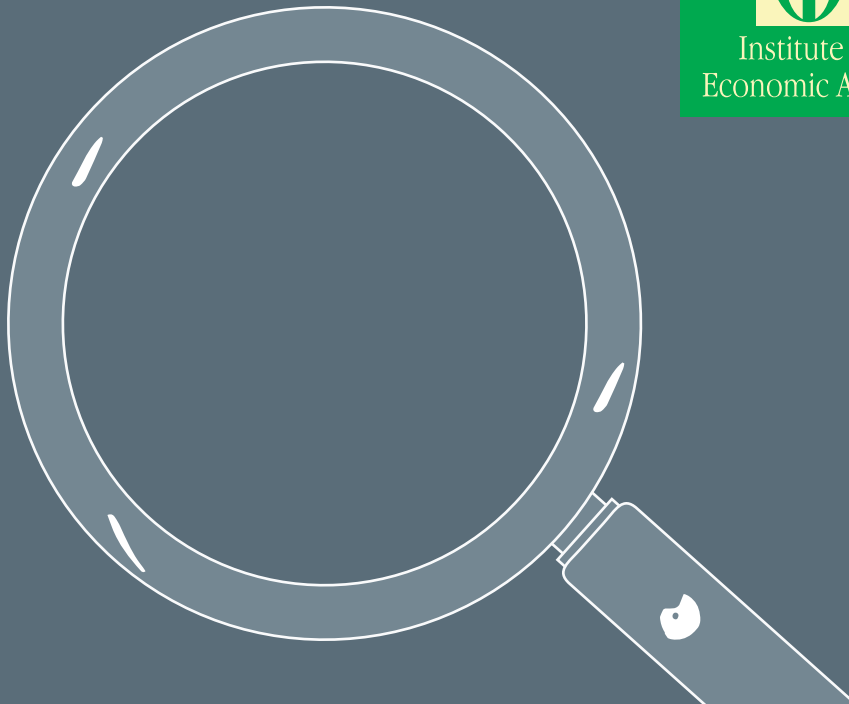




Institute of
Economic Affairs



Analysis of the Auditor General's Reports on the Financial Statements of the Executive and County Assembly of Machakos County

2016/2017 - 2017/18 Financial Years



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1. Introduction

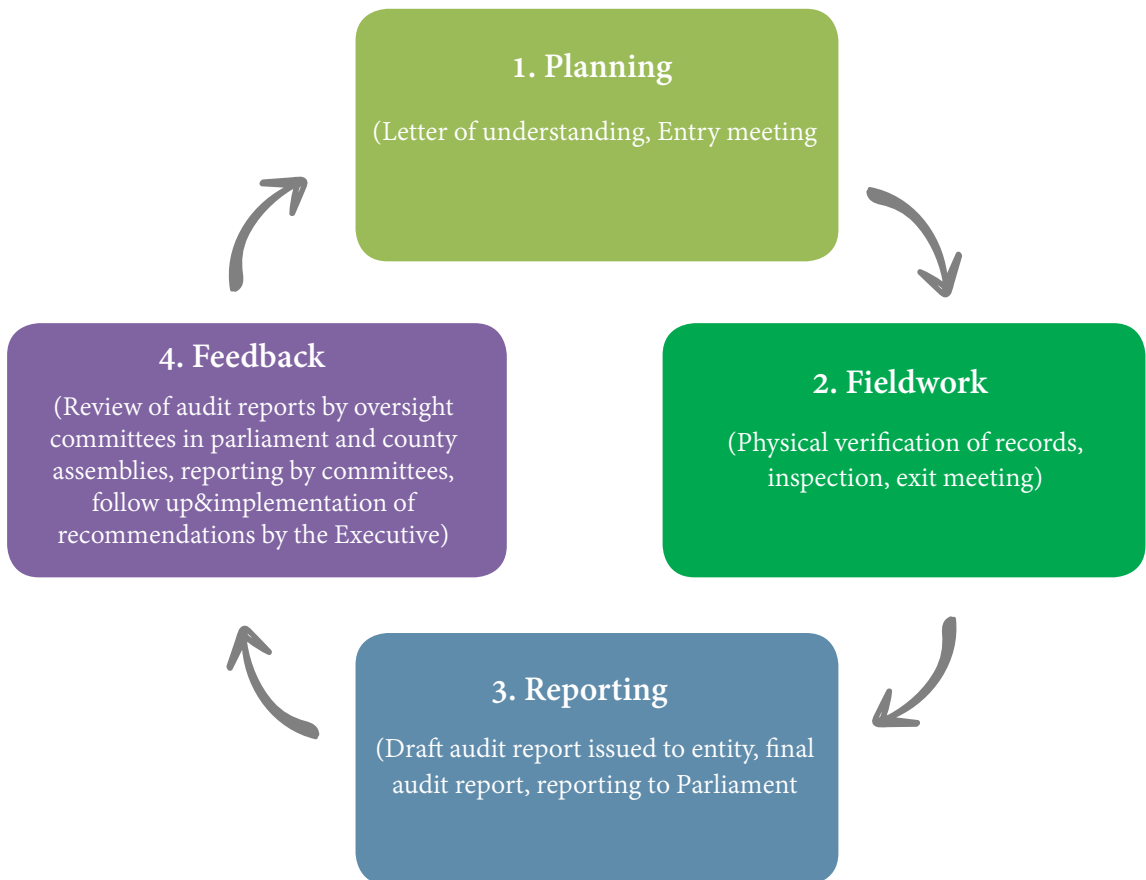
Each year the government sets aside funds for the performance of different functions. Execution of these functions is carried out by the three arms of government and various public-funded agencies. The Office of the Auditor General is established under Article 229 of the Constitution of Kenya 2010, to undertake audits and confirm all public funds are spent **lawfully and effectively**.

What is an Audit?

- An audit is the independent examination of an entity's spending to confirm fairness and accuracy of transactions.
- Audits are conducted to confirm whether public funds are spent lawfully and effectively

How is the Public Audit Process Conducted in Kenya?

The public audit process is illustrated below:



2. Possible Audit Reports

An audit report is the written opinion of the Auditor, regarding an entity's financial statements¹. The following are the four opinions that can be issued by the Auditor:

Opinion	Meaning
Unqualified	This is a clean opinion. It means the financial statements represent a true and fair view of the entity's spending.
Qualified	This opinion is issued where the Auditor finds the statements contain some errors ² which are significant ³ but not widely spread ⁴ .
Adverse	This opinion is issued where there are errors; both significant and widely spread across the financial statements.
Disclaimer of Opinion	This is issued where the Auditor is unable to form an opinion because sufficient audit evidence was not provided. The lack of evidence implies statements could contain errors both significant and widely spread.

What is an Audit Query?

An audit query is a question posed by the Auditor regarding unlawful transactions identified during an audit.

What does an Audit Query include?

It highlights the **nature of the unlawful spending**, the **amount questioned** and the **consequences** of the action.

¹The term financial statements are defined under key terms on page 14

²Often referred to in audit language as misstatements

³In audit terms-significant errors are said to be material

⁴This refers to the pervasiveness of the misstatements

3. Machakos County Executive

What was the audit report/opinion of the Machakos County Executive?

The table below summarises the audit opinion for Machakos County Executive.

Financial Year	Audit Opinion
2016/2017	Disclaimer of Opinion
2017/2018	Qualified Opinion

What were some key audit queries for the County Executive of Machakos FY 2017/18?

The table highlights some of the key audit queries for the Machakos County Executive for the Financial Year 2017/18.

No.	Queries	Details	Amounts Queried in KES.
1.	Long outstanding imprests	Imprests date back to 2016/17 financial year and no measures to recover them indicated by the management.	51,667,748
2.	Failure to observe budget ceiling- compensation of employees	The budget presented by the executive represents 46% of the total revenue.	4,613,606,356
3.	Failure to meet revenue targets	The revenue collection did not meet the target and also declined by 14% from the previous year target.	487,241,659
4.	Failure to avail information relating to ongoing projects	The county executive initiated several projects in the department of transport, roads and public works.	610,292,286
5.	Incomplete access roads	Failure to complete the road projects in eight sub-counties, the status of road projects was 65%.	13,475,409
6.	Lack of ownership documents for tractors	The county executive procured 40 units of tractors; 32 Massey Ferguson and eight different makes and models. Existence of 25 units had not been confirmed.	valuation of tractors not provided
7.	Stalled construction of the office block of the ministry of transport and public works	The failure of the contractor to complete works on time and was issued with a default notice.	24,537,266
8.	Grounded motor vehicles	17 vehicles of the Ministry of Decentralized Units County Administration Water and Irrigation and Fire Engine had stalled at Mavoko sub-county offices. The insurance for ambulance license registration number KBY 281G had expired on November 2018. The other ambulance license registration number KBY091G is grounded and not operational.	Amounts not provided

9.	Lack of an ICT policy	County had not prepared an implemented ICT policy.	ICT Policy would ensure confidentiality, integrity and availability of an entity's data. Cost of the policy was not provided
10.	Lack of Disaster Recovery Plan	County lacks disaster recovery plan contrary to section 99 of PFM act 2012.	The plan would ensure the county continues operations in an event of a disaster

Machakos County Executive FY 2016/17

The table highlights some of the key audit queries for the Machakos County Executive for the Financial Year 2016/17.

No.	Queries	Details	Amounts Queried in KES.
1.	Late submission of financial statements	County Executive submitted financial statements one month after the statutory deadline.	Breach of section 47 of the Public Audit Act
2.	Non-Submission of the trial balance	County Executive did not provide a trial balance to support figures in the financial statements.	The accuracy of balances in financial statements could not be confirmed
3.	Discrepancies between financial statements and IFMIS	Unreconciled differences.	1,060,911,577
4.	Unexplained amended comparative figures	No explanation for the nature of errors and amounts of corrections in the financial statements. The fund balance brought forward from KES 627,106,024 to KES 594,548,646 created an unreconciled difference.	32,558,378
5.	Prior year adjustments	Prior year adjustments, described as balance brought forward from the deposit account, not disclosed adequately.	339,677,293
6.	Compensation to Employees	Amounts in financial statements differ from IFMIS reports. Differences had not been explained.	371,343,795
		Amount paid to members of staff has not been explained or supported by authority, remaining unaccounted.	10,455,207
7.	Failure to adhere to the statutory ceiling on the compensation of employees	The budget for county employees surpassed the threshold of 35% of county revenue to 52%.	4,907,086,662
8.	Social Security Benefits	The social security expenditure in the budget differs with the amounts in IFMIS resulting in the unreconciled difference.	45,486,326

9.	Unsupported expenditure- Lands department	Payment vouchers and related documents were not availed for audit	95,202,681
10.	Cash and Cash Equivalents	No proper bank reconciliation statements in support of main bank accounts.	12,920,920

What was the amount queried in relation to total expenditure?

- **2016-2017:** 48% of the total expenditure was queried; equivalent to KES 4.60 billion
- **2017-2018:** 20% of the total expenditure was queried; equivalent to KES 1.84 billion



4. What could have been the best use of the questioned amount? (Opportunity Costs)

Any misappropriated funds could have been put into meaningful use to give the people of Machakos County better services and achieve greater value for money.

The following are examples of funds that could have given the population better value:

a) Improved Access to Clean Water

In the 2017/18 Financial Year, the budget for county's budgeted revenue was KES 1,571,446,504 and the actual amount collected was KES 1,084,204,845 occasioning an under-collection of KES 487,241,659.

Had the revenue been collected and put into proper use, it would have provided 108 boreholes in Machakos County with each borehole costing KES 4.5 million to drill.

b) Increased Access to Education

In the 2017/18 financial year, the financial statements reflected long outstanding Imprests amounting to KES 51,667,748 dating back to the 2016/17 financial year; not recovered contrary to the regulations. Management had not indicated measures put in place to recover outstanding Imprests.

If the money had been recovered and put into proper use, it would have doubled the budget of Machakos County Bursary Fund. If beneficiaries are awarded KES 20,000 each, 2,483 beneficiaries would have benefitted that financial year.

5. Machakos County Assembly

Q. What was the audit report/opinion for Machakos County Assembly for the FY 2016/17 and 2017/18?

Machakos County Assembly

Financial Year	Audit Opinion
2016/17	Adverse Opinion
2017/18	Adverse Opinion

Q. What were some key audit queries for the County Assembly of Machakos FY 2016/17?

The table highlights some of the key audit queries for the Machakos County Assembly for the Financial Year 2016/17.

No.	Queries	Details	Amounts Queried in KES.
1.	Inaccuracies in the financial statements	Unexplained variance in the financial statements and IFMIS reports.	53,279,723
2.	Basic salaries for permanent employees	There was a difference of figures in financial statements and the integrated payroll and personnel database.	2,735,694
3.	Pending Bills	The annexe on pending bills does not detail ageing of bills, details of goods and services rendered, movements during the year and reasons for the delay.	77,211,278
4.	Unsupported conference fee	The unsupported conference fee for World Ploughing Championship in Bordeaux France. The expenditure was not supported by documentary evidence the event took place.	756,000
5.	Irregular procurement of security services	Failure to adhere to Public Procurement and Asset Disposal Act, 2015 and its regulations	3,633,850
6.	Overseas Traveling and Subsistence allowances	Overpayment of County Assembly Members and Staff.	24,287,027
7.	Media partnership with M-Government Abu Dhabi 2014	No report was provided to support the gains made, by the County Assembly, from the trip	2,673,900
8.	Underutilization of funds	The budget was underutilized by 14.6% of the approved budget.	159,559,168
9.	Temporary Employees	Unexplained variances between the financial statements and the records provided	5,951,111
10.	Acting Allowances	Payment of acting allowances to three officers of Assembly beyond 6 months.	642,717

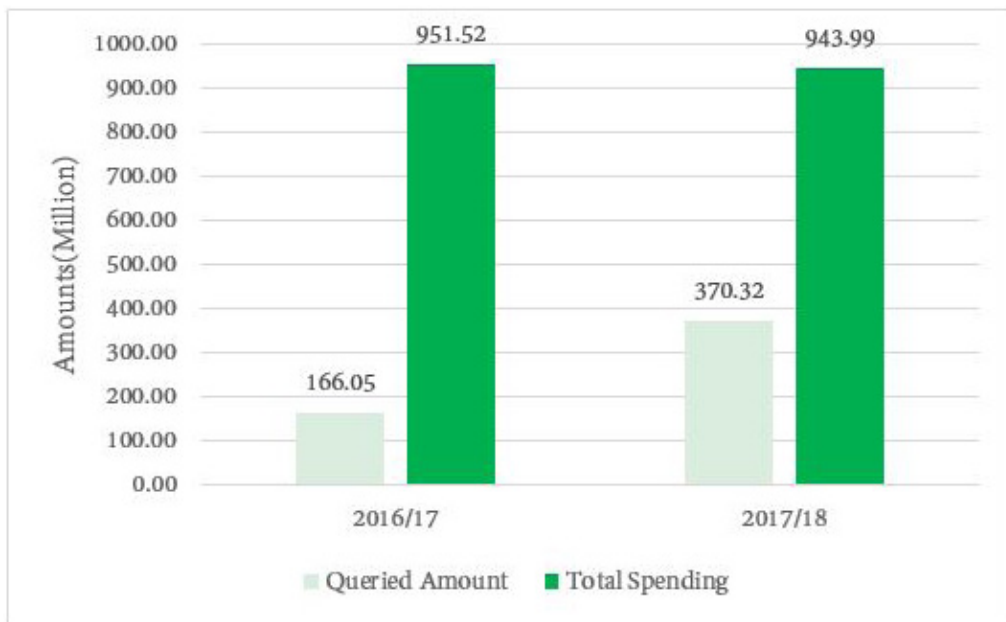
Machakos County Assembly (FY 2017/18)

The table highlights some of the key audit queries for the Machakos County Assembly for the Financial Year 2017/18

No.	Queries	Details	Amounts Queried in KES.
1.	Cash and Cash Equivalents	Variances between figures in financial statements and reconciled cashbooks.	29,067,687
2.	Unsupported Expenditure	Payments lack supporting documents.	261,355,771
3.	Un-updated fixed assets register	The fixed assets register availed for audit was not properly maintained to ensure all procured items are properly accounted for	150,920,962
4.	Differences in transfers to other entities (Car and Housing Funds for MCAs)	Payment vouchers and bank statements for the same transfers reflect an unexplained difference.	10,000,000
5.	Failure to maintain motor vehicle record	Vehicle repair details are never entered in service logbooks, and fuel registers were not maintained as a measure to safeguard the county assembly from the risk of losing funds	2,242,294
6.	Inaccurate basic salaries for permanent employees	Unexplained variances between financial statements and the Integrated Payroll and Personnel Database (IPPD).	2,735,695
7.	Unsupported adjustments to revised financial statements	Management failed to produce journal vouchers to show the movement of figures and balances from original to revised ones.	125,902,388
8.	Lack of footnotes to explain variances between budgeted and actual amounts	No explanation for variances between budgeted and actual amounts.	39,064,353
9.	Unresolved prior year audit issues	Issues identified in the financial year 2016/2017 had not been resolved.	
10.	Inadequate funding for county assembly	The assembly received fewer resources than the approved budget.	283,648,037
11.	Failure to remit statutory deductions	PAYE deductions were not remitted by close of the audit.	5,805,653

What was the amount questioned in relation to the total spending by the Assembly?

- **2016/2017:** 17.5% of the total expenditure queried; equivalent to KES 166.05 million
- **2017/2018:** 39.2% of the total expenditure queried; equivalent to KES 370.32 million



6. What could have been the best use of the questioned amount? (Opportunity Costs)

The following are examples of funds that could have given the population better value if properly accounted for:

- a) The total amounts queried in 2016/17 if properly used, would have funded the whole budget for acquisition of assets within that financial year.
- b) The total amounts queried in 2017/18 would have funded the whole budget for goods and services purchased by the Assembly in the financial year.

The services promised by the Assembly to the people of Machakos might have been hampered by the failure to account properly for funds.

7. Which channels can citizens use to hold the responsible leaders to account?

1. The Constitution and various Acts of Parliament provide for the avenues for public participation, in the planning and budget cycle. From budget formulation to oversight (audit) process.
2. Some legal channels available for the public to hold leaders to account include:
 - a. Petitions to Parliament; written, must demonstrate effort of trying to resolve;
 - b. Submissions both oral and written (Memorandum) during public hearings;
 - c. Parliament and Assembly Committee inquiries;
 - d. Engagement during vetting and approval of nominees for appointments to county public offices as may be required by law; and
 - e. Engagement during impeachments/removal of state officers like the governor, Speaker, County Executives and County Public Service Board.
3. The following bodies are further mandated to provide oversight. Citizens can use the available public participation processes within the agencies, to lodge formal complaints or request for inquiries into corrupt practices:
 - a. Ethics and Anti-Corruption Commission;
 - b. Director of Public Prosecutions;
 - c. Director of Criminal Investigation;
 - d. Office of the Auditor General; and
 - e. National Treasury.

Definition of Key Terms in Audit Reports

Financial Statements	These are formal records of the financial activities and position of an entity. The structure and contents of financial statements are governed by various laws and regulations, including international financial reporting standards.
True and fair	‘True and fair’ is a concept concerning a set of financial statements that implies there are no significant errors and misrepresentations in the records. Financial statements will not be ‘true and fair’ unless the information they contain is adequate in terms of both quality and quantity to satisfy the reasonable expectations of users of the financial statements.
Internal control systems	This refers to the processes designed, implemented and maintained by those charged with governance and management. This provides reasonable assurance about the achievement of an entity’s objectives concerning the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
Unsupported expenditure	This is spending that lacks adequate documentation, such as approvals, authorizations, receipts and vouchers etc. A transaction is also unsupported where some goods and services cannot be verified as received.
Excess/Unauthorized expenditure	This refers to overspending without authorization. In this case, spending is above the budget for a particular programme, but there is no supplementary budget or other authorization to exceed the spending limit in law. .
Irregular expenditure	This is spending incurred in violation of the relevant legislation, including the Public Finance Management Act, 2012, County government Public Finance Management Regulations, 2015, Public Procurement and Asset Disposal Act, 2015 or any other Act of Parliament.
Value for money	The economic (spending less), efficient (spending well) and effective (meeting objectives) utilization of resources.
Pending Bills	These are monies or arrears yet to be paid to suppliers for goods delivered or services rendered to a given entity.



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