

**KWALE COUNTY**



**COUNTY ASSEMBLY OF KWALE**

**SECOND ASSEMBLY – THIRD SESSION**

**REPORT**

**OF THE**

**COMMITTEE ON PUBLIC INVESTMENTS AND ACCOUNTS**

**ON THE**

***THE FINANCIAL STATEMENTS OF***

***KWALE COUNTY ASSEMBLY***

***MEMBERS AND STAFF LOAN***

***SCHEME FUND FOR THE FY ENDED***

***30<sup>TH</sup> JUNE 2016.***

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**LIST OF ACRONYMS AND ABBREVIATIONS.**

1. CEC - County Executive Committee.
2. HON - Honourable.
3. SRC - Salaries and Remuneration Commission.
4. FY -Financial Year.
5. PFM ACT -Public Finance Management Act.
6. BQ -Bills of Quantity.
7. IPSAS -International Public Sector Accounting Standards.
8. IPSASB - International Public Sector Accounting Standards Board.

**PREFACE.**

**Mr Speaker sir**, one of the salient roles of the Public Investments and Accounts Committee is the examination of the accounts showing the appropriations of the sum voted by the County Assembly to meet the public expenditure and of such other accounts laid before the County Assembly as the Committee may think fit. It is therefore in this regard that the committee has come up with this report.

**COMMITTEE MANDATE.**

The Committee on County Public Investments and Accounts is one of the Select Committees established pursuant to provisions of *Standing Order No. 186* tasked with the responsibilities:-

- (a) The examination of the accounts showing the appropriations of the sum voted by the County Assembly to meet the public expenditure and of such other accounts laid before the County Assembly as the Committee may think fit.
- (b) The examination of the reports, accounts and workings of the County public investments;
- (c) The examination, in the context of the autonomy and efficiency of the County public investments, whether the affairs of the county public investments, are being managed in accordance with sound financial or business principles and prudent commercial practices:

Provided that the Committee shall not examine any of the following, namely:

- (i) Matters of major County or National Government policy as distinct from business or commercial functions of the public investments;
- (ii) Matters of day-to-day administration; and,
- (iii) Matters for the consideration of which machinery is established by any special statute under which a particular county public investment is established.

**ACKNOWLEDGEMENT.**

**Mr Speaker Sir**, I want to sincerely thank the members of the Public Investments and Accounts Committee for their dedication throughout the period of compiling of this report, the office of the Speaker, the Clerk and the Auditor General for their support and adequate facilitation.

**BACKGROUND.**

**Mr Speaker sir**, the office of the Auditor General has the mandate to audit and report on the accounts of the National and County Governments under article 229 of the Constitution of Kenya and Public Audit Act, 2015.

It is in this regard that the committee is privileged to table a report of the **Financial Statements of Kwale County Assembly Members and Staff Loan Scheme Fund for the Year Ending 30<sup>th</sup> June 2016.**

**COMMITTEE MEMBERSHIP.**

The County Assembly Select Committee on Public Investments and Accounts was constituted in October, 2017 comprising of the following Members:-

1. Hon. Patrick Mangale Nyawa - Chairman
2. Hon. Melda Nyakiti - V/Chairperson
3. Hon. Raia Mkungu - Member
4. Hon. Mweruphe Jackson Ngoro - Member
5. Hon. Alfred Ruwa Bavu - Member

**Mr Speaker sir**, it is in this regard that I present before this honourable house the report on the **Financial Statements of Kwale County Assembly Members and Staff Loan Scheme Fund for the Year Ended 30<sup>th</sup> June 2016.**

**Hon Patrick Mangale Nyawa**

**Chairman, Public Investments and Accounts Committee.**

**Signature ..... Date .....**

**Hon Melda James Nyakiti**

**Vice chairperson, Public Investments and Accounts Committee**

**Signature ..... .Date .....**

**Hon Raia Mkungu**

**Member.**

**Signature ..... Date .....**

**Hon Ndoro Mweruphe**

**Member.**

**Signature ..... Date .....**

**Hon Alfred Ruwa Bavu**

**Member.**

**Signature.....Date.....**

## **COMMITTEE OBJECTIVES.**

**Mr Speaker sir**, the Committee's main objective in this report is:

The examination of the accounts showing the appropriations of the sum voted by the County Assembly to meet the public expenditure and of such other accounts laid before the County Assembly as the Committee may think fit.

## **METHODOLOGY.**

**Mr Speaker sir**, in compilation of this report the committee used the following methods to gather information:

1. Interviewing the management of the County Assembly.
2. Review of applicable legislations and regulations.
3. Examination of vouchers, cash books, vote books, bank statements, contract documents, and other related records.
4. Review of minutes of meetings especially where there are resolutions affecting management of cash.
5. Physical inspection/verification of documents.

## **COMMITTEE REPORT.**

The Committee scrutinized the Auditor General report on the Financial Statement of Kwale County Assembly Members and Staff Loan Scheme Fund for FY ending 30<sup>th</sup> June 2016, which had raised various queries. The Committee met with the management of the County Assembly on 3<sup>rd</sup> December, 2018 at the Assembly Administration Block who then responded to the queries raised by the Auditor General.

## **BASIS FOR ADVERSE OPINION.**

### **1.0 PRESENTATION OF FINANCIAL STATEMENT.**

A review of the financial statements presented for audit revealed the following inconsistencies and non-compliant issues;

- i. The table of contents refers to the statement of changes in assets in page 7 instead of the statement of change in net assets.
- ii. The financial statement submitted under key entity information and management did not include details of the Car Loan and Mortgage Committee Members and the management team.

- iii. The financial statement submitted under key entity information and management did not include the chairman's statement and corporate governance statement.
- iv. Page 6 on the statement of financial position as at 30<sup>th</sup> June 2016 reflects note 6 and 7 as accounts receivable and fund balance brought forward respectively whereas the corresponding notes on page 14 refers to fund balance brought forward and accounts receivables as note 6 and 7 respectively.
- v. Page 7 on the statement of changes in net assets for fifteen months ending 30<sup>th</sup> June 2016 was not signed by the Clerk of the Assembly.
- vi. The significant accounting policies on page 10 part 1 refers on the statement of compliance and basis of preparation as the financial statements having been prepared in accordance with IPSAS Cash basis instead of Accrual basis.
- vii. Page 13 of the financial statements do not bear the header Kwale County Assembly Members and Staff Loan Scheme Fund Report and Financial Statement for Fifteen Months ending 30<sup>th</sup> June 2016.

Consequently, the financial statements did not comply with the presentation as prescribed by Public Sector Accounting Standards Board.

**Management response.**

- i. The management wish to clarify that the table of contents number 6 highlighted as statement of changes in assets in page 7 of the financial statements while heading of the table of contents as stated in page 7 is the statement of changes in net assets. Technically the reference has no contradiction because the assets as stated in the Fund were not depreciated.
- ii. The names of the Car Loan and Mortgage Management Committee Members were not included in the key entity information because the committee was not in existence since the Fund was administered by Family Bank. Further the issuance of the fund was based on policy guidelines and use of SRC circular for establishment of the fund. In conclusion during the year under review there was no act in place establishing the existence of the Car Loan and Mortgage Management Committee.
- iii. The chairman's statement was not included in the financial statements as there was no committee in place since the loan was administered by Family Bank and was based on the policy guidelines and SRC circular.
- iv. The management wishes to categorically state that Note 6 and 7 as appearing in statement of financial position does not contradict with note 6 and 7 respectively in page 14 of the financial statements.
- v. The non-signing of page 7 on statements of net assets by the Acting County Assembly Clerk was an inadvertent omission during the signing of the financial statements which was rectified before the release of the final audit report.
- vi. The management wish to confirm that the accounts were prepared on the accrual basis of accounting however the statement of compliance and basis of preparation erroneously included the word 'Cash basis'.
- vii. The omission of the header 'Kwale County Assembly Members and Staff Loan Scheme Fund ' in page 13 was a technical error during printing of the financial

statements however the same was rectified before the release of the final audited reports.

**Committee observations.**

Mr. Speaker Sir the Committee observed the following:

That the management failed to comply with the presentation as prescribed by the Public Sector Accounting Standards Board.

**Committee recommendations.**

Mr. Speaker sir the Committee recommends as follows;

That the management shall in future strictly comply with the presentation prescribed by Public Sector Accounting Standards Board.

**2.0 IRREGULAR OPERATION OF THE FUND.**

The Fund opened a bank account and started receiving money in February 2014 and by April 2014, a total of Kshs. 107,430,000 was transferred to the Fund's bank account. Further, the Fund started issuing loans immediately. However, the Kwale County Assembly Members and Staff Loan Scheme Fund Act, 2016 which was to approve and establish the Fund was approved by the County Assembly in June 2016. In addition the first set of financial statements were prepared for the period up to June 2016, twenty-eight (28) months after the first financial transaction on 22<sup>nd</sup> February 2014.

Consequently, the Fund operated irregularly before the Approval by the County Assembly and the management did not prepare financial statements and submit for audit as per Section 47 of the Public Audit Act, 2015.

**Management response.**

The issuance of the loans during the period under review was done by use of Kwale County Assembly Car Loan and Mortgage policy guidelines, use of SRC circular establishing the Fund and the approved Appropriation Act of the County Government of Kwale. During this period the Fund was administered by Family Bank as prescribed by the SRC circular.

It is true that separate financial statements for the fund were not prepared however a fifteen month fund financial statements for the period ending 30<sup>th</sup> June 2017 were prepared to cover the period in question.

**Committee observations.**

Mr. Speaker Sir the Committee observed the following:

The management established and operationalized the Kwale County Assembly Members and Staff Loans Scheme Fund irregularly contrary to the Public Finance Management Act, 2012 and Public Audit Act, 2015.

**Committee recommendations.**

Mr. Speaker Sir the Committee recommends as follows:

- i. The management shall in future ensure that all funds are established and operationalized according to the Public Finance Management Act, 2012 and the Public Audit Act, 2015.
- ii. The CEC Finance shall ensure that all funds are established in accordance with the PFM Act, 2012.

### **3.0 ESTABLISHMENT AND ADMINISTRATION OF THE FUND.**

The statement of financial position reflects accounts receivable balance of Kshs.2, 179,100. Records availed for audit review indicated that the Fund administration for the year consisted of the Fund administrator and other two members appointed by the Clerk. This contravened Section 12 (b) of the Kwale County Assembly Members and Staff Loan Scheme Fund Act, 2016, which requires that the County Assembly Speaker should also nominate two members one whom shall be a woman.

Consequently, the Fund operated irregularly and disbursed funds without a properly constituted loans management committee during the year ended 30<sup>th</sup> June 2016.

#### **Management response.**

The management wish to clarify that during the period under review the Fund was administered by Family Bank through use of Policy guidelines and SRC circular hence there was no committee in existence.

#### **Committee observations.**

Mr. Speaker Sir the committee observed the following:

The management irregularly established and operationalized the Fund contrary to section 12 (b) of the Kwale County Assembly Members and Staff Loan Scheme Fund Act 2016.

#### **Committee recommendations.**

Mr. Speaker Sir the committee recommends as follows:

That the management shall in future ensure strict compliance with the Kwale County Assembly Members and Staff Loan Scheme Fund Act, 2016.

### **OTHER MATTER**

### **BUDGETARY CONTROL AND PERFORMANCE.**

During the period under review Kwale County Assembly Members and Staff Loan Scheme Fund had a final budget of Ksh.110,761,041 and spent Ksh,101,442,929 or 92% resulting to under absorption of Kshs.9,318,112 or 8% as summarized below.

<b>Expenditure Item</b>	<b>Budgeted amount( KSHS)</b>	<b>Actual Expenditure (KSHS)</b>	<b>Under Absorption(KSHS)</b>	<b>Under Absorption (%)</b>
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Loans disbursed	107,430,000	101,442,929	5,987,071	6%
Operating costs	3,331,041	-	3,331,041	100%
<b>Totals</b>	<b>110,442,929</b>	<b>101,442,929</b>	<b>9,318,112</b>	<b>8%</b>

The under absorption of Kshs.9, 318,112 or 8% is an indication loans and services to Members and staff of Kwale County Assembly were not fully delivered and the objectives of the Fund were not met.

**Management response.**

The issuance of loans to members was done on need basis. Therefore loans were only issued to applicants.

**Committee observations.**

Mr. Speaker Sir the Committee observed the following:

That during the year under review there was an under absorption of Kshs 9,318,112.00 or 8 % of the budgeted amount.

**Committee recommendations.**

Mr. Speaker Sir the Committee recommends as follows:

The management shall ensure that budgeted amounts are absorbed to 100% by encouraging staff and Members to borrow from the Fund.

**COMMITTEE GENERAL OBSERVATIONS.**

**Mr. Speaker Sir**, the Committee generally observed the following:

- i. The management failed to avail necessary documents to the auditors during the time of audit contrary to the Public Audit Act, 2015.
- ii. That the Kwale County Assembly Members and Staff Loans Scheme Fund was established and operationalized irregularly contrary to the Public Finance Management Act 2012 and Public Audit Act 2015.

### **COMMITTEE GENERAL RECOMMENDATIONS.**

**Mr. Speaker Sir**, the Committee generally recommends as follows:

- i. That the management shall strictly ensure all Funds are established and operationalized in line with the Public Finance Management Act, 2012.
- ii. The management shall avail all the necessary documents to the auditors during the time of audit as required by the Public Audit Act 2015 so as to avoid unnecessary queries.

**Mr Speaker sir**, I again wish to thank the members of the Assembly, the office of the Speaker, the office of the Clerk and the office of the Auditor General for their continued support during the compilation of this report.

**Mr Speaker sir**, I now urge this Honourable House to adopt this report.

Thank you.

**SIGNATURE .....** **DATE.....**

**HON PATRICK MANGALE**

**CHAIRMAN, PUBLIC INVESTMENTS AND ACCOUNTS COMMITTEE.**