

**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 2017.***

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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 2017.**

**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 2017.**

**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 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, 2017 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. 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.
- v. 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 asset. 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 was due to delay in appointment of the two member MCA's into the committee by the Speaker. However this was subsequently done.
- iii. The chairman's statement was not included in the financial statements instead a statement by the Clerk of the County Assembly was included but going forward the same shall be effected.
- iv. The management wishes 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 tables of contents as started 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.
- v. The non-signing of page 7 on statements of net assets by the Acting County Assembly Clerk was an inadvertently 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 statement however the same was rectified before the release of the final audited reports.

**Committee observations.**

Mr. Speaker Sir the Committee observed the following;

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 ESTABLISHMENT AND ADMINISTRATION OF THE FUND.**

As previously reported, the statement of financial position reflects accounts receivable balance of Kshs.12, 965,236 (2016: Kshs2, 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.

Consequently, the Fund operated irregularly and disbursed funds without a properly constituted loans management committee during the year ended 30<sup>th</sup> June 2017.

**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.

**Committee observations.**

Mr. Speake 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;

The management shall in future ensure that all funds are established and operationalized in according to the Public Finance Management Act, 2012 and the Public Audit Act, 2015.

**3.0 ACCOUNTS RECEIVABLE.**

The statement of financial position reflected accounts receivable balance of Kshs. 12,965,236. Records availed for audit indicated that one of the staff members was advanced Kshs. 651,000 to purchase a car under the scheme. However, as at the time of audit the ownership of the car had not been transferred as joint ownership to the applicant and the assembly contrary to Section 18(2) of the Kwale County Assembly Members and Staff Loan Fund Act, 2016, which requires the ownership document of the property subject to a loan from the Fund to be registered jointly between the County Assembly Service Board and the

member and be kept in the custody of the Fund Manager until the loan is repaid in full by the member.

Consequently, the accuracy and recoverability of accounts receivable balance of Kshs. 12,965,236 as at 30<sup>th</sup> June 2017 could not be confirmed.

**Management response.**

The Fund and the Assembly did part financing to the vehicle owned by Daniel Mbinda registration number KCL 530 L. The transfer of ownership for the motor vehicle bought was subject to payment of the final instalment to the dealer. The management confirmed the status of the logbook with the dealer Farhan Motors Ltd. Farhan Dealers responded through a letter dated 9<sup>th</sup> May 2018 and confirmed the status of the outstanding balance to be Ksh 58,000/-

The logbook was still in the name of Farhan Motors Ltd. As late as 28<sup>th</sup> November 2018 the Fund Mbeanager liaised with Mr. Daniel Mbinda on the issue. Mr. Daniel Mbinda confirmed that he would make efforts to finalize on the issue of the logbook.

**Committee observations.**

Mr. Speaker Sir the Committee observed the following;

That Kshs.651, 000 was advanced to staff member Mr. Daniel Mbinda for purchase of a car for whose logbook was not transferred to a joint ownership of the property to the applicant and the County Assembly contrary to section 18(2) 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 within 60 days after the adoption of this report ensure that Kshs.58, 000.00 as outstanding balance is recovered from Mr. Daniel Mbinda’s salary or other allowances and the logbook is transferred to a joint ownership of the applicant and the County Assembly failure to which the advanced amount of Kshs, 651,000 shall be recovered from the Fund Administrator and be paid to the dealer Farhan Motors Ltd.

**OTHER MATTER**

**BUDGETARY CONTROL AND PERFORMANCE.**

During the year under review, Kwale County Assembly Members and Staff Loan Scheme Fund had a final budget of Kshs.90,190,686 and spent Kshs.13,717,450 or 15% resulting to under absorption of Kshs.76,473,236 or 85% 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> |
|-------------------------|------------------------------|---------------------------------|-------------------------------|-----------------------------|
| Loans                   | 90,000,000                   | 13,594,000                      | 76,406,000                    | 85%                         |
| Operating costs         | 190,686                      | 123,450                         | 67,236                        | 35%                         |

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|               |                   |                   |                   |            |
|---------------|-------------------|-------------------|-------------------|------------|
| <b>Totals</b> | <b>90,190,686</b> | <b>13,717,450</b> | <b>76,473,236</b> | <b>85%</b> |
|---------------|-------------------|-------------------|-------------------|------------|

The under absorption of Kshs. 76,473,236 or 85% is an indication that only 15% of the loans to members and staff of Kwale County Assembly were delivered and the objective of the Fund was not met.

**Management response.**

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

**Committee observations.**

Mr. Speaker Sir the committee observed the following;

That during the year under review there was an under absorption of Kshs 76,473,236 or 85 % of the budgeted amount.

**Committee recommendations.**

Mr. Speaker Sir the committee recommends as follows;

The management shall encourage the members and staff to apply for loans from the fund so as to ensure that the budgeted amounts are absorbed to 100%.

**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 that 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.**