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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 YOUTH, WOMEN

AND PERSONS WITH DISABILITY

REVOLVING FUND FOR THE FY

ENDED 30TH 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. PSASB | -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 Investment 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 Youth, Women and Persons with Disability Revolving Fund for the Year Ending 30th 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 Youth, Women and Persons with Disability Revolving Fund for the Year Ended 30th 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

SignatureDate

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 Department of Social Services and Talent Management.
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 Youth, Women and Persons with Disability Revolving Fund for the FY ending 30th June 2016, which had raised various queries. The Committee met with the management of the Department of Social Services and Talent Management on 28th November, 2018 at the Assembly Administration Block who then responded to the queries raised by the Auditor General.

BASIS FOR ADVERSE OPINION.

1.0 IRREGULAR OPERATIONALIZATION OF THE FUND.

The Act establishing the fund and evidence of the County and Kenya gazette notices were not availed for audit. Further, the approval of the Fund by the County Executive Committee and County Assembly were not availed for audit contrary to Section 116(1) of the Public Finance Management Act, 2012, which requires that the County Executive Member for Finance may

establish other public funds with the approval of the County Executive Committee and County Assembly.

In addition, the County Treasury authorized the opening of a bank account on 19th February 2015 when the operationalization of the Fund had not been approved.

Consequently, the Fund management breached the law and the regularity of the Fund could not be ascertained.

Management response.

The department did not have a gazette notice establishing the Fund since it used a policy in the establishment and operationalization of the Fund. The fund was authorized through a resolution of the County Assembly that led to its implementation and Fund Administrator appointed in accordance with the PFM Act, 2012.

The County Treasury relied on the resolution of the County Assembly to proceed with the operationalization of the Fund waiting for the approval of the Kwale County Youth, Women and Persons with Disabilities Bill which was presented before the County Assembly.

Committee observations.

Mr. Speaker Sir the Committee observed the following;

- i. That the County Government operationalized the Fund without an Act in place.
- ii. That the management failed to avail before the auditors minutes of the County Executive Committee approving the establishment of the fund but it was availed before the committee for verification.

Committee recommendations.

Mr. Speaker Sir the committee recommends as follows;

- i. That the CEC Finance shall adhere to the PFM Act, 2012 Section 116(1) and its regulations on the establishment of funds.
- ii. That the County Assembly shall fast track the enactment of the Kwale County Youth, Women and Persons with Disability Bill, 2017.

2.0 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS.

The statement of comparison of budget and actual amounts presented for audit review failed to meet the threshold of such a statement as prescribed by the Public Sector Accounting Standards Board. The statement contains only exchequer release of Kshs.43, 344,000 and fails to reflect the detailed budget components versus actual receipts and expenditure as clearly indicated in the reporting template.

Consequently the financial statements presented for the period did not comply with the presentation as prescribed by the International Public Sector Accounting Standards (IPSAS Board)

Management response.

The management presented accounting statements compliant to IPSASB. However the department did not have a standard template for presenting fund accounts which is now in place and has since been rectified in all accounts presented for audit.

Committee observations.

Mr. Speaker Sir the committee observed the following;

The financial statements presented did not meet the threshold prescribed by the International 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 the International Public Sector Accounting Standards Board.

3.0 PRESENTATION OF THE FINANCIAL STATEMENTS.

The financial statements presented for audit for the period had the chairman's report and statement of management responsibilities signed by the Chief Officer, Department of Community Development, Youth and Women Empowerment instead of the Fund Administrator as prescribed by the guidelines from the Public Sector Accounting Standards Board.

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

Management response.

The management presented accounting statements compliant to IPSAS however the department did not have a standard template for presenting fund accounts which is now in place and has since been rectified in all accounts presented for audit.

Committee observations.

Mr. Speaker Sir the committee observed the following;

The financial statements presented did not meet the threshold prescribed by the International 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 the International Public Sector Accounting Standards Board.

4.0 OTHER RECEIPTS.

The statement of financial performance reflects other receipts of Kshs. 2,679,023 which include Kshs. 500,000 loan administration fees. The Fund management did not provide an analysis indicating the loans from which these administration fees were deducted from, to confirm the accuracy of the receipts recognized in these financial statements.

Consequently the accuracy and completeness of Kshs. 2,679,023 reflected as other receipts could not be confirmed.

Management response.

The sum of Kshs. 500,000 was a cumulative figure of the administration fees which was charged to all the borrowers at a rate of 2.5% during the year under review. The management provided an analysis indicating the loans from which the administration fees were deducted.

Committee observations

Mr. Speaker sir the Committee observed the following;

The management failed to present an analysis indicating the loans from which the administration fees were deducted during audit but was availed before the committee for perusal and verification.

Committee recommendations.

Mr. Speaker Sir the Committee recommends as follows;

That the management shall strictly avail all necessary documents and information during the time of audit as required by the Public Audit, Act 2015 to avoid unnecessary queries.

5.0 ACCOUNTS RECEIVABLES.

5.1 UNALLOCATED LOAN REPAYMENT.

Note 11 to the financial statements reflects loan repayments amounting to Kshs. 13,781,908. However, the management indicated that out of this amount Kshs. 2,871,433 were loan repayments received in the bank and mobile money platform (M-Pesa) but could not be allocated to the specific groups as the deposit slips had not been availed by the groups making payments.

Consequently, the accuracy and completeness of the loan repayments balance of Kshs. 13,781,908 as at 30th June 2016 could not be confirmed.

Management response.

That Kshs. 2,871,433 was loan repayments which was deposited by various borrowers at different bank agents throughout the County. They did not bring deposit slips to the outlets officers for reconciliation. Hence it was difficult to match the repayments to specific borrowers. This challenge led to the introduction of an M-pesa account through which repayments can accurately be matched to specific borrowers who have made deposits at whatever place in the County. The management is still in the process of reconciling the said

figure to specific borrowers' deposits. The use of M-pesa has significantly enabled proper balancing and reconciliation of accounts.

Committee observations.

Mr. Speaker Sir the Committee observed the following;

That the management failed to balance and reconcile Kshs.2,871,433 being loan repayments received in the banks and those made through mobile money platforms.

Committee recommendations.

Mr. Speaker Sir the committee recommends as follows;

That the management shall within 60 days after the adoption of this report reconcile and balance Kshs.2,871,433 being loan repayments made through the banks and Mobile money platform (M-pesa)

5.2 LOANS NOT BEING SERVICED.

The statement of financial position disclosed outstanding loans amounting to Kshs.37,525,682 as at 30th June 2016. This amount includes loans amounting to Kshs. 4,900,000 which had never been serviced from the date of disbursement and a provision for loss was not included in these financial statements.

Consequently, the accuracy and completeness of the loan repayments balance of Kshs.37,525,682 could not be confirmed.

Management response.

It is true that Kshs.4,900,000 were loans disbursed which had not been serviced during the year under review. The department has taken reasonable steps to recover the funds through training and sensitization of the groups and use of the ground level committees to recover the loans. However there are a number of factors that have derailed the repayments of the loans including group dynamics, poverty, drought and political problems.

The management further concurs that the provisions for loss was not included in the financial statements but the same has been noted and will be rectified moving forward.

Committee observations.

Mr. Speaker Sir the committee observed the following;

- i. That the management failed to carry out due diligence when issuing the loans to the borrowers.
- ii. That the management failed to recover outstanding loans amounting to Ksh.37,525,682 which includes Kshs.4,900,000 that had never been serviced from the date of disbursement.

Committee recommendations.

Mr. Speaker Sir the Committee recommends as follows;

- i. That the management shall ensure that all outstanding loans are recovered from the borrowers within 90 days after the adoption of this report. Failure to which the outstanding loans shall be recovered from the then assigned Fund Administrator.
- ii. That the management shall carry out due diligence when issuing loans to borrowers to avoid loss of public funds.

COMMITTEE GENERAL OBSERVATIONS.

Mr. Speaker Sir, the Committee made the following general observations;

- i. That the management failed to avail necessary data, information and documents to the auditors during the time of audit contrary to the Public Audit Act, 2015.
- ii. The management was negligent and failed to recover the outstanding loans disbursed to borrowers.

COMMITTEE GENERAL RECOMMENDATIONS.

Mr. Speaker Sir, the committee made the following general recommendations;

- i. That the management shall strictly adhere to the Public Audit Act, 2015.
- ii. That the CEC Finance shall strictly adhere to the Public Finance Management Act, 2012 and its regulations on establishment and operationalization of any fund in the County Government and its departments.

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.