

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 YOUTH, WOMEN

AND PERSONS WITH DISABILITY

REVOLVING FUND FOR THE FY

ENDED 30TH 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 Youth, Women and Persons with Disability Revolving Fund for the Year Ending 30th 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 Youth, Women and Persons with Disability Revolving Fund for the Year Ended 30th 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

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 2017, 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 for approval.

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 Fund was established without the approval of the County Executive Committee and the County Assembly contrary to the Public Finance Management Act, 2012 Section 116(I).

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 Revolving Fund 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 final budget of Kshs.33, 687,058 and failed 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 ended 30th June 2017 did not comply with the presentation as prescribed by the International Public Sector Accounting Standards Board (IPSAS Board)

Management response.

The management presented accounting statements compliant to ISPAS. 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 set by the International Public Sector Accounting Standards Board.

3.0 PRESENTATION OF THE FINANCIAL STATEMENTS.

The financial statements presented for audit for the period ended 30th June 2017 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 as presented 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 USE OF GOODS AND SERVICES.

The statement of financial performance for the period ended 30th June 2017 reflected use of goods and services expenditure amounting to Kshs.430, 800. This expenditure was incurred and defrayed by funds meant for disbursement as loans since the management had not collected any administrative fee to cater for the expenses.

Consequently, the propriety of Kshs.480, 800 spent on use of goods and services could not be confirmed.

Management response.

The management did not collect administration fees because there was no disbursement from the County Treasury. However the management reasonably applied the funds to operate the Fund for the financial year 2016/2017 as there were matters of importance to the Fund to be discussed. Noting that the 2.5% proposed for administration cost has not been sufficient to operate the Fund. The department of Social Services and Talent Management has been wholly supporting the operations of the fund through its recurrent budget.

Committee observations

Mr. Speaker Sir the Committee observed the following;

The management used Kshs.430,800 from the principal amount instead of using the administrative fee as required.

Committee recommendations.

Mr. Speaker Sir the Committee recommends as follows;

That the management shall at all times ensure that any cost incurred in operationalization of the Fund is drawn from the administrative fee and not from the principal amount set for disbursement.

5.0 ACCOUNTS RECEIVABLES.

5.1 UNALLOCATED LOAN REPAYMENT.

Note 11 to the financial statements reflects loan repayments amounting to Kshs. 8,954,783. However, the management indicated that out of this amount Kshs. 2,044,721 was in respect of 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.8,954,783 as at 30th June 2017 could not be confirmed.

Management response.

That Kshs. 2,044,721 was loan repayments which was deposited by various borrowers at different bank agents' outlets throughout the County. The borrowers did not bring deposit slips to the 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 be accurately 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 who deposited the sum. 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.2,044,721 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.2,044,721 being loan repayments made through the banks and Mobile money platforms.

5.2 LOANS NOT BEING SERVICED.

The statement of financial position disclosed outstanding loans amounting to Kshs.28,201,988 as at 30th June 2017. This amount includes loans amounting to Kshs. 3,071,200 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.28,201,988 as at 30th June 2017 could not be confirmed.

Management response.

It is true that Kshs.3,071,200.00 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 carryout due diligence when issuing the loans to the borrowers.
- ii. That the management failed to recover outstanding amounting to Ksh.28,201,988 which includes Kshs.3,071,200 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 assigned fund administrator.
- ii. That the management shall carry out due diligence when issuing loans to borrowers.

COMMITTEE GENERAL OBSERVATIONS.

Mr. Speaker Sir, the Committee generally observed the following;

- 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.