

REPUBLIC OF KENYA



COUNTY ASSEMBLY OF WAJIR

THIRD ASSEMBLY-THIRD SESSION

PUBLIC ACCOUNTS & INVESTMENTS COMMITTEE

COMMITTEE REPORT ON:

THE EXAMINATION OF THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF WAJIR COUNTY BURSARY FUND FOR THE YEAR ENDED 30TH JUNE 2020.

MARCH, 2024

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LIST OF ABBREVIATIONS

| | |
|---------|--|
| AG | - Auditor General |
| FY | - Financial Year |
| PFM Act | - Public Finance Management Act |
| PICPAC | - Public Investment and Accounts Committee |
| PSASB | - Public Sector Accounting Standards Board |

COK - Constitution of Kenya
CECM - County Executive Committee Member

1.0 CHAIRPERSON FORWARD

Hon. Speaker,

On behalf of the Public Accounts and Investments Committee (PICPAC), and Pursuant to Wajir County Assembly Standing Order 188, I wish to present to this House the report of the Committee on the audited financial statements of Wajir County Bursary Fund for the financial year 2019/2020.

The County Assembly exercises oversight over County Government entities/investments and their expenditure Pursuant to Article 185(3) of the Constitution of Kenya 2010, through the Public Accounts and Investments Committee which, in turn, derives its mandate from the County Assembly Standing Orders.

It's instructive that Article 229 (8) of the Constitution of Kenya, 2010, requires the County Assembly, within three months after receiving an audit report, to debate, consider the report and take appropriate action.

The Committee held 3 sittings during which it received both written and oral evidence from the Accounting Officer on audit queries raised by the Auditor-General on the financial statements of Wajir County Climate Change Fund.

Honorable Speaker, I wish to register my appreciation to fellow Honorable Members of the Committee, the Offices of the Speaker and the Clerk of the Assembly, Committee Secretariat and the Office of the Auditor General for facilitation and technical support that made the production of this report possible.

I also thank the County Executive Committee Member for honoring committee invitations and timely submission of responses.

Special appreciation goes to the Hansard department for ensuring that all our meetings with Accounting Officers are broadcasted live.

Honorable Speaker, on behalf of the Public Accounts and Investments Committee, I

now wish to table the report on the consideration of the Auditor General's report on the Financial Statements of the Wajir County Bursary Fund for the year ended 30th, June 2020 and urge this Honorable House to adopt it.

1.1 Establishment and Mandate of the Public Accounts and Investments Committee

Hon. Speaker,

The Public Accounts and Investments Committee is established under Standing Order No. 193 of the Wajir County Assembly Standing Orders and is mandated to undertake the following functions;

- i. 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 House as the committee may think fit;
- ii. Examination of the reports, accounts working of the county Public Investments
- iii. Examination of the reports of the Auditor General on the annual accounts of the County Governments and examination of special reports, if any, of the Auditor General on the County Government Expenditure.
- iv. Oversight over management and performance of County Public

Investments.

Hon. Speaker Sir,

1.2 Composition of the Public Accounts and Investments Committee

The Committee as currently constituted comprises of the following Honorable Members,

- | | |
|------------------------------|--------------------|
| 1. Hon. Abdi Mohamed Abdi | -Chairperson |
| 2. Hon. Ibrahim Hussein Abdi | -Vice- Chairperson |
| 3. Hon. Adan Hussein Ali | -Member |
| 4. Hon. Abdisalan Mohamed | -Member |
| 5. Hon. Abdikarim Salat | -Member |
| 6. Hon. Shamsa Issa Jimale | -Member |
| 7. Hon. Maryan Abdullahi | -Member |

2.0 LEGAL FRAMEWORK & GUIDING PRINCIPLES

2.1 Legal Frame work

Hon. Speaker,

The Committee was guided by the following legal instruments;

1. **Constitution of Kenya 2010:** Article 229 (4) of the Constitution of Kenya, 2010 requires the Auditor General, within a period of six months after the end of each financial year, to audit and report, in respect of that financial year, on;
 - i. The accounts of the National and County governments,
 - ii. The accounts of all funds and authorities of the National and County governments,
 - iii. Accounts of all courts,
 - iv. The accounts of every commission and independent

office established by this constitution,

- v. The accounts of National Assembly, the Senate and the county assemblies,
- VI. The accounts of the political parties funded from the public funds,
- vii. The public debt and
- viii. The accounts of any other entity that legislation requires the Auditor General to Audit

Article 229(8) further states that *"within three months after receiving an audit report, parliament or county assembly shall debate and consider the report and take appropriate action"*.

2. **The Committee also relied on Article 226(5) of the Constitution of Kenya, 2010** which provides that if the holder of a public office, including a political office, directs or approves the use of public funds contrary to law or instructions, the person is liable for any loss arising from that use and shall make good the loss, whether the person remains the holder of the office or not.

3. **Public Audit Act 2015;** Section 7 of Public Audit Act 2015 that mandates the Auditor General to:

(i) Give assurance on the effectiveness of internal controls, risk management and overall governance at National and County Government; (ii) Undertake audit activities in state organs and public entities to confirm whether or not public money has been applied lawfully and in an effective way

4. **Public Finance Management Act, 2012:** Section 149 (1) of the Public Finance Management Act, 2012 which states that "An accounting officer is accountable to

The County Assembly for ensuring that the resources of the entity for which the officer is designated are used in a way that is -

- a) Lawful and authorized; and
- b) Effective, efficient, economical and transparent"

2.2 Guiding Principles

Hon. Speaker,

In the execution of its mandate, the Committee was guided by core Constitutional and statutory principles on Public Finance Management.

These principles include the following;

1. **Constitutional Principles on Public Finance:** Article 201 of the Constitution of Kenya 2010 provides for fundamental principles aimed at guiding all aspects of Public Finance. It states that the principles are; inter alia;
 - i). Openness and Accountability including public participation in financial matters;
 - ii). Public money shall be used in a prudent and responsible way; and
 - iii). Financial management shall be responsible and fiscal reporting shall be clear.
2. **Obligations of the Accounting officer;**
 - i). **Article 262(2) of the Constitution of Kenya 2010** which provides that; The Accounting officer of a national public entity is accountable to the national assembly for its financial management, and the accounting officer of a county public entity is accountable to the county assembly for its financial management.
 - ii). **Section 149(1) of the Public Finance Management Act 2012** provides that; an accounting officer is accountable to the County Assembly for ensuring that the resources of the entity for which the officer is designated are used in a way that is; (i)

Lawful and authorized and; and (ii) Effective, efficient and transparent

3. **Direct Personal Liability:** Article 226(5) of the Constitution is unequivocal that, if the holder of a Public Office or a political office, directs or approves the use of Public Funds contrary to the law or instruction, the person is liable for any loss arising from that use and shall make good, the loss, whether the person remains the office holder or not.

4. **Section 203(1)** of the Public Finance Management Act, 2012 enacts that; a public officer is personally liable for any loss sustained by a County Government and is attributed to;

- (i) The fraudulent or corrupt conduct, or negligence of the officer or,
- (ii) The officer's having done any act prohibited by Sections 196, 197, and 198

The Committee considered these legal provisions as the basis for holding accounting and public officers directly and personally liable for any loss of Public Funds that may occur under their watch.

3.0 Basis for Disclaimer of Opinion

3.1 Late Submission of Financial Statements

The Bursary Fund financial statements for the financial year ended 30 June, 2020 were submitted to the Auditor-General on 16 December, 2021 close to eighteen (18) months after the close of the financial year. Their delayed submission flouted Section 116(7) of the Public Finance Management Act, 2012 and Section 47(1) of the Public Audit Act, 2015 which require financial statements of public entities to be submitted to the Auditor-General for audit within three months after the end of each financial year.

In the circumstances, Management was in breach of the law.

Management Response

This was the first time the fund was preparing the financial statements as it was relying on the County Treasury to assist with the preparation of the financial statements due to capacity issues. Subsequently, from the financial year 2021-2022 the management of the fund ensures that the Financial Statements are submitted on a timely basis as required by law.

Committee deliberation and Recommendation

The Committee having considered and deliberated on the audit query is satisfied that the matter has been resolved but cautions the County Government that going forward, they should strictly adhere to the provisions of Section 116 (7) of Public Finance Management Act, 2012 and the Public Audit Act 2015.

3.2. Inconsistencies in Format and Presentation of Financial Statements

Review of the financial statements for the financial year ended 30 June, 2020 submitted for audit revealed the following anomalies:

- i. Information about the Management team does not contain caption photographs of the members of the team as required by the reporting template prescribed by the Public Sector Accounting Standards Board (PSASB).
- ii. Pages of the statement of financial position, the statement of changes in net assets, the statement of cash flows and statement of comparison of budget and actual amounts are not numbered.
- iii. Referencing of note numbers on the face of the financial statements is not consistent with the notes in support of the balances in the financial statements.
- iv. The management did not provide explanatory note in regard to expenditure totaling Kshs.77,088,000 on scholarships and other educational benefits reflected in the statement of financial performance.

In the circumstances, the financial statements are not compliant with the format prescribed by the public Sector Accounting Standards Board.

Management Response

It is true as the audit report pointed out the aforementioned discrepancies in the format and presentation of the financial statements. This was due to weak internal controls and capacity issues in the financial reporting process in the fund. Subsequently the internal controls and processes were enhanced to facilitate accurate financial statements that comply with the approved template of presentation of financial statements.

Committee deliberation and Recommendation

The Committee, having heard the oral submissions of the management and analysing the amended financial statement were satisfied with the management response thus clearing the matter.

The Committee also recommends the department to put more effort on capacity building of the staff.

The matter was therefore agreeably resolved.

3.3. Failure to Follow Due Process in Preparing the Budget

The statement of comparison of budget and actual amounts reflects nil income budget and total expenditure budget of Kshs.78,605,000. However Management did not prepare and submit budget estimates to the County Executive Member for Finance as required by Section 149(2) of the Public Finance Management Act, 2012.

In the circumstances, it was not possible to confirm the accuracy of the budget balances reflected in the statement of comparison of budget and actual amounts.

Management Response

The fund prepared its budget of Kshs. 82,000,000 for the financial year 2018/2019 which was approved by the County Assembly after being forwarded to the CEC Finance to be included in the County Budget. An amount of Kshs.3,445,000 was spent during the financial year 2018/2019 leaving a balance of Kshs.78,555,000 that was brought forward to financial year 2019/2020. Out of this balance Kshs. 77,136,130 was spent during financial year 2-19/2020 as approved.

Committee Observation

The Committee Observed that the documents submitted were adequate and the concern raised by the Auditor addressed.

Committee Recommendations

The Committee recommends that going forward the management should prepare and submit budget estimates to the County Executive Committee Member Finance for approval as required by section 149(2) of the Public Finance Management Act 2012.

3.4. Failure to Enact Bursary Fund Regulations

The Wajir County Bursary Fund Act, 2019 which established the Fund was assented to on 11th April, 2019. As at 1st March, 2022 when the audit was concluded, the Fund's regulations provided for under Section 32(3) of the Wajir County Bursary Fund Act, 2019

had not been prepared for approval by the County Assembly. As a result, there was no guidance to ensure that the operations of the Fund were carried out in compliance with the law that established the Fund.

Management Response

In light of the above audit finding regarding the delay in enacting fund regulations as required, the management acknowledges the importance of adhering to regulatory timelines and understands the significance of timely compliance in ensuring legal and operational integrity. The audit findings have highlighted a delay in the enactment of fund regulations due to the extended approval process by the assembly. This delay may have implications for governance, risk management, and stakeholder confidence. As a result, the Management followed up with the Assembly in regards with the regulations that had been forwarded earlier by the County Secretary on..... and the regulations were approved on

See Appendix - Letter from County Secretary forwarding the draft report

See Appendix - Approved Bursary Regulations

3.5. Failure to Secure Financial Data

The cash book provided for audit verification was maintained in MS Excel Worksheets. There was no evidence of adequate measures taken, including back-ups, to ensure security and integrity of the records in the cash book.

In the circumstance, there was risk of loss of the data and breach of its integrity.

Management Response

It is true that financial year 2020-2021 the cashbook was in Excel sheet only given that bulkiness of the transactions. However, currently the Fund maintains both excel and manual work book. **See appendix - extract copy of manual cashbook.**

3.6. Weaknesses in Internal Control-Unauthorized Bursary Payments

The statement of receipts and payments and Note 3 to the financial statements reflect bursary payments totaling Kshs.77,088,000 paid during the year. However, payment vouchers for the expenditure were not authorized by the Fund Administrator.

As a result, the validity of the payments could not be confirmed.

Management Response

It is true the payment vouchers were not signed by the fund administrator which was an oversight as he only signed the cheques for the payment. The management appreciates the importance of strong internal controls and as a result of the audit report subsequently all payment vouchers are signed by the fund administrator.

3.7. Failure to Establish Audit Committee

Contrary to Section 155(5) of the Public Finance Management Act, 2012, the County Executive under which the Fund is established had not established an Audit Committee in the year under review. Section 155(5) provides for the establishment of the internal audit function and an Audit Committee of the Board. As such the Company did not benefit from the assurance and advisory services from the internal audit function as well as oversight from the Audit Committee.

In the circumstances, oversight on the Fund's operations was not properly established.

Management Response

The management acknowledged the deficiency and recognized the importance of establishing the oversight mechanism as raised in the audit report. As a result of the audit observation the County Executive has established an audit Committee on.... **See appendix – Appointment of audit committee**

Committee deliberation and Recommendation

The Committee noted that the management have put in place an audit Committee.

The Committee recommends that-

- I. The management should ensure the audit committee is functional as per the law; and
- II. The office of the Auditor –General should continue monitoring the status of the operationalization of the Audit Committee.

3.8. Failure to Submit Prior Years Financial Statements

The Bursary Fund was established in the year 2014. However, Management did not submit to the Auditor-General financial statements for the financial years ended 30 June; 2015, 2016, 2017 and 2018.

In the circumstances, the accuracy and validity of the opening balances in the financial statements for the financial year under review could not be confirmed.

Management Response

The management recognizes the critical importance of timely and accurate financial reporting to ensure transparency, accountability, and compliance with regulatory requirements. The audit identified weak internal controls and capacity issues in the financial reporting process in the fund. In response to the audit query raised the outstanding financial statements were prepared and submitted on 22 December 2022 in accordance with

regulatory requirements. Further, the internal controls and processes were enhanced and put in place to facilitate timely reporting in future periods.

4.0 GENERAL OBSERVATIONS

Hon. Speaker,

The following general observations were made.

- That during the FY 2019/2020 the Management of Wajir County Bursary Fund had not submitted financial statements to the Auditor General as required by Public Finance Management Act, 2012, Section 116(7) and Section 47(1) of the Public Audit Act, 2015.
- That during the FY 2019/2020, the management has not complied with the format prescribed by the Public Sector Accounting Standards Board.
- That during the FY 2019/2020, the Management of Wajir County Bursary Fund had not enacted Bursary Regulation, as a result there was no guidance to ensure the operation of the Fund were carried out in compliance with the law that established the fund.
- That during the FY 2019/2020, there was no evidence of adequate measures taken to secure financial data, since the management was relying solely on MS Excel Worksheet.
- That during the FY 2019/2020, the management of Wajir County Bursary Fund has not established Audit Committee as section 155 (5) of the Public Finance Management Act, 2012.

5.0 GENERAL RECOMMENDATIONS

Hon. Speaker

The Committee recommends as follows;

- That going forward, the management must submit financial statements on time and adhere section 116(7) of the Public Finance Management Act, 2012 which states that the Administrator of County Public Fund shall prepare accounts for the fund for each financial year; and not later than three months after the end of each Financial Year.
- That going forward, the management must adhere with the format prescribed by the Public Sector Accounting Standard Board and the Financial Reporting Template.
- That going forward, the management must adhere to section 149(2) of the Public Finance Management Act.
- That the management to maintain both excel and manual work book when preparing the cash book so as to ensure security and integrity of the records in the cash book.
- That going forward the management should establish functional audit

Committee and the Auditor General to continue monitoring the status of the operationalization of the Audit Committee.

6.0 Conclusion

Hon. Speaker,

I hereby request that this House adopts this report of the Public Accounts and Investments Committee on the consideration of the Auditor General's Report on the Financial Statements of the Wajir County Bursary Fund for the year ended 30th, June 2020.