



**REPUBLIC OF KENYA
COUNTY GOVERNMENT OF MACHAKOS
COUNTY ASSEMBLY OF MACHAKOS**



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**THIRD ASSEMBLY
THIRD SESSION (03)**

**REPORT OF THE AUDITOR-GENERAL ON RECEIVER OF REVENUE FINANCIAL
STATEMENTS FOR FY 2021/2022**

**BY THE
PUBLIC ACCOUNTS AND INVESTMENTS COMMITTEE**

FEBRUARY, 2024

Report of the Auditor-General on Receiver of Revenue Financial Statements for FY 2021/2022

TABLE OF CONTENTS

EXECUTIVE SUMMARY3

1.0 INTRODUCTION4

 1.1 Preface.....4

 1.2 Committee Membership.....4

 1.3 Background information5

2.0. GUIDING LEGAL FRAMEWORK5

3.0. THE AUDIT QUERIES AND MANAGEMENT RESPONSES.....6

4.0. COMMITTEE GENERAL OBSERVATIONS.....10

5.0. COMMITTEE GENERAL RECOMMENDATIONS12

6.0 CONCLUSION AND ACKNOWLEDGEMENT.....12

EXECUTIVE SUMMARY

1. Hon Speaker, this report on the Financial Statements of Receiver of Revenue for the year ended 30 June 2022 was received in the Assembly on 22nd May 2023 pursuant to Article 229 (7) of the Constitution. The report was committed to Public Accounts and Investments committee pursuant to Standing Order No. 185 (2) (b) and (c) and the report had a qualified opinion.
2. The key queries raised on the part for basis for the qualified opinion include Misstatement of Bank Balance, .Unconfirmed Opening Balances and late submission of the Revenue Statements.
3. The Committee while exercising its mandate scrutinized the queries and considered oral submissions from the Accounting Officer and noted that this being the first audit of the financial statements of receiver of revenue, the department had faced some reporting challenges which highly contributed to the queries raised by the Auditor. The Committee noted inconsistencies in the figures captured in the statement of financial assets and liabilities compared with the ones in the Bank balances.
4. In order to address the issues raised in the Audit report the Committee made key recommendation such as preparing amendments to the statements on bank balances and opening balances, forwarding the amended statements to the auditor general for verification and timely submission of financial statements among other recommendations.

1.0 INTRODUCTION

1.1 Preface

5. Honorable Speaker, pursuant to Article 229 (7) of the Constitution, Section 32(1) and 39(1) of the Public Audit Act, 2015, the report on Financial Statements of Receiver of Revenue for the year ended 30 June 2022 was received in the Assembly. The report was committed to Public Accounts and Investments Committee for interrogation and reporting as provided under Standing Order 185 (2) (b) and (c) that states that *“the Public Accounts and Investments Committee shall be responsible for examination of reports, accounts and workings of the County Public Investments and whether the affairs of the public investments are being managed in accordance with sound financial or business principles and prudent commercial practices.”*

1.2 Committee Membership

6. Hon. Speaker, the Committee comprises of the following Honorable members;
1. Hon. Philip Ndolo – Chairperson
 2. Hon. Ruth Wanjiru – Vice - Chairperson
 3. Hon. Raphael Lucky Member
 4. Hon. Charles Mbuva “
 5. Hon. Douglas Mutinda “
 6. Hon. Paul Muoki “
 7. Hon. Caroline Mutuku “

Secretariat;

1. Mr. Luke Maingi - Clerk Assistant
2. Mr. Patrick Muange - Clerk Assistant
3. Mr. Francis Muatha - Internal Auditor
3. Mr. Joseph Mutiso - Hansard Officer

4. Ms. Miriam Nthoki - Serjeant at Arms

1.3 Background information

7. Hon. Speaker, the Audit report on the Financial Statements of Receiver of Revenue for the year ended 30 June 2022 was received in the Assembly on 22nd May 2023 pursuant to Article 229 (7) of the Constitution that states that *Audit Reports shall be submitted to Parliament or the relevant County Assembly*. It is good to note that the report was received five (5) months late contrary to Section 48 (1) of the Public Audit Act 2015 that requires the Auditor General to audit and report on accounts audited six (6) months after the end of the fiscal year in question.
8. On receipt of the audit report, it was committed to Public Accounts and Investments committee pursuant to Standing Order No. 185 (2) (b) and (c) and the report is a **Qualified opinion**. This means the financial Statements present fairly and comply with the Public Finance Management Act, 2012 and the County Governments Act, 2012.
9. The Committee on Public Accounts while exercising its mandate as provided in the Standing Order 185 invited the Accounting Officer and conducted interrogation on the audit report on October 2023. This is as per the provisions of Article 226(2) of the Constitution that provides that *the Accounting Officer of a County public entity is accountable to the County Assembly for its financial management*.

2.0. GUIDING LEGAL FRAMEWORK

10. Hon. Speaker, in the execution of its mandate the Committee was guided by core Constitutional and Statutory Laws on public finance management below:

6.1. The Constitution

11. (i) Article 201(a)(d)(e) provides that
 - (a) *there shall be openness and accountability, including public participation in financial matters;*
 - (d) *public money shall be used in a prudent and responsible way; and*
 - (e) *financial management shall be responsible, and fiscal reporting shall be clear.*

(ii) Article 226(2) of the Constitution states that the accounting officer of a county public entity is accountable to the county assembly for its financial management

(iii) Article 229 (5) of the Constitution provides that “*the Auditor-General may audit and report on the accounts of any entity that is funded from public funds.*”

(iv) Article 229 (8) of the Constitution states that “*within three months after receiving an audit report, the parliament or the County Assembly shall debate and consider the report and take appropriate action.*”

2.2. The Public Audit Act 2015

12. (i). Section 47 (1) provides that the financial statements required under the Constitution, the Public Finance Management Act, 2012 (No. 18 of 2012) and any other legislation, shall be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.

(ii). Section 48 (1) states that within six months after the end of each financial year, the Auditor-General shall audit and report, in respect of that financial year, on the accounts specified in Article 229 of the Constitution

2.3 County Assembly of Machakos Standing Orders

13. Standing Order 185 mandates the Committee on Public Accounts and Investments to examine reports, accounts and workings of the County Public Investments

3.0. THE AUDIT QUERIES AND MANAGEMENT RESPONSES

14. Hon. Speaker, Section 48 (1) of the Public Audit Act, 2015 states that *within six months after the end of each financial year, the Auditor-General shall audit and report, in respect of that financial year, on the accounts specified in Article 229 of the Constitution.* In adherence to the said provision, the Auditor General audited the financial Statements of County Executive of Machakos and disclosed audit matters below.

15. Further, the Accounting Officer in observance of Article 226(2) of the Constitution that provides for accountability of Accounting Officers to County Assembly provided responses to each of the queries as outlined below.

3.1.Misstatement of Bank Balance

16. The statement of financial assets and liabilities reflects zero bank balances. A review of the various revenue collection bank accounts' statements revealed bank balances of Kshs 21,832,354 and Ksh. 35,677,070 as at 1st July, 2021 and 30th June, 2022 respectively. The balances however, not disclosed in the statement of financial assets and liabilities. In addition,the bank balance for Machakos Internal Revenue Account of Ksh. 20,608,766 as at 30th June, 2022 has not been incorporated in the own generated revenue for the year.
17. In the circumstances, the accuracy and fair statement of the reported nil bank balance as at 30th June 2022 could not be confirmed.

3.1.1.Management response

18. The closing bank balances of 30th June 2021 of Kshs 21,832,354.00 was treated as revenues for subsequent Financial year of 2021/22 while the closing balances as at 30th June 2022 of Kshs 35,677,070.00 in various bank accounts and Kshs 20,608,766.00 in Machakos Internal Revenue Account were treated as revenues for the following financial year 2022/23.

3.1.2.Committee Observations

19. The Committee made the following Observations;
- a) That this audit on the Receiver of the Revenue was the first reporting and the audit Circular that was to guide its preparation was received late in the month of September. Section 47(1) of the public Audit Act requires financial statements to be submitted to the auditor general three (3) months after the end of the fiscal year ie 30 September.
 - b) The Committee confirmed that there was erroneous posting of figures in the financial statements which led to inconsistencies in the figures captured in the statement of financial assets and liabilities compared with the ones in the Bank balances.

3.1.3.Committee Recommendation

20. The Committee recommended that the Department of Finance should prepare an amendment of the Statement on bank balance and correct the misstatement raised in the query using the guidelines provided in the received circular, then forward to the auditor general for verification.

3.2.Unconfirmed Opening Balances

21. The statement of receipts and disbursements reflects comparative balances for the receipt and disbursement items. However, the financial statements were being prepared for the first time with no comparative balances having been audited in the past.

22. In the circumstances the accuracy and completeness of the receipts and disbursements amounts could not be confirmed.

3.2.1. Management response

23. The county government has noted the anomaly and has since corrected it in the subsequent Financial Year 2022/23.

3.2.2.Committee Observations

24. The Committee made the following Observations;

a) The Committee noted this statement on receiver of revenue was the first one and so there was no comparative figures to use in the preparation of the financial statement. However the statement used to form part of consolidated financial statements of the County Executive and the particular comparative figures are included in the previous audited financial statement of the County.

b) During the time of audit, the Accounting Officer did not provide the audited consolidated financial statements to support the source where the comparative figures were cited from.

3.2.3.Committee Recommendation

25. The Committee recommended that the Department of Finance should amend the statement on opening balance by incorporating the comparative figures as sourced from the audited consolidated statements of the County Executive then forward the amended statement to the Auditor General for verification and subsequent closure of the query.

3.3.Late Submission of the Revenue Statements

26. The Receiver of Revenue-County Government of Machakos financial statements were submitted to the Office of the Auditor-General on 1st February, 2023 which was four months after the stipulated deadline of 30th September, 2022.

3.3.1. Management response

27. The county government has noted the anomaly and always endeavors to submit the Receiver of Revenue financial statements before 30th September, we have since corrected it in the subsequent submission.

3.3.2. Committee Observations

28. In respect to the above query, the Committee observed as follows;

a) Pursuant to Section 47 (1) of the Public Audit Act, *the financial statements required under the Constitution, the Public Finance Management Act, 2012 (No. 18 of 2012) and any other legislation, shall be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.* The financial statements in question were received on 1 Feb. 2023, four months late after the expiry of the statutory timelines. This is in contravention of the above provision of Section 47 (1) of the Public Audit Act and also Section 62 (1) (c) of the same Act that states that *a person shall not without justification, fail to provide information within reasonable time that is required under this Act;*

b) The committee scrutinized the above response by the management but the response did not explain the justification for late submission as required under Section 62 (1) (c) of the Public Audit Act, 2015.However during the interrogation time the Accounting officer provided the following justifications leading to late submission of the financial statements;

i) That the statements on receiver of revenue were the first one to be prepared by the Executive and that there were no guidelines from the Public Sector Accounting Standards. The guidelines were received few days to the expiry of submission timelines of 30 September as stated under Section 47 (1) of the Public Audit Act, hence there was hardly no sufficient time to prepare the Statements.

ii) The CEC Finance was also required to appoint a Receiver of Revenue Officer as per the same guidelines to sign the prepared statements and all this was constrained by timelines.

ii) The Committee considered the above justifications and considered them as satisfactory.

3.3.3. Committee Recommendation

29. The Committee recommended that the Accounting Officer for the purposes of future reports should submit financial statements within the statutory timelines provided under Section 47(1) of the public Audit Act in order to enable both the Auditor General and the County Assembly to undertake their legal mandates related to audit reports as provided under Section 48 (1) of the Public Audit Act 2015 and Article 229(8) of the Constitution respectively.

4.0. COMMITTEE GENERAL OBSERVATIONS.

30. Hon. Speaker, after considering the specific queries on misstatement of Bank balance, unconfirmed opening balances and late submission of the revenue Statements, this Committee made the following general observations;

a) That this audit on the Receiver of the Revenue was the first reporting and the audit Circular that was to guide its preparation was received late in the month of September. Section 47(1) of the public Audit Act requires financial statements to be submitted to the Auditor General three (3) months after the end of the fiscal year i.e 30th September.

b) That there was erroneous posting of figures in the financial statements which led to inconsistencies in the figures captured in the statement of financial assets and liabilities compared with the ones in the Bank balances.

- c) That the statement on receiver of revenue was the first one and so there was no comparative figures to use in the preparation of the financial statement. However the statement used to form part of consolidated financial statements of the County Executive and the particular comparative figures are included in the previous audited financial statement of the County Executive.
- d) That during the time of audit, the Accounting Officer did not provide the audited consolidated financial statements to support the source where the comparative figures were cited from.
- e) That Pursuant to Section 47 (1) of the Public Audit Act, *the financial statements required under the Constitution, the Public Finance Management Act, 2012 (No. 18 of 2012) and any other legislation, shall be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.* The financial statements in question were received on 1 Feb. 2023, four months late after the expiry of the statutory timelines. This is in contravention of the above provision of Section 47 (1) of the Public Audit Act and also Section 62 (1) (c) of the same Act that states that *a person shall not without justification, fail to provide information within reasonable time that is required under this Act;*
- f) That the response by the management did not explain the justification for late submission as required under Section 62 (1) (c) of the Public Audit Act, 2015. However, during the interrogation time the Accounting officer provided the justifications leading to late submission of the financial statements as below:
 - i. That this statement on receiver of revenue was the first one to be received by the Executive and that there were no guidelines from the Public Sector Accounting Standards. The guidelines were received few days to the expiry of submission timelines of 30 September as stated under Section 47 (1) of the Public Audit Act, hence there was hardly no sufficient time to prepare the Statements.
 - ii. That the CEC Finance was also required to appoint a Receiver of Revenue as per the same guidelines to sign the prepared statements and all this constrained by timelines.

5.0. COMMITTEE GENERAL RECOMMENDATIONS

31. Hon. Speaker, after considering the general observations stated above, the committee made the following general recommendations;

- a) That the Department of Finance should prepare an amendment on the Statement on bank balance and correct the misstatements raised in the query using the guidelines provided in the received circular, then forward to the auditor general for verification.
- b) That the Department of Finance should also amend the Statement on Opening balances by incorporating the comparative figures as sourced from the audited consolidated statements of the County Executive then forward the amended statement to the Auditor General for verification and subsequent closure of the query.
- c) That the Accounting Officer for the purposes of future reports should submit financial statements within the statutory timelines provided under Section 47(1) of the public Audit Act in order to enable both the Auditor General and the County Assembly to undertake their legal mandates related to audit reports as provided under Section 48 (1) of the Public Audit Act 2015 and Article 229(8) of the Constitution respectively.
- d) That Pursuant to the provisions of Section 53 (1) of the Public Audit Act 2015, the Accounting Officer should within 90 days after approval of this report take the relevant steps to implement the recommendations in this report or give an explanation in writing to the Assembly why the report is not implemented.

6.0 CONCLUSION AND ACKNOWLEDGEMENT

32. Hon. Speaker, the report on financial statements of Receiver of Revenue for the year ended 30 June 2022 is Qualified Opinion. This implies that the report fairly represents the financial position of the Receiver of Revenue Financial statements in the year in question. It indicates well that if the matters raised by the Committee are considered in addition to proper internal

controls, compliance and observance of disclosure of information, a positive shift in preparation of good financial statements will be realized.

33. Hon. Speaker, the Committee on Public Accounts and Investments is grateful to your office for facilitating this committee to undertake its mandate, the County Secretary and County Executive Committee Member department of Finance for honoring committee invitation to respond on queries raised, the Office of the Auditor General for the advisory given and Members of the Committee and the Secretariat for commitment and effort throughout the process of report writing.
34. It is therefore my privilege and pleasure on behalf of Public Accounts and Investments Committee to table before this Honorable House the report on Financial Statements of Receiver of Revenue For the Financial Year 2021/2022 for discussion and adoption.

Thank you Honorable Speaker.

.....to whom much is given, much is required; Luke 12:48



HON. PHILIP NDOLO

CHAIRPERSON, PUBLIC ACCOUNTS AND INVESTMENTS COMMITTEE