



**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 THE FINANCIAL STATEMENTS OF
MACHAKOS COUNTY BURSARY FUND FOR THE YEAR ENDED 30TH JUNE, 2022**

**BY THE
PUBLIC ACCOUNTS AND INVESTMENTS COMMITTEE**

FEBRUARY, 2024

Report of the Auditor-General on the Financial Statements of Machakos County Bursary Fund for the year ended 30th June, 2022

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EXECUTIVE SUMMARY

1. Hon Speaker, this report on the Financial Statements of Machakos County Bursary Fund for the year ended 30 June 2022 was received in the Assembly in April 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 discrepancies between the trial balance and the financial statements, un-supported cash and cash equivalents and inadequate bursaries disbursed.
3. The Committee while exercising its mandate scrutinized the queries and raised key observations such as bursary cheques not being presented for payment or dishonored by the bank because of errors, low facilitation of the Ward bursary committee, non disclosure of schedules of un-presented cheques and fund reconciliations and allocation of uniform amounts to all beneficiaries among other observations.
4. In order to address the issues raised from the particular queries the committee made some key recommendations such as issuance of cheques at ward centres for openness and transparency, strict check on cheque details before presentation to the bank, timely issuance of cheques, formulation of guidelines with clear categories of various beneficiaries, full disclosure of information to auditors and amendment of the Machakos County bursary fund regulation 2019 to cater a systematic annual bursary fund allocation 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 Machakos County Bursary Fund 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
4. Mr. Joseph Mutiso - Hansard Officer
5. Ms. Miriam Nthoki - Serjeant at Arms

1.3 Background information

7. Hon. Speaker, the Audit report on the Financial Statements of Machakos County Bursary Fund for the year ended 30 June 2022 was received in the Assembly in 19th April 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 Auditor General presented the report to the Assembly **four months late** contrary to the provisions of 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 Standing Order 185 invited the Accounting Officer of the Department of Education 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:

2.1. 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 Machakos County Bursary Fund, 2022 and disclosed in the audit matters.

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. Discrepancies Between the Trial Balance and the Financial Statements

16. The statement of financial performance reflects general expenses of Kshs.79,563,909. Included in the amount are bursaries disbursed during the year of Kshs.79,450,169. However, the expenditure on bursaries as per the trial balance is Kshs.81,766,776 resulting to an unexplained difference of Kshs.2,316,607.

17. In the circumstances, the accuracy and completeness of general expenses amount of Kshs.79,563,909 for the year ended 30 June, 2022 could not be confirmed.

3.1.1. Management Response

18. *The amount of KES 2,316,607 represents stale cheques and is captured in the trial balance as highlighted in Appendix 1*

3.1.2. Committee Observations

19. The Committee made the following observations;

a) There was a discrepancy of Kshs. 2,316,607 between what was captured in the trial balance and the financial Statements. This amount represented cheques that were issued to beneficiaries but were not presented for payment within six months.

b) The Committee confirmed reasons why the said cheques were not presented for payment as follows;

i) Some cheques had errors in the names of the benefiting institutions and which the management did not bother to follow up for replacement.

- ii) There were cases of undeserving beneficiaries being issued with cheques and who in turn did not bother to submit them to their respective schools hence denying other deserving students the chance of benefiting from that bursary allocation
- iii) The low allocation of the bursary made some parents reluctant to present the cheques for payment considering the cheques are sometimes issued late issuance at a time when schools have already opened.
- iv) The low facilitation of the Ward bursary committee which is established under Section 11 of the Machakos County bursary Fund Regulations 2019 with requisite materials to enable them administer the process of issuance of cheques to the respective institutions.

3.1.3. Committee Recommendations

20. The Committee in respect of the above query made the following recommendations;
- a) In order to prevent cheques from being issued to undeserving beneficiaries, the cheques should be issued in the various Ward centers where the beneficiaries were identified from and be done in an open and transparent manner.
 - b) Section 16 of the Machakos County bursary regulations 2019 provides for allowances payable to the Ward bursary committee. The Department should ensure that the committee is facilitated in an open and transparent manner by transferring their allowances to their respective bank accounts.
 - c) The department when addressing the cheques should ensure that the institution's names are captured correctly especially where an institution has changed its name to avoid errors in the cheques.

- d) Section 12 of the said regulations provides for the functions of the Ward bursary committee. This committee should make a follow up to confirm if the cheques are received in the respective institutions, receive acknowledgement from the school and also collect receipts for the corresponding cheques before expiry of six months.
- e) The department should immediately after issuance of cheques do a bank reconciliation in order to disclose the unpresented cheques and immediately replace them with new cheques addressed for the same beneficiary so that the targeted beneficiary benefits from the allocation.

3.2. Un-supported Cash and Cash Equivalents

- 21. The statement of financial position reflects cash and cash equivalents balance of Kshs.151,665 and as disclosed in Note 10 to the financial statements. The balance comprises of Machakos County Bursary Fund and Machakos County Bursary Operations accounts balances of Kshs.151,010, and Kshs. 655 respectively. However, the bank reconciliation statements for the Machakos County Bursary Fund includes unpresented cheques totalling Kshs 19,269,850 which were not supported by detailed schedules.
- 22. In the circumstances, the accuracy and fair statement of the cash and cash equivalents balance of Kshs.151,665 as at 30 June, 2022 could not be confirmed.

3.2.1. Management Response

- 23. Detailed schedules to support the unpresented cheques for the months of July to May are available for review.

3.2.2. Committee Observations

- 24. The Committee made the following observations;
 - a) The Committee during the interrogation time received detailed schedules to support the unpresented cheques, however the same schedules were not presented to the auditor during the audit exercise.

b) The analysis of how the unpresented cheques totaling to Kshs 19,269,850 were later cleared was not presented to the auditors hence it was difficult to establish if the cheques were replaced or not and how the said amount was utilized.

3.2.3 Committee Recommendations

25. The Committee made the following recommendations;

- a) That the Accounting Officer during the time of audit should provide all information required by the auditors pursuant to Section 9 (1) (e) of the Public Audit Act, 2015, that gives the Auditor unrestricted access to all required information and books.
- b) Within 14 days after approval of this report, the department should forward to the auditors bank reconciliation for Ksh. 19,269,850 for verification
- c) Further, an analysis of the schedule showing how each of the unpresented cheques were later cleared should also be presented to the auditors for verification.

3.3 Inadequate Bursaries Disbursed

26. The statement of financial performance reflects general expenses amount of Kshs.79,563,909 which includes bursaries expenditure of Kshs.79,450,169. Review of the list of beneficiaries revealed that bursaries were awarded at a uniform rate to the beneficiaries instead of being based on the applicant's need. Further, review of bursary report dated 8 September, 2022 revealed that the bursary faces a number of challenges which include interference by the ward bursary committee and county bursary committee who are stakeholders. The stakeholders prepare guidelines for award of bursaries at a uniform rate without considering the needs or vulnerability level of the applicants. The objective of the Fund to assist students on a need basis is therefore not met.

27. In the circumstances, the objective of the Fund and value for money may not have been achieved due to unrealistic award criteria and interference by ward and county committee members.

3.3.1. Management Response

28. The county Government has noted the challenge of interference by various stakeholders and will engage the county assembly to avoid the same. The issue of a flat rate figure will also be addressed with the legislators and committees to ensure the bursary is issued on need basis and not political mileage.

3.3.2. Committee Observations

29. The Committee made the following observations;

a) The Committee noted that by allocating uniform amounts to all the beneficiaries without considering the specific needs of individual applicants, the bursary fund was not fully serving the intended purpose of supporting the vulnerable students.

b) The committee cited cases of the County bursary Committee overlooking the proposals given by the Ward bursary committee of allocating slightly larger amount to the most needy students and instead allocating uniform amount with an aim of benefiting as many applicants as possible.

3.3.3. Committee Recommendations

30. The Committee recommended as follows;

a) The Machakos County bursary fund regulations should be amended to introduce systematic annual increase on bursary allocation. This is because of the continued economic hardships being experienced.

b) The department in consultation with all other relevant stakeholders should formulate guidelines with clear categories of various groups of students and the amount each category should receive as bursary. The categories should specify full orphans, partial orphans, non-working parents, working but needy among other categories.

4.0. GENERAL OBSERVATIONS

31. Hon. Speaker, after considering the specific queries on; discrepancies between the Trial Balance and the Financial Statements, un-supported Cash and Cash Equivalents, inadequate

bursaries disbursed and the specific observations under each query, the committee makes the following general observations:

- a) **THAT** there was a discrepancy of Kshs. 2,316,607 between what was captured in the trial balance and the financial Statements. This amount represents cheques that were issued to beneficiaries but were not presented for payment within six months. The Committee confirmed reasons why the said cheques were not presented for payment as follows;
 - i. Some cheques had errors in the names of the benefiting institutions and which the management did not bother to follow up for replacement.
 - ii. There were cases of undeserving beneficiaries being issued with cheques and who in turn did not bother to submit them to their respective schools hence denying other deserving students the chance of benefiting from that bursary allocation
 - iii. The low allocation of the bursary made some parents reluctant to present the cheques for payment considering that the cheques were issued late at a time when schools had already opened.
 - iv. The low facilitation of the Ward bursary committee which is established under Section 11 of the Machakos County bursary Fund Regulations 2019 with requisite materials to enable them administer the process of issuance of cheques to the respective institutions.
- b) The Committee during the interrogation time received detailed schedules to support the unrepresented cheques, however the same schedules were not presented to the auditor during the audit exercise.

- c) That an analysis on how the unpresented cheques totaling to Kshs 19,269,850 were later cleared was not presented to the auditors hence it was difficult to establish if the cheques were replaced or not and how the said amount was utilized
- d) The budgeted bursary allocation during the financial year in question was low compared to the many bursary application received and this led to uniform allocation to the applicants in order to benefit as many applicants as possible.
- e) The allocation of uniform amount to all the beneficiaries without considering the specific needs of individual applicants makes the bursary fund not to fully serve the intended purpose of supporting the vulnerable students.

5.0. GENERAL RECOMMENDATIONS

32. Hon. Speaker, after considering the general observations stated above, the committee makes the following general recommendations;
- a) That in order to prevent cheques from being issued to undeserving beneficiaries, the cheques should be issued in the various Ward centres where the beneficiaries were identified from and be done in an open and transparent manner.
 - b) Section 16 of the Machakos County bursary regulations 2019 provides for allowances payable to the Ward bursary committee. The Department should ensure that the committee is facilitated in an open and transparent manner by transferring their allowances to their respective bank accounts.
 - c) That the department when addressing the cheques should ensure that the institution's names are captured correctly especially where an institution has changed its name to avoid errors in the cheques.

- d) Section 12 of the said regulations provides for the functions of the Ward bursary committee. This committee should make a follow up to confirm if the cheques are received in the respective institutions, receive acknowledgement from the school and also collect receipts for the corresponding cheques before expiry of six months.
- e) That the department should immediately after issuance of cheques do a bank reconciliation in order to disclose the unpresented cheques and immediately replace them with new cheques addressed for the same beneficiary so that the targeted students benefit from the allocation.
- f) That the Accounting Officer during the time of audit should provide all information required by the auditors pursuant to Section 9 (1) (e) of the Public Audit Act, 2015, that gives the Auditor unrestricted access to all required information and books.
- g) That within 14 days after approval of this report, the department should forward to the auditors bank reconciliation for Ksh. 19,269,850 for verification. Further, an analysis of the schedule showing how each of the unpresented cheques were later cleared should also be presented to the auditors for verification.
- h) That the Machakos County bursary fund regulations should be amended to introduce systematic annual increase on bursary allocation. This is in consideration of the continued economic hardships being experienced.
- i) That the department in consultation with all other relevant stakeholders should formulate guidelines with clear categories of various groups of beneficiaries and the amount each category should receive as bursary.
- j) 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

33. Hon. Speaker, the report on financial statements of Machakos County Bursary Fund for the year ended 30 June 2022 is a Qualified Opinion. This implies that the report fairly represents the financial position of the County Executive 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.

34. Hon. Speaker, the Committee on Public Accounts and Investments is grateful to your office for facilitating this committee to undertake its mandate, the County Executive Committee Member and the Chief Officer Department of Education for honoring committee invitation to respond on queries raised, the Office of the Auditor General for the advisory given, Members of the Committee and the Secretariat for commitment and effort throughout the process of report writing.

35. Honorable Speaker, 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 Machakos County Bursary Fund for the Year ended 30th June 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