

REPUBLIC OF KENYA



GOVERNMENT OF MAKUENI COUNTY



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MAKUENI COUNTY EXECUTIVE AUDIT COMMITTEE

EXIT REPORT

JANUARY 2023

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Foreword

On behalf of the Makeni County Executive Audit Committee, I am pleased to present this exit report that documents the activities undertaken by the committee, achievements, challenges experienced during its conduct of business since its appointment in February 2017 and recommendations thereof.

The committee has developed the Audit Committee Charter and held its meetings on a timely and regular basis with proceedings, deliberations and recommendations being formally minuted. It has effectively reviewed audit reports produced by Internal Audit and made recommendations for action.

Some of the significant tasks considered and undertaken by the committee include:

- Championing the enterprise risk management (ERM) process, conducting ERM gap analysis, developing an ERM policy for the county government and training of County Executive Committee Members, Chief Officers, Directors and Chairpersons and Members of Boards of County government agencies on ERM;
- Consistent making of recommendations in its advisory role to management for the improvement of internal controls through its review of internal audit reports (that cover significant risk exposure and internal control issues, including fraud risk and governance issues) leading to remarkable improvement in the quality of audit reports from the Office of the Auditor General (OAG) from **adverse** in the 2013/14 to the 2015/16 financial years to **qualified** in the 2016/17 Financial year, **unqualified** in the 2017/18 financial year and **qualified** in subsequent years;
- Regular engagement with key stakeholders through consultative meetings. These have been held with the County Treasury, the Office of the Internal Auditor General and the Office of the Auditor General; and
- Under the stewardship of the Audit Committee, the Internal Audit Directorate has developed and operationalized an Internal Audit Charter and a three-year strategic plan (2022 to 2024) and developed and implemented risk based annual work plans over the years to determine its priorities in line with the county government strategic goals

The Internal Audit Directorate has been operating with a lean budget and staff of only 5 personnel servicing the entire county government. With the increase in independent county government entities there is need to increase the staffing levels of the directorate. The committee recommends that the directorate be domiciled in the Office of the Governor reporting administratively to the County Secretary for its effectiveness. The Head of Internal Audit should also be strategically positioned at the top management at the same level as Accounting Officers to support the position's participation in strategic decision making process.

This exit report is intended to be a starting point for the successor committee as it considers its work and it is hoped that this will be a tradition replicated in other committees in the county government.

FCCA Martin Musyimi,

Chairman, Makueni County Executive Audit Committee.

1. Makueni County Executive Audit Committee Members

CPA Nicodemus Muteti (PhD)- Professional Profile



CPA Nicodemus Muteti (PhD) was born and brought up in the little known Tuaa slopes in the then administrative district of Machakos now Makueni County, Kenya. He attended local primary and secondary schools prior to joining Nyeri High School from where he qualified to join the University of Nairobi.

After graduating from the University, he has been privileged to work in the private and public sectors and held various middle and senior management positions in accounting, finance and administration and amassed considerable wealth of practical experience and competences in Accounting and Finance, Company Secretarial and Administration.

CPA Nicodemus Muteit (PhD) is a Member of the Institute of Certified Public Accountants (ICPAK), Member of the Institute of Certified Public Secretaries (ICPS-K), Member of the Institute of Directors Kenya, an Accredited Governance Auditor, an ISO 9002 Auditor, an Associate Member of the Kenya Institute of Management (KIM) and a Certified Trainer in Corporate Governance for Commonwealth countries.

He has a passion for teaching and mentorship of young professionals. He has lectured in Accounting and Entrepreneurship disciplines at the local public and private universities in Kenya. He has trained locally and internationally in areas of Financial Management, Corporate Governance, Project Financing, Project Management, Performance Management and authored operational manuals and procedures. At the community level he has been a member and Chairman of several Boards of Management and chairs the Development Committee of Africa Inland Church (AIC) - Isambani.

FCCA Martin Musyimi – Professional Profile



FCCA Martin Musyimi currently serves as the Head of Internal Audit at the Salaries & Remuneration Commission and was appointed as an Independent Member of the Makueni County Executive Audit Committee on February 2017. On March 2020 he was appointed the Acting Chairman of the Audit Committee and served in that capacity until the Committee's term of office lapsed on 31 January 2023. He holds a Master's Degree in Business Administration from United States International University and he is a Certified Information Systems Auditor (CISA) – ISACA as well as a Fellow of the Chartered Certified Accountants (FCCA)- ACCA of United Kingdom. He is also a member of the Institute of Internal Auditors of Kenya.

FCPA Fredrick Riaga – Professional Profile



FCPA Fredrick currently serves as the Team Leader of the vibrant and dynamic Public Sector Accounting Standards Board. He maintains a keen interest in institutional sustainability by promoting good governance practices and work ethos founded on integrity and ethical behaviour.

Prior to joining the Board, Fredrick was part of the leadership team at the Institute of Certified Public Accountants of Kenya (ICPAK). He was also the long-serving Head of the Secretariat of the East Africa Community Institute of Accountants, a platform for the regional Professional Accountancy Organizations to engage with the East Africa Community on policy matters touching on the general practice of accountancy in the region. Prior to joining the Institute, Fredrick worked at PricewaterhouseCoopers, and NIC Bank Limited.

Fredrick has recently been appointed to the panel of Technical Advisors at the International Public Sector Accounting Standards Board – Toronto, Canada. He is also currently serving as the Chairman of the Finance Committee of Newlife SDA Church and previously, the Church Treasurer. He has been for the last six years, a member of the County Executive Audit Committee for the County Government of Makueni, the first general government institution to have obtained an unqualified audit opinion. He also chairs the Nominations Committee of Ufanisi SACCO Limited.

Fredrick previously advised the top tier-one deposit-taking savings and credit cooperative societies in Kenya - Mwalimu National SACCO Limited and Stima SACCO Limited, the leading SACCOs in Kenya with a joint asset base of about Kenya Shillings 100 Billion on governance specifically in relation to board elections.

FCPA Fredrick Riaga holds an MBA in Finance and a Bachelor of Commerce in Accounting both from the School of Business of the University of Nairobi and a Certificate in IPSAS by ACCA. He is a fellow of the Institute of Certified Public Accountants of Kenya and an accountant of good standing. He is also a member of the Institute of Internal Auditors (IIA), Kenya chapter.

CPA Albert Maingi Musyoka – Professional Profile



CPA Albert Maingi Musyoka was appointed as an Independent Member of the Makueni County Executive Audit Committee on February 2017. He holds a Master's Degree in Business Administration from University of Nairobi, Bachelor of Agribusiness Management from Egerton University, Certified in Internal Audit Quality Assessment (CIAQA) - IIA Kenya, Certified Information Systems Auditor (CISA) - ISACA and Certified Public Accountant (CPA) - ICPAK.

Currently he is the Head of Internal Audit at Thika Water and Sewerage Company Limited. Previously he worked at Kenya Institute of Mass Communication and Harambee SACCO Society Limited as Head of Internal Audit. He also worked with Safaricom Limited, Equity Bank Limited and Veg Care Horticultural Company Limited.

Mutua Mulonzya - Professional Profile



Mr. Mutua Mulonzya was appointed as a member of the Makueni County Executive Audit Committee representing the senior management in February 2017. He is an accomplished professional with over 15 years research and work experience in advocacy, governance and public accountability, strategy development and results based monitoring and evaluation in the public and private sector. He is a Certified ISO 9001: 2015 Internal Quality Auditor by the National Quality Institute (NQI) of the Kenya Bureau of Standards (KEBS) and an Accredited Trainer of Trainers on Results Based Monitoring and Evaluation by the Kenya School of Government (KSG).

He holds a Master of Arts degree in Linguistics and African Languages and a First Class Honours Bachelor of Education (Arts) degree in Linguistics and Literature from the University of Nairobi. He is a graduate of the Kenya School of Government in Senior Management Course (SMC) and Strategic Leadership Development Programme (SLDP). Mr. Mulonzya holds other certificates in Enterprise Risk Management (from the Institute of Internal Auditors (IIA)), financial management, programme and financial sustainability, corporate governance, open contracting and performance management. He is currently pursuing a doctoral degree in communication and information studies at the University of Nairobi. He currently serves as the Director, Culture, Music and the Arts in the County Government of Makueni.

Mr. Mulonzya has served as a member of the board of a regulated non withdrawable deposit taking savings and credit cooperative society with over Kenya Shillings 415 Million member's deposits. He has also served for 14 years as the Vice Chairperson of two national nongovernmental

organizations. He currently serves as a member of the Board of Directors of Amani Communities Africa (ACA), Kenya.

CPA Kennedy M. Muthama - Professional Profile



CPA Kennedy M. Muthama represented the County Treasury in the Makueni County Executive Audit Committee. He is an accomplished professional with over 10 years work experience in Strategic Planning, Rural Development issues, Financial Management, Financial Reporting, Accounting, Monitoring and Evaluation and Project Management.

Currently he is the Head of Strategy Compliance and Planning at Kenya Trade Network Agency (KenTrade). Until 2022, he worked with the County Government of Makueni as Chief Accountant and the Acting Director, Financial Accounting Services. Previously, he had worked with the Ministry of Planning and National Development as a District Development Officer (Economist) in charge of Imenti North, Imenti South and Buuri Districts in Meru County. He also worked with Kenya Commercial Bank (KCB) Limited.

CPA Muthama holds a Master of Business Administration (Finance Option) from Kenyatta University and Bachelor of Arts degree in Economics and Mathematics from the University of Nairobi.

He is a Certified Public Accountant, CPA (K) and a Member of the Institute of Certified Public Accountants of Kenya (ICPAK) Member number 19022 in good standing. He is also a graduate of the International Centre for Information Systems and Audit (International Training Centre of the Comptroller and Auditor General of India), ICISA in ‘Audit of Government Receipts’. He is also a graduate of Kenya School of Government in Senior Management Course (SMC) and Strategic Leadership and Development Program (SLDP). He holds other certificates in Financial Reporting and Monitoring and Evaluation.

Daniel M. Sunza - Professional Profile



Mr. Daniel M. Sunza is the Head of Internal Audit in the Makueni County Executive and the Secretary to the Makueni County Executive Audit Committee. He is an accomplished professional with over 15 years work experience in Customer Management, Retail Sales, Stock Management, Revenue Collection and Auditing

Until 2017, he served as the Director Revenue with the County Government of Makueni. Previously, he had served as a Stock Manager with Safaricom Ltd at Moi Avenue Branch, Mombasa. He

also worked with Safaricom Limited as a Customer Care Representative at the company headquarters. Further, he served as an Accounts Clerk with DWA Estate Limited.

Mr. Daniel Sunza holds a Master of Business Administration from the University of Nairobi and Bachelor of Commerce from the same university.

He is a graduate of Kenya School of Government in Senior Management Course (SMC) and a Certified Public Accountant, CPA (IV).

Daniel undertook a Safaricom e-class and is certified in the following courses: Building Rapport in Customer Relationships, Internal Customer Service, Managing Your Career, Communication with Professionalism and Etiquette, Facilities Planning and Management, Operations Scheduling, Management of Quality, Product and Service Management, Forecasting and Capacity Planning, Operations and Supply Chain Management, Operations Management and the Organization.

Mr. Daniel holds many other certificates in Financial Reporting and Auditing from the Institute of Internal Auditors (IIA) and ICPAK.

CPA Michael M. Malua - Professional Profile



CPA Michael M. Malua is the secretariat to the Makueni County Executive Audit Committee. He is an accomplished professional with over 17 years work experience in Accounting, Finance, Internal Audit and Business Administration both in public and private sector.

Currently he is a Senior Internal Auditor at the Government of Makueni County. Previously he has worked with Redstar International Limited as the Company Operations Manager, Acme Press (K) Limited as the Chief Accountant and Ramco Group of Companies as Internal Auditor. He has also worked with Magadi Soda Company.

CPA Michael M. Malua is a Certified Public Accountant, CPA (K) and a Member of the Institute of Certified Public Accountants of Kenya (ICPAK) member and IIA (K) member in good standing. He is a graduate of Kenya School of Government in Senior Management Course (SMC). Mr. Michael holds other certificates in Financial Reporting and Management Accounting.

2. Background of the Makueni County Executive Audit Committee

In accordance with the *Public Finance Management Act (PFMA), 2012 Section 155(5)* and **Regulation 167 (1)** of the *Public Finance Management Regulations (PFMCGR), 2015*, the Makueni County Audit Committee is established.

The Kenya Gazette Notice No.2690 on Audit Committee Guidelines for County Government of 15th April 2016 provided the framework for establishment of Audit Committees for the County Governments. The foreword to the guidelines states:

‘The purpose of this guidance is to provide those responsible for establishing, appointing and overseeing Audit Committees with information on discharging their respective roles within the Public Service Sector The guidance in this document is to help:

- i)** Executive Management, Accounting Officers, Boards, and Board Chairs work out the best arrangements for their agencies.
- ii)** Audit Committees and individual members of Audit Committees understand their role and the ways in which they should function.
- iii)** The National Treasury officials to oversee an entity’s board and Audit Committee practices.

This guidance is intended to offer best practices on Audit Committee operations, capable of implementation into the public sector governance entities responsible for a wide range of differing missions and purposes.’

Paragraph 1.2 (b) of the guidelines provides their purpose as follows:

‘These guidelines are designed to assist public entity Executive Management, Accounting Officers, and the Boards and senior managements in making suitable arrangements for their Audit Committees, and to assist those serving on Audit Committees in carrying out their role. It is intended to assist Executive Management, Accounting Officers, and the Boards and senior management in the implementation of the relevant provisions of corporate governance codes’.

Regulations 168 (a) and (b) of PFMCGR, 2015 provide the following as the main functions of an Audit Committee:

- (a) support the accounting officers with regard to their responsibilities for issues of risk, control and governance and associated assurance: Provided that the responsibility over the management of risk, control and governance processes remains with the management of the concerned County Government entity; and
- (b) follow up on the implementation of the recommendations of internal and external auditors.

2.1 Term of the Audit Committee

Subject to Regulation 170 (1) of PFMCGR, 2015, Members of Audit Committees shall be appointed for a term of three years and shall be eligible for re-appointment for a further one term only.

The Makueni County Executive Audit Committee was appointed on 1st February 2017. The term of appointment was extended on 1st February 2020 for a further three years after a performance evaluation was undertaken. The County Executive Audit Committee final term comes to an end on 31st January 2023 after having served a total of six years. The appointing authority was advised to put in place measures to fill the expected vacancies.

In the financial year 2014/15 to 2015/16, the County government did not have a fully operational Internal Audit Directorate. Only the Director, Internal Audit Services was in place. In the year 2016, the county recruited its first five Internal Auditors who were reporting to the Head of Internal Audit. On 1st February 2017, the county appointed its first Audit Committee which was composed of four independent external members and three representatives from the county executive. The Audit Committee found a backlog of internal audit reports which it reviewed and gave its recommendations. This improved the internal control system of the county government that led the county to have an unqualified audit report from the Office of the Auditor General in the financial year 2017/18. The Audit Committee has championed the development of the Enterprise Risk Management (ERM) Policy and has gone ahead in sensitizing the management on ERM in the financial year 2019/2020. The Audit Committee has developed the Audit Committee Charter, reviewed the Makueni Fleet Management Policy and approved the Internal Audit Charter.

2.2 Composition

The Committee comprised of competitively recruited members and also internal ones from the County Executive. Below are the members of the Makueni County Executive Audit Committee:

No.	Name	Position	Representation/Category	Date of Appointment	Date of Retirement
1	CPA Dr. Nicodemus Muteti	*Chairman	Independent	1 st Feb 2017	31 st Jan 2020
2	FCCA Martin Musyimi	Member	Independent	1 st Feb 2017	31 st Jan 2020
		**Chairman	Independent	1 st Feb 2020	31 st Jan 2023
3	FCCA Fredrick O. Riaga	Member	Independent	1 st Feb 2017	31 st Jan 2023
4	CPA Albert M. Musyoka	Member	Independent	1 st Feb 2017	31 st Jan 2023
5	CPA Kennedy Muthama	Member	County treasury Representative	1 st Feb 2017	31 st Jan 2023
6	Mutua Mulonzya	Member	Senior Management Representative	1 st Feb 2017	31 st Jan 2023
7	Daniel M. Sunza	Secretary	Head of Internal Audit	1 st Feb 2017	31 st Jan 2023

* CPA Dr. Nicodemus Muteti served as Chairman in the period of 1st February 2017 to 31st January 2020. He retired to take up the position of Chairman of the Makueni County Public Service Board.

**FCCA Martin Musyimi was subsequently appointed Chairman effective 1st February 2020.

In the first term, the Audit Committee was composed of four non-executive members, with three management representative. For best practice and to fulfill the requirements of the Constitution of Kenya (2010), an independent Audit Committee must have the necessary expertise in various fields of accounting, auditing, engineering, human resource, information technology and observe the two third gender rule. Further, on retirement of one member, the governing body is expected to fill the vacancy by appointing a member at the earliest opportunity. It was, however, observed that when CPA Dr. Nicodemus Muteti and CPA Kennedy Muthama retired from the committee, the replacement was not undertaken. It is recommended to the appointing authority that any omissions observed with non-appointment of new members to replace those retiring will be managed in an effective manner.

2.3 Objective Audit Committee

The Audit Committee is responsible for overseeing the county government disclosure process and compliance to relevant laws and regulations. The Public Finance Management Act, 2012 and the Public Finance Management Regulations, 2015 requires that each public entity shall establish an Audit Committee. The Audit Committee forms a key element in the governance process by providing an independent expert assessment of the activities of top management, the quality of the risk management, financial reporting, financial management and internal audit, to the executive management.

2.4 Objective of the Report

The Audit Committee intends to table a report of the status of Audit Committee since its appointment, its achievement, highlight challenges and gaps that it has encountered and forward recommendation to the executive for implementation in the incoming Audit Committee.

3 Audit Committee Effectiveness

The Audit Committee has complied with relevant codes and regulations:

- i) The right number of members.
- ii) The responsibilities of members are clearly mentioned in the Audit Committee Charter.
- iii) It holds the right number of meetings annually.
- iv) The committee meetings are well organized and planned.
- v) It has reviewed and given recommendation to internal audit reports for implementation.

However, there are some gaps that the Audit Committee observed that need to be addressed for effective implementation of its recommendation which are:

- i) The Audit Committee should have a quarterly scheduled meeting with the appointing authority for deliberation on implementation status of its recommendation; and
- ii) The Chairman of the Audit Committee should be invited to defend the Audit Committee budget in the budgeting processes for adequate funding of the committee and internal audit unit.

3.1 Audit Committee Charter

In line with the PFM Regulations, 2015 and Gazette Notice No. 2690 of 15th April 2016 on Audit Committee Guidelines, the audit committee developed an Audit Committee Charter which serves as the terms of reference.

3.2 Audit Committee Meetings

‘Regulation 172 of PFMCGR, 2015 provides that:

- (1) The Audit Committee shall meet at least once in every three months.
- (2) Each member of the Audit Committee shall have one vote.
- (3) The Audit Committee shall make decisions by resolution.
- (4) In the event of a tie vote, the Chair shall be entitled to cast a second vote.
- (5) A majority of the members of the Audit Committee that includes at least fifty percent plus one member shall constitute a quorum for the meetings of the committee.

Audit Committee meetings are held on a timely and regular basis and their proceedings, recommendations and discussions are formally minuted. Meeting agendas are prepared and distributed in advance to enable adequate evaluation by committee members. This has been achieved through Audit Committee commitments to its work plan for the last six years as shown in the meeting attendance table below:

No.	Name	Meeting Attended 2016/17	Meeting Attended 2017/18	Meeting Attended 2018/19	Meeting Attended 2019/20	Meeting Attended 2020/21	Meeting Attended 2021/22	Meeting Attended 2022/23
1	CPA Dr. Nicodemus Muteti	10	18	18	38	0	0	0
2	FCCA Martin Musyimi	10	17	17	36	18	3	9
3	FCCA Fredrick O. Riaga	8	7	8	6	11	0	3
4	CPA Albert M. Musyoka	10	15	12	32	16	3	9
5	CPA Kennedy M. Muthama	9	15	16	38	19	2	0
6	Mutua Mulonzya	10	17	16	28	17	2	9
7	Daniel M. Sunza	10	18	18	35	19	3	9

Source: Makueni County Executive Audit Committee Records.

3.3 Audit Committee Resolution

The Audit Committee has been very effective through its review of audit reports produced by Internal Audit where it has made recommendations for action. Below is a list of some key recommendation made by the Audit Committee for action.

Category	Audit Report	Findings	Audit` Committee recommendation	Management Action	Impact	
Governance	Audit of MBONWASCO	Nonexistence of Board of Directors	Appointment of new Board of Directors.	Interim Directors have been appointed	Improved service delivery to the public.	
	Audit of MBONWASCO	Irregular Recruitment of Employees.	An approved staff establishment should be in place	Matter under management consideration	Operational inefficiency	
	Audit of Makueni County Climate Change Fund	Irregular appointment of Makueni County Climate Change Fund board members	Appointment of new members should comply with regulations	Matter under management consideration	Ineffective governance processes	
	Makueni County Sand Conservation and Utilization Authority	Understaffed accounts department	The authority should come up with a staff establishment and a strategic plan	Nature of work needs more enforcement officers	Sub-standard service delivery	
	Internal Audit report on voided transactions (County Government of Makueni revenue collection system)	The revenue directorate did not have any documented procedures or policies in relation to the revenue collection system	Develop, approve and implement the policy	Matter under management consideration	Loss of revenue	
Internal Control	Internal Audit report on voided transactions (County Government of Makueni revenue collection system)	Non system reconciliation on revenue collection and banking	The management should have documented and approved procedures of the workflow of the system	Matter under management consideration	Loss of revenue	
		Segregation of duties	Each level in the system be done by different officer	Matter under management consideration	Loss of revenue	
Internal Controls	Makueni County Sand Conservation	Payment not fully supported	No competitive binding	Matter under management consideration	Sub-standard service delivery	

	and Utilization Authority	Anomalies in procurement process on scooping of sand from silted Marwa Dam	The authority should seek assistance of MCPSB on recruitment of qualified officers	Matter under management consideration	Sub-standard service delivery	
Internal Controls	Audit of Makueni County Climate Change Fund	No books of accounts prepared	The management operationalize preparation of books of accounts	Matter under management consideration	Loss of funds and non-compliance with the legal requirements	
Internal Controls	Audit of imprest Department of Devolution, County Administration, Participatory Development and Public Service	Non-compliant to the Makueni County Fleet Management Guidelines	Compliance to PFM Act, 2012, PFM Regulations, SRC and recovery of unsupported expenditure	Matter under management consideration	Loss of funds, demoralized staff and non- Compliance with the law	
Internal Controls	Audit of Makueni County Public Service Board	Imprest Mismanagement	Recovery of expenditure and administrative action taken on the Accounting Officer	Matter under management consideration	Misappropriation of county funds	
		Fuel Mismanagement	Recovery from the officer incharge of the vehicle and administration action taken on the Accounting Officer	Matter under management consideration	mismanagement of county resources	
		Non-competitive procurement	Recovery of the expenditue and administrative action to be taken against the Accounting Officer	Matter under management consideration	Loss of funds	
	Audit of imprest management for Office of the Governor	Imprest Mismanagement	Compliance to the PFMA, 2012 and regulations	Matter under management consideration	Loss of funds	
	Audit of Makueni County Climate Change Fund	Imprest Mismanagement	Compliance to Public Procurements and Assets Disposal Act (PPADA), 2015	Officers taken for training	Loss of funds and sub-standard service delivery	

Internal Controls	Audit review of payroll for County Governments for the period, 1st January 2016 to 30th September 2021.	Eleven (11) Cases of Same ID Different Tax PINs	Management should demonstrate that the IPPD system is configured not to allow/accept similar identification numbers and status of 11 cases	Matter under management consideration	Loss of funds	
		Cases of Officers with same payroll number but with different ID numbers	The payroll/HR team should explain the occurrence of duplicate entries as per the payroll data	Matter under management consideration	Loss of funds	
		Cases of Officers with same payroll numbers and different tax PINs	Management should explain the occurrence of duplicate entries and avail documentary evidence to support any amendments to the payroll data	Matter under management consideration	Loss of funds	
		Cases of doubtful arrears payment	The response is too general. Additional details on the “explanations” column should be given to make itself explanatory	Matter under management consideration	Loss of funds	
		Cases of irregular overtime	Management should tabulate the cases	Matter under management consideration	Loss of funds	
		One Thousand Three Hundred and Eighty Seven (1,387) cases of both Special and Basic salary payment	The management should elaborate on why/how both special and basic salary were paid for each category of staff	Matter under management consideration	Loss of funds	
		One (1) case of irregular Disability Allowance	Documentary evidence (circular) should be availed	Matter under management consideration	Loss of funds	
		Two (2) Cases Non-HRM Editors	Fidel Makau 2011242221-The management to attach	Matter under management consideration	Loss of data integrity	

			correspondences for requesting and granting of system rights. Achieng Otina P/NO 19890002285. The management should show efforts of seeking explanation from the ministry			
Internal Control	Audit report on Daily Subsistence Allowance (DSA) for the Financial Year 2019-2020	DSA is paid as Imprest	DSA to be paid through IFMIS to each individual account using approved guidelines	Matter under management consideration	No accountability for funds; and loss of funds	

3.4 Significant Issues Considered by the Committee

Over the years, the Audit Committee participated in some activities and carried out a number of significant tasks as illustrated below:

3.4.1 Enterprise Risk Management (ERM) Framework: The Audit Committee championed the operationalization of the Enterprise Risk Management Framework. Consequently, the committee sensitized the Executive Committee, the Accounting Officers, Directors, Assistant Directors, Unit Heads and Board/Agencies Chairpersons on the Enterprise Risk Management Policy. Quarterly meetings between the Audit Committee and the County Treasury were held as scheduled. A County ERM Coordinator was appointed to fast track the implementation of ERM. In accordance with the requirements for audit to champion implementation of risk management, the committee supported the executive in developing departmental Risk Registers.

3.4.2 Controls and Systems: The Audit Committee in its advisory role to management has consistently made recommendations for the improvement of internal controls through a review of quarterly Internal Audit Reports. As a result of this, the County has achieved remarkable improvement in the quality of audit reports from the Office of the Auditor General as follows:

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Audit Opinion	Adverse	Adverse	Adverse	Qualified	Unqualified	Qualified	Qualified	

3.4.3 Organizational Structure: The approved staff establishment for the county government is being implemented incrementally over the years in order to improve service delivery.

3.4.4 Collaboration: The Audit Committee collaborated with stakeholders and this resulted in the achievement of synergies for greater effectiveness. The Audit Committee identified the following institutions as key partners in strengthening their oversight role:

- i).The County Executive through the Governor, County Secretary and the County Executive Committee;
- ii).Accounting Officers, Accountants and Procurement Officers;
- iii).The Office of the Internal Auditor General;
- iv).Office of the Auditor General (OAG);
- v).The Makueni County Assembly Public Investment and Accounts Committee (PIAC);
- vi).The Commission on Revenue Allocation; and
- vii).The Public Procurement Regulatory Authority.

Over the years, the committee held consultative meetings with the County Treasury, Office of the Internal Auditor General and the Office of the Auditor General (OAG). Further, a letter was dispatched to seek for a collaborative meeting with the Makueni County Assembly Public Investment and Accounts Committee (PIAC) in 2018 though the requested meeting did not materialize. Additionally, the committee engaged the Public Finance Management Reforms (PFMR) Secretariat seeking support in building capacity of the committee and the directorate at large.

3.4.5 County Government Programmes/Agencies: The following county government programmes were evaluated and determined to have had a tremendous life transforming impact on the lives of the people of Makueni County: Universal Healthcare, Water and Sewerage Companies, Makueni Fruit Processing Plant, Wote Municipality, Makueni County Sand Conservation and Utilization Authority, County Technical Training Institutes (CTTIs) and Early Childhood Development Education (ECDE) centers. The Committee commends the executive for the implementation of the above life changing projects.

3.4.6 Policies and Procedure Manuals: The County developed and operationalized key policies and procedures which enhanced service delivery.

3.4.7 Strategic Plans: It was observed that the county departments and agencies had incorporated the *Makueni County Vision 2025* into their specific strategic plans. This improved the common strategic thinking and synergy in the county.

3.4.8 Service Charter: The Committee observed that departments had developed and put in place service charters for delivering their mandate. Some had even translated them into Kiswahili for ease of understanding by their clients. This was found to be commendable.

3.4.9 Performance Management:The Chairman of the Audit Committee in every financial year signed a performance contract with the Governor and this was always cascaded to the Director of Internal Audit and other staff.

4 Internal Audit Effectiveness

A self-assessment of the Internal Audit Directorate reflected conformance with the International Professional Practices Framework (IPPF) developed by the Institute of International Auditors (IIA) as highlighted below:

4.1 Internal Audit Charter

The Internal Audit Charter was developed, approved by Audit Committee and operationalized. However, the Internal Audit Charter is due for review in the 2022/23 financial year.

4.2 Strategic Plan

Under the stewardship of the Audit Committee, the Internal Audit Directorate developed a three-year strategic plan (2022-24) which was subjected to stakeholder participation and validation and is now operational. The strategic plan had envisioned five strategic pillars to be implemented over the period at a total cost of Kenya Shillings **156,593,032**.

4.3 Risk Based Audit Annual Work Plan

The Directorate of Internal Audit has been developing and implementing risk based Annual Work Plan over the years to determine its priorities in line with the county government strategic goals. It has been a practice by the Internal Audit to discuss and have the work plan and resource requirements approved by the Audit Committee and circulated to top management.

4.4 Internal Audit Reports

The Directorate of Internal Audit prepares, presents and reports to the Audit Committee quarterly for deliberation. The audit reports include significant risk exposure and control and issues, including fraud risk and governance issues.

4.5 Positioning, Staffing and Facilitation of Internal Audit Function

Internal Audit Directorate has been operating with a lean budget and staff of only 5 personnel servicing the entire county government which is approximately 20.8% of the approved staff establishment for the directorate as per the Human Resource Plans (see the table below).

4.5.1 Current Staff Establishment

S.No	Designation	Job Group	Optimal Establishment	In Post	Variance	Percentage (%)
1	Director Internal Audit	R	1	1	0	100.0%
2	Deputy Director- Internal Audit	Q	1	0	1	0.0%
3	Deputy Director-Risk Management	Q	1	0	1	0.0%
4	Principal Internal Auditor-Departments	M/N	1	0	1	0.0%
5	Principal Internal Auditor-Entities	M/N	1	0	1	0.0%
6	Chief Risk Manager-Departments and Entities	M/N	1	0	1	0.0%
7	Chief Risk Manager- Systems And Cyber Security	M/N	1	0	1	0.0%
8	Internal Auditor	K/L	16	4	12	25.0%
9	Clerical Officer	H	1	0	1	0.0%
	Total		24	5	19	20.8%

Due to the above shortage of the staff, the Internal Audit has not been able to provide assurance to the following areas:

- i) Systems and cyber security.
- ii) Business continuity.
- iii) Data protection.
- iv) Monitoring and evaluation of projects.
- v) Audit of county government independent entities.
- vi) Adequate coverage of approved work plan.
- vii) Meeting requests for special assignments.
- viii) Mentorship.
- ix) Timeliness in preparation and delivery of audit committee papers.

With the increase in independent county government entities, there is need to increase the staffing levels of the directorate.

The Internal Audit Directorate needs to be well placed for its effectiveness. The Head of Internal Audit should be strategically positioned at the top management with adequate resources and competent staff. Ideally the Head of Internal Audit should be at the same level as Accounting

Officers to support the position’s participation in strategic decision making process. This would give the HIA the ability to engage his Principal Audit Clients as peers.

4.5.2 Automation of the Audit Process:

The Internal Audit Directorate currently manages its work manually through MS Office tools such as Ms Excel and Ms Word. The procurement of automated audit management system was done in the financial year 2019/20. However, there was a delay in configuration of the system and training of the stakeholders on its use. A functional audit system would generate the following benefits:

- i) Real time communication of audit report among stakeholders;
- ii) Efficiency in supervision of audit assignments;
- iii) Tracking of audit recommendations;
- iv) Standardization of reports;
- v) Centralized database of all audit work; and
- vi) Exceptional reports to audit clients on outstanding responses.

The system acquired did not support data analytics. The Audit Committee also considered the acquisition and implementation of a data analytics tool to meet this deficiency.

4.5.3 Budget Support:

The County Government has supported the Internal Audit Directorate by allocating budget as follows:

Year	Total Government Budget	Budget Allocated to Internal Audit Directorate Inclusive of Salary	Budget allocated to Audit Committee	Total	% of Total Alloc. To Internal Audit	Recommended Ideal Budget 1.5 % of Total Budget	Deficiency
2017/18	9,674,896,017.15	7,221,480.00	5,000,000.00	12,221,480.00	0.13%	145,123,440.26	(132,901,960.26)
2018/19	10,651,722,006.85	10,956,640.00	4,000,000.00	14,956,640.00	0.14%	159,775,830.10	(144,819,190.10)
2019/20	10,790,611,149.12	13,392,600.00	6,000,000.00	19,392,600.00	0.18%	161,859,167.24	(142,466,567.24)
2020/21	11,705,104,320.64	7,802,452.94	6,000,000.00	13,802,452.94	0.12%	175,576,564.81	(161,774,111.87)
2021/22	11,544,836,717.43	8,529,680.00	7,000,000.00	15,529,680.00	0.13%	173,172,550.76	(157,642,870.76)
2022/23	11,529,598,474.31	10,781,184.00	4,000,000.00	14,781,184.00	0.13%	172,943,977.11	(158,162,793.11)
TOTAL	65,896,768,685.50	58,684,036.94	32,000,000.00	90,684,036.94	0.14%	988,451,530.28	(897,767,493.34)

As depicted above Internal Audit did not have sufficient budget allocation to support implementation of the annual work plans. The budget is under the County Treasury hence hindering Internal Audit independence.

4.5.4 Quality Assurance and Improvement Programme

Regulation 159 (3) provides that “At least once every three years, but not more than five years, Internal Audit unit shall undergo a professional assessment of its effectiveness undertaken by a professionally recognized body or institution”.

The Internal Audit Directorate has been doing quality assurance through supervision of audit work and audit client satisfaction questionnaires. However, the professional assessment could not be carried out due to inadequate resources.

5 Effectiveness of Management

5.1 Strategic Plan and Delivery of Mandate

County government departments and agencies have cascaded the Makueni County Vision 2025 into their strategic plans. The strategic plan helps in delivering the mandate and hence services to the citizenry.

Most of the devolved functions have been actualized by the county government. The county should ensure all devolved functions are fully implemented. This will help the county enhance revenue collection by taking advantage of the long stretch of the international highway and railway line (including the SGR) that cut across Makueni County and the bordering national game parks.

County government departments should do an evaluation and review of their strategic plans before the end of the Makueni County Vision 2025. This will prepare the county to develop the next 10-year development blue print.

The evaluation and review of the strategic plan should give the status of flag-ship projects such as:

- i) Makueni County Fruit Processing Plant Development and Marketing Authority.
- ii) Makueni Integrated Grain Value Chain Development Project.
- iii) Kasikeu Grain Milling Project.
- iv) Cold Room Pack House at Kalongo, Kilungu.
- v) Cold Room Pack House at Tulimani.
- vi) Cold Room Pack House at Kavuthu.
- vii) Kitise Poultry Slaughter House.
- viii) X-Ray block and equipping at Emali Model Health Centre.
- ix) Improvement of Agricultural Training Institute, Kkwa Kathoka.
- x) Completion and equipping of Mbooni isolation ward.

5.2 Performance Management

Section 47 of the County Governments Act, 2012 states that:

(1) The County Executive Committee shall design a performance management plan to evaluate performance of the county public service and the implementation of county policies.

- (2) The plan shall provide for among others -
- (a) objective, measurable and time bound performance indicators;
 - (b) linkage to mandates;
 - (c) annual performance reports;
 - (d) citizen participation in the evaluation of the performance of county government; and
 - (e) public sharing of performance progress reports.

The county has adopted performance contracting across all departments and agencies that is coordinated from the Officer of the County Secretary. The Audit Committee recommends:

- i) The performance management programme be domiciled at the County Public Service Board.
- ii) The Audit Committee should not be subjected to performance contracting as it impairs its independence. The Audit Committee to have a special arrangement with the appointing authority on performance.
- iii) The county government to consider benchmarking on performance management with peers.

5.3 Risk Management Policy and Profile

The Audit Committee championed the ERM process and conducted ERM Gap analysis, developed an ERM policy, trained ECMs, COs and Directors including county entities on ERM. The Audit Committee championed the development of departmental risk registers which have been updated on quarterly basis upto 30th June 2022. The Audit Committee championed the appointment of a senior officer to coordinate the implementation of ERM. The Directorate of Internal Audit has been developing and implementing a risk based Annual Work Plan over the years.

To enhance ERM implementation, the Audit Committee recommends:

- i) Risk assessment for all major projects.
- ii) Risk reports to be discussed by the County Executive Committee quarterly.
- iii) The risk champions prepare reports under supervision of the Risk Manager and forwarded to the County Executive Committee for deliberation.
- iv) Development of an integrated risk management system.
- v) ERM should be linked with business continuity plan.
- vi) Development of a County Business Continuity Policy that should be disseminated to departments by having them develop a Business Continuity Plan.
- vii) Development of a Recovery Policy.
- viii) The county should digitize its operations systems.
- ix) Identify a Disaster Recovery site. such as the Konza Techopolis Development Authority.
- x) Regular capacity building/training of management and risk champions.
- xi) Regular updating of risk registers.
- xii) To ensure that ERM is implemented, the county needs to have targets on ERM set for management and be part of their performance targets.

5.4 Adequacy and Effectiveness of Internal Control

The adequacy and effectiveness of internal controls were assessed and evaluated during systems audit engagements. The reports generated by the Directorate of Internal Audit were deliberated upon by the Audit Committee and subsequently recommended areas of improvement to the management. Where responses were not satisfactory, the Audit Committee escalated matters to the leadership for action.

The management should adopt the three lines of defense model for an effective risk management and internal control which are:

- i). The management should own and manage its risks.

The management should ensure that the working environment is conducive;

The management should be fully aware of the risk factors that should be considered in every decision and action; and

The management should be able to execute effective internal controls in its operations.

- ii). Oversee risks/risk control and compliance

The management is responsible for developing risk registers, managing and monitoring these risks;

Ensure all functions are implemented in accordance with risk management policies; and

Produce a report with highest accountability on county exposure to risks.

- iii). Provide independent assurance/risk assurance

This line of defense is implemented by Internal Auditors. The internal audit will:

Review and evaluate the design and implementation of risk management; and

Ensure the effectiveness of the first two lines of defense.

The Audit Committee sensitized management on 1st and 2nd lines of defense in the financial year 2019/20. Consequently, departmental risk registers were developed, ERM departmental Champions and an ERM Coordinator appointed.

The Internal Audit Directorate has been conducting its audit through a risk based approach which is the third line of defense.

Audit Committee championing the three lines of defense, the County has achieved good external audit reports and has been able to maintain manageable pending bills compared with other counties.

5.5 Governance Structures and Processes

In discharge of the mandate of the County Executive Committee, the accounting officers have a Chief Officer's forum where key policies are discussed before presentation to the County

Executive Committee for consideration and approval. The formulation of policies starts with directors who present the same to the chief officers for review and guidance.

The Audit Committee proposes the following:

- i) Establish a tracker on the implementation of County Executive Committee resolutions.
- ii) Accounting Officer's forum should be properly constituted with a Chairperson and a Secretary where minutes are prepared and filed and action points resulting from the meeting are accordingly disseminated to the directors.
- iii) The communication process from the County Executive Committee downwards should be well structured to support effective implementation of directives by the directors.
- iv) The Office of the County Secretary should have a full-fledged Cabinet Affairs Officer who works with cabinet to track the status of implementation of cabinet resolutions, makes follow up on the resolutions and disseminates the same to the accounting officer for implementation.
- v) The incoming Audit Committee ensures that the Directors Forum is operational.
- vi) The Executive Order No. 1 of 2022 on organization of the Government of Makueni County should be supported by review and approval of Makueni County Organizational Structure and Staffing.

5.6 Tone at The Top

The top leadership promotes accountability and transparency in the use of public resources for the benefit of the people of Makueni County. Meetings between the committee and the Governor were few and only on request. The Audit Committee proposes a quarterly standing engagement with the top leadership.

For transparency and accountability, the county has:

- i). Joined the Open Contracting Partnership;
- ii). Joined the Open Governance Forum;
- iii). Championed for wealth declaration; and
- iv). Has committed to closing audit findings with Office of the Auditor General that gave the county a clean (unqualified) audit report.

The County should develop::

- i). County Code for Leadership and Integrity for both State Officers and Public Officers.
- ii). Anti-corruption policy.
- iii). Gift and Conflict of Interest Register for all county stakeholders.
- iv). An effective ethics and compliance framework which needs to be publicized and sensitized through physical display of codes of ethics and values in the offices, websites, having suggestion boxes and reporting/whistleblowing mobile lines.

5.7 Annual Procurement Plan

Section 53 (2) of the Public Procurement and Assets Disposal Act, 2015 provides that ‘An accounting officer shall prepare an annual procurement plan which is realistic in a format set out in the Regulations within the approved budget prior to commencement of each financial year as part of the annual budget preparation process’.

All procurement should be done as per budget and procurement plan. Previously, budgets and procurement plans were managed through manual updates and tracking using Ms Excel spread sheet which was prone to errors and omissions that led to instances of pending bills. This has been improved during the Audit Committee term as no procurement is done out of budget and the procurement plan. Departments are able to prepare procurement plans and upload into the Integrated Financial Management Information System (IFMIS) accordingly.

5.8 Annual Budget

The annual budget being a component of recurrent and development expenditure has been growing incrementally from the financial year 2014/15 to 2022/23. To finance the annual budget, efforts have also been made to increase the Own Source Revenue (OSR) over the years as shown in the table below:

Financial Year	Annual Budget	Development	Recurrent	OSR	Wage Bill
2013/14	4,717,623,056.26	1,836,154,630.40	2,881,468,425.86	189,188,041.00	1,553,746,334.61
2014/15	6,971,128,728.91	3,355,082,455.87	3,616,046,273.04	215,349,954.00	2,046,125,888.68
2015/16	9,449,929,068.59	4,745,515,744.66	4,704,413,323.93	220,171,649.00	2,566,829,567.78
2016/17	10,652,442,847.85	5,497,781,503.08	5,154,661,344.77	219,073,418.00	2,232,262,128.40
2017/18	9,674,896,017.15	3,579,501,526.82	6,095,394,490.33	322,104,225.70	3,352,324,693.41
2018/19	10,651,722,006.85	4,417,364,323.62	6,234,357,683.23	511,702,071.85	3,706,138,489.00
2019/20	10,790,611,149.12	4,667,127,315.36	6,123,483,833.76	465,939,455.75	3,789,811,569.17
2020/21	11,705,104,320.64	5,031,128,865.46	6,673,975,455.18	521,102,374.05	4,032,683,675.11
2021/22	11,544,836,717.43	4,274,952,584.88	7,269,884,132.55	749,406,507.38	4,357,277,089.74
2022/23	11,529,598,474.31	3,850,874,479.57	7,678,723,994.74	740,000,000.00	4,351,577,966.98
TOTAL	97,687,892,387.11	41,255,483,429.72	56,432,408,957.39	4,154,037,696.73	31,988,777,402.88

6 Challenges and Recommendations

No.	Challenges	Recommendations
1	Wrongful placement of Internal Audit Unit under County Treasury which is the main audit client	The Internal Auditor unit should be an office in the Office of the Governor reporting administratively to the County Secretary and with an Authority to Incur Expense (AIE)
2	Placement of HIA at positions lower than the accounting officers hinders their ability to question their actions and decisions	Head of Internal Audit should be positioned at the level of Accounting Officers

3	Interference by management	The transfer or deployment of audit staff including the HIA should be undertaken in consultation with the Audit Committee
4	Too many requests for consulting services without commensurate budget allocation and staffing	All special audit request should be accompanied by a commitment for budgetary support. The staffing level of the Internal Audit should be established at optimal level
5	Lack of a performance management plan which will support the formulation of audit criteria	The County Executive Committee should comply with the requirement of Section 47 of County Governments Act,2012.
6	Lack of involvement of the Audit Committee in the external audit process: -Entry and exit conference; -Review of the management letter and responses; -Review of the draft report; and -Checking and reviewing of the implementation of previous recommendations	Timely involvement of the Audit Committee in the external audit process
7	Inadequate resourcing for Internal Audit unit: -Budgets; -Staff; -Working tools; -Office space; -Software; and -Transport facilitation	The Directorate of Internal Audit should be strategically positioned at the top management with adequate resources and competent staff. The HIA and the Audit Committee should be involved in budget preparation and called upon to defend their budget in the final budget negotiation
8	Limited access to the appointing authority for deliberation of audit recommendations	Scheduled engagements (at least quarterly) with the appointing authority to discuss pertinent issues
9	Low appreciation of the role of the audit function	Continuous sensitization of ECMs, COs and other stakeholders
10	Delayed responses to audit findings	Incorporate a target on response to audit findings as part of the performance contract for accounting officers
11	Lack of Business Continuity and Disaster Recovery Plans	i) Develop business continuity and disaster recovery policies ii) Identify disaster recovery centers iii) Train accounting officers and directors iv) Annual review of the Business Continuity and Disaster Recovery Plans
12	Changes in the office of the accounting officers which does not support seamless engagement with ongoing Internal Audit assignments	Induction and training of the newly appointed accounting officers
14	Lack of procedure manuals by audit clients	Develop, approve and operationalize departmental and semi-autonomous units procedure manuals
15	Low understanding of the requirements of the Public Finance Management Act, 2012 by the accounting officers	Induction and training of newly appointed accounting officers

16	Lack of appropriate skills mix both within the Internal Audit team and the Audit Committee.	i) To incorporate other skills such as Civil Engineers, IT and HR professionals in the Internal Audit staff and the Audit Committee; and ii) Co-opting members on a need basis
17	Failure to implement Audit Committee and external audit findings and recommendations	i) Institute a mechanism for quarterly reporting for implementation status to the Audit Committee and the Governor; and ii) The county to support automation of the Internal Audit function
18	Lack of a documented risk assessment by management to support risk based audit plan	i) Management to provide quarterly risk management reports; and ii) Incorporate a target on risk assessments and reports as part of the performance contract for accounting officers

7. Conclusion

7.1 The county government is on track to achieve higher levels of the Maturity Model for Governance, Risk and Control processes. This would be effecicietly achieved when the Enterprise Risk Management Framework components are fully implemented and monitored. It will also require the development and operationalization of a Business Continuity Management Framework and the identification and installation of a disaster recovery center to support all digitized processes.

7.2 The incoming Audit Committee would require to undertake a benchmarking engagement and learn from the best govenance practicing jurisdictions like Canada, Australia, South Africa and Thailand. This will enable the Committee transfer knowledge to the County Government of Makueni with the objective of improving operational effieciency and effectiveness for achievement of strategic/CIDP objectives. The outgoing Audit Committee did not get an opportunity to have such kind of exposure as per the Audit Committee Guidelines of 15th April 2016.