

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF BARINGO FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Baringo set out on pages 17 to 50, which comprise of the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position County Executive of Baringo as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis).

In addition, as required by Article 229 (6) of the Constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1.0 Revenue

1.1 Under Collection of Revenue -County Own Generated Receipts

The statement of receipts and payments for the year ended 30 June 2017 reflects actual revenue collection of Kshs.281,559,665.40. However, the budgeted amount as per the revised budget for the county own generated revenue was Kshs.330,000,000. Consequently, there was a revenue shortfall of Kshs.48,440,334 or 15% of the budgeted amount.

So far no satisfactory explanation has been given for the revenue short fall.

1.2 Outstanding Revenue Arrears- Plot Rates and Rent

Examination of land registers revealed that, plot rents and rates relating to year 2016/2017 and prior years amounting to Kshs.92,828,557 remained uncollected as at 30 June 2017 and thus explaining the poor revenue collection performance in that

category of revenue. Further, it was observed that the County Government of Baringo has not updated the valuation rolls and still uses a draft valuation roll of 2009 prepared by the defunct Municipal Council of Kabarnet. Failure to update the valuation roll translates to loss of revenue due to use of an obsolete document and consequently the county is not exploiting its revenue potential from this particular source. In addition, no report appear to have been made to the County Executive Committee Member explaining why it was not possible to collect the revenue as required by section 63 (2) of the Public Finance Management (County Government) Regulations 2015,

No satisfactory explanation has been given for failure to collect the arrears of revenue or why an obsolete valuation roll is in use.

1.3 Under collection of Revenue- Plot Rates/Rent

The County Government of Baringo budgeted to collect Kshs.21,780,288.00 from plot rates and rent during the period under review. However, only Kshs.12,916,819.00 was collected which represented an under collection of Kshs.8,863,469.00 or 41%, of the budgeted amount.

No satisfactory explanation was given for the underperformance in revenue collection.

1.4 Under Collection of Revenue (Single Business Permit)

The County Government of Baringo had budgeted to collect Kshs.40,026,128 from single business permits. However, examination of records produced for audit revealed that only Kshs.32,366,030 was collected. This represented an under collection of revenue by Kshs.7,720,098 which is equivalent to 19% of the budgeted amount. Further, the arrears of revenue on Single Business Permit of Kshs.597,200 could not be verified since no schedules were provided for verification .

In the circumstances, the accuracy and completeness of revenue collected from single business permits could not be confirmed.

1.5 Under Collection of Revenue - Environment and Conservancy

Examination of records relating to environment and conservancy revenue disclosed that revenue of Kshs.62,320,050 was collected against the approved budget of Kshs.67,820,432 and thus leading to an under collection of Kshs.5,500,382 which is equivalent to 8% of the budgeted amount. This implies that the county government has not put in place mechanisms to realise its full potential in collection of this revenue item.

Although the county government has cited reasons for the revenue shortfall, no documentary evidence has been provided for audit verifications.

2.0 Compensation of Employees - Bloated Wage Bill

The statement receipts and payments indicates an expenditure of Kshs.2,279,642,679.50 was incurred on compensation of employees during the year under review in payment of salaries and wages to the county workforce of 4136 personnel as at 30 June 2017. However, analysis of the wage bill revealed that the

county government exceeded the set limit of compensation of employees of thirty five (35) percent of the county government's total revenue contrary to section 25(1) a and b of the Public Finance Management Regulations 2015 (County government). It was noted that the wage bill was 48% of the county government total revenue and no explanation was given for incurring an expenditure in excess of the set limit. In addition, there was no evidence produced for audit verification to show the County Executive Committee Member for Finance had made any efforts to control the runaway wage bill.

3.0 Misposting of Expenditure

The following payment transactions were wrongly classified as shown below.

- i. It was observed that an expenditure of Kshs.508,309 for purchase of fuel was wrongly classified under routine maintenance of motor vehicles and other transport equipment resulting to misrepresentation of financial facts in the statement of receipts and payments.
- ii. An expenditure of Kshs.3,184,586.50 incurred on routine maintenance of other assets was wrongly classified under routine maintenance – Vehicles and Other transport equipment. This resulted to misrepresentation of financial facts in the statement of receipts and payments. Further, no journal vouchers have been provided for verification to confirm adjustments made . Consequently, the accuracy and completeness of the statement of receipts as at 30 June 2016 could not be confirmed.

4.0 Unsupported Expenditure (Scholarships and Other Education Benefits)

Examination of expenditure records relating to scholarships and other education benefits disclosed that an expenditure of Kshs.30,000,000 was incurred during the year under review. Out of this amount, Kshs.14,952,072 was supported by acknowledgements documents and receipts from various institutions, hence the remaining balance of Kshs.15,047,928 was unsupported. In addition, it was not clear whether the applications were evaluated by the relevant bursary committee before the award as no minutes were provided for audit verifications.

In the circumstances, the propriety of the expenditure could not be confirmed.

5.0 Misstatement of Cash Balances

The bank and cash balances representing cash and cash equivalents disclosed in the statement of assets was Kshs.1,084,830,080.14 which included balances in thirteen bank accounts and cash in hand held in both domestic and foreign currency. However, it was noted that bank reconciliation statements for twelve bank accounts reflected a balance of Kshs.1,158,895,870.94 which differed with the reported bank balance of Kshs.1,082,785,869.34 reflected in the statement of assets. No satisfactory explanation has been given for the variance of Kshs.76,110,000 between the two records.

In the circumstances, the accuracy and completeness of the cash and cash equivalents reported balance could not be confirmed.

6.0 Understated Outstanding Imprest

The statement of assets reflected outstanding imprest of Kshs.2,590,891 while the GOK IFMIS Imprest register reflected temporary imprest of Kshs.23,626,104 for the year ended 30 June 2017. Consequently, the reported balance of outstanding imprest was understated by Kshs.21,035,213.

In the circumstances, the accuracy and completeness of the reported balance could not be confirmed.

7.0 Inaccurate Summary of Fixed Assets

Examination of schedule of assets/assets register maintained by the County Government disclosed total assets worth Kshs.894,850,820. However, the summary of fixed assets attached to the financial statements under annex 4 reflects total assets of Kshs.690,915,733.50 as at 30 June 2017. Consequently, the value of assets reflected in the summary of fixed assets was understated by Kshs.203,935,086.50

In the circumstances, the accuracy and completeness of the summary of fixed assets could not be confirmed.

8.0 Pending Bills

The pending bills for both recurrent and development votes for the year ended 30 June 2017 totaled Kshs.78,841,524.24. However, aging analysis of development pending bills of Kshs.47,248,029.34 revealed that Kshs.2,910,325.01 worth of contracts awarded in the year 2013/2014, Kshs.7,449,732.72 awarded in the year 2014/2015 and 4,611,370 awarded in the year 2015/2016 all totaling Kshs.14,971,427.73 had not been settled as at 30 June 2017. It was not explained why contracts awarded in the year 2015/2016 and earlier years have not been completed and paid for.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Executive of Baringo in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matter described in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there were no Key Audit Matters to communicate in my report.

Other Matter

1 Unbudgeted Expenditure- Use of Goods and Services and Acquisition of Assets.

Examination of expenditure records disclosed cases of unbudgeted expenditure during the year under review as shown below: -

FOLIO	DETAILS	AMOUNT KSHS	BUDGET KSHS	REMARKS
1	Specialized plant, equipment & machinery	5,427,702	0	Unbudgeted Expense
2	refurbishment of buildings	34,990	0	“
3	Certified seeds, breeding stock and live animals.	14,446,886	0	“
4	Research, Studies, Project Preparation, and Design & Supervision.	28,799,840	0	“
5	Legal fees and services	22,081,000	17,118,415	Kshs.4,962,585 Unbudgeted for
6	Specialized materials and services.	206,417,008.70	186,799,560	Kshs.19,617,448 Unbudgeted for
7	Office furniture	5,754,674	0	“

In the circumstances, the completeness and accuracy of the statement of receipts and payments could not be confirmed.

2.0 Value for Money - County Government Projects

2.1 Mogotio Sub County Hospital

2.1.1 Incomplete works

M/s Pearltek Kenya Ltd of P.O. Box 1387 Garissa was awarded tender ref: BRCG/TNR/221/2016-201 for Construction of a Septic tank at Mogotio Hospital at contract sum of Ksh.3,851,084. The proposed construction works were to take twelve 12 weeks commencing 10 May 2017 and the expected date of completion was 9 August 2017.

Examination of expenditure records disclosed that a payment of Kshs.2,378,380 or approximately 62% of the contract sum had been made to the contractor on the strength of Certificate no.01 dated 13 June 2017. However, physical verification of the project carried out on 21 December 2017 revealed the project had not been completed and the contractor was not on site despite the expiry of the contract period by three and half months and no evidence for request of extension of contract period was made available for audit review.

Although it has been indicated the contractor has since resumed work at the site, no evidence has been produced to inform of site minutes to confirm resumption or explained how he took possession of the site again since the contract period had expired.

No explanation has so far been given for failure by the county government to take action against the contractor.

2.1.2 Irregular Expenditure - Mogotio Sub- County Hospital

Kenya Power and lighting Co.Ltd was paid Kshs.1,473,486 in respect of installation of electricity at Mogotio sub County Hospital through payment voucher no.1194 of 18 October 2016.

However, audit verifications carried out on 21 December 2017 at the Hospital, revealed that no electricity had been supplied and no explanation was given for failure by the KPLC to supply electricity one year after the payment was made. In addition, the following anomalies were noted:-

- i. There were no estimates or invoices from Kenya Power and lighting Company Ltd showing the specific works to be under taken by Kenya Power and lighting Company Ltd to cover the corresponding amounts of Kshs.1,473,486 paid.
- ii. There was no acknowledgement note or receipts and therefore it was not possible to establish if indeed the amount was paid to Kenya Power and lighting Company Ltd.

In the circumstances, the propriety of the expenditure could not be confirmed

2.2 Marigat Sub County Hospital

2.2.1 Stalled Project - Marigat Hospital

M/s Mogoi Building Construction Ltd of P.O. Box 53 Kabartonjo was awarded tender ref: BRCG/TNR/401/2014-2015 to construct and complete Mortuary Block at Marigat Sub-county Hospital at a contract sum of Kshs.6,727,704. The duration of the contract was 24 weeks commencing 2 October 2015 to 2 March 2016.

It was observed that, during the year 2016/2017, a total of Kshs.1,428,632 was paid to the contractor through payment voucher Nos.812 dated 10 November for Kshs.1,066,382 and 4302 dated 1 March 2017 for Kshs.362,250 respectively. The payment vouchers were supported by certificate for payment on account no.01 and 02 dated 28 June 2016 and 14 February, 2017 respectively.

However, physical verification of the project on 15 December 2017, revealed that the construction works had been done up to lintel level or approximately 35% complete and the contractor was not on site.

Although it has been indicated the contractor has resumed the construction works, no evidence has been produced in form of site minutes between the contractor and representatives of the county government.

In the absence of site meeting minutes or any other evidence to show the construction works are ongoing, the status of the project remain as reported.(stalled).

2.2.2 Incomplete Works - Marigat Hospital

M/s Dyge Builder of P.O. Box 136 -30403 Marigat was awarded tender ref: BRCG/TNR/160/2014-2015 for construction of the proposed Casualty Block at Marigat Hospital at a contract sum of Kshs.20, 401,685. The works were to take 16 weeks commencing 8 June 2015 to 8 October 2015. However, in unclear circumstances, the contract agreement was signed on 19 June 2015 eleven days after commencement of the project.

It was observed that the bill of quantities(BQs) submitted by the contractor had multiple alterations on the unit prices and the contract sum had not been counter signed at the time of opening the tender by the tender committee. The inconsistencies observed while signing the contract makes the contract doubtful. It is therefore not possible to establish whether figures reflected in the respondents' bids were authentic and that it represented true state of affairs as at the time they were submitted by the respondents.

Physical verification of the project on 1 December 2017 revealed that it was approximately 59% complete but the contractor was not on site and the works had apparently stalled. It was also observed that the contract was behind schedule by 26 months. Notwithstanding the above mentioned state of affairs, examination of financial records disclosed the contractor had been paid Kshs.12,046,752 out of the contract sum of Kshs.20,401,685 which represents approximately 59% of the contract sum.

Although it has been indicated the contractor has resumed work at the site, no documentary evidence has been produced to show on what basis the contractor resumed the work 24 months after expiry of the contract period.

So far no reason has been given for failure to complete the building within the duration of the contract period.

2.3 Incomplete Projects

The department of Water and Irrigation approved budget for the year 2016/2017 indicated 162 projects at a cost of Kshs.280,240,832 were to be implemented. It was however, observed that due to the costly nature of these projects, the funding was thinly spread leading to projects being implemented in peace meal. It was also observed that there were only eight technical officers for water projects and four for irrigation projects which is a very small number in terms of supervision capacity of the projects considering the big number of the projects initiated during the year by the Water and Irrigation department. Further, it was noted that six projects worth Kshs.7,168.640 out of the 162 had not taken off as at 16 January 2018, six months after the closure of the financial year and 87 projects were ongoing and therefore incomplete.

No satisfactory explanation has been given for failure to complete the projects.

2.4 Incomplete Spatial Plan Phase II Project

M/s Two EMS Associates Limited was awarded contract No; BRCG/TNR/333/ 2015-2016 to prepare the Baringo County Spatial Development Plan Phase Two at a contract sum of Kshs.26,943,204 and the commencement date was 1st July 2016 and expected date of completion was 1st July 2017. However, scrutiny of expenditure records revealed that the consultant had been paid Kshs.15,357,626.30 which represents 57% of the

contract sum and the contract period as per the contract agreement expired on 1st July 2017. Although the consultant sought for an extension of the contract period and which was granted for a period of three months, no evidence has been produced to show the project has been completed. In addition, the GIS (Geo-spatial Information System) Laboratory which is supposed to disseminate the output from the Spatial plan is yet to be established. It is therefore not clear why the county government initiated the project as it is of no value without the Laboratory

In the circumstances, the expenditure cannot be confirmed as a proper charge to public funds in the absence of the laboratory.

2.5 Stalled Projects and Inadequate Planning of the Roll over Projects

Record held at the county treasury indicates a total of two hundred and fifty five (255) roll over or ongoing projects as at 30 June, 2017 valued at Kshs.943,507,490. However, examination of the expenditure ledgers, budget documents and status report of the development projects disclosed the following anomalies:-

- i. The county treasury did not adhere to the provisions of section 29 (2) of the Public Finance Management Regulations 2015 (County Government) on budgeting which requires for inclusion in the budget only those projects that the county treasury can manage within the resources allocated. It is therefore clear that with 255 ongoing projects the provisions were not followed.
- ii. The roll over projects seems to be on an upward trajectory as the balance/value increased by Kshs.50,798,082 from the previous financial period and if this trend continues, the roll over or ongoing projects will hit one billion shillings which may not be sustainable considering the county treasury relies solely on the National Government disbursements. In addition, this state of affairs may seriously impair the going concern concept due to heavy debts and unfinished projects which the county treasury is carrying forward to subsequent financial years.
- iii. Three projects valued at Kshs.6,039,455 were found to have stalled out of the 255 ongoing projects .The county treasury did not explain when these projects will be completed or indicate how they will be revived.

In addition, the second and final supplementary estimates indicated that the roll over projects had a budgetary provision of Kshs.874,844,895 against the ledgers balance of Kshs.943,507,490 leading to unreconciled variance of Kshs.68,662,595

So far no satisfactory explanation has been given for the anomalies noted above.

3.0 Doubtful Expenditure- Domestic Travel and Subsistence Allowance

An expenditure of Kshs.1,657,600 was incurred in respect of meals and subsistence allowance paid to 243 County Treasury staff who were purported to have travelled to Lord Egerton Castle in Nakuru for team building. Out of this amount, Kshs.497,000 was paid to a hotel in Nakuru for providing meals to the 243 officers, while Kshs.1,160,600 was paid in respect of one day subsistence allowance. However, it was not indicated how the 243 officers travelled to Nakuru as no work tickets for the motor vehicles used or bus tickets were in support of the expenditure.

In the absence of motor vehicle work tickets or bus tickets, it was not possible to confirm the officers travelled to Nakuru.

In the circumstances, the propriety of the expenditure could not be confirmed.

4.0 Loss of Revenue

The county Treasury maintains foreign currency account at the Kenya Commercial Bank (KCB) for revenue collected from the game parks in foreign currency. During the period under review, revenue totaling Kshs.576,599.79 was lost through differences in foreign exchange rates between the Central bank of Kenya (CBK) and the KCB rates. Had the CBK rates been applied, revenue of Kshs.35,545,160.84 would have been fetched while the KCB rates only realized revenue of Kshs.34,968,561.05 and therefore the KCB rates applied were not in favour of the County Government.

No explanation has been given for the loss.

5.0 Non Remittance of Statutory Deductions

The county government had made deductions totaling Kshs.46,641,991.85 from employees as at 30 June 2017. However, it was not clear why the deductions had not been remitted to the respective bodies as shown below:-

S/No	Payroll By-Product	Amount (Kshs.)
1	P.A.Y.E (IPPD and staff paid outside payroll)	39,967,452.75
2	NSSF (IPPD, ECDE and staff paid outside payroll)	1,047,200.00
3	LAPFUND	4,243,172.15
4	LAPTRUST	1,384,166.95
	Totals	46,641,991.85

No satisfactory explanation was given for failure to remit the amount.

However, examination of the expenditure records provided for audit disclosed that no tenders were invited for procurement of the legal services as evidenced by lack of any procurement documentations hence the accounting officer was in breach of the prevailing procurement laws and regulations. Further, no records relating to the various ongoing cases were produced for audit verification making it difficult to ascertain the authenticity of the fee notes raised and attached to the expenditure records.

In view of the above, the expenditure of Kshs.22,081,000 could not be verified and confirmed as a proper charge to public funds.

6.0 Debt Management Strategy Paper

Examination of the budget documents, expenditure records and financial statements produced for audit revealed that the county treasury had accumulated total debts of Kshs.1,059,765,702 as at 30th June, 2017 as shown below:-

Name of the debt	Amount (Kshs.)
Supply of goods	14,773,134.00
Supply of services	20,820,360.00
Pending staff payables (Middle management)	80,664,718.00
Debts	116,258,215.00

However, the following anomalies were noted in regard to the outstanding debts:-

- i. The Debt Strategy Management Paper, which is a requirement of the existing laws, did not indicate or disclose how the debts were to be settled in the medium term as envisaged by section 123 (1) of the Public Finance Management Act, 2012.
- ii. The county treasury did not prepare and submit to the County Assembly an annual report on public debt as required by section 194 (1) of the Public Finance Management Regulations 2015 (County Government) as none was produced for audit verification.

In the absence of a clear and concise debt strategy management paper, it was not possible to ascertain how the county treasury would settle the ever-increasing debts which in turn will impair the going concern concept of the County Government of Baringo.

Although it has been explained the roll over projects of Kshs.943,507,490 were not pending bills but projects with their own budgets and funds available, no evidence in form of bank statements was produced for audit verification to confirm the availability of the funds for these projects.

In the circumstances, the completeness and accuracy of the outstanding debts could not be confirmed.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis)] and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the County Executive's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the County Executive or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015

Those charged with governance are responsible for overseeing the County Executive's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the County Executive's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Executive's ability to continue sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Executive to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the County Executive to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

16 July 2018