

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF BOMET FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Bomet set out on pages 1 to 57, which comprise the statement of assets and liabilities as at 30 June 2018 and the statement of receipts and payments, statement of cash flows, summary statements of appropriation – recurrent, development and combined and budget execution by programmes and sub-programmes 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 of County Executive of Bomet as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Exchequer Receipts

The statement of receipts and payments for the year ended 30 June 2018 reflects exchequer receipts totalling Kshs.5,254,800,000, which includes an amount of Kshs.420,384,000 being funds received on 3 July 2018 in 2018/2019 financial year. The exchequer receipts for the year ended 30 June 2018 are, therefore, not fairly stated.

2. Unsupported Payments

The statement of receipts and payments for the year ended 30 June 2018 reflects payments totalling Kshs.939,223,116 and Kshs.684,076,569 in respect of expenditure on use of goods and services, and acquisition of assets respectively. However, included in these amounts are payments totaling Kshs.233,474,812 under various sub-items which were not supported by payment vouchers and other documentary evidence such as contracts and completions certificates as detailed below:

Financial Statement Item	Financial Statement Sub-Item	Unsupported amount (Kshs.)
Use of goods and services	Training Expenses	65,247,007
Use of goods and services	Hospitality Supplies and Services	11,451,963

Use of goods and services	Specialized Materials and Services	50,852,653
Acquisition of assets	Refurbishment of Buildings	1,698,000
Acquisition of assets	Purchase of Office Furniture and Equipment	20,314,036
Acquisition of assets	Purchase of ICT Equipment	17,336,347
Acquisition of assets	Construction of Buildings	66,574,806
Total		233,474,812

Consequently, the validity and regularity of the expenditure of Kshs.233,474,812 cannot be confirmed.

3. Payments made outside IFMIS

During the year under review, the County Executive made payments amounting to Kshs.162,420,395 outside the IFMIS as analyzed below:

Item	Amount (Kshs)
Printing, Advertising and Information Supplies and Services	67,445,679
Foreign Travel and Subsistence	6,501,945
Routine Maintenance - Other Assets	12,936,514
Training Expenses	65,247,007
Purchase of Certified Seeds	10,289,250
Total	162,420,395

As a result, the completeness and accuracy of payments disclosed under Notes 12 and 17 to the financial statements relating to printing, advertising and information supplies and services - Kshs.94,968,105, foreign travel and subsistence - Kshs.26,264,110, routine maintenance other assets - Kshs.42,282,492, training expenses - Kshs.73,475,047 and purchase of certified seeds - Kshs.12,054,971 cannot be confirmed.

4. Pending Accounts Payables (Bills)

Disclosed at Annex 2 to the financial statements are pending bills totalling Kshs.296,240,147 out of which an amount of Kshs.267,757,052 has not been supported by authentic and verifiable source documents and schedules clearly indicating type of supply, contracted amount, amount paid to date and outstanding balance as at the year end. As a result, the validity and accuracy of the pending bills balance of Kshs.296,240,147 cannot be fully confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Executive of Bomet 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 matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section of my report, I have determined that there are no other key audit matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for for Conclusions on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Budget Performance

1.1 Revenue Collection

In the year under review, the County Executive collected revenue totaling Kshs.181,675,343 compared to Kshs.234,230,199 in 2016/2017 financial year. The budgeted amount against the actual collections are analyzed below:

Revenue Source	Budget 2017/18 Kshs	Actual 2017/18 Kshs	Deviation Kshs	Deviation %
Rents	2,538,689	1,940,170	598,519	23.58
Other Property Income	31,099,816	30,537,717	562,099	1.81
Receipts from admin fees	6,315,158	5,076,409	1,238,749	19.62
Business Permits/Cesses	43,658,550	36,207,931	7,450,619	17.07
Plot Rents	10,120,500	4,681,867	5,438,633	53.74
Other Local Levies	5,060,000	1,136,524	3,923,476	77.54
Market/Trade Fees	7,710,000	3,927,640	3,782,360	49.1
Vehicle Parking Fees	13,668,831	8,236,140	5,432,691	39.75
Slaughter House Administration	3,300,000	2,230,030	1,069,970	32.4
Fines Penalties	824,250	467,827	356,423	43.2

There was a pervasive negative trend between the budgeted receipts and actual receipts in 2017/2018, implying that revenue targets were not met in the year under review. Significant deviations between budgeted receipts and actual receipts occurred

under other local levies (77.54%), plot rent (53.74%) and market fees (49.1%). No satisfactory explanation has been provided for apparent ineffectiveness in the collection of revenue.

1.2 Budgeted Expenditure Versus Actual Expenditure

- i. The Bomet County Executive had budgeted to spend Kshs.6,241,908,699 but incurred a total expenditure of Kshs.4,995,666,680 resulting in under expenditure of Kshs.1,246,242,019 or 20% of the budget.
- ii. An analysis of the budget performance revealed that the County Executive spent Kshs.874,025,470 or 18% of the total expenditure on development and Kshs.4,121,641,210 or 82% on recurrent. This is contrary to Section 107(2)(b) of the Public Finance Management Act, 2012 which requires a minimum of 30% of the total budget be allocated to the development expenditure.
- iii. The budget allocation for acquisition of assets of Kshs.1,524,392,489 under the development vote was under-spent by Kshs.930,432,954 or 61%.
- iv. The budget performance under recurrent vote in 2017/2018 is as detailed below:

Recurrent Expenditure Item	Final Budget Amounts Kshs	Actual Amounts Kshs	Under Expenditure Kshs	Variance In %
Compensation of Employees	2,297,373,205	2,221,097,999	76,275,206	3%
Use of Goods and Services	961,400,069	939,223,116	22,176,953	2%
Transfers to Other Government Entities	950,996,218	839,519,314	111,476,904	12%
Social Security Benefits	3,370,140	0	3,370,140	100%
Acquisition of Assets	182,846,247	96,277,358	86,568,889	47%
Finance Costs	1,141,477	382,497	758,980	66%
Other Payments	28,000,000	3,301,250	24,698,750	88%

The general trend of under-expenditure under both development and recurrent votes is an indication that the residents of Bomet County did not receive fully effective and efficient service delivery during the year 2017/2018.

2. Construction of Governor`s Lounge and Office

The County Executive awarded a contract of Kshs.52,000,000 to a contractor for construction of the Governor`s Lounge and Office. The management paid an extra amount of Kshs.8,856,984 for various variations of the contract. However, minutes of the evaluation committee and letters from the contractor initiating the variations were not provided for audit review. As a result, it has not been possible to confirm the legality of the variations or whether value for money was received by the public from the expenditure.

3. Procurement of Batch Pasteurizers

The County Executive paid a supplier an amount of Kshs.2,430,000 for the supply of three batch pasteurizers for onward donation to three co-operative societies namely; Kimbilio Daima Sacco, Chepchabas Co-operative Society and Kapkap Co-operative. Physical verification and examination of the records revealed the following anomalies:

- i. The batch pasteurizer delivered to Kimbilio Daima Sacco and the milk dispenser were instead donated to Chepchabas Co-operative Society. However, the batch pasteurizer is currently not operational.
- ii. The supplier delivered one batch pasteurizer and two milk dispensers instead of the three batch pasteurizers for which the orders had been placed.

No explanations have been provided for the above anomalies. As a result, the County and Co-operatives may not receive value for money from the expenditure of Kshs.2,430,000.

4. Advance Payment for Donated Medical Equipment

Relief for Africa Foundation was paid an advance of Kshs.23,563,000 by the County Executive to facilitate shipment of donated medical equipment from United States of America. Physical verification revealed that the equipment was delivered to Longisa Hospital in Bomet County. The payment in advance, however, contravened the provisions of Section 146 of the Public Procurement and Asset Disposal Act, 2015.

5. Payments of Debts Owed by Co-operative Societies

During the year under review, the County Executive paid an amount of Kshs.32,305,342.5 towards clearing debts owed by four Co-operative Societies to Agricultural Finance Corporation and FMD East Africa. The Agricultural Finance Corporation was paid Kshs.28,955,950 and the balance of Kshs.3,349,392.50 was paid to FMD East Africa in respect of loan for delivery of tractors. However, the following anomalies have been noted:

- i. The County Executive provided a sovereign guarantee to Agricultural Finance Corporation on 17 February, 2016 to clear the debts in the event that the Co-operative Societies defaulted. However, no credit assessment report was done to determine the Co-operatives Societies` ability to service the loan.
- ii. The undertaking to clear the debts was given to only Agricultural Finance Corporation by the County Executive. It is, however, unclear how the County Government became liable to pay the debts owed by the Co-operatives Societies to FMD East Africa.

No letters from the Co-operatives Societies requesting assistance to clear debts owed to FMD East Africa was produced to support debts repayment.

- iii. Although it was explained that the County Executive had taken possession and ownership of the eight tractors supplied by FMD East Africa, their logbooks were not provided for audit verification.

In view of the above, the regularity and value for money of the expenditure of Kshs.32,305,342 cannot be confirmed.

6. Payments to Kenya Red Cross Society

The County Executive entered into a project agreement with Kenya Red Cross Society towards improving the quality of life of Bomet residents through accessibility to water, health, nutrition, food security and general disasters management. A total of Kshs.33,000,000 was paid during the year under review to Kenya Red Cross for the implementation of the project. However, a list of the programmes to be undertaken and status of these programmes were not provided for audit review. The regularity and value for money in respect of the expenditure of Kshs.33,000,000 cannot be confirmed under the circumstances.

7. Construction of Tinet Water Supply

A contract for construction of Tinet Water Supply was awarded to contractor at a sum of Kshs.1,205,150. Audit verification of the project revealed that two small tanks of 13M cubic were installed instead of the 25M cubic tanks provided for in the contract. In addition, the intake pipes had not been fitted and pipes were lying at the site and the work was incomplete as of December 2018. Delayed completion of the project is likely to increase the overall cost due to inflation and other unforeseen circumstances. Consequently, value for money may not be achieved in the long run.

8. Roads Projects

8.1 Goitab-Silibwet-Kiprichait-Kaptigoi Road

A contract for construction of Goitab-Silibwet-Kiprichait-Kaptigoi road was awarded to a contractor at a cost of Kshs.15,757,968 out of which Kshs.9,801,002 had been paid as of December, 2018. However, audit verification undertaken in December, 2018 revealed that side wings for one of the culverts installed had already collapsed from one end and cracks had appeared on the other end. Further, big boulders from the murrum used on the road were left by the road side, blocking water drainage lines. Some of the culverts were so raised but not back filled properly making it difficult for vehicles to cross conveniently. As a result, value for money may not have been achieved on the project.

8.2 Kimugul-Kalili-Kiriswa-Mengichik-Meswondo Road

A contract for construction of Kimugul-Kalili-Kiriswa-Mengichik-Meswondo road was awarded to a contractor at a cost of Kshs. 7,915,608 out of which Kshs3,537,536 had been paid to the contractor as of December,2018. Audit verification carried out in December, 2018 revealed that side drainages were not cleared of the debris and that

two spots measuring approximately 600m of the road were constructed. Further, the road was not compacted and boulders were protruding on the road, an indication of poor workmanship. As a result, value for money may not have been achieved on the project.

9. Staff Recruitment

Examination of payroll records revealed that 213 new employees with a monthly gross salary of Kshs.11,114,517 were employed in the year under review. However, the vacancies were not advertised and the recruitment was not carried out by the County Public Service Board contrary to the requirements the County Government, Act 2012. The County Executive was therefore in breach of the law.

10. Staff Ethnic Composition

During the year under review, the Bomet County Executive had 3124 employees out of which 2968 or 95% were members of the ethnic community dominant in the County. This is contrary to Section 65 (e) of the County Government Act, 2012 which states that one third of county staff at entry level should be recruited from communities other than the one dominant in county.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusions on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

Establishment of Audit Committee

A review of Internal Audit Unit revealed that the Bomet County Executive has not established and operationalized the audit committee as required by law. The Management was therefore not able to manage the risks effectively during the year under review.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

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 maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the ability of the County Executive to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management intends to cease operations of the County Executive, 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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources applied in an effective manner.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the County Executive's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism 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.
- 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 ability of the County Executive to 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 sustaining 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 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

18 February 2019