

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Embu County Executive set out on pages 17 to 45, which comprise the statement of assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation 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, because of the significance of the matters discussed in the Basis for Adverse Opinion Section of my report, the financial statements do not present fairly, the financial position of Embu County Executive 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) and do not comply with the Public Finance Management Act, 2012 and the County Government Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, public money has not been applied lawfully and in an effective way.

Basis for Adverse Opinion

1.0 Presentation of Financial Statements

The International Public Sector Accounting Standards (Cash Basis) reporting template prescribed by the Public Sector Accounting Standards Board requires that a report on the follow up of previous year's audit recommendations be included as part of the annexures to the financial statements. However, the report on the follow up of previous year's audit recommendations at note VIII of the financial statements is just a template with no figures or actions taken by management as required.

In the circumstances, the presentation of the financial statements for the year ended 30 June 2017 do not comply with the prescribed format under the International Public Sector Accounting Standards (Cash Basis) as prescribed by the Public Sector Accounting Standards Board.

2.0 Cash and Cash Equivalents

Note 12A of the financial statements states that during the year under review, the County Executive operated nineteen (19) main bank accounts with a total balance of Kshs.518,995,353 and fifty six (56) Danida Health facilities accounts with a total balance of Kshs.1,441,558 all totaling to Kshs.521,436,911 as detailed below;

Report of the Auditor-General on the Financial Statements of Embu County Executive for the year ended 30 June 2017

Name of the Bank	Account Number	Purpose	Amount as at 30 June 2017 (Kshs.)
Central bank of Kenya	1000171014	Revenue account	370,932,893
Co-op Recurrent Account	1141408117000	Operational	771,891
Central bank of Kenya	1000170597	Development account	14,332,602
Central bank of Kenya	1000170581	Recurrent account	233
Kenya Commercial Bank	1178028569	Revenue collection account	43,712,500
Kenya Commercial Bank	1141517922	Exchequer revenue account	10,604,655
Co-operative Bank	01141408435600	Revenue account	-
Central Bank of Kenya	1000250372	Deposit	58,918,366
Co-op Alcoholic Control Board		Revenue	-550
KCB		Development	949,752
Co-op Mbeere District Hospital	1141569278801	Revenue	3,600
Co-op County Health Management Team	1141407087300	Revenue	250,170
Co-op Kianjokoma Sub-District Hospital	1141408461601	Revenue	156,035
Ishiara District Hospital	1141408211500	Revenue	427,818
Ishiara District Hospital	1141408211501	Revenue	18,580
Runyenjes District Hospital	1141408462201	Revenue	53,790
Embu County Salary	1141408453000	Operation	162,639
Embu Level 5 Hospital, KCB	1202479405	Revenue	18,648,698
Embu Level 5 Hospital, Co-op	1141408204800	Revenue	51,680
56 Danida Health Facilities Accounts	Various	Operations	1,441,558
Total			521,436,911

However, out of the nineteen (19) main bank accounts, fifteen (15) were commercial banks accounts; three (3) accounts in Kenya Commercial Bank and twelve (12) accounts in co-operative bank. The fifteen accounts in commercial banks were opened and operated against Section 82 of the Public Finance Management Regulations (County Government), 2015.

In the circumstance, the County Executive was in breach of the Public Finance Management Regulations (County Government), 2015 and no reason has been given for the anomaly.

3.0 Revenue

3.1 Use of Multiple Revenue Collection Systems

During the year under review, the County Executive used various systems to account for and record revenue collected. The systems were; Local Authorities Integrated Financial

Operations Management System (*LAIFOMS*), E revenue, MEDBOSS and manual systems. However, it was not clear why the County Executive was using the various systems whereas it had acquired an e-revenue collection system at a cost of Kshs.18,092,530 during the financial year 2015/2016.

3.2 Unbanked Revenue

During the year under review, the County Executive had targeted to raise Kshs.803,772,092 from local sources and Appropriation in Aid to supplement the national equitable share of revenue from the National Government and conditional grants. However, the LAIFOMS, manual and E-revenue systems show that the Executive raised Kshs.391,406,940 which was 48.7% of the annual local revenue target. Further, the County Executive’s revenue collection systems reflected revenue collections totaling to Kshs.391,406,940 as at 30 June 2017 while the banking records reflected bankings totaling to Kshs.385,519,323 resulting into an unexplained and unreconciled variance of Kshs.5,887,617 as follows;

	Kshs.
Income as per LAIFOMS, Manual, E-revenue	391,406,940
Bankings	<u>385,519,323</u>
Revenue Under banked	<u>5,887,617</u>

In the circumstances, it was not possible to ascertain the accuracy and completeness of the Kshs.391,406,940 County own generated receipts as at 30 June 2017.

4.0 Acquisition of Assets

4.1 Non-current Assets

Annex 2 to the financial statements reflects various assets with a historical cost of Kshs.6,801,063,983. However, the County Executive did not maintain an updated fixed assets register. In addition, no register of parcels of land owned by the County Executive was made available for audit review. Further, the County Executive had grounded twenty-six (26) unserviceable vehicles that were continuously depreciating through wear and tear. Also, assets taken over from the defunct local authorities have not been incorporated in the asset register.

Consequently, it was not possible to ascertain the ownership, existence, security, valuation and location of fixed assets stated at Kshs.6,801,063,983 as at 30 June 2017.

4.2 Construction of Roads Using Unapproved Method

As previously reported in the financial year 2015/2016, the County Executive awarded a Contract for the design, building and upgrading to bitumen standards of 100kms of Roads in Embu County. This was as a result of tender number EBU/CNT/EOI/01/2015/2016 for

Report of the Auditor-General on the Financial Statements of Embu County Executive for the year ended 30 June 2017

expression of interest on consultancy and appropriate technology on road building materials and technology Supplier/Contractors. The County signed an agreement with the Contractor to carry out and bring to completion the works comprising the design, building and maintenance of the roads in two phases. Phase I was to be the Construction of the 12.2 Km Embu Town to Kibugu Town road which was to commence immediately at a cost of Kshs.389,754,106 while phase two was to be for construction of 87.8 Km of various roads at a cost to be determined later.

The bill of quantities for installation of Embu Kibugu Road were summarized as below:

Description	Amount (Kshs.)
Detailed Design, Specifications and Drawing	39,919,106
Preliminaries	37,515,000
Installation of TX-85 Soil Strengthener and SH-85 Soil Hardener	189,100,000
Spraying Double Layer PB-65 Water Proofing Soil Sealant & Dust Control	123,220,000
Total	389,754,106

The above products were to be used for stabilization of soil for the roads. However, as per Circular No. 1/2016 dated 15 June 2016 by the Ministry of Transport, Infrastructure, Housing and Urban Development, none of the proprietary products being promoted for stabilization of soils for road pavements construction had been approved for use on public roads. The County Executive followed up with the Ministry of Transport, Infrastructure, Housing and Urban Development to approve the use of the technology on the 12.2KM Embu/Kibugu road. The Ministry accepted with a condition that it was to monitor 5.8 KM section improved using probase as a research trail section while the remaining 6.4km of the road was to be improved using low volume seal standards using approved standards. Although the County Executive complied with the letter Ref: MOT/I/A.13/02 Vol. 1 dated 8 September 2016; there was no evidence of the Ministry monitoring the road.

In the circumstances, value for money for the Kshs.88,608,295.84 paid to the contractor during the financial year under review could not be ascertained.

4.3 Construction of Perimeter Walling at Umu Stadium

During the year under review, the County Executive Youth and Sports department awarded tender No. EBU/CNT/T/018/2016-2017 at a cost of Kshs.5,285,621 for perimeter wall fencing at Umu stadium. The contractor was paid Kshs.4,801,970 being work done as per certificate number one (1) and demand note number 11. However, a physical verification established that contrary to the certificate, the works indicated as having been completed had not been done and one side of the stadium was yet to be fenced due to land dispute.

In the circumstances, the Executive may not have received value for money equivalent to Kshs.4,801,970 expenditure.

4.4 Construction of Staff House at Mutuobare Dispensary

During the year under review, the County Executive advertised for the construction of staff house at Mutuobare dispensary through tender no. EBU/CNT/277881/2015-2016. The tender evaluation committee recommended the lowest evaluated responsive tenderer be considered for the award of tender at a total cost of Kshs.2,004,287. Although the staff house was complete the dispensary is not operational. Hence value for money for the project has not been realized to date.

4.5 Purchase of Land with Title Deed

During the year under review, the County Executive had an approved budget of Kshs.39,000,000 for acquisition of land under development expenditure for Lands Department. Out of this budget, the County Executive spent Kshs.37,500,000 being payments for parcels of land procured and valued through tender no. EBU/CNT/10B/2014-2015 dated 19 January 2015 and EBU/CNT/T/19/2015-2016 dated 26 October 2015. However, included in the Kshs.37,500,000 expenditure were four (4) parcels of land whose ownership documents were not availed for audit review. Further, the parcels of Land acquired had not been recorded in the assets register.

In the circumstances, it has not been possible to establish the security and ownership of the parcels of land valued at Kshs.37,500,000 as at 30 June 2017.

4.6 Construction of Earth Dams

During the year under review, the County Executive budgeted an expenditure of Kshs.55,617,042 for other infrastructure and Civil works. However, the actual expenditure was Kshs.40,489,336 which included Kshs.37,167,464.75 spent on construction of earth dams within the County for water use by the communities within the various earth dams' vicinity. In addition, although the earth dams had been constructed; there was no documentary evidence as to whether the dams were constructed on land owned by County Executive nor Memorandum of understanding between the County Executive and the private land owners on the utilization of earth dams.

Consequently, the security and ownership of the parcels of land where the earth dams were constructed including whether the Executive got value for money equivalent to the Kshs.37,167,465 could not be established.

5.0 Unaccounted for Tree Seedlings

During the year under review, the County Executive had an approved budget of Kshs.3,000,144 for Overhaul of Other Infrastructure and Civil Works under development expenditure for Lands Department. However, included in the actual expenditure under this item was Kshs.17,500,000 spent on the supply of tree seedlings procured from Kenya Forest Services on 13 March 2017 as analyzed below;

P/Voucher	No. of Tree Seedlings	Amount (Kshs.)
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Report of the Auditor-General on the Financial Statements of Embu County Executive for the year ended 30 June 2017

150/03	80,000	2,000,000
148/03	80,000	2,000,000
149/03	120,000	3,000,000
152/03	80,000	2,000,000
151/03	120,000	3,000,000
157/03	80,000	3,000,000
156/03	80,000	2,500,000
Total	640,000	17,500,000

However, no documents were made available to show that there was an approved reallocation of funds from overhaul of other infrastructure and civil works to procurement of seedlings.

In addition, no records were made available to indicate how the purchased seedlings were issued out. Further, the budgeted provision for procurement of certified seeds was Kshs.14,499,856 while the actual expenditure was Kshs.17,500,000 resulting in an unapproved over-expenditure of Kshs.3,000,144.

In the circumstances, the propriety of the Kshs.17,500,000 excess expenditure could not be ascertained.

6.0 Unaccounted for Youth Funds

During the year under review, the County Executive transferred Kshs.25,700,000 from Embu County Treasury to Embu Youth Trust Fund account (0190264375530) at Equity Bank Embu branch comprising of Kshs.15,800,000 and Kshs.9,900,000 transferred on 9 November 2016 and 30 April 2017 respectively. However, although the Youth Trust Fund is an independent Fund Account which ought to have prepared separate Fund accounts, the respective Fund accounts were not made available for audit review as required by Section 116 (7) of the Public Finance Management Act, 2017 and Section 47 of the Public Audit Act, 2015 respectively.

In the circumstances, the Executive was in breach of the law and it was not possible to confirm whether the Kshs.25,700,000 transferred to the Youth Trust Fund account was utilized as appropriated and accounted.

7.0 Embu County Education Support Fund

Note 8 to the financial statements reflects a Kshs.170,517,265 Fund transfer to Embu County Education Support Fund A/C No 01141408639900 held at Cooperative Bank Embu Branch in respect to scholarship and bursaries. A review of the financial records revealed

that at the beginning of the financial year, there was a Fund opening balance of Kshs.4,283,645 raising the total funds in this account to Kshs.174,800,910. However, the County spent Kshs.163,979,045 being 94% of the budgeted amount leaving out an unspent balance of Kshs.10,821,866. No separate financial statements have been prepared and submitted for audit on the fund.

In addition, although the Education Support Fund is an independent Fund Account, the respective Fund Accounts were not made available for audit review as required by Section 116 (7) of the Public Finance Management Act, 2012 and Section 47 of the Public Audit Act, 2015 respectively. The County Executive was therefore in breach of the law.

In the circumstances, the County Executive was in breach of the law and County residents did not get value for money equivalent to the undisbursed scholarship and bursaries totaling to Kshs.10,821,865.50.

8.0 Pending Bills

Annex 1 to the financial statements reflected pending bills totaling to Kshs.940,974,958 as at 30 June 2017 translating to approximately 14% of the County Executive's total budget. Further, the County Executive did not maintain a creditors/ pending bills ledger during the financial year under review. Hence the required supporting documents were not provided for audit verification.

In the circumstances, the existence, authenticity and accuracy of the pending bills balance of Kshs.940,974,958 could not be ascertained.

9.0 Outstanding Imprest

Note 13 to the financial statements reflect imprests totaling Kshs.14,546,909 that were outstanding for more than 6 Months Contrary to Section 93 (5) of the Public Finance Management Regulations (County Government), 2015 which requires imprest to be surrendered within 7 working days. No measures had been put in place to have the imprests surrendered as at 30 June 2017.

Consequently, the County Executive was in breach of the law and the recoverability of the imprests balance of Kshs.14,546,909 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Embu County Executive 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 adverse 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 matter described in the

Report of the Auditor-General on the Financial Statements of Embu County Executive for the year ended 30 June 2017

Basis for Adverse Opinion and Other Matter sections, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1.0 Audit Findings on Lawfulness and Effectiveness (VFM) in Use of Funds

1.1 Late Submission of Financial statements

Section 164(4) (a) of the Public Finance Management Act, 2012 requires an entity's accounting officer to submit the entity's financial statements to the Auditor-General within three months after the end of each financial year. However, Embu County Executive submitted its financial statements for the year under review on 22 November 2017 which was over one month after the constitutional deadline.

In the circumstance, the County Executive was in breach of the Public Finance management act, 2012 and the Public Audit Act, 2015.

1.2 Shared Bank Accounts

A review of the payroll for Embu County Executive and the bank remittance payment schedule in the integrated Payroll and Personnel Database (IPPD) system revealed that twenty (20) employees shared Bank Accounts through which their salaries were paid. It was not clear how different employees shared bank accounts where the salaries were transmitted to.

In the circumstances, it was not possible to ascertain whether the twenty were genuine employees of the County Executive.

1.3 Non-operationalization of Emergency Fund

The County Executive budgeted an expenditure of Kshs.4,000,000 in respect to Emergency Fund as required by the Public Financial Management Act, 2012 Section 110 (1) and also as approved by the regulations that govern the Fund. However, the Fund was not operationalized by setting aside funds and opening a separate bank account as required by Section 111 (2) of the Public Finance Management Act, 2012.

In, the Circumstance, the County Executive was in breach of the Public Finance Management Act, 2012.

1.4 Budgetary Control and Performance

1.4.1 Revenue

The Embu County Executive had an approved revenue budget of Kshs.6,725,470,023 comprising of both development and recurrent expenditures of Kshs.2,561,606,267 and Kshs.4,163,863,756 respectively. However, out of the total approved revenue budget of Kshs.6,725,470,023, only Kshs.6,316,598,649 was realized resulting to a revenue shortfall of Kshs.408,871,374 as follows;

Revenue Type	Budget (Kshs)	Actual (Kshs)	Variance (Kshs)	Percentage
Proceeds from Domestic and Foreign Grants	6,875,000	6,875,000	-	100%
Exchequer Releases	4,141,186,056	4,141,186,056	-	100%
Transfer from Other Gov't Entities	523,754,894	530,172,447	6,417,553	101%
Reimbursements & Refunds	1,249,881,981	1,246,958,206	(2,923,775)	96%
Other Receipts (Local Revenue)	803,772,092	391,406,940	(412,365,152)	54%
Total	6,725,470,023	6,316,598,649	(408,871,374)	94%

Out of the budgeted local revenue of Kshs.803,772,092 only, Kshs.391,406,940 was realized resulting to revenue shortfall of Kshs.412,365,152 (48.7%). It was therefore not possible to ascertain how the County would cover the Kshs.408,871,374 revenue shortfall which translates to a denial of an equivalent promised and expected services to the County residents.

1.4.2 Development Expenditure

Further, out of Kshs.2,561,606,267 development budget, only Kshs.1,947,393,237 (76%) was utilized resulting to an under expenditure of Kshs.614,213,030 as follows;

Department	Budget (Kshs)	Actual (Kshs)	Variance (Kshs)	Absorption %
Finance And Economic Planning	25,013,917	14,684,835	10,329,082	59%
Education, Science, Technology and ICT	146,604,645	98,102,501	48,502,144	67%
Health	355,989,364	224,379,648	131,609,716	63%
Infrastructure, Public Works, Housing And Energy	1,084,696,016	1,012,173,873	72,522,143	93%
Youth Empowerment And Sports	106,654,089	85,694,285	20,959,804	80%
Trade, Tourism, Investment And Industrialization	200,899,611	186,710,840	14,188,771	93%
Agriculture, Livestock, Fisheries and Co-operative Development	139,584,486	112,467,891	27,116,595	81%

Lands, Water, Environment And Natural Resources	222,533,144	152,917,296	69,615,848	69%
Public Service And Administration	4,500,000	4,417,160	82,840	98%
Gender, Culture ,Children And Social Services	85,444,599	53,654,270	31,790,329	63%
Embu Level 5 Hospital	189,686,396	2,190,638	187,495,758	1%
Total	2,561,606,267	1,947,393,237	614,213,030	76%

The revenue short fall of Kshs.408, 871,374 and the development under expenditure of Kshs.614,213,030 renders the entire budget unrealistic.

In the circumstances, the development under–expenditure of Kshs.614,213,030 denied the residents of Embu County equivalent promised and expected services during the year under review.

2.0 Internal Control Weakness

2.1 Information, Communication and Technology (ICT) Environment

Review of the Country’s ICT environment revealed that there was no formal approved ICT policy in place as at 30 June 2017 which includes data security policy and disaster recovery plans. Further, the ICT organization structure was not provided for review.

In the circumstance, the security and reliability of the County Executive’s data including its Management Information System could not be ascertained.

2.2 Operations Without an Approved Staff Establishment

Records made available showed that the County Executive had 1,412 employees as at 30 June 2017, which excluded employees in the departments of lands, water, environment & natural resources and health whose number and other personnel details were not made available for audit. No explanation was given for the failure to present data on staff under the four departments for audit review. Further, the County Executive employed 226 casuals during the period under review, even though it did not have an approved staff establishment.

In the circumstances, the adequacy, appropriateness, existence and necessity to fill vacancies or the possibility of staff progression in the County Executive during the year ended 30 June 2017 could not be ascertained.

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 continue to sustain its 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 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.
- 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 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 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