

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

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## REPORT ON THE FINANCIAL STATEMENTS

### Adverse Opinion

I have audited the accompanying financial statements of County Executive of Embu set out on pages 1 to 37, which comprise the statement of assets and liabilities as at 30 June 2018, 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 County Executive of Embu 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 do not comply with the County Government Act, 2012 and the Public Finance Management Act, 2012.

### Basis for Adverse Opinion

#### 1.0 Accuracy of the Financial Statements

#### 1.1 Variances Between Financial Statements and Integrated Financial Management Information System (IFMIS) Figures

The financial statements for the year under review reflects balances that were at variance with those reflected in the IFMIS as summarized below;

Item	Financial Statements (Kshs)	IFMIS Amount (Kshs)	Variance (Kshs)
<b>Receipts</b>			
Proceeds From Domestic and Foreign Grants	115,698,201	143,381,603	-27,683,402
Transfers From Other Government Entities	516,247,805	163,688,186	352,559,619
Receipts- Exchequer releases	5,642,866,231	2,732,162,936	2,910,703,295
<b>Total Receipts</b>	<b>6,274,812,237</b>	<b>3,039,232,725</b>	<b>3,235,579,512</b>
<b>Payments</b>			

Item	Financial Statements (Kshs)	IFMIS Amount (Kshs)	Variance (Kshs)
Acquisition of Assets	1,162,459,948	1,077,916,853	84,543,095
Compensation of Employees	2,669,486,849	2,532,434,251	137,052,598
Other Grants and Transfers	215,065,510	79,600,500	135,465,010
Social Security Benefits	22,567,264	-	22,567,264
Transfers to Other Government Units	485,937,461	191,345,282	294,592,179
Use of Goods and Services	738,857,449	754,423,194	-15,565,745
Other Payments	-	2,304,730	-2,304,730
<b>Total Payments</b>	<b>5,294,374,481</b>	<b>4,638,024,810</b>	<b>656,349,671</b>
<b>Statement of Assets and Liabilities</b>			
Accounts Payables - Deposits and Retentions	83,742,122	17,072,559,835	-16,988,817,713
Accounts Receivables - Outstanding Imprest	82,040,660	-366,900,297	448,940,957
Bank Balances	358,563,651	3,601,546,942	-3,242,983,291
Cash Balances	916,082	15,188,974,567	-15,188,058,485
Fund Balance B/fwd	478,049,978	77,847,881	400,202,097
Prior year Adjustments	470,689,569	-	470,689,569
Payments	5,290,053,388	4,960,760,065	329,293,323
Cash and Bank	287,302,926	11,863,594,153	-11,576,291,227
Receivables	82,040,660	-208,187,684	290,228,344
Payables	9,170,335	17,542,739,408	-17,533,569,073

The County Executive has not explained or reconciled the variances in the two documents for the year ended 30 June 2018.

Consequently, the accuracy of the financial statements balances for the year ended 30 June 2018 could not be ascertained.

## 1.2 Variances Between the Financial Statements and Supporting Schedules Figures

The financial statements for the year under review reflects total payments of Kshs.5,294,374,481 as at 30 June 2018 which included Kshs.3,729,020,245 spent on seven items. However, the respective supporting schedules reflect a total figure of Kshs.3,234,765,437 resulting into a variance of Kshs.494,254,808 as shown below;

<b>Item</b>	<b>Financial Statements Balance (Kshs.)</b>	<b>Schedule Balance (Kshs.)</b>	<b>Expenditure overstatement (Kshs.)</b>
Purchase of certified seeds, breeding stock and live animals (Note 11)	2,191,626	1,883,846	307,780
Construction of Roads (Note 11)	243,331,067	65,501,116	177,829,951
Outstanding Imprest (Note 13)	82,040,660	35,988,623	46,052,037
Transfer to other Govt entities (Note 8)	485,937,461	459,909,489	26,027,972
Compensation of employees (Note 6)	2,669,486,849	2,621,943,256	47,543,593
Accounts payables –Deposits and retentions (Note 14)	83,742,122	9,170,335	74,571,787
Acquisition of Land (Note 11)	162,290,460	40,368,772	121,921,688
<b>TOTAL</b>	<b>3,729,020,245</b>	<b>3,234,765,437</b>	<b>494,254,808</b>

The County Executive has not reconciled or explained the cause of the variances.

In the circumstances, the validity and accuracy of the figures amounting to Kshs.3,729,020,245 as reflected in these financial statements for the year ended 30 June 2018 could not be confirmed.

### **1.3 Accuracy of the Net Financial Position Balance**

The statement of assets and liabilities reflects net financial position of Kshs.357,778,271 during the year under review. However, the source of the Kshs.357,778,271 could not be ascertained as a manual addition of the respective components of the statement of assets and liabilities (fund balance, prior year adjustments and surplus of Kshs.478,049,978, Kshs.470,689,568 and Kshs.350,417,862) respectively gave a total of Kshs.1,299,157,408 and not Kshs.357,778,271 leading to a variance of Kshs.941,379,138.

In the circumstances, the accuracy of the net financial position of Kshs.357,778,271 as at 30 June 2018 could not be confirmed.

### **1.4 Inconsistencies in Budget Execution Report**

The budget uploaded in the IFMIS reflects a total budget execution by programmes and sub-programmes of Kshs.6,205,791,902 while note 5.7 of the financial statement under budget execution by programmes and sub-programmes reflects a total of Kshs.6,176,296,987 thus leading to a variance of Kshs.29,494,915.

In addition, the budget execution by programmes and sub-programmes reflects actual payments of Kshs.5,062,193,144 while the statement of receipts and payments reflects total actual payments of Kshs.5,294,374,481 leading to an un-explained variance of Kshs.232,181,337.

In the circumstances, the budgeted figure reported in the financial statements for the financial year ending 30 June 2018 could not be confirmed.

## **1.5 Presentation and Disclosure of Financial Statements**

The financial statements preparation template issued by the Public Sector Accounting Standards Board (PSASB) requires that an Inter-Entity Transfers/Bank Reconciliation Report be included at Annex 6 to the financial statements. However, this report was not included in the financial statements for the year under review.

In the circumstances, the presentation and disclosure of the financial statements for the year ended 30 June 2018 did not comply with the prescribed format.

## **2.0 Unsupported Cash and Bank Balances**

Note 12A and 12B to the financial statements for the year under review reflects a cash and cash equivalents balance of Kshs.359,479,733 comprising of a bank balance of Kshs.358,563,651 held in thirty-two (32) main bank accounts and other unspecified DANIDA accounts and a cash in hand balance of Kshs.916,082. However, 28 cash books, 26 bank reconciliations statements and 6 bank confirmation certificates were not availed for audit review. In addition, the financial statements presented for audit review reflected a cash and cash equivalents balance of Kshs.359,479,733 which included an amount of Kshs.72,176,807 whose documentary evidence were not availed for audit review as at 30 June 2018. Further, a Central Bank of Kenya bank confirmation certificate availed for audit review incorporating nine (9) accounts reflected Embu County Polytechnic Project GR account which was not disclosed in the financial statements as part of the bank accounts held by the Executive. Also, no board of survey certificate was availed to support the cash in hand balances of Kshs.916,082.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.359,479,733 reflected in the financial statements as at 30 June 2018 could not be confirmed.

## **3.0 Prior Year Adjustments**

Included in the statement of assets and liabilities is a prior year adjustments balance of Kshs.470,689,569 which appeared more like a balancing figure in the financial statements as the respective supporting documentary evidence were not availed for audit review. This is contrary to Regulation 103(2) of the Public Finance Management (County Governments) Regulations, 2015 which requires adjustments to be supported by

sufficient explanations, authorisations and documentation. The treatment is also not in accordance with the requirements of paragraph 1.5 of the International Public Sector Accounting Standard (Cash Basis Standard) which requires proper disclosure of the error and re-statement of comparative figures.

In the circumstances, the validity and accuracy of the Kshs.470,689,569 adjustments reflected in the financial statements as at 30 June 2018 could not be confirmed.

#### **4.0 Revenue**

##### **4.1 Unsupported Receipts**

The statement of receipts and payments for the year under review reflects receipts of Kshs.468,262,521 in respect to returned County Revenue Fund (CRF) issues. However, no supporting documents including bank statements were availed for audit review in support of the same.

In the circumstances, the accuracy and authenticity of the returned CRF issues balance of Kshs.468,262,521 for the year ended 30 June 2018 could not be confirmed.

##### **4.2 Un-Reconciled Receipts**

The separate summary statement of appropriation recurrent and summary statement of appropriation development reflects total actual receipts of Kshs.5,644,792,343 and Kshs.5,644,792,343 respectively both totaling to Kshs.11,289,584,686. However, the statement of receipts and payments reflects total actual receipts of Kshs.5,644,792,343 leading to an un-explained variance of Kshs.5,644,792,343.

Further, the separate summary statement of appropriation recurrent and summary statement of appropriation development reflects budgeted receipts of Kshs.6,176,292,987 and Kshs.6,176,292,987 respectively all totalling to Kshs.12,352,585,974. However, the combined summary statement of appropriation recurrent development reflects total budgeted receipts of Kshs.6,176,292,987 leading to an un-explained variance of Kshs.6,176,292,987.

In the circumstances, the accuracy of the balances reflected in the various statements of appropriation for the year ended 30 June 2018 could not be confirmed.

#### **5.0 Unsupported Payment of Salaries to Casual Employees**

Note 6 to the financial statements reflects compensation of employees' balance of Kshs.2,669,486,849 which included Kshs.14,984,974 paid to casual employees during the year under review. However, no supporting documents including the master roll was availed in support of the Kshs.14,984,974.

In the circumstances, the accuracy and propriety of the Kshs.14,984,974 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

## **6.0 Use of Goods and Services**

### **6.1 Unsupported Expenditure on Fuel, Oil and Lubricants**

Note 7 to the financial statements reflects use of goods and services figure of Kshs.738,857,449 which included Kshs.33,712,332 in respect to fuel, oil and lubricants. However, included in this amount is fuel worth Kshs.19,352,325 whose records on usage including the fuel register for all departments, suppliers' reconciliation statements and other relevant supporting documents were not availed for audit review.

In the circumstances, the regularity and accountability of the Kshs.19,352,325 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

### **6.2 Unsupported Expenditure on Training and Workshop**

Included in the use of goods and services balance of Kshs.738,857,449 is Kshs.28,802,361 for training expenses which further included Kshs.6,839,020 paid to various service providers for provision of training and whose supporting documents including attendance registers, certificates of attendance, approvals and invitation letters were not availed for audit review.

In the circumstances, the regularity and accountability of the Kshs.6,839,020 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

### **6.3 Unsupported Expenditure on Advertisements**

Included in the use of goods and services balance of Kshs.738,857,449 is Kshs.7,899,830 for printing, advertising and information supplies and services which further included Kshs.2,287,786 paid to various suppliers for advertisement. However, needs assessment, invoices and copies of the advertisements were not availed for audit verification.

In the circumstances, the propriety and value for money of Kshs.2,287,786 expenditure for the financial year ended 30 June 2018 could not be confirmed.

### **6.4 Facilitation of Survey and Planning for Mwea Settlement Scheme**

Included in the use of goods and services balance of Kshs.738,857,449 is Kshs.41,436,231 for domestic travel and subsistence which further included Kshs.22,960,000 paid as allowances to officers carrying out the survey and planning of

Mwea Settlement Scheme. However, letters of appointment for the surveyors, dates the programme was to run, report of the survey and approvals for the process to commence were not availed for audit verification. Scrutiny of the bank statements revealed that the Kshs.22,960,000 was paid in cash to three individuals at a rate of Kshs.9,968,000, Kshs.6,608,000 and Kshs.6,384,000 respectively. However, it was not clarified who the payees were and reasons why the funds were not transferred to the specific officers' bank accounts.

In the circumstances, it was not possible to ascertain that the Kshs.22,960,000 expenditures reflected in the financial statements for the year ended 30 June 2018 was a proper charge to public funds and that it had an equivalent value for money.

## **6.5 Payment of Unsupported Penalty**

Included in the use of goods and services balance of Kshs.738,857,449 is Kshs.249,475,379 for other operating expenses which further included Kshs.5,265,809 in respect to payment of outstanding amount for provision of security services. The services were provided at various stations during the period 1 July 2015 to 30 March 2016 as per the agreement renewal dated 2 February 2015. According to the analysis schedule supporting the payment, an amount of Kshs.2,016,103 was in respect to a 20% penalty on the outstanding amount which was allegedly stipulated by clause 8 of the agreement. However, no documents were availed in support of this penalty as the availed renewal agreement did not have the said clause while the original agreement was not availed for audit review.

In the circumstances, the accuracy and value for money of the Kshs.2,016,103 expenditure for security services reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

## **7.0 Fixed Assets**

### **7.1 Fixed Assets Register and Grounded Vehicles**

Annex 5 to the financial statements reflects various assets with a historical cost of Kshs.7,963,523,931 as at 30 June 2018. However, an updated fixed assets register was not maintained. Further, as reported in the previous year, twenty-six (26) unserviceable vehicles whose values could not be determined, had been grounded and were continuously depreciating through wear and tear and no explanation was given as to why the vehicles had not been boarded and disposed. Also, assets taken over from the defunct local authorities had not been incorporated in the asset register.

Consequently, it was not possible to ascertain the accuracy, security, valuation and location of fixed assets worth Kshs.7,963,523,931 reflected in the financial statements for the year ended 30 June 2018.

### **7.2 Unsupported Acquisition of Strategic Stocks and Commodities**

Included in the acquisition of assets balance of Kshs.1,162,459,948 is Kshs.36,020,209 for acquisition of strategic stocks and commodities. However, no supporting schedules and ledgers were availed for audit review.

In the circumstances, the accuracy and propriety of the Kshs.36,020,209 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

## **8.0 Pending Bills**

Included in paragraph 1 of the other important disclosures to the financial statements for the year under review was a balance of Kshs.1,216,891,482 in respect to pending accounts payables which increased by Kshs.275,916,524 (29.3%) from Kshs.940,974,958 as at June 2017 to Kshs.1,216,891,482 as at 30 June 2018. Scrutiny of supporting documents availed for audit verification revealed that pending bills amounting to Kshs.949,482,371 were not supported by invoices, local purchase orders (LPO's), delivery notes and inspection and acceptance minutes while the creditor's ledgers and registers were not maintained. Further, included in the pending bills is Kshs.23,284,482 in respect to the Kenya Medical Supplies Agency (KEMSA). However, a statement from KEMSA reflected a balance of Kshs.10,672,646 resulting to unreconciled variance of Kshs.12,711,836. In addition, the statements of assets and liabilities reflects an unsupported balance of Kshs.83,742,122 in respect to accounts payables (deposits and retentions) while the respective note 14 reflects a balance of Kshs.85,668,234 resulting again to a variance of Kshs.1,926,112.

In the circumstances, it has not been possible to confirm the existence, completeness and accuracy of the pending bills balance of Kshs.1,216,891,482 and Kshs.83,742,122 both totalling to Kshs.1,300,633,584 reflected in the financial statements as at 30 June 2018.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Executive of Embu 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 matters described in the Basis for Adverse Opinion section, I have determined that there are no other key audit matters to communicate in my report.

## **Other Matter**



## 1.0 Budgetary Control and Performance

### 1.1 Revenue Analysis

The combined summary statement of appropriation recurrent and development reflects an approved total revenue budget of Kshs.6,176,292,987. However, only Kshs.5,644,792,343 was realized resulting to a net revenue short fall of Kshs.531,504,644 comprising of an over-collection and under-collection of Kshs.52,383 and Kshs.531,557,027 respectively. The revenue analysis for the year is as shown below;

Item	Budget (Kshs)	Actual (Kshs)	Excess Receipts (Kshs.)	Shortfall (Kshs)	Percentage
Proceeds from Domestic and Foreign Grants	137,698,201	115,698,201	-	(22,000,000)	84%
Exchequer Releases	4,107,200,000	4,107,200,000	-	-	100%
Transfer from Other Government Entities	516,195,422	516,247,805	52,383		100%
Reimbursements & Refunds	522,421,435	468,262,521	-	(54,158,914)	90%
Other Receipts (Local Revenue)	892,781,929	437,383,816	-	(455,398,113)	49%
<b>Total</b>	<b>6,176,296,987</b>	<b>5,644,792,343</b>	<b>52,383</b>	<b>(531,557,027)</b>	

The Kshs.52,383 over collection may be a pointer to inefficient budgeting process while the Kshs.531,557,027 under collection translates to planned activities which were never met and projects that were not undertaken for the benefit of the people of Embu County. It was noted that most of the Kshs.531,557,027 under collection was from local revenue which had a budgeted revenue of Kshs.892,781,929 and actual receipts of Kshs.437,383,816 resulting to revenue shortfall of Kshs.455,398,113 (51%). There is need therefore for the County Executive to re-work its budgeting mechanism to only focus on priority areas and also tighten the internal controls systems on possible revenue leakages.

### 1.2 Development Expenditure Analysis

The summary statement of appropriation development reflects development budget of Kshs.1,838,033,435 while only Kshs.1,162,459,948 (63%) was utilized resulting to an under expenditure of Kshs.675,573,487 as follows;

<b>Department</b>	<b>Budget (Kshs)</b>	<b>Actual (Kshs)</b>	<b>Variance (Kshs)</b>	<b>Absorption %</b>
Finance and Economic Planning	84,500,000	47,850,597	36,649,403	57%
Education, Science, Technology and ICT	128,991,186	88,814,641	40,176,545	69%
Health	148,489,442	81,955,856	66,533,586	55%
Infrastructure, Public Works, Housing and Energy	694,609,665	443,378,149	251,231,516	64%
Youth Empowerment and Sports	84,649,912	55,731,216	28,918,696	66%
Trade, Tourism, Investment and Industrialization	53,614,974	37,750,761	15,864,213	70%
Agriculture, Livestock, Fisheries and Co-operative Development	89,067,427	53,252,238	35,815,189	60%
Lands, Water, Environment and Natural Resources	281,042,513	182,406,503	98,636,010	65%
Public Service and Administration	2,500,000	903,500	1,596,500	36%
Gender, Culture, Children and Social Services	53,795,970	39,333,114	14,462,856	73%
Embu Level 5 Hospital	216,772,346	131,083,373	85,688,973	60%
<b>Total</b>	<b>1,838,033,435</b>	<b>1,162,459,948</b>	<b>675,573,487</b>	<b>63%</b>

The under expenditure of Kshs.675,573,487 represents planned development projects that were not implemented for the benefit of people of Embu County in spite of the County Executive having cash at bank of Kshs.358,563,651 as at 30 June 2018.

### **1.3 Recurrent Expenditure Analysis**

The summary statement of appropriation recurrent reflects final expenditure budget of Kshs.4,338,263,552 against an actual expenditure of Kshs.4,131,914,533 resulting to an under expenditure of Kshs.206,349,019 as follows;

Item	Budget (Kshs)	Actual (Kshs)	Under expenditure (Kshs.)	Percentage %
Compensation of Employees	2,686,986,235	2,669,486,849	17,499,386	99%
Use of goods and services	837,108,567	738,857,449	98,251,118	88%
Transfers to other Government units	510,937,461	485,937,461	25,000,000	95%
Other grants and transfers	274,032,681	215,065,510	58,967,171	78%
Social Security Benefits	29,198,608	22,567,264	6,631,344	77%
<b>Total</b>	<b>4,338,263,552</b>	<b>4,131,914,533</b>	<b>206,349,019</b>	

The under absorption of Kshs.206,349,019 is an indication of planned activities that were never implemented for the benefit of people of Embu County. Furthermore, the County Executive had cash at bank of Kshs.358,563,651 at the close of the financial year.

## **2.0 Failure to Prepare the Financial Statements for Various Funds of the County Executive**

Included in other grants and other payments figure of Kshs.215,065,510 under note 9 of the financial statement is Kshs.25,465,010, Kshs.79,600,500 and Kshs.110,000,000 in respect to Embu Youth Trust Fund, Scholarship Fund, and Car loan and Mortgage Schemes respectively. Although the four (4) Funds are independent funds which ought to have prepared separate fund accounts, the respective fund financial statements were not prepared and submitted for audit review contrary to the requirements of Section 116 (7) (a) of the Public Finance Management Act, 2012 and Section 47 of the Public Audit Act, 2015 respectively.

Further, the County Executive transferred Kshs.25,465,010 to Embu Youth Trust Fund account at Equity Bank Embu branch in respect to Youth Fund Loan disbursements. A review of the financial statements revealed that the County spent Kshs.22,656,850 being 88.97% of the budgeted amount leaving out an unspent balance of Kshs.2,808,159.

In the circumstances, the Executive is in breach of the law.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

## **Basis for Conclusion**

### **1.0 Revenue Management**

#### **1.1 Revenue Collection Systems**

During the year under review, the County Executive used various systems to account for and record revenue. The systems were; Local Authorities Integrated Financial Operations Management System (*LAI/FOMS*), electronic-revenue (*E-Revenue*), Medical Business and Office System Solutions (*MEDBOSS*), Jambo Pay and manual systems. Jambo Pay was acquired at a cost of Kshs.79,905,162 during the financial year under review while the *E-Revenue* that was acquired in the year 2015/2016 at a cost of Kshs.18,092,530 was discontinued due to failure to meet its objectives including failure to have real time transactions and cashless revenue collection as per the management explanation. However, management did not indicate why a system that was acquired at Kshs.18,092,530 failed to take off including who was to be responsible for the failure which led to the Kshs.18,092,530 expenditure that had no value for money.

Further, the combined statement of appropriation reflects budgeted own generated receipts of Kshs.892,781,929 and an actual collection of Kshs.437,383,816 and therefore no major achievements were noted in terms of increased revenue collection attributable to Jambo pay - a system that was bought at Kshs.79,905,162.

In the circumstances, the County Executive may not have obtained value for money for the Kshs.79,905,162 expenditure.

#### **1.2 Un-Collected House and Stall Rent**

Note 4 to the financial statements reflects Kshs.18,880,855 in respect to rent receipts for the year ended 30 June 2018. However, the Executive's revenue return records made available for audit review reflects Kshs.337,918,970 uncollected rents from houses and stalls belonging to the County Executive. The rents have remained outstanding from the five (5) Sub Counties since the year 2015 and no measures appeared to have been undertaken by the County Executive in collecting the arrears.

In the circumstances, the recoverability of the amount could not be confirmed.

#### **1.3 Failure to Operationalize the Embu Revenue Authority**

The Embu County Revenue Authority was enacted into law on 13 April 2017 by the Embu County Assembly. The Authority once operationalized is to assess, collect and account for all revenues in accordance with the County and National laws related to revenue. The

commencement period was supposed to be on 5 May 2017. The Governor subsequently appointed an implementation committee on 12 September 2017 comprising of 7 members to look into ways and means of implementing the Authority and the team was to be in office until a board for the Authority was put in place. However, the board had not been put in place as at 30 June 2018.

In the circumstances, the County Executive's failure to operationalize the authority may lead to the County Executive not improving its revenue collections.

## **2.0 Irregular and Wasteful Expenditure**

### **2.1 Irregular Payment of Allowances on Foreign Travel**

Note 7 to the financial statements reflected use of goods and services expenditure of Kshs.738,857,449 which included Kshs.14,018,464 in respect to foreign travel and subsistence. Records made available reflected an additional foreign travel expenditure of Kshs.1,962,960 incurred by the County Executive on behalf of the County Assembly thereby increasing the foreign travel to Kshs.15,981,424. The Kshs.15,981,424 was spent by fifty three (53) persons from both the County Executive and Assembly while on a seven days County budget process course, induction and bench marking in Arusha, Tanzania.

However, the supporting documents including copies of stamped passports, work tickets/boarding passes, signed attendance list and certificates of attendance were not made available for audit review. Further, no explanation was given as to why the County Executive facilitated the MCAs who were supposed to be catered for by the County Assembly. In addition, it was not clear why the induction was held in Arusha while the same would have been undertaken in Embu Town.

In the circumstances, the regularity and value for money for the Kshs.14,018,464 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

### **2.2 Irregular Expenditure on Legal Fees**

Included in the use of goods and services balance of Kshs.738,857,449 is Kshs.249,475,379 for other operating expenses which further includes Kshs.74,751,870 for legal fee paid to law firms who were appointed to represent the County Executive in various cases during the year. However, included in the figure of Kshs.74,751,870 was Kshs.13,209,560 paid to a law firm that had not been prequalified. Further, there were no instructions from the County Executive to the firm to represent it in the various cases. In addition, a review of the staff establishment showed that the Executive had a County Attorney, County legal officer, a legal advisor to the Governor and a legal panel appointed by the Governor to deal with legal matters. However, it was not possible to ascertain their role including why they could not represent the Executive on legal issues.

In the circumstances, the County Executive did not obtain value for money for the Kshs.74,751,870 expenditure.

### **2.3 Unsupported Expenditure on 2nd Investors' Conference**

Included in the use of goods and services balance of Kshs.738,857,449 is Kshs.249,475,379 for other operating expenses which further included Kshs.6,498,720 spent on preparation of the 2<sup>nd</sup> Investors' conference. However, out of this, an expenditure of Kshs.2,600,000 in respect to the Disk Jockey (DJ), sound system, photography, department documentary, event management and coordination did not have supporting documents including attendance list of the participants and inspection and acceptance reports.

In the circumstances, the regularity and value for money of the Kshs.2,600,000 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

## **3.0 Human Resource Management**

### **3.1 Chief Officers Without Professional Registration Documents**

During the financial year under review, the County Public Service Board for Embu Executive advertised vacancies for chief officers in its various departments. In the advertisement, one of the key requirements for the appointment was that the applicants must have been members of professional bodies relevant to the position applied for and in good standing. However, a review of personal files for two chief officers for Planning and Health departments respectively revealed that no certificates of registration to any professional body were attached as required.

In the circumstances, the County did not comply with the recruitment requirements as per the advertisement during the year and therefore it was not possible to confirm whether the best employees were recruited.

### **3.2 Operations Without an Approved Staff Establishment**

The County Executive's staff establishment reflects 1,554 employees as at 30 June 2018, which excludes employees in the departments of Health whose number and other personnel details were not made available for audit. Further, the Integrated Payroll and Personnel database (IPPD) reflected a total of 3,115 employees as at 30 June 2018 leading to an unexplained variance of 1,561 employees. This is contrary to the requirements of Section 59 (1) (a) of the County Government Act, 2012 which states that the County Public Service Board shall on behalf of the County Government establish and abolish offices in the County Public Service.

In the circumstances, the County Executive is in breach of the law.

### **3.3 Payment of Salaries by Use of Manual Payroll**

Note 6 to the financial statements reflects compensation of employees balance of Kshs.2,669,486,849 which includes Kshs.20,803,232 paid to various officers through the manual payroll instead of the Integrated Payroll and Personnel Database (IPPD). However, management explanation that newly recruited employees normally experience delays in obtaining personal numbers was not supported.

In the circumstances, it was not possible to ascertain that the Kshs.20,803,232 paid through manual payroll during the year ended 30 June 2018 was paid to genuine employees and therefore the propriety of the expenditure could not be ascertained.

#### **4.0 Imprest Management**

Note 13 to the financial statements reflect imprests totalling Kshs.82,040,660 that were outstanding for more than 6 months contrary to Regulation 93 (5) of the Public Finance Management (County Governments) Regulations, 2015 which requires imprest to be surrendered within 7 working days. The recoverability of these imprests is in doubt as no measures had been put in place to have the imprests surrendered as at 30 June 2018. Further, the accuracy of the Kshs.82,040,660 could not be ascertained as the imprest were not analysed and no imprest register was availed for audit review.

Consequently, the County Executive was in breach of the law.

#### **5.0 Non-Operationalization of Emergency Fund**

As reported in the previous year (2016/2017) the County Executive budgeted for an expenditure of Kshs.2,500,000 during the year under review in respect to Emergency Fund as required by the Public Finance 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 is in breach of the law.

#### **6.0 Operation of Unauthorised Bank Accounts**

Note 12 A to the financial statements for the year ended 30 June 2018 reflects a balance of Kshs.358,563,651 held in thirty-two (32) main bank accounts and other various unspecified DANIDA accounts. However, out of the thirty-two (32) main bank accounts, twenty (20) were commercial bank accounts comprising of five (5) accounts in Kenya Commercial Bank and fifteen (15) accounts in Co-operative Bank of Kenya. The twenty accounts in commercial banks were opened and operated contrary to the requirements of Section 82(1) (b), (2) of the Public Finance Management (County Government) Regulations, 2015 which requires all County's accounts to be operated in Central Bank of Kenya except the imprest account.

In the circumstance, the County Executive is in breach of the law.

## **7.0 Acquisition of Assets**

### **7.1 Construction of Rupingazi Bridge**

Included in the acquisition of assets balance of Kshs.1,162,459,948 is Kshs.174,669,114 for construction of civil works which further includes Kshs.17,810,295 paid to a contractor for the construction of Rupingazi bridge. A physical verification carried out in the month of October 2018 revealed that although the works had been completed, an un-quantified number of guard rails of undetermined value on a section of one side of the bridge was not done. Further, no inspection and acceptance report and taking over certificate were availed for audit review.

In the circumstances, the value for money for the Kshs.17,810,295 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

### **7.2 Rehabilitation of Kibugu Road**

Included in the acquisition of assets balance of Kshs.1,162,459,948 is Kshs.243,331,067 for construction of roads which further includes Kshs.3,828,000 paid for the rehabilitation of Kibugu road to Rupingazi bridge which had been awarded in the previous year at a contract sum of Kshs.45,739,793. A review of the procurement process revealed that the tenders were not advertised in at least two dailies of nationwide circulation as required by Section 96(2) of the PPAD Act, 2015. Further, although the tender document required the bidders to attach certified financial statements for three years and certified copies of log books for current lease agreements of appropriate equipment and tender security, the documents were not attached. Also costed works, provisional sums and payment certificates in support of the Kshs.3,828,000 were not availed for audit review.

In the circumstances, the County Executive was in breach of the law and value for money for the Kshs.45,739,793 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

### **7.3 Construction of Kavutiri Coffee Factory Road**

Included in the acquisition of assets balance of Kshs.1,162,459,948 is Kshs.243,331,067 for construction of roads which further includes Kshs.9,971,364 being the contract sum paid to a contractor for the construction of Kavutiri coffee factory road vide contract agreement dated 3 May 2018. A physical verification done in the month of October 2018 revealed that the construction had stalled as the contractor was not on site and it was not possible to confirm the percentage of works done as no certificate of completion was availed for audit review in support of the Kshs.9,971,364. Further, it was observed that out of the three bidders who responded, two did not attach any documents that were required, one of whom had won other contracts with the County Executive where the firm had attached the necessary documents. It was therefore not clear why the firm failed to attach the necessary documents while bidding for the contract which may suggest a possible collusion between the bidders.



In the circumstances, value for money for the Kshs.9,971,364 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

#### **7.4 Upgrading of Uchumi-Mini Inn Road to Bitumen Standard**

Included in the acquisition of assets balance of Kshs.1,162,459,948 is Kshs.243,331,067 for construction of roads which further includes Kshs.19,248,663 for the upgrading of Uchumi-Mini Inn road to bitumen standard vide contract agreement dated 4 May 2018. A physical verification done in the month of October, 2018 revealed that the works were on going. However, it was not possible to ascertain the distance of the road that was to be upgraded as it was not indicated in the tender documents.

In the circumstances, value for money for the Kshs.19,248,663 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

#### **7.5 Upgrading to Bitumen Standards of Mbiruri Nduuri Junction Road**

Included in the acquisition of assets balance of Kshs.1,162,459,948 is Kshs.243,331,067 for construction of roads which further includes Kshs.19,684,040 for the upgrading to bitumen standards of Mbiruri Nduuri Junction road. The contract had been awarded to a contractor in the previous year at a contract sum of Kshs.54,944,049 while the engineer's estimate was Kshs.47,723,610 leading to a variance of Kshs.7,220,439 (15%). No documents were made available to show why the contract was awarded at a sum above the engineer's estimate. Further, the advertisements were carried in one newspaper instead of the required two as per Section 96 of the Public Procurement and Asset Disposal Act, 2015. There was no documentary proof of submission of the mandatory conditions which included 3 years certified financial statements, copies of log books for equipment and tender security but which were indicated as submitted in the evaluation exercise.

In the circumstances, the County Government was in breach of the law and the value for money for the Kshs.54,944,049 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

#### **7.6 Maintenance of Muraru- Kanyariri Road**

Included in the acquisition of assets balance of Kshs.1,162,459,948 is Kshs.243,331,067 for construction of roads which further includes Kshs.3,867,089 spent on the maintenance of Muraru- Kanyariri Road in Mbeti South Ward. However, the quotation availed for audit review reflected Gachoka Gachuriri Road while the invoice was for Muraru-Kanyariri road. It was not clear when and why the contract was changed and whether the specifications were the same. The change was not supported by a supplementary budget or a reallocations approval. The inspection certificate was for Gachoka - Gachuriri road and the inspection was done by two officers instead of at least three as per the requirements of Section 48 (2) of the Public Procurement and Assets Disposal Act, 2015.

The works included provision and erecting of 2 signboards, heavy grading, light grading and gravelling. However, it was not possible to ascertain where the light grading, heavy grading and gravelling started and ended in the absence of physical marking on the site by the contractor.

In the circumstances, the regularity and value for money for the Kshs.3,867,089 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

### **7.7 Hire of Equipment for the Maintenance of Muvuria Ward Roads**

Included in the acquisition of assets balance of Kshs.1,162,459,948 is Kshs.243,331,067 for construction of roads which further includes Kshs.6,000,000 spent on hire of equipment for the maintenance of Muvuria ward roads. However, no procurement documents were availed for audit review. Further, Kshs.487,200 was paid for a water bowser but the relevant supporting documents were not availed. In addition, physical verification could not be carried out as the specific roads maintained by the hired machinery were not individually identified.

In the circumstances, the propriety and value for money of the Kshs.6,000,000 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

### **7.8 Upgrading to Bitumen Standards of Kiritiri Town Roads**

Included in the acquisition of assets balance of Kshs.1,162,459,948 is Kshs.243,331,067 for construction of roads which further includes part payment of Kshs.3,610,186 for the upgrading to bitumen standards of Kiritiri town roads whose contract sum was Kshs.18,353,346. A review of the procurement process revealed that tenders were advertised in one newspaper on 7 December 2016 instead of 2 newspapers of nationwide circulation as required by Section 96(2) of the Public Procurement and Assets Disposal Act, 2015. Further, the contractor's certified financial statements for three years, certified copies of log books for current lease agreements of appropriate equipment and minimum average annual construction works for the last five years' worth Kshs.75,000,000 which were mandatory conditions in the advertisement were not availed for audit verification. In addition, variations amounting to Kshs.3,112,230 were awarded escalating the project cost to Kshs.21,465,576 but the same were neither signed by the project engineer nor authorized by the tender processing committee. Further, the bill of quantities had a contingency sum of Kshs.1,438,350 whose supporting documents were not availed for audit review. An inspection and acceptance committee meeting was held on 17 January 2017 and signed in the month of January 2018 while the contract was to start on 27 January 2017.

The contractor had been paid a total of Kshs.20,523,290 comprising of 3 certificates totaling to Kshs.19,301,126 and an additional payment of Kshs.1,222,164 that was not supported by a completion certificate. Further, the status of the project was indicated as

on-going but the contractor was not on site at the time of physical verification done on 3 October 2018. In addition, sign boards totalling Kshs.100,000, a walk way costing Kshs.1,123,200 and maintenance of sign barriers and lights at a cost of Kshs.30,000 all totaling Kshs.1,253,200 were not done as per the bill of quantities.

In the circumstances, the propriety and value for money of Kshs.20,523,290 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

## **7.9 Maintenance of Gitumbi VCT – Kiandundu Access Road**

Included in the acquisition of assets balance of Kshs.1,162,459,948 is Kshs.243,331,067 for construction of roads which further includes Kshs.2,388,166 for the maintenance of Gitumbi VCT- Kiandundu access road and which included erection of 2 sign boards at Kshs.30,000 each, heavy grading, gravelling, installation of culverts and dozing for 80 hours. Records made available showed that on 19 June 2018, the contractor requested for works inspection which was undertaken the same day. However, the hand writing on the two documents (request for inspection and inspection report) was similar and were signed by the same people who are County officials whereas the request letter ought to have been written by the contractor. Letters appointing the members of the inspection and acceptance committee were not made available. Further, the contractor's financial statements which should have been part of the tender documents were not availed for audit review. A physical verification done in the month of October 2018 revealed that the two (2) sign boards at a total cost of Kshs.60,000 were not erected.

In the circumstances, the propriety and value for money for the expenditure of Kshs.2,388,166 reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

## **8.0 Ethnic Balance**

A scrutiny of members of staff appointed by the County Executive in the financial year under review revealed that out of the total 338 recruited employees in the financial year, 254 employees were from the dominant ethnic community translating to 75% contrary to Section 65(1) of the County Government Act No. 17 of 2012 which stipulates that not more than 70% of the employees shall be from one ethnic community in the 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, because of the significance of the matters discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

## **Basis for Conclusion**

### **1.0 Lack of Audit Committee**

During the year under review, the County Executive did not have an audit committee in place as required by Section 167 (1) and 172 (1) of the Public Finance Management (County Government) Regulations, 2015 which states that each County Government entity shall establish an audit committee and the audit committee shall meet at least once in every three months.

The audit committee would have ensured existence of effective internal controls.

In the circumstances, the County Executive is in breach of the law.

### **2.0 Lack of Independence in Internal Audit**

A review of the County Executive's internal audit unit during the year revealed that the department lacks independence due to the absence of an audit committee. Further, the unit is part of finance department functionally and does not have an internal audit charter, risk assessment processes, risk register and adequate resources including budget line and staffing.

In the circumstances, it was not possible to ascertain that the internal controls were functioning properly.

### **3.0 Information, Communication and Technology (ICT) Environment**

Review of the County Executive's ICT environment revealed that there is no formal approved ICT policy in place as at 30 June 2018 which should have included data security policy and disaster recovery plan. Further, the ICT organization structure was not made available for audit review.

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

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires that I plan and perform the audit to obtain assurance about whether effective

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 County Executive of Embu'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.

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 are applied in an effective way.

Those charged with governance are responsible for overseeing the County Executive's 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 non-compliance. 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 of Embu'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 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**

**18 February 2019**