

REPORT OF THE AUDITOR-GENERAL ON THE COUNTY EXECUTIVE OF KERICHO 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 Kericho set out on pages 1 to 40, 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 statement of Appropriation: Recurrent and Development 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of as at 30 June 2018, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and Public Finance Management Act 2012.

Basis for Qualified Opinion

1.0 Un explained Variances

1.1 Use of Goods

The statements of receipts and payments reported an expenditure of Kshs.1,004,826,087 under use of goods and services for the year ended 30 June 2018, however, the supporting schedules provided reported a figure of Kshs.1,019,538,880.80 resulting to unexplained variance of Kshs.14,712,793.80. In the circumstance, the accuracy of the balance under use of goods and services could not be confirmed.

1.2 Acquisition of Assets

The statement of receipts and payments for the year ended 30 June 2018 reflects an expenditure of Kshs.1,027,198,000 on acquisition of assets as detailed under note 17. However, schedules presented for audit reflected a figure of Kshs.1,049,945,795 resulting to unexplained and unsupported difference of Kshs.22,747,795.

As a result, the accuracy of the balance under acquisition of assets could not be confirmed. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Executive of Kericho 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.

Emphasis of Matter

Pending bills

The financial statement reflects pending bills amounting to Kshs.1,120,457,000 as at 30 June 2018. However, analysis of the pending bills schedules presented for audit, reflected a figure of Kshs.1,088,256,818 leading to an overstatement of pending bills by Kshs.32,200,182 which was not explained or reconciled.

In addition, the supporting documents such as Local Purchase Orders/Local Service Orders, invoices, delivery notes, S13 and approved claim documents in support of the balance were not availed for audit. Further, during the year under review, the Department of ICT had pending bills for projects completed in the financial year 2016/2017 amounting Kshs.11,546,999 which were not paid in the year under review. Similarly, the department of roads had pending bills since the year 2016/017 amounting to Kshs.43,913,662 whereby only Kshs.104,258,032 was paid leaving an outstanding balance of Ksh.130,655,603.

As a result, the county government could incur hefty fines on litigation from the contractors due to delayed payments. In the absence of these supporting documents, the propriety of the balances could not be ascertained.

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, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1.0 Budget performance

1.1 County Own Generated Revenue

During the year under review, The County Government of Kericho budgeted to collect Kshs.554,641,236 but collected Kshs.416,110,298 resulting to a shortfall of Kshs.138,530,938 (25%) of the budgeted amount. According to the revenue projections provided for audit, some of the budgeted items had zero collections while collection was done in items that were not budgeted for during the financial year citing weak internal controls in budgeting for County Own Generated Revenue as shown below:

Income Type	Budgeted Receipts 2017/2018 Ksh.	Actual collections 2017/2018 Ksh.
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Natural Resource Exploitation	0	9,896,100.00
Sewerage administration	0	6,859,900.00
Technical services fees	0	4,412,972.00
Other receipts not classified elsewhere	0	46,337,625.00

In the circumstances the county did not adhere to budget policies and regulations

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 matter(s) described in the Basis for [Conclusion on Lawfulness and Effectiveness in Use of Public Resources/ Qualified Opinion] 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

1.0 Outstanding Arrears

1.1 Housing, Kiosks and Stalls

An analysis of County house, kiosks and stalls rent revealed arrears of up to the tune of Kshs.13,049,130 as at 30 June 2018. In some cases, some tenants had arrears amounting to over Kshs.1,000,000 with over 80 months in arrears.

Further, perusal of the correspondences file between the County Executive and tenants indicate that house number 1 in Majengo estate has an ownership dispute in which the tenant claimed ownership without any valid documents therefore declining to pay rent of kshs.1,181,000.

As a result of the arrears of Kshs.13,049,030 the County Executive's operations are negatively affected.

1.2 Land Rates and Plot Rents

During the year under review, the County Government of Kericho collected Kshs.91,330,000 on plot rents and land rates against a budget of Kshs.103,109,214 which represents 22% under collection on the budgeted revenue. It was further noted that as at 30 June 2018, the plot rents arrears stood at Kshs.729,210,199. Further, there is no evidence that Kericho County Government has acted appropriately to enforce the collection of plot rates and land rents.

In the circumstances operations of the county are affected due to non-collection of revenue and the county stands to lose all the rent arrears if not collected in time.

2.0 Lack of Title Deed for Purchase of Land

The financial statements under note 17 on acquisition of assets reflects payment of Kshs.1,027,198,000 which includes Kshs.102,256,000 paid to the National Land Commission during the year ended 30 June 2018 for procurement of land for a water treatment plant. However, the county did not produce for audit verification, the land title deed despite the full payment.

In the circumstance therefore, it was not possible to confirm the existence, ownership and acreage of the land.

3.0 Lack of Logbooks

The financial statements under note 17 on acquisition of assets reflects Kshs.48,537,000 as payment for purchase of vehicles and other transport equipment which were paid for in full in the year under review. However, no single logbook was produced for audit verification. Consequently, it has not been possible to confirm ownership of the motor vehicles.

4.0 Delayed Completion of Projects

4.1 County Education Projects

During the year under review, the Ministry of Education had rolled over projects initiated in the financial year 2015/2016 and 2016/2017 whose amount was included as pending bills for the financial year 2017/2018. The project included 67 ECDE class rooms and 187 ablution blocks amounting to Kshs.38,542,310 and Kshs.15,741,671 respectively. However, a perusal of the project implementation status report and a visit to some sampled projects revealed that projects amounting to Kshs.5,937,704 were incomplete many months after the contract period had expired.

Further, the management explained that this was due to the fact that one contractor was awarded several classrooms some even more than five classes which proved difficult for the contractor to complete in time.

4.2 Data Center

During the year under review ICT department awarded a contract for supply, delivery and installation, configuration and commissioning of a data center at the County headquarters at a contract sum of Kshs.49,726,543. The contract agreement was signed on 28 July,2016 and the project duration was six months. By the end of the financial year 2017/2018, Kshs.21,900,000 had been paid leaving an unpaid balance of Kshs.27,826,543. Further, the project implementation status and a visit to the data center revealed that the project was 55% complete. The completion of the project had therefore delayed by over twenty months despite being stated as a critical County support automation system.

4.3 County Water Projects

The Ministry of Water projected to implement 42 projects during the 2017/2018 financial year out of which, 5 of them with a total contract sum of Kshs.19,296,500 related to the financial year 2016/2017 and earlier. At the time of the audit exercise these projects were at various stages of completion with some of them as low as zero % with pending amounts payable of Kshs.14,620,518. It was further observed that these projects were not operational and as a result the community was not getting the intended benefit.

In the circumstances, the county government did not get value for money for these projects and may incur more costs due to inflation thus further losing the intended benefit.

5.0 Stalled Projects

An analysis of project implementation status revealed that, construction of Chebululu Conservancy at Kaplelartet, Construction of a market shed at Kamasian Market and a construction of charcoal briquette house have stalled since the financial year 2013 despite total of Kshs.9,335,892 having been paid. However, an audit inspection carried out on the three projects revealed that the work was not only incomplete but abandoned and the Contractor was not on site. The contract which has run for the last four financial years up to financial year 2017/2018 have stalled and is unlikely to be completed. In the circumstances, the county did not get value for money.

5.2 County Ministry of Agriculture

The Department of Agriculture had stalled projects amounting to Kshs.18,058,863. Most of the projects were initiated in the financial year 2016/2017 with one dating as far back as 2013/2014. The County indicated that the projects had been awarded to new contractors but no documentary evidence was produced to confirm the same. In the circumstance, no value for money is being derived by the residents of the county as a result of the stalled projects. This is as tabulated below:

Year Started	Project	Project Cost Kshs	Paid Kshs	Balance Kshs	Project Status
2016/17	Fencing of Kipkelion coffee farm	3,904,073	2,000,000	1,904,073	Land dispute with squatters
2016/17	Paddocking of Chelimo showground	3,045,000	3,045,000	0	Squatters demolished the wall before completion yet full payment was done
2016/17	Construction of waste treatment pineapple plant at Roret	7,140,522	2,347,000	4,793,522	Contractor left after payment of 33 % of contract price having done little

Year Started	Project	Project Cost Kshs	Paid Kshs	Balance Kshs	Project Status
2013/14	construction of compressor boiler and generator room at Roret	3,969,268	0	3,969,268	stalled project and details on payment not provided
	Total	18,058,863	7,392,000	10,666,863	

6.0 Markets Completed but Not in Use

The Department of Trade and Industrialization spent Kshs.660,675 on construction of Kapsuser Market in the financial year 2015/2016. However, an audit verification carried out revealed that the market shed was complete but not in use. An interview with the local community revealed that market traders preferred trading their goods and services near the road. This may imply that public participation on identification and location of the project was not carried out.

In the circumstances, the county did not get value for money.

7.0 Unsuccessful Borehole

During the year the executive awarded a contract for Drilling and Equipping of Borehole; Construction & Electrification of Pump House; Rising Main; Elevated Storage Tank; Distribution pipe line; and Fencing of Tebeswet Bore Hole Water Project Vide tender No. CGK/T021/WTR/2016/2017 at a contract sum of Kshs.4,667,043. However, records available revealed that the borehole did not yield water despite the department paying for the works amounting to Kshs.1,858,900.

In the circumstance therefore, the community did not benefit from the project as intended.

8.0 Irregular Procurement

8.1 Kipkelion Veterinary Office

The Department of Agriculture procured through restricted tender, works for completion of County Veterinary Office. Examination of procurement records revealed that four contractors tendered for the works and the lowest bidder was awarded the contract at a price of Kshs.4,123,105. The Executive has not demonstrated why restricted tender method was chosen for works that are not specialized in nature.

Further it was observed that three out of the four bidders were adjudged to have failed at preliminary evaluation stage on the basis of attaching outdated PIN certificates. It was not clear how the department prequalified contractors who did not meet the basic minimum requirements. This is contrary to Section 71 (b) of Public Procurement and Disposal Act, 2015 on registration of suppliers. Further, the department of agriculture subsequent to the above tender floated quotations for construction of chain-link fence at the same Kipkelion

Veterinary Office which was awarded to an engineering firm at Kshs.3,156,275 vide notification letter dated 17 February 2017, just three days after the veterinary office completion works was awarded. The County therefore violated the Public Procurement and Disposal Act, 2015 which prohibits splitting of orders in order to avoid competition.

In the circumstances, the legality of the procurement process and value for money on the project could not be confirmed.

8.2 Makiche Irrigation Project

The department of agriculture through restricted tender awarded an irrigation project contract on 07 January 2017 at cost of Kshs.11,513,174.

Examination of the procurement records revealed that ten (10) bids were requested out of which eight (8) responded. The evaluation was done on 03 May 2016 and professional opinion was given on 16 June 2016. However, it was observed that seven bidders out of eight who bid were knocked out at preliminary stage on grounds of lack of business permits. It was not clear how the department prequalified contractors who did not meet the basic minimum requirements. This was contrary to Section 71 (b) of Public Procurement and Disposal Act, 2015 on registration of suppliers

Further, the evaluation committee disqualified the said seven firms on condition that they had not submitted a certificate on special category yet the criteria was not included at bidding stage. The said criteria was introduced after the bids documents had been submitted making it clear that it was intended to disqualify the said seven firms and give undue advantage to the eventual winner. In addition, contract agreement and completion certificate were not produced for audit verification.

In the circumstances, the legality of the procurement process and value for money on the project could not be confirmed.

8.3 Purchase of Coffee Roaster Machine and Accessories

The department of agriculture vide tender no. CGK/T/AGRI/006/2016/2017 paid Kshs.6,039,220 for purchase, supply, installation, commissioning and testing of coffee machinery roaster through invoice number 074 of 13 April 2017. Perusal of procurement records revealed that Kipkelion District Cooperative Society requisitioned for the Coffee Roaster on 12 January 2017. However, it was observed that three firms submitted their quotations on 04 January 2017 even before the society had raised the requisition. Further, it was noted that the County through the web site, advertised for the project in March 2017 two months after receipt of the quotations an indication it was meant to regularize the procurement of the coffee roaster. Though the tender opening register is dated 15 March 2017, the same bids of 04 January, 2017 were the ones used.

Evaluation was carried out on 22 March 2017 and the same bids submitted in January evaluated. However, two out of the three bidders were knocked out at preliminary evaluation for failing on all the seven (7) preliminary criteria set. It was not clear how the procuring

entity prequalified firms that could not meet minimum requirements. This is contrary to Public Procurement and Disposal Act, 2015 section 71. Further, no contract agreement was produced for audit verification.

In the circumstances, the regularity and value for money on Kshs.6,039,220 paid could not be ascertained.

8.4 Contractors not Registered with National Construction Authority (NCA)

The department of roads and transport awarded contracts amounting to Kshs.13,986,866 to various contractors during the year ended 30 June 2018 for execution of road works. Among the criteria for award of tender was for the contractors to be registered with the National construction authority (NCA).

However, an online search done in November 2018 for the contractors awarded contracts indicated the contractors were not registered with NCA. It was therefore not possible to confirm if the said contractors had the necessary experience, machinery and working capital to undertake the road works.

9.0 AMS-Unaccounted Machine Hours/Loss of Revenue

During the financial year 2017/18, the County Government had set a budget of Kshs.6 million from revenue on hire of Agriculture Mechanized Services (AMS). However, only Kshs.177,360 was realized leading to an under collection of Kshs.5,822,640.

Further review revealed that according to Kericho Finance Act, 2017, an applicant for hire of the machinery, plant and equipment is required to complete official form LDD/1, provide evidence of farm to be worked on and also sign form LDD/1 in order to identify the farmers who request for the hire of machinery, plant and equipment services. However, though form LDD/1 existed at the mechanized unit, they were not being used and instead the management was using unreferenced sheets of paper to record applicants for hire of services. The sheets of paper did not contain details as required by the official LDD/1 form relating to acreage, farm and client requesting for the hire of farm plant and equipment, therefore overriding the internal controls in regard to application for hire of services.

As a result, therefore, the possibility that revenue targets were not realized due to lack of internal controls could not be ruled out.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter(s) described in the Basis for [Conclusion on Effectiveness of Internal Controls, Risk Management and Governance/Qualified Opinion 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 overall governance were not effective.

Basis for Conclusion

1.0 Lack of Approved Staff Establishment

The County does not have an approved staff establishment contrary to the requirements of Section B 5 (2) of the County Public Service Human Resource Manual. Recruitments are not based on any structure. Thus the criteria used to shortlist, evaluate and promote staff cannot be confirmed.

2.0 Ethnic Composition of County Staff

During the year under review, the total number of County Executive of Kericho employees was 1,938 out of which 1,670 representing 86% were from the dominant community in the county. On the entry level, out of 357 staff employed during the financial year only 2 staff were from other ethnic groups representing 1% of the population of staff contrary to section 65 (E) of the County Government Act, 2012 which states that county staff at entry level should be recruited from other communities other than the one dominant in the County.

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 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 ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the basis of accounting unless the County Government either intends to liquidate the 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 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 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 to continue as a going concern or 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 Government to cease to continue as a going concern or 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 Government and 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

29 January 2019