

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements County Executive of Kiambu set out on pages 14 to 41, which comprise the statement of assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and summary statements of appropriation: recurrent, development and combined 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 matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of County Executive of Kiambu 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 comply with the Public Finance Management Act, 2012.

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

Basis for Qualified Opinion

1.0 Variances between the Financial Statements and IFMIS

The figures in the financial statements for the year ended 30 June 2017 contain discrepancies totaling Kshs.53,702,172,465 compared with IFMIS report balances as summarized below;

Components	Financial Statements Amount-Kshs.	IFMIS Report Amount Kshs.	Variances Kshs.
Total Receipts	11,358,168,969	11,163,420,527	194,748,442
Total Payments	11,308,839,338	11,274,134,013	34,705,325
Cash and Bank	92,820,704	24,572,794,654	(24,479,973,950)
Receivables	15,164,804	(1,878,427,674)	1,893,592,478
Payables	20,564,521	31,365,809,281	(31,345,244,760)
Total	22,795,558,336	76,497,730,801	(53,702,172,465)

In view of the foregoing, the accuracy and completeness of these financial statements for the year ended 30 June 2017 could not be confirmed.

2.0 Receipts

2.1 County Own Generated Revenue

The statements of receipts and payments for the year ended 30 June 2017 reflects total receipts of Kshs.11,358,168,969 out of which an amount of Kshs.2,064,531,305 is in respect to County own generated receipts.

According to the approved revenue estimates for the period 2016/2017, the County had projected to collect a total of Kshs.3,093,924,963 from local revenue sources. However, the County realized actual collections of Kshs.2,064,531,305 being 67% of the projections resulting in under collection of Kshs.1,029,393,658 (33%) as summarized in the table below. The management has not provided explanations for the failure to meet the revenue targets.

Revenue Streams	Budget Amount-Kshs.	Actual Collection-Kshs.	Under collection-Kshs.	Over collection Kshs.	% Variance
Agriculture Livestock & Fisheries Management Unit	72,294,792	59,014,201	13,280,591		-18.4
Physical Planning Management Unit	738,500,000	392,025,664	346,474,336		-46.9
Business Permit Management Unit	300,000,000	201,891,980	98,108,020		-32.7
Cess Management Unit	152,000,000	36,741,443	115,258,557		-75.8
Education Culture ICT & Social Services Unit		1,392,560		1,392,560	100.0
Health Services Management Unit	485,000,000	431,081,972	53,918,028		-11.1
Housing Management Unit	17,000,000	3,360,232	13,639,768		-80.2
Land Rates Management Unit	502,000,000	243,538,067	258,461,933		-51.5
Market Management Unit	110,000,000	55,574,469	54,425,531		-49.5
Others	85,870,171	190,621,199		104,751,028	122.0
Roads Transport Public Works Management Unit	40,000,000	28,404,326	11,595,674		-29.0
Slaughter House Management Unit	55,760,000	40,252,865	15,507,135		-27.8

Revenue Streams	Budget Amount-Kshs.	Actual Collection-Kshs.	Under collection-Kshs.	Over collection Kshs.	% Variance
Trade Tourism Industry & Cooperatives Unit	14,500,000	12,075,686	2,424,314		-16.7
Vehicle Parking Management Unit	336,000,000	279,489,985	56,510,015		-16.8
Water Environment & Natural Resources Management Unit	61,500,000	46,066,656	15,433,344		-25.1
Liquor Licences Management Unit	110,000,000		110,000,000		-100.0
Medium term loan		43,000,000		43,000,000	100.0
Total Fines, Penalties and Forfeitures	8,500,000		8,500,000		-100.0
Registration of Private Schools/Self Help Groups/Education inspection	5,000,000		5,000,000		-100.0
Total:	3,093,924,963	2,064,531,305	1,178,537,246	149,143,588	33.0

Further, a comparison of revenue from local sources for the year ended 30 June 2017 with the approved budget revealed that the County missed its revenue targets in sixteen (16) revenue streams and only managed to surpass the target in three (3) revenue streams. The poor performance in revenue collection indicates possible revenue leakages. The management has not provided explanation for the undesirable performance and measures being taken to ensure that all revenue due to the County is collected.

2.2 Wrong Classification of Tea and Coffee Cess Revenue

A review of budget and records of revenue for the County revealed that the County Executive had budgeted to receive grants from the National government totaling Kshs.63,956,166 in respect of tea and coffee cess funds. The amount was received in two tranches of Kshs.37,499,303 and Kshs.26,456,863 disbursed in August 2016 and May 2017 respectively. However, the revenue was wrongfully classified and captured under cess management unit income as County own generated revenue. The erroneous classification misstates the amount of cess for the year ended 30 June 2017.

2.3 Decline in Own Source Revenue Collection

A comparison of County own generated revenue collections for the 2016/2017 with the collections for the period 2015/2016 revealed decline in revenue by Kshs.335,269,186

(16%) from Kshs.2,446,125,742 collected in the previous year to Kshs.2,064,531,305 in 2016/2017.

In addition, the County had projected to collect revenue totaling Kshs.9,637,415,700 in the last 3 financial years but realized a total of Kshs..6,621,513,603 or 69% of the budgeted amount as given below:

Financial Year	Budgeted Revenue Kshs.	Actual Amount collected Kshs.	Actual Vs Budgeted %	Increase/Decrease from previous year	% increase/decrease
2014/2015	3,241,234,585	2,110,856,556	65.1		
2015/2016	3,308,126,323	2,446,125,742	73.9	335,269,186	15.9
2016/2017	3,088,054,792	2,064,531,305	66.9	-381,594,437	-15.6
Total	9,637,415,700	6,621,513,603	69		

No reason has been provided for the poor performance in revenue collection.

2.4 Computerized Revenue Collection System

As reported previously, the County Executive has computerized revenue collection by installing a revenue collection system and a business intelligence analytics system. However, a review of the collection system revealed the following weaknesses and security vulnerabilities:

2.4.1 Unstable Revenue Data

Revenue reports generated from the Zizi system reflect different amounts of revenue collected when analysis is made from different modules and times for the same period under review. A system report of all receipts captured for 2016/2017 amounted to Kshs.841,159,845 while an analysis made per subcounty level revealed a total of Kshs.814,012,054 resulting in unreconciled variance of Kshs.27,147,791.

2.4.2 Loss of Revenue Arising from Unpaid Cheques and Unauthorised Access

As previously reported, the County Executive accepts cheques as a means of payment for services. Once a cheque is received from a customer, it is updated in favour of the customer account and a receipt issued. The cheque is later updated in a manually maintained incoming cheque register and presented to the bank. A review of some transactions processed through the system showed that the County heavily relies on officers from banks to update them via email on the status of the presented cheques.

Further, analysis of bank statements showed that twenty seven (27) unpaid cheques were not reversed resulting to possible revenue loss of Kshs.3,897,694.

In addition, revenue reports maintained by the County indicate that at Tigon Hospital, members of staff hacked the system and misappropriated revenue amounting to Kshs.9,000,000. Although the management indicated that some of the staff had refunded the money, no documents were presented to confirm if the revenue have actually been recovered.

The point of Sale (POS) machines used in revenue collection are pre-configured with fixed charges and rates. However, a review of transactions captured under the Riverbank system revealed revenue transactions amounting to Kshs.25,121,841 were voided. No explanation has been provided for this anomaly.

In view of the above, the accuracy and completeness of county own generated revenue during the year could not be ascertained.

2.5 Missing Receipts

Analysis of reports from the County Pro System revealed that there were 1055 missing receipt transactions, out of which twenty nine (29) had been used to receipt cheques amounting to Kshs.1,285,778 which could not be traced to bank to account for the revenue.

As a result, it has not been possible to confirm the validity and accuracy of revenue collected through the County Pro System during the year ended 30 June 2017.

2.6 Post Dated Cheques

As previously reported, the County Executive accepts cheques as a means of payment for services. Once a cheque is received from a customer, it is updated in favour of the customer account and a receipt issued. The cheque is later presented to the bank. A review of some transactions processed through the system showed that eighty nine (89) postdated cheques amounting to Kshs.2,832,391 were received which means the cash was not realized immediately and recognition of these cheques as revenue is against the IPSAS Cash Basis accounting principle.

2.7 Valuation of Properties

As previously reported, the County used an outdated valuation roll to value properties. Further analysis of properties data maintained by the County Pro system revealed the County has 85,757 properties in its records out of which 2666 properties are neither charged ground rent nor rates. Revenue loss may occur as a result of the inaccurate records.

3.0 Compensation of Employees

3.1 Comparison of Budget and Actual Expenditure

The statement of receipts and payments for the year ended 30 June 2017 reflects expenditure of Kshs.4,883,001,144. The expenditure on compensation of employees represents about 43% of total revenue of Kshs.11,358,969 collected during the year under review. The expenditure, therefore, exceeded the set limit of 35% in Regulation 25 (1) (b) of the Public Finance Management (County Governments) Regulations, 2015 which provides that County Government expenditure on wages and benefits for public officers should not exceed 35% of the County total revenue.

Further, analysis of expenditure on compensation of employees for the past 3 years is given below;

Year	Budget Amount Kshs.	Actual Expenditure Kshs.	Variance Kshs.	Growth Kshs.	% Growth
2014/2015	4,409,820,076	4,323,636,541	86,183,535		
2015/2016	4,318,688,395	4,315,853,617	2,534,778	(7,782,924)	-0.2
2016/2017	4,891,277,725	4,883,001,144	8,276,581	567,147,527	13%
Total	13,619,786,196	13,522,491,302	97,294,894	-	-

The above table shows that the 2016/2017 County employee cost increased by Kshs.567,147,527 from Kshs.4,315,853,617 incurred in 2015/2016 to Kshs.4,883,001,144 in 2016/2017 paid to five thousand three hundred and sixty four (5,364) employees.

Although the increase in compensation of employees has been attributed to salary increase awards to medical staff and annual increment, the current level of expenditure of 47% of total County revenue may negatively affect service delivery and implementation of planned development projects of the County.

3.2 Unsupported Salary Arrears

The statement of receipts and payments for the year ended 30 June 2017 reflects expenditure of Kshs.4,853,001,144 in respect of compensation of employees. Included in this figure is an amount of Kshs.228,569,398 paid to County staff as salary arrears.

However, the basis of the payment and supporting documentation including salary pay change advice and appropriate authority were not provided for audit review.

Consequently, the validity of salary arrears figure of Kshs.228,569,398 incurred during the year ended 30 June 2017 could not be confirmed.

3.3 Undertaxation and Nil Deduction on PAYE

Review of payroll for the month of June 2017, revealed that nineteen (19) employees were not taxed resulting to non-remittance of PAYE of Kshs.434,431. Further, two hundred and sixty two (262) employees were undertaxed PAYE due, resulting in unremitted tax of Kshs.5,067,427.70. This may lead to unnecessary penalties and interest that can have a negative impact on the County Executive's operations.

4.0 Use of Goods and Services

4.1 Insurance Costs

Note 12 to the financial statements for the year ended 30 June 2017 reflects use of goods and services figure of Kshs.1,953,836,076 which includes expenditure of Kshs.50,099,926

in respect of insurance costs. The expenditure was paid for provision of medical insurance for employees of the County, general insurance and provision of motor vehicle insurance covers for properties of the County. However, a review of records for the payments revealed the following findings:

4.2 Provision of Medical Insurance Covers

4.2.1 Medical Insurance cover by National Hospital Insurance Fund (NHIF)

Included in the insurance costs figure of Kshs.50,099,926 is an amount of Kshs.27,000,000 paid to NHIF during the year being for provision of medical cover for 2,083 employees who were yet to receive an enhanced insurance cover categorized under newly employed by the County Public Service Board and those absorbed by the County at the inception of devolution. Records indicate that the agreed total premium was Kshs.56,313,275 per year. Scrutiny of documents maintained at the county for the medical cover revealed the following:

i. Delay in implementation of the contract

The contract agreement signed on 31 January 2017 was schedule to run for a period of one (1) year, effective from 1 February 2017 to 31 January 2018. However, as at the time of this audit in January 2018, there was no evidence indicating that insurance policy had been issued to the County yet the contract period was set to expire within a month. Further, the management has not explained how different this medical cover is compared to the compulsory scheme for all employees in Kenya under the NHIF Act, 2015.

It was not possible to determine if and when insurance cover would take effect to benefit the employees of the County.

ii. Breach of contract on payment

According to the signed contract, the agreed premiums were to be made within 30 calendar days from the date of the execution. However, as at 30 June 2017, the County had made payments amounting to Kshs.27,000,000 only while the balance of Kshs.29,313,275 remained unpaid as at 30 June 2017.

iii. Failure to provide details of the Beneficiaries

As indicated above, 2083 employees were to benefit from the insurance cover. However, the staff listing and beneficiaries in respect of the cover, premium payable and other relevant records were not made available for audit verification. Further, the basis and details indicating how the annual premium of Kshs.56,313,275 was determined was not provided.

As a result, the propriety and value for money on expenditure of Kshs.27,000,000 paid for medical insurance during the year ended 30 June 2017 could not be ascertained.

4.2.2 Provision of Medical cover for County Executive Members

Award of contract

The County Executive of Kiambu under the Department of Administration procured insurance services from M/s Primeken Insurance Brokers Ltd at a cost of Kshs.14,981,251 for provision of medical cover for the Executive Members. As at 30 June 2017, no payment had been made in respect of this cover. Although available records provided on financial evaluation for insurance services revealed that the winner of the contract was the lowest evaluated firm among four bids received, notice of tender, tender opening and award minutes were not presented for audit review. Further, contract documents indicated unpaid premium sum of Kshs.8,055,338 while outstanding payment recorded in payment voucher amounted to Kshs.14,981,251. No explanation was given for the variance noted.

Breach of contract on payment

According to Section 4.2 of the signed contract, that the terms of payment would be 30 days from the date of execution of policy documents in January 2017. However, no payment was made to the insurer during the financial year under review. The contract sum of Kshs.14,981,251 remained outstanding as at 30 June 2017. Further, contrary to section 3.10 of the contract which indicated that the contract would commence immediately upon execution and would be valid for a period of one year, as at the time of audit, the provision of service and policy cover had not been executed. The County Executive Members therefore do not have medical insurance cover. It has not been explained how medical bills incurred by County Executive members were paid in absence of insurance policy.

4.2.3 Provision of General Insurance Cover

Included in the insurance costs figure of Kshs.50,099,926 is an amount of Kshs.5,000,000 paid to M/s Goldfield Insurance Brokers Ltd for provision of general insurance covers. Records made available indicate that the Department of Administration procured the insurance services at a cost of Kshs.32,986,630. The cover included; fire and allied, furniture and equipment, burglary and theft, money insurance, public liability, fidelity guarantee, all risks, group personal accident (staff scale3-10), group personal accident (County Executive Committee Members) and work injury benefit insurance covers. Verification of documents maintained at the County revealed the following observations;

(i) Procurement procedure

Although financial evaluation report on the contract was presented, other relevant tender documents including tender notices or advertisement, tender opening, technical evaluation minutes and award of tender for the service were not presented for verification. Available information and financial evaluation report for insurance services indicated that the scope of evaluation was limited to price consideration only. The winner M/s Goldfield Insurance brokers was awarded the contract at a sum of Kshs.32,986,630 for being the lowest evaluated bidder among other four companies. No other procurement records were provided to show how the bidders were identified and given tender bids for the service.

(ii) Delay of premium payment

According to section 4.2 of the contract, the terms of payment was agreed to be 30 days from the date of execution of policy documents effective January 2017. However, apart from initial amount paid of Kshs.5,000,000, the balance of Kshs.27,986,630 remained unpaid as at 30 June 2017. Although the management attributed the non-payment of the premium to delay by National Treasury to release exchequer issues, there was no evidence of steps taken to ensure that the operations of the County would not be adversely affected in the event of fire, theft or any risk occurring.

4.2.4 Provision of Motor Vehicle Insurance cover

The County Executive of Kiambu through the Department of Administration procured motor vehicle insurance covers in two lots. LOT I contract was awarded to UAP Insurance Company Limited covering motor vehicles under the Departments of County Executive, Administration, Agriculture, Roads Transport and Public Works and Utilities, and Health Department at a cost of Kshs.41,500,279. LOT II was awarded to M/s Mima Insurance Brokers Limited at a cost of Kshs.23,489,842.21 for motor vehicles in the Departments of Finance and Economic Planning, Water Environment and Natural Resources and Trade, Tourism, Industry Cooperatives Development and Marketing, County Public Service Board, Lands, Housing and Physical Planning, and Department of Youth Affairs, Sports and Communication Services. However, tender documents such as advertisement, opening, evaluation minutes and notice of award and contract agreement were not provided for audit verification. No payment was made to the insurance company in respect of the service during the year under review.

Consequently, the propriety and completeness of insurance costs of Kshs.50,099,926 for the year ended 30 June 2017 could not be confirmed.

4.3 Legal Fees

Included in the use of goods and services figure of Kshs.1,953,836,076 as disclosed in note 12 to the financial statements is other operating expenses expenditure of Kshs.387,866,221. Out of the balance of Kshs.387,866,221, an amount of Kshs.6,048,015.55 was in respect of legal fees. However, the following observations were noted:

- i. Some of the legal fees payments involved unresolved prior year cases between various parties and the defunct local authorities which could not be verified.
- ii. Details of most of the cases though listed in a schedule could not be confirmed for lack of court files.
- iii. Records indicate that outstanding legal fees as at 30 June 2017 total Kshs.206,371,267. However, invoices, fee notes from the law firms and court files were not provided for audit verification. It was not possible, therefore, to confirm whether these legal fees are in line with the Advocates and Magistrates Remuneration Order that guides fees charged by advocates.

Consequently, the propriety of expenditure of Kshs.6,048,015.55 incurred on legal fees for the year ended 30 June 2017 could not be confirmed.

5.0 Construction of Roads

5.1 Expenditure on National Government Roads

Note 17 to the financial statements for the year ended 30 June 2017 reflects acquisition of assets figure of Kshs.1,946,298,286 which includes construction of roads amount of Kshs.627,473,595. The construction of roads expenditure includes an amount of Kshs.145,205,325 in respect of construction of roads projects as shown below:

Contract Name	Contract No.	Contractor	Contract Sum-Kshs	Amount paid 2016/17 Kshs.	Total Payments as at 30/6/2017 Kshs.
Repair & Rehabilitation of Ndumberi-Githunguri Road	CKG/RT&PW/001/2013-2014	M/s Samar Construction Co Ltd	340,801,794	32,556,460	318,760,290
Improvement of Thika Town Entrance-Garissa Road Junction	CKG/RTPW&U/161/2014-2015	M/s Njuca Consolidated Ltd	221,005,870	80,826,608	135,891,751
Construction of Thogoto-Ndaire-Dagoretti Road	CKG/RTPW&U/038/2016-2017	M/s HK Builders & General Contractors Ltd	181,452,510		18,145,251
Improvement of A2(Kimbo) Matangini Roads	CKG/RTPW&U/44/2016-2017	M/s Mutech Motors & Civil Engineering	170,552,896		17,055,289
Rehabilitation & Improvement of C64-C65 Road	CKG/RTPW&U/37/2016-2017	M/s Geokarma Construction Ltd	145,346,505	14,534,650	14,534,650
Repair & Rehabilitation of Githunguri CBD Roads	CKG/RTPW&U/018/2013-2014	M/s Charwins Ltd	103,997,582	17,287,607	66,127,983
Ndeiya Ewasso Kedong Road	Not provided		14,701,450		
		Total	1,177,858,607	145,205,325	570,515,214

Records indicate that out of the above seven (7) road projects awarded at a contract sum of Kshs.1,177,858,607, three (3) contracts were awarded during the year. The works involved construction, repair, rehabilitation and improvement of roads to bitumen standards in the County. The contractors had been paid a total of Kshs.506,146,496.90 in the previous years bringing the total payments incurred on these projects to Kshs.570,515,213.90, while pending bills of Kshs.64,368,717 in respect of certified works of the road was outstanding as at 30 June 2017.

However, no evidence of public participation was availed for audit verification. It was therefore not clear how the roads were identified, awarded and implemented.

It was also noted that the roads are under the National Government through either Kenya Urban Roads Authority(KURA) or Kenya Rural Roads Authority(KERRA). The management has not explained why they undertook to implement these projects which ought to have been done with the concurrence of National Government in accordance with Article 186 of the Constitution of Kenya 2010.

A verification carried out in January, 2018 revealed that the constructions were at different stages of completion.

In addition, the County Executive was clearly struggling to pay the contractors, as evident by delay in completion of projects commenced in 2013/2014 period, some of whom had abandoned the projects due to non-settlement of certificates for work done.

Consequently, the objective of these projects has not been achieved and value for money on the expenditure of Kshs.570,515,213.90 so far spent on the projects could not be confirmed.

5.2 Improvement of Thika Town Entrance–Garissa Road Junction

Included in the construction of roads expenditure of Kshs.627,473,595 as disclosed in note 17 to the financial statements for the year ended 30 June 2017, is an amount of Kshs.80,826,607.50 for improvement of Thika Town Entrance – Garissa road junction. Records indicate that contract No CGK/RTPW&U/161/2014/2015 for the improvement of the road was awarded on 25 June 2015 to a local construction firm M/s Njuca Consolidated Company Ltd at a contract sum of Kshs.221,005,870.30. During the year under review, an amount of Kshs 80,826,607.50 was paid bringing total payments so far made to the contractor to Kshs.135,891,751. The contract was to run for eighteen (18) months, commencing July 2015. According to certificate of completion for the latest payment, the percentage of works completed was 62% against 172% of the contract period elapsed as at January 2018.

A further examination of records available revealed that construction of a single lane adjacent to Thika Prison had not commenced due to the fact that the GK Prison had encroached on the road reserve and constructed twelve (12) residential houses on the road. No effort appears to have been made to have the houses demolished to allow the construction to proceed. It was also not clear if inspection on the road was done before awarding the contract.

Further, the project had stalled as at the time of audit and the contractor was not on site. Consequently, the propriety of expenditure of Kshs.135,891,751 so far spent on the project as at 30 June 2017 could not be confirmed.

6.0 Construction of Schools and Civil Works

6.1 Construction of Limuru Fire station

Included in the acquisition of assets figure of Kshs.1,946,298,286 as disclosed in note 17 to the financial statements is construction and civil works expenditure of Kshs.447,269,930 out of which an amount of Kshs.3,242,260 was paid to a construction company for construction of Limuru fire station. However, previous payments to the contractor was not provided, including an amount of Kshs.11,000,000 paid in 2015/2016. As previously reported, this contract was awarded on 24 April 2015 to Brits Limited a tender sum of Kshs.24,249,933. The scope of work involved construction of a hostel for fire fighters, an office, a fire fighting engine parking bay, construction of toilet, a fire drill tower and a perimeter fence.

Works which commenced on 7 May 2015 were scheduled to run for twenty (20) weeks to end on 7 October 2015. However, physical verification carried out in January 2018 indicated that all the structures at the site were incomplete and the contractor was not on site. Although records of payments indicate that the contractor had been paid a total of Kshs.14,242,260 equivalent to 59% of the contract sum, against 655% of time elapsed, there was no evidence of approved extension of contract time. The management has not presented measures taken to address the unsatisfactory performance and delay in completion of the project.

Consequently, the propriety of Kshs.14,242,260 so far incurred on this project as at 30 June 2017 could not be confirmed.

6.2 Construction of Githunguri Fire Station

As similarly reported in the previous year, included in the acquisition of assets figure of Kshs.1,946,298,286 for the year ended 30 June 2017 and as disclosed in note 17 to the financial statements is construction and civil works expenditure of Kshs.447,269,930. The figure of Kshs.447,269,930 includes Kshs.2,747,950 paid to a firm in respect of construction of Githunguri fire station bringing total payments so far made to this project to Kshs.10,019,516. Records indicate that contract No.CGK/RTPW&u/FS/2014-2015/Vol.1/003 for the construction was awarded on 4 June 2015 to M/s Gishi Building Contractors and Civil Engineering Co. Limited at a contract sum of Kshs.22,961,085.

According to the contract agreement signed between the County Executive and the contractor, the contract was to be executed within twenty (20) weeks. However, a physical verification of the project in the month of January 2018 revealed that the contractor was not on site and the works had stalled. Records indicated that progress of works stood at about 33% against an elapsed contract period of 615%, while the contractor had been paid a total of Kshs.10,019,516 or 44% of the contract sum. It is not clear why payment was made over and above the certified works.

As a result, the propriety of expenditure of Kshs.10,019,516 incurred on the construction of Githunguri fire station as at 30 June 2017 could not be confirmed.

6.3 Construction of Talent Academy and Amphitheatre

Included in the acquisition of assets figure of Kshs.1,946,298,286 is construction and civil works amounting to Kshs.447,269,930 as disclosed in note 17 to the financial statements out of which Kshs.18,093,018.85 was in respect of construction of talent academy and

amphitheater during the year under review. Review of records revealed that contract No.KCG/YASC/TALENT/007/2015/2016 for construction of talent academy and amphitheater was awarded to M/s Paschal Construction Ltd on 11 May 2016 at contract sum of Kshs.81,928,155. The construction was to be completed within 12 months from the date of award of the contract. An audit inspection carried out in January, 2018 showed that certified works represent about 22% only of the contract sum while 150% of the contract period had lapsed which does not compare favourably with the level of completion.

Further, the contractor was not on site at the time of this audit. It is not clear whether there was extension of contract period and completion of the project appears uncertain. No explanation was given as to why the project had stalled.

Consequently, value for money already spent on the project of Kshs.18,093,018.85 as at 30 June 2017 could not be confirmed.

6.4 Rehabilitation of Primary School Playgrounds

Included in the acquisition of assets figure of Kshs.1,946,298,286 as disclosed in note 17 to the financial statements is construction and civil works expenditure of Kshs.447,269,930 out of which an amount of Kshs.7,842,300 was paid to a construction company for rehabilitation of primary school playgrounds. However, the maintenance of primary school education facilities and rehabilitation of their infrastructure is under National Government and not a devolved function. It is therefore not clear how the County Executive got involved in national government function. Further, the Bills of Quantities(BQs) presented for audit revealed that the contractors were required to do grading, levelling, marking, installation of goal posts, grass planting and watering. It was, however, noted that most grounds have no grass and are extremely dusty making the schools inhospitable and a serious health hazard to teachers, pupils and the local community. Some schools have reported cases of respiratory and other airborne diseases but no remedial action appears to have been taken by the County.

Consequently, the propriety and value for money already on the expenditure of 7,842,300 incurred on rehabilitation of school playgrounds for the year ended 30 June 2017 could not be confirmed.

6.5 Construction of Stadia

6.5.1 Construction and Rehabilitation of Thika Stadium

Note 17 to the financial statements for the year ended 30 June 2017 reflects construction and civil works figure of Kshs.447,269,930 which includes an amount of Kshs.1,823,928.70 in respect of rehabilitation of Thika Stadium. Records maintained by the County Executive revealed that Contract No. KCG/YASC/STADIUM/063/2014/2015 for rehabilitation of the Stadium was awarded in 2015 to M/s Simbaline General Services Ltd at a sum of Kshs.14,529,230. Works which commenced on 20 May 2015 were scheduled to run for twelve months to end on 19 April 2016. However, physical verification carried out in January 2018 indicated that works in respect of the basketball court, water tower and toilet block were complete while about 30% of the columns and stands had been constructed. The construction was behind schedule by 250% of the contract period lapsed. It is not clear

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whether extension of contract period was requested and approved to allow the completion of the project. Out of the contract sum, an amount of Kshs.1,823,928.70 had been paid in respect of this project.

Consequently, the propriety of expenditure of Kshs.1,823,928.70 spent on the project as at 30 June 2017 could be ascertained.

6.5.2 Construction and Rehabilitation of Ruiru Stadium

Available records indicate that contract No KCG/YASC/STADIUM/005/2015/2016 for rehabilitation of Ruiru stadium was awarded in 2015/2016 to M/s Kevman Investments Ltd for a sum of Kshs.32,823,265. However, no tender documents such as tender notice, tender opening and evaluation, award minutes and contract agreement for the works were provided for audit review. Further, payment details made to the contractor were not presented for audit review. Further, the stadium had not been officially handed over to the Department of Youth. It was also noted that a local football club claimed possession of the stadium with one of its officials being in custody of the keys to the stadium gate.

As a result, the propriety of expenditure incurred on this project as at 30 June 2017 could not be confirmed.

6.6 Stalled Construction of Lusigetti Community Library

Included in the acquisition of assets figure of Kshs.1,946,298,286 as disclosed in note 17 to the financial statements is construction and civil works expenditure of Kshs.447,269,930 out of which an amount of Kshs.1,750,161 was paid to M/s Three DS Services Ltd for construction of Luzegeti Community Library. Available records maintained by the County indicate that the contract for construction of the community library was awarded on 20 February 2015 to the company at a contract sum of Kshs.7,667,376. The construction of the project was to run for a duration of 4 weeks starting immediately after the award. It was however noted that the project had stalled and the contract period had lapsed.

Records indicate that the contractor had abandoned the site after having been paid Kshs.1,750,161 or 23% of the contract price. No explanation was given for the failure to complete the construction to serve the intended purpose.

Consequently, it has not been possible to confirm the propriety and value for money on the expenditure of Kshs.1,750,161 spent on the project as at 30 June 2017.

7.0 Supply of Milk Pasteurizer

Included in the acquisition of assets figure of Kshs.1,946,298,286 as disclosed in note 17 to the financial statements is purchase of specialized plant, equipment and machinery figure of Kshs.188,775,349 out of which an amount of Kshs.18,093,018.85 was paid to a company for supply, installation and commissioning of a milk pasteurizer. Records indicate that the County Executive competitively awarded contract No KCG/T/ALF/2/2015/2016 for the for supply of a pasteurizer on 10 June 2016 at a contract sum of Kshs.23,395,000. The supplier delivered the equipment and was issued to Kiambaa Dairy Ltd, a cooperative society owned

by farmers in the County. However, no requisition nor memorandum of understanding signed between the County and the cooperative society was provided for audit review. It was therefore not clear whether the pasteurizer was donated to the society and whether the County Executive was to receive any revenue from its use.

Consequently, the ownership of the milk pasteurizer procured during the year under review at a cost of Kshs.23,395,000 could not be confirmed.

8.0 Unutilized Medical Equipment

Included in the acquisition of assets figure of Kshs.1,946,298,286 is purchase of specialized plant, equipment and machinery amounting to Kshs.188,775,349 as disclosed in note 17 to the financial statements. The figure of Kshs.188,775,349 includes expenditure of Kshs.9,710,000 incurred in respect of purchase of medical equipment during the year under review. A review of approved budget of the County showed that the Ministry of Health had a provision of Kshs.75,000,000 for purchase of medical equipment. This was in line with the County Governments County Integrated Development Plan (CIDP) objective to provide specialized medical equipment to ensure adequate access to medical care.

Although the equipments procured from M/s Brighton Pharmaceuticals and Bark Pharm Ltd were delivered on 16 December, 2016, physical verification carried out in January 2018 revealed that the equipment delivered to two hospitals in the County as detailed below had not been put to use to serve the public.

Equipment	Supplier	Date Received	Hospital	Cost -Kshs.
Ultra Sound Machines	Brighton Pharmaceuticals Ltd	16/12/2016	Wangige Hospital	1,900,000
Ventilators	Bark pharm Ltd	16/12/2016	Kiambu Hospital	5,850,000
Delivery bed pack	Brighton Pharmaceuticals Ltd	16/12/2016	Kiambu Hospital	1,960,000
	Total			9,710,000

The management has not given justification for the failure to utilize the equipment for the benefit of residents of Kiambu County. Failure to utilize the equipment will lead to deterioration due to wear and tear and vandalism hence loss of public funds.

In the circumstances, the value for money on expenditure of Kshs.9,710,000 in respect of purchase of medical equipment for the year ended 30 June 2017 could not be confirmed.

9.0 Expenditure on Proposed Public Washrooms and Landscaping at Mathore Kikuyu

Note 20 to the financial statements for the year ended 30 June 2017 reflects other payments figure of Kshs.95,738,271 which includes an amount of Kshs.2,366,537 incurred on construction of washrooms and land scapping at Mathore-Kikuyu. The contract was awarded to M/s Jimrose Building Contractors at a contract sum of Kshs.9,603,680. According to article 4.2 of the contract agreement dated 26 June 2015, the contract period was to run for 12 calendar weeks commencing immediately after the signing of contract. As at the time of this audit, the contractor had been paid a total of Kshs.4,620,980 including an

amount of Kshs.2,366,537 on 30 March 2017 processed through voucher No 5946/1. However, verification carried out could not establish the location and specific works carried out to warrant the payments and it appears no work was done on the ground. Further, inspection and acceptance committee report was not provided for the works paid for.

Consequently, the propriety of expenditure of Kshs.4,620,980 spent on the project as at 30 June 2017 could be ascertained.

10.0 Pending Bills

Annex 2 to the financial statements as at 30 June 2017 reflects pending bills of Kshs.597,697,528. However, the annual report of the Controller of Budget for 2016/2017 indicates pending bills as at 30 June 2017 of Kshs.549,442,219 in respect of development vote and Kshs.370,819,455 for recurrent expenditure thus totaling Kshs.920,261,674. The resultant difference of Kshs.322,564,146 between the balances recorded in financial statements and COB report has not been explained or reconciled.

Further had the bills of Kshs.597,697,528 been paid and the expenditure charged to the accounts for the year under review, the surplus of Kshs.49,329,631 reflected in the statement of receipts and payments would have decreased to a deficit of Kshs.548,367,897. This is an indication that the management entered into financial commitments for which no resources were available contrary to Section 135(1) to the Public Finance Management Act, 2012 which provides that expenditure not appropriated should not be incurred. In addition the bank balances totaling Kshs.92,820,704 as at 30 June 2017 were inadequate to cover these pending bills.

Consequently, the propriety, accuracy and completeness of the pending bills totaling Kshs.597,697,528 as at 30 June 2017 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 Kiambu in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1.0 Overall Budget Performance

During the financial year ended 30 June 2017, the County Executive of Kiambu had an approved budget of Kshs.11,465,257,340 comprising of recurrent vote of Kshs.7,920,380,443 and development vote of Kshs.3,544,876,897. The summary statement of appropriation recurrent and development; combined reflected overall expenditure totaling Kshs.10,366,950,200 equivalent to 90 % absorption rate as follows:

Vote	Approved Budget 2016/2017 Kshs.	Actual Expenditure 2016/2017 Kshs.	Variance Kshs.	% Variance to Budget
Recurrent	7,920,380,443	7,684,629,840	-235,750,603	-3.0
Development	3,544,876,897	2,682,320,360	-862,556,537	-24.3
Total	11,465,257,340	10,366,950,200	-1,098,307,140	-9.6

The above summary shows that the county realized under-expenditure of Kshs.862,556,537 or approximately 24% of approved development estimates of Kshs.3,544,876,897. No explanation was given for the underperformance. Further, project implementation status report was not presented for audit review. It was not possible therefore to confirm projects implemented and completed, and the unimplemented ones.

1.2 Under/ Over Expenditure

The detailed analysis of expenditure against budget for the year ended 30 June 2017 is given below:

Components	2016/2017 Final budget Kshs.	2016/2017 Actual Expenditure Kshs.	Over/(Under) Absorption- Kshs.	% Actual/Budget absorption
Compensation of Employees	4,891,277,725	4,883,001,144	(8,276,581)	100
Use of Goods and Services	2,197,311,262	1,953,836,076	(243,475,186)	89
Transfers to Other Government Units	1,374,585,622	1,288,656,224	(85,929,398)	94
Other Grants and Transfers	158,070,119	144,145,198	(13,924,921)	91
Social Security Benefits	41,000,000	35,275,000	(5,725,000)	86
Acquisition of Assets	2,783,012,612	1,946,298,286	(836,714,326)	70
Other Payments	20,000,000	115,738,271	95,738,271	579
Total	11,465,257,340	10,366,950,199	(1,098,307,141)	90

The analysis indicates that the County realized under expenditure in all items except on other payments with budget allocation of Kshs.20,000,000 and actual expenditure of Kshs.115,738,271, representing an over expenditure of 95,738,271. The over expenditure was not regularized through reallocations or supplementary budget.

1.3 Purchase of Specialized Materials and Equipment

Records maintained by County government indicate that an amount of Kshs.14,750,000 had been provided in the approved budget for 2016/2017 for the purchase of specialized materials and equipment in the Ministry of Lands, Physical Planning and Housing as follows:

Items	Approved Budget Kshs.
Purchase of Generators	4,250,000
Purchase of Specialized Plant	8,500,000
Purchase of Software	2,000,000
Total	14,750,000

However, no expenditure was recorded under these items. No explanation was provided why the budget allocation was not utilized. Further, the residents of Kiambu were denied benefits expected from the equipment which were not purchased.

2.0 Doubtful claim on Acquisition of Land

2.1 Compulsory Acquisition of Land

The County Executive compulsorily acquired five parcels of land L.R Numbers Githunguri/Gaithieko/332, Githunguri/Gaithieko/333, Githunguri/Gaithieko/334, Githunguri/Gaithieko/335 and Githunguri/Gaithieko/336 all measuring 55 acres for use by the County. The land was leased several years ago to the Government for a period of 33 years. The lease expired in 1991 but the Government continued occupation of the land until 2007 when a gazette Notice No. 1468 was issued by the Commissioner of Lands indicating an intention to compulsorily acquire the land. The land was valued by the Government valuer and offered the petitioners Kshs.55million. Available information indicate that the petitioners were dissatisfied with the amount offered and appealed to the Tribunal and subsequently filed the petition claiming a total of Kshs.285,889,870 to include; value of land and improvements, additional 15% as per acre, unpaid rent due from 1991 to 2007 and aborted acquisition costs in 1998. The Government valuer did not consider the improvements on the land while the petitioner's valuer had taken into consideration the development thereof.

2.2 Court Case

A review of case files revealed that the matter was petitioned in the High Court of Kenya at Nairobi Petition No.399 of 2014 in the Matter of the Constitution of Kenya and in the matter of a Constitutional Reference under article 22 and in the matter of contravention of the rights & fundamental freedoms under articles 20, 21,22,23,40 & 60 of the Constitution of Kenya and in the matter of the Land Acquisition Compensation Tribunal at Nairobi Civil Appeal No.10 of 2009. The suit was between four (4) petitioners and the Attorney General, and the Commissioner of Lands as the respondents while the County Government of Kiambu was an interested party in the case. The Court consented to the case and the parties agreed to settle the matter under the following terms;

- i. The petitioners were to be paid a total of Kshs 85,524,000 being full compensation in respect of the compulsory acquisition of the above said parcels of land.

- ii. The Kshs. 55,905,135 which had been deposited with the Registrar of the High Court on 7 October 2010 was to be released to the petitioners through the Petitioners advocates, m/s Mwagambo & Okonjo Advocates.
- iii. The remaining balance of Kshs.29,618,865 was to be paid by the interested party (County Government of Kiambu) to the Petitioners through the Petitioners advocates, m/s Mwagambo & Okonjo Advocates in a manner that Kshs.5,000,000 be paid within 60 days after the 7 October 2010 when the deposited Kshs.55,905,135 was released. The two payments of Kshs.10,000,000 was to be paid on or before 28 February 2017 while the final balance of Kshs.14,618,865 was to be paid before 31 August 2017.
- iv. The title documents and all the relevant documents to the property in the custody of the petitioners be released to the custody and control by the interested party's Advocates, M/s Kithi & Company Advocates within 7 days of the initial transfer of Kshs.55,905,135. The petitioners were to facilitate the transfer of the property to the Interested Party.
- v. The Interested Party was to bear the cost of transfer of the property being the Githunguri/Gaitheko 332-336 including stamp duty, transfer cost, legal cost and all attendant costs thereof.
- vi. The interested party was to bear the costs of the suit to the petitioners advocates to be paid within 45 days of the initial transfer of Kshs.55,905,135.

2.3 Delay in Payment of compensation

As a result of the above determination, the County Executive of Kiambu made the first two payments to the petitioners advocates, M/s Mwagambo & Okonjo of Kshs.5,000,000 and Kshs.10,000,000. The remaining balance of Kshs.14,618,865 was due for payment by 31 August 2017.

However, as at 8 January 2018, the County Executive had not paid the outstanding balance of Kshs.14,618,865 and therefore on the same date, the petitioners advocates wrote to the County Secretary, Kiambu County, setting out records of payments as at that date as ordered by the Court with a revised demand for extra payment of Kshs.31,144,728 instead of Kshs.14,618,865 outstanding balance out of the consented amount of Kshs.85,524,000.

This new demand resulted in unexplained extra demand of Kshs.16,525,863. The County Executive of Kiambu did not seem to contest this demand by the petitioners and therefore leading to loss of public funds arising from the unnecessary delays in paying the consented and determined compensation.

2.4 Failure to facilitate land transfer to the County Government

The title documents to the property was still in the custody of the petitioners despite the court direction that they be released to the advocates of the County Executive of Kiambu, M/s Kithi and Company Advocates and the petitioners to facilitate the transfer of the property to Kiambu County Government. The ownership status of the parcel of land remain uncertain. No reason was provided for the delay despite the fact that payment has been made to the

petitioners. Notwithstanding the unpaid amounts, the property may be converted to private use in absence of valid ownership documents.

Further, the inaction of the County Executive on the extra demand of Kshs.16,525,863 will result in unnecessary payments which should have been avoided. The management has not provided any justification for the unsatisfactory handling of this case that evidently may lead to loss of public funds.

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

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

In preparing the financial statements, management is responsible for assessing the County Executive's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern assumption.

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 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