

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF KIAMBU 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 Kiambu set out on pages 1 to 67, 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 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, 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Variance between Financial Statements and IFMIS Report

The amounts and balances reflected against receipts and payments and various financial assets and liabilities, respectively in the financial statements for the year ended 30 June 2018 differs with IFMIS Report figures as summarized below:

Components	Financial Statements (Kshs)	IFMIS Report (Kshs)	Variance (Kshs)
Total Receipts	12,607,384,451	12,000,754,010.40	606,630,440.6
Total Payments	11,828,175,279	11,021,165,783.45	807,009,495.5
Cash and Bank	774,055,367	3,105,163,004	(2,331,107,637)
Receivables	5,153,806	3,467,893,571	(3,462,739,765)
Payables	83,063,113	40,779,010,555	(40,695,947,442)
Total	25,297,832,016	70,373,986,926	(45,076,154,910)

The above differences were not satisfactorily explained or reconciled.

2. Cash and Cash Equivalents

2.1 Understatement of Cash and Bank Balances

The statement of assets and liabilities as at 30 June 2018 reflects cash and bank balances of Kshs.774,055,367. An analysis of the cash book, however, revealed that payments totalling Kshs.753,197,759 for the month of July 2018 were irregularly posted

in the month of June 2018 contrary to regulation 97 (4) of the Public Finance Management (County Government) Regulations, 2015. As result, the cash and bank balances reflected in the statement of assets and liabilities as at 30 June, 2018 have been understated by Kshs.753,197,729.

2.2 Unreconciled Cash Book Balance

No bank reconciliations were prepared as at 30 June 2018 contrary to regulation 90 of the Public Financial Management (County Government) Regulations, 2015. An examination of the cash book revealed a balance of Kshs.690,276,851 in the County Revenue Fund (CRF) as at 30 June 2018 while the bank statement as at the same date reflects a balance of Kshs.399,980,928. The difference of Kshs.290,295,923 was not reconciled or explained

2.3 Undisclosed Bank Accounts

The bank balances of Kshs.774,034,897 shown in the financial statements did not include a balance of Kshs.254,903 as at 30 June, 2018 in respect of twelve bank accounts for the Sub Counties. No reason was given for failure to include the balance in the financial statements.

In view of the above circumstances, the completeness and accuracy of cash and cash equivalents balance of Kshs.774,055,367 reflected in the financial statements as at 30 June, 2018 could not be confirmed.

3. Payments through General Suspense Account

The IFMIS payment register for the County Executive of Kiambu show that expenditure totalling Kshs. 929,105,190 as summarized below and charged to General Suspense Account (6780101) during the year under review was not supported contrary to regulation 107(1) of Pubic Finance Management (County Governments) Regulations, 2015. The regulation requires that, all transactions relating to clearance and suspense accounts be supported by authentic and verifiable source documents, clearly indicating the approved allocations.

Payee	Amount (Kshs)
Sub County Offices, Dispensaries and Cooperative Officers	900,031,382
Kiambu County Operations Account	24,873,808
Chief Officer Executive – Kiambu County	4,200,000
Total	929,105,190

No explanation was given regarding the nature of the above transactions and payments. As a result, the validity and propriety of the payments totalling Kshs. 929,105,190 could not be confirmed.

4. Unidentified Classification of Expenditure as Refer to Drawer (R/D) Cheques Account

Examination of payment details from various departments revealed that expenditure of Kshs.6,254,513 was charged to a Refer to Drawer (R/D) Cheques Account. However,

payment vouchers and supporting documents in respect of the expenditure were not provided for audit examination. In view of the above, the propriety of the expenditure totalling Kshs.6,254,513 could not be ascertained.

5. Compensation of Employees

The statement of receipts and payments reflects an expenditure of is Kshs.5,886,281,182 on compensation of employees which includes an amount of Kshs.637,970,489 on the following items:

Item	Amount (Kshs.)
Basic wages of temporary employees	503,119,105
Personal allowance paid as part of salary	134,851,384
Total	637,970,489

The above amount was not, however, supported with relevant documentation. As a result, the validity and propriety of the expenditure of Kshs. 637,970,489 could not be confirmed.

6. Transfers to Other Government Entities

6.1 Un-receipted Transfers to Thika Level 5 Hospital

IFMIS register maintained at the County shows that an amount of Kshs.147,524,479 was transferred to Thika Level 5 Hospital in respect of other current transfers and grants. However, the cash book and records of AIE maintained at Thika Level 5 Hospital shows that an amount of Kshs.106,143,926 was received as current transfers. The resulting difference of Kshs.41,380,553 is not recorded in the cash book maintained at the Thika Level 5 Hospital. Transfers to Other Government Entities amount of Kshs. 2,651,978,665 reflected in the statement of receipts and payments for the year ended 30 June, 2018 is therefore, under circumstances, not fairly stated.

6.2 Other Capital Transfers Charged to Recurrent Vote

Examination of recurrent expenditure vote book status report for the year under review revealed that an amount of Kshs. 64,624,048 relating to other capital transfers and grants was charged to the recurrent vote instead of development vote. No satisfactory explanation was provided for misallocation of the expenditure between the votes.

7. Other Grants and Payments

7.1 Tuition Fees Allowances

During the year under review, the Department of Administration, Public Service and Communication paid tuition fees allowances amounting to Kshs.4,351,142. However, no supporting documents were provided for the expenditure, which was charged to Other Grants and Payments. Consequently, the validity and propriety of the expenditure of Kshs.4,351,142 could not be confirmed.

8. Outstanding Imprests

The statement of assets and liabilities as at 30 June, 2018 reflects outstanding imprests balance of Kshs.5,153,806 while the imprests register shows an outstanding balance of Kshs.49,011,727 as at the close of the financial year. The resulting difference of Kshs.43,857,921 was not explained or reconciled. As a result, the completeness and accuracy of the balance of Kshs.5,153,806 reflected in the financial statements could not be ascertained.

Further, there is no evidence that the imprests have since been surrendered or recovered from the defaulting officers' salary as required under regulation 93(6) of the Public Finance Management (County Government) Regulations, 2015.

In addition, an examination of the imprests register revealed that officers of different cadres were issued with multiple imprests amounting to Kshs.151,155,301 contrary to the provisions of regulations 93(4)(b) and 93(8) of the Public Finance Management (County Governments) Regulations, 2015.

9. Pending Bills

Included under Other Important Disclosures to the financial statements as at 30 June 2018 are pending bills amounting to Kshs.2,316,638,468 which includes legal fees of Kshs.190,560,506. The pending bills have been summarized in the disclosures as follows:

Description of Pending Bills	Amount Kshs
Pending Account Payables	1,992,019,387
Pending Staff Payables	25,465,315
Other Pending Payables	299,153,766
Grand Total	2,316,638,468

A supporting schedule, however, reflects total pending bills of Kshs.2,191,211,102, resulting in unexplained or unreconciled difference of Kshs.125,427,366.

In addition, tender documents; contract agreements; local purchase/service orders; invoices/certificates of works; and complete schedules detailing names of the contractors/suppliers, purchase/service order numbers, invoice/certificate numbers and description of goods supplied, services provided or works done were not provided for audit review. As a result, the validity, completeness and accuracy of the pending bills totalling Kshs.2,316,635,468 could not be ascertained.

Had the pending bills of Kshs.2,316,638,468 as at 30 June 2018 been paid and the expenditure charged to the accounts for the year under review, the statement of receipts and payments for the year ended 30 June 2018 would have reflected a deficit of Kshs.1,537,429,296 instead of the surplus of Kshs.779,209,172 now shown.

Accumulation of huge pending bills is an indication that the County Executive entered into financial commitments without adequate resources contrary to regulation 50 of the Public Finance Management (County Government) Regulations, 2015.

10. Fund Balance

The statement of assets and liabilities as at 30 June, 2017 reflects nil fund balance brought forward whereas the closing balance on 30 June, 2017 was Kshs.107,985,507 which ordinarily ought to have been the opening balance on 1 July, 2017. No explanation was provided for this anomaly.

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 and the Basis for Conclusion on Compliance with Lawfulness and Effectiveness in Use of Public Resources sections, I have determined that there are no key audit matters to communicate in my report.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Budget Performance

1.1 Overall Budget Performance

Item	Final Budget Kshs	Actual Amount Kshs	Under/(Over) Kshs	Percentage of Under/Over %
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Report of the Auditor-General on the Financial Statements of County Executive of Kiambu for the year ended 30 June 2018

Receipts				
Exchequer releases	9,664,000,000	9,664,000,002	(2)	0%
Proceeds from Domestic and Foreign Grants	78,008,687	328,551,775	(250,543,088)	321%
Transfers from Other Government Entities	919,334,940	836,590,620	82,744,320	9%
County Own Generated Receipts	1,924,216,292	1,685,421,352	238,794,940	12%
Returned CRF issues	-	92,820,702	(92,820,702)	100%
Total	12,585,559,919	12,607,384,451	(21,824,532)	0.2%
Payments				
Compensation of Employees	5,906,551,744	5,886,281,181	20,270,563	0.3%
Use of goods and services	1,502,336,821	1,448,930,311	53,406,510	4%
Transfers to Other Government Units	1,488,769,270	1,385,320,135	103,449,135	7%
Other grants and transfers	326,313,964	233,037,903	93,276,061	29%
Social Security Benefits	500,000	249,050	250,950	50%
Acquisition of Assets	1,944,345,806	1,512,217,686	432,128,120	22%
Other Payments	35,000,000	94,371,898	(59,371,898)	170%
Total	11,203,817,605	10,560,408,164	643,409,441	6%

1.2 County Own Generated Revenue

There was a significant shortfall in the County's Own Generated Revenue from a budgeted amount of Kshs.1,924,216,292 to an actual collection of Kshs.1,685,421,352 during the year under review. This represents an under-achievement of revenue target by a significant figure of Kshs.238,794,940 or 12%.

Further, a comparative analysis of the County's Own Generated Revenue collection shows that an amount of Kshs.2,064,531,305 was collected during 2016/2017 compared to an amount of Kshs.1,685,421,352 in 2017/2018 financial year, resulting in unexplained decline by Kshs.379,109,953.

1.3 Expenditure

The Total actual amount spent on both recurrent and development expenditure in the year 2017/2018 was Kshs.10,560,408,164 out of which Kshs.2,155,561,701 or 20.4% relates to development expenditure. Section 107 of the Public Finance Management Act, 2012 requires that at least 30% of the County Government's total budget be allocated to development expenditure. The County Executive was therefore in breach of the law.

2. Acquisition of Assets

2.1 Construction of Buildings

2.1.1 Proposed Construction of Perimeter Fence at Ting'ang'a Dispensary

Examination of contract records revealed that three (3) firms submitted bids for the construction of a Perimeter Fence at Ting'ang'a Dispensary. However, in unexplained circumstances and contrary to Section 83(1) of the Public Procurement and Asset

Disposal Act 2015, the contract was awarded to another contractor which, did not participate in the bidding process at a contract sum of Kshs.3,427,997. The firm was paid through Payment Voucher Number 395 dated 25 June 2018. In addition, relevant bid documents, tender evaluation committee minutes and Contract Agreement or Local Service Order were not provided for audit review.

Consequently, the County Executive was therefore in breach of the law and value for money was not realised.

2.1.2 Proposed Construction of Wangige Level 4 Hospital

Contract No. KCGHEALTHSERVICES/27/2014-2015 for the proposed construction of Wangige Level 4 Hospital was awarded to a contractor at a contract sum of Kshs.220,283,842. In unexplained circumstances, the contract was awarded to the highest bidder in term of price contrary to Section 86(1)(a) of the Public Procurement and Asset Disposal Act, 2015.

In addition, tender evaluation minutes were not provided for audit review. In consequence, it could not be confirmed that the bids submitted by the contractor were competitive as required under Section 83 (1) and Section 86 of Public Procurement and Asset Disposal Act, 2015.

Examination of contract records revealed that the contractor has so far been paid Kshs.40,299,199 or 18% of the contract sum.

Consequently, the County Executive was therefore in breach of the law and value for money was not realised.

2.2 Construction of Roads

2.2.1 Githunguri CBD Roads

The County Executive awarded the contract for construction of Githunguri CBD Roads at a contract price of Kshs.103,997,581. The letter of award was not, however, provided for audit review. The contract documents containing Bills of Quantities were also not provided for audit review and as result, the scope of work could not be ascertained.

Audit inspection of the site undertaken on 19 October 2018 revealed that construction of additional three roads was at sub base level but the status report was not made available for audit review.

The contract was irregularly varied by Kshs.23,845,164 to Kshs.127,842,745 purposely to accommodate three additional roads measuring one Kilometer. Available records indicate that an amount of Kshs.109,847,397 or 86% of the contract sum had been paid as of October, 2018. The construction started in April 2014 and was expected to end in April 2017. The contractor was still on site in October 2018, beyond the contract period but no liquidated damages had been recovered.

Consequently, the County Executive was therefore in breach of the law and value for money was not realised.

2.2.2 Thika Gatitu Junction Roads Project

The County Executive awarded the contract for the construction of the Thika Gatitu Junction Roads Project at a contract price of Kshs.221,005,870 on 25 June 2015 and the contractor was ordered to commence work in July 2015 with a contract period of eighteen (18) months.

The contract document, letter of award together with Bills of Quantity were not made available for audit review and therefore, the scope of work could not be ascertained.

An audit inspection of the project undertaken on 22 October 2018 revealed that a stretch adjacent to Thika Prison had not been done due to what was explained to be delay in relocation of senior prison staff houses. The progress of work completed at that time was 62% as reported in the previous certificate. Although, the contract period had expired, no liquidated damages had been recovered from the contractor. A sum of Kshs.182,547,880 or 83% of the contract sum has so far been paid to the contractor.

Consequently, the County Executive was therefore in breach of the law and value for money was not realised.

2.2.3 Kimende Town Roads Project

The County Executive awarded the contract for Kimende Town Roads Project at a contract price of Kshs.139,821,009 which was projected to take eighteen (18) months from January 2018.

The contract document signed on 20 December 2017 and provided for audit review was incomplete. Management did not provide Bills of Quantities for audit verification. Perusal of the project file revealed scanty information on the scope of works which included site clearance, construction of 200mm thick sub-base, asphaltic wearing course and drainage works. Records of site instructions and meetings were also not made available for audit review.

An audit inspection of the construction site undertaken on 19 October 2018 revealed that grading and drainage works had been done despite the fact that 55.5% of the contract period had expired and the contractor was not on site. This was in spite of being paid Kshs.12,313,651 or 8.8% of the contract sum.

Consequently, the County Executive was therefore in breach of the law and value for money was not realised.

2.3 Purchase of Certified Seeds, Breeding Stocks and Live Animals

2.3.1 Procurement of Hass Avocado Seedlings

During the Financial year under review, the department of Agriculture, Crop Production and Irrigation procured Hass avocado seedlings valued at Kshs.9,970,929 through quotations. However, the contracts to supply the seedlings were shared among two firms only. No satisfactory explanation was provided for this anomaly.

3. Stalled Projects

Report of the Auditor-General on the Financial Statements of County Executive of Kiambu for the year ended 30 June 2018

Examination of sampled records and physical verification of projects in Kiambu County revealed that eleven projects had stalled at various levels of construction as highlighted below. The management was therefore in breach of the following provisions of the law as regards the stalled projects:

- (i) Section 53(8) of Public procurement and Disposal Act 2015, which requires an accounting officer not commence any procurement proceeding until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in its approved budget estimates.
- (ii) Section 197(7)(i) which stipulates that if an officer incurs wasteful expenditure then the officer commits an offence of financial misconduct.
- (iii) Regulation 42(1)(b) of the Public Financial Management (County Government) Regulations, 2015 which states that, an accounting officer shall ensure that public funds entrusted to his/her care are properly safeguarded and are applied for purposes for only which they were intended and appropriated by the County Government.
- (iv) Section 74(1) of Public Procurement and Disposal Act 2015, which states that the accounting officer shall ensure that preparation of an invitation tender sets out of a brief description of goods works or services being procured including time limit for delivery and completion.

3.1 Proposed Construction of Kikuyu Level IV

Seremala Construction was awarded contract No. KCG/HEALTHSERVICES/26/2014-2015 for the Proposed Construction of Kikuyu Level IV at a contract price of Kshs.211,723,000. According to tender opening committee minutes of 17 April 2015 a total of thirteen firms submitted their tender documents. However, tender evaluation minutes and report were not provided for audit and hence it's not clear how Seremala Construction and Engineering Ltd was picked.

An audit verification of the project conducted on 2 November 2018 indicated that the project was incomplete and the contractor was not on site. Further enquiry from the personnel on site revealed that the works had stalled for almost eight months due to inadequate funds.

Records provided for audit revealed that a total of Kshs.43,724,616.00 had been paid which represented 21% of the contract sum.

3.2 Proposed Construction of No. 1 Toilet Block at Lussinget Sub County Hospital

M/S Waterlock International was awarded a tender to construct a No. 1 Toilet Block at Lussinget Sub County Hospital at a contract price of Kshs.2,932,207 for a period of one hundred and eighty days. An audit verification done on 1 November 2018 revealed the project had stalled, the execution time had lapsed and no construction was ongoing.

At the time of audit, records indicated that a total of Kshs.1,374,370 had been spent on the project.

3.3 Thogoto Ndaire Dagoretti Road (CKG/RTPW&U/38/2016 – 2017)

Examination of contract records revealed that a contract for construction of Thogoto Ndaire Dagoretti Road was awarded to M/s H.K Builders at a contract price of Kshs.181,452,510. Letter of award was not provided for audit purposes but information obtained from the County indicated that the construction work commenced in March 2017 and was expected to end in September of 2018.

The scope of work entailed improving the 2.5 km stretch to bitumen standards. However, the Bill of Quantities were not provided for audit and the specific work to be done could not be established in the circumstances.

It was explained during a visit to the site on 19 October, 2018 that the construction work was approximately 70% complete although no certificate was provided to support the completion level. The drainage works had been done and sub base and wearing course done for approximately 1.1 km. Records show that Kshs.81,327,180 had been paid to the contractor at the time of audit. The contractor was however not on site.

3.4 A2 Junction Kimbo - Matangini Road (CKG/RTPW&U/44/2016-2017)

The contract for construction of A2 junction Kimbo - Matangini road was awarded at a contract price of Kshs.170,552,895. A copy of the letter of award was not provided for audit.

The scope entailed improvement of the road starting at Thika Super Highway Kimbo junction to Magomano in Theta Ward. The Bills of Quantities were not provided for audit and the detailed works could not therefore be confirmed.

A visit to the site on 19 of October revealed that approximately 2.1 Kms had been completed out of 5.1 Kms, leaving a balance of 3 Kms. As at the time of audit, Kshs.108,774,424 had been paid to the contractor leaving a balance of Kshs.61,778,471. The contractor was not on site and the project had stalled.

3.5 Proposed Construction of Limuru Hawkers Market

Pekema Construction Limited was awarded a contract to construct Limuru hawkers market at a contract sum of Kshs.14,328,296. The construction was to be completed within 180 days from the date of award of the contract.

An audit inspection carried out on 1 November 2018 revealed that; the project was behind schedule, the toilets were incomplete and drainage was poorly done, the contractor had abandoned the site and no construction was ongoing.

At the time of the audit, records indicated that an amount of Kshs.13,370,250.00 had been paid to the contractor.

3.6 Proposed Extensions and Renovations at Red Nova

The Kiambu County Government, Trade and Tourism Department awarded M/S Mastery Enterprises Ltd a contract to construct a cafeteria at a contract sum of Kshs.8,607,465 for a period of one hundred and fifty days.

An audit verification done on 1 November 2018 revealed the project had stalled and the execution time had lapsed. Further, the contractor had abandoned the site and no construction work was going on.

At the time of audit, an amount of Kshs.2,500,000 had been paid to the contractor which represented 29% of the contract sum.

3.7 Proposed Construction of Limuru Market

African Resource Ltd was awarded a contract to build Limuru Market at a contract sum of Kshs.45,168,350. In the period under the audit, records indicate that a payment of Kshs.15,165,918.60 vide payment voucher 484 dated 25 June 2018 was made to the contractor as the 3rd and final payment.

During a project verification exercise that was done on 1 November 2018, it was noted that the market was not yet complete, the contractor was still on site and construction works were on going. In addition, the toilets that had been recently built were in a poor condition and the walls had cracked. This is indication that the contractor was paid for incomplete work and poor workmanship.

3.8 Community Hall in Kiambu Township

Available records maintained by the County indicate that the contract for construction of Kiambu community town hall was awarded to Ihiga Ltd on 20 February 2015 at a contract sum of Kshs.14,396,339. The construction of the project was to run for a duration of twenty calendar 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.4,500,000 or 31% of the contract price. No explanation was given for failure to complete the construction to serve the intended purpose.

3.9 Mang'u ECDE Centre

Contract for construction of 2 ECDE classrooms at Mang'u ECDE Centre was awarded on 6th May 2017 to Pemug Enterprises at a sum of Kshs.5,373,650. The construction was to take sixteen weeks effective from the date of the contract.

However, a site visit of the Centre in November, 2018 revealed that construction of the two classrooms had stalled. Further, only 70% of the work had been done yet the contractor had been paid Kshs.4,861,450. The contractor had abandoned the site an indication that money already spent on the project may go to waste. No explanation was given for failure to complete the project.

3.10 Rehabilitation of Kanjai C64-C65 Road

Contract No. CGK/RTPW&U/37/2016-2017 for rehabilitation of Kanjai C64-C65 road was awarded on 24 February 2017 to M/S Geokarma Construction Co. Ltd at a tender sum Kshs.145,346,505 following a competitive tendering process. The works were to commence immediately and were scheduled to run for a period of eighteen months.

A visit made to the project site on 19 on October 2018 revealed that although sub grading and sub base had been done for the entire road, the wearing course had been done only up to approximately 3 Kms. The works appear to lag behind schedule and had not yet been completed. An amount of Kshs.33,623,809.92 had been paid to the contractor.

3.11 Refurbishment of Stadia - Gikambura and Ruiru Football Grounds – Astra Tuff Finish

Kiambu County Government signed two contracts for Tender No. KCG/YASC/ASTRA/STADIUM/004/2016/2017 with Kevman Investments on 7 May, 2017 for refurbishment of Gikambura Football Grounds (Astra Tuff finish) in Kikuyu Sub –County at a contract price of Kshs.19,422,280 and Ruiru Football Grounds (Astra Tuff Finish) at a contract price of Kshs.19,422,280.

The Contractor was subsequently issued with an undated letter for payment of the 1st Certificate. Consequently, a payment was made on 7 August, 2017 of an amount of Kshs.15,946,575 for each stadium. The total payments for the two being Kshs.31,893,150. However, a report from the works department has indicated that the contractor has abandoned the sites and that the retention money has been with-held.

4. Non-disbursement of Capitation and Free Maternity Fund from the Ministry of Health

The ministry of Health through letter Ref KCG/EX/Vol/1/2/ dated 14 November 2018 directed that all hospitals should render free maternity services and receive reimbursement based on number of deliveries.

In response to the directive, three Level 5 hospitals in Kiambu County, which includes Kiambu, Gatundu and Thika incurred expenditure totalling Kshs.410,690,000 out of which Kshs.376,026,282 had been reimbursed leaving a balance of Kshs.34,663,717 as shown below:

Hospital	Amount Expected	Amount Reimbursed	Balance Kshs
Kiambu (2013-2018)	177,580,000	166,014,333	11,565,666.
Gatundu (2013-2018)	85,845,000	81,524,420	4,320,580
Thika (2013-2018)	147,265,000	128,487,529	18,777,471
Total	410,690,000	376,026,282	34,663,717

No satisfactory explanation was provided for failure to receive the outstanding balance.

5. Compensation of Employees

5.1 Huge Bill

The final budget on wages and benefit for public officers serving in Kiambu County Government for financial 2017/2018 was Kshs.5,906,551,774 while the actual revenue collected during the year under review was Kshs.12,607,384,571. However, the statement of receipts and payments reflects total expenditure on compensation of employees of Kshs.5,886,281,182, an indication that the percentage of wages and benefits of public officers to the total revenue was 47%.

The above percentage exceeded the sustainable threshold of 35% contrary to regulation 25(1) (b) of the Public Financial Management (County Government) Regulations, 2015.

The effect is unsustainable bloated wage bill and revenue collected is used to finance salaries and wages instead of financing development projects that enhances service delivery.

5.2 Lack of Authorized Establishment

The County manages its Human Resource without authorized established as required under Section B5 (2) of the County Public Service Human Resource Manual. Examination of the staff records and payroll revealed that the County had employed 706 new employees yet there were no positions advertised in the newspapers declaring vacant positions.

6. Non-compliance with Ethnic Diversity

Analysis of staff composition in Kiambu County Executive revealed that out of seven hundred and six new employees, the dominant ethnic community constituted 90% of the total employees contrary to the requirements of Article 232(1)(h) of the Constitution, Section 7(2) of the National Cohesion and Integration Act, 2008 and Section 65(1)(e) of the County Governments Act, 2012.

Cohort	Kikuyu	Others	Total
Staff (New Employees)	636	70	706

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion and Basis for Conclusion on Compliance with Lawfulness and Effectiveness in Use of Public Resources sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

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

Responsibilities of Management and Those Charged with Governance

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

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

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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 of County Executive of Kiambu to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Executive to cease sustaining its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of County Executive of Kiambu 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