

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

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of County Executive of Kirinyaga set out on pages 8 to 44, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows, 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 Kirinyaga 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. Inaccuracy of Receipts

The statement of receipts and payments for the year ended 30 June ,2018 reflects proceeds from domestic and foreign grants of Kshs.189,853,577 and transfers from other government entities of Kshs.172,901,883. However, an analysis of receipts disclosed in Notes 2 and 3 to the financial statements against receipts indicated in the National Treasury records revealed an overall understatement of Kshs.17,182,824 on five items as follows:

<b>Receipts</b>	<b>Financial Statements Amount Kshs.</b>	<b>Amount as per National Treasury Kshs.</b>	<b>Variance Kshs.</b>
Road Maintenance Levy	123,937,522	150,752,571	-26,815,049
Ministry of Health User Fees	11,625,078	11,282,570	342,508
Kenya Devolution Support Program	113,409,565	38,364,055	75,045,510
World Bank Grant- THUSCP	0	32,000,000	-32,000,000
National Agriculture & Rural Inclusive Project	50,609,855	50,000,000	609,855
<b>Total</b>	<b>299,582,020</b>	<b>282,399,196</b>	<b>17,182,824</b>

Under the circumstances, the accuracy of the proceeds from domestic and foreign grants of Kshs.189,853,577 and transfers from other government entities of Kshs.172,901,883 for the year ended 30 June, 2018 could not be confirmed.

## 2. County Own Generated Receipts

The statement of receipts and payments reflects county own generated receipts of Kshs.344,408,120 for the year ended 30 June 2018. However, examination of revenue schedules and receipts as per bank statements and remittances to Central Bank of Kenya revealed receipts totalling Kshs.304,407,508. The resultant difference of Kshs.40,000,612 had not been credited/posted into the County Revenue Fund (CRF) account as at 30 June ,2018.

Further, a scrutiny of the utility account maintained at African Banking Corporation for Mpesa payments revealed various transactions without details as follows:

Date	Credit Kshs.	Debit Kshs.	Remarks
10 October 2018		1,637,966	Amount withdrawn but no transaction details
09 February 2018		207,227	Amount withdrawn but no transaction details
30 March 2017	907,154	-	Amount received in the account but no transaction details
<b>Total</b>	<b>907,154</b>	<b>1,845,193</b>	

Under the circumstances, the accuracy and completeness of the county own generated receipts of Kshs.344,408,120 for the year ended 30 June ,2018 could not be confirmed.

## 3. Statement of Budget Execution

The financial statements presented for audit review do not include a statement of budget execution by programmes and sub-programmes as prescribed by the Public Sector Accounting Standards Board (PSASB). No satisfactory explanation has been provided for this omission.

## 4. Variances Between the Financial Statements and IFMIS Report

The figures in the financial statements for the year ended 30 June 2018 differs with the IFMIS report as summarized below:

Details	Financial Statements Amount-Kshs.	IFMIS Report Amounts Kshs.	Difference Kshs.
<b>Receipts</b>			
Exchequer Releases	4,409,200,001	2,182,554,000	-2,226,646,001
Other Receipts	344,408,120	30,348,715	10,527,676
Tax Receipts	-	75,334,982	75,334,982

Proceeds from Domestic and Foreign Grants	189,853,577	70,825,440	-119,028,137
Transfers from other Government Entities	172,901,883	0	-172,901,883
<b>Payments</b>			
Compensation of Employees	2,446,094,800	2,213,777,303	-232,317,497
Use of Goods and Services	474,994,623	897,409,937	422,415,314
Acquisition of Assets	753,599,776	688,781,320	-64,818,456
Finance Costs, Including Loan Interest	4,659	0	-4,659
Other Grants and Transfers	72,068,000	70,600,000	-1,468,000
Other Payments	28,200,392	17,672,716	-10,527,676
Subsidies	-	1,886,563	1,886,563
Transfers to other Government Units	842,888,013	13,580,680	-829,307,333

No reconciliations or satisfactory explanations have been provided for the above differences.

## 5. Cash and Cash Equivalents

The statement of assets and liabilities as at 30 June, 2018 reflects cash and cash equivalents balance of Kshs.1,016,303,894, which includes bank balances held in fifty-one bank accounts as disclosed in Note 21A to the financial statements. However, out of the fifty-one bank accounts operated by the County Executive, only eight bank reconciliation statements were presented for audit review. The management did not provide documentary evidence indicating that bank reconciliations for the other forty-three bank accounts were prepared.

Consequently, the accuracy of the cash and cash equivalents balance of Kshs.1,016,303,894 as at 30 June ,2018 could not be confirmed.

## 6. Use of Goods and Services

### 6.1. Insurance Costs

Disclosed under use of goods and services in Note 12 to the financial statements are insurance costs of Kshs.30,822,840.50, out of which payment vouchers and supporting documents for expenditure amounting to Kshs.12,550,000 were not provided for audit review. Consequently, the validity and propriety of the expenditure of 12,550,000 could not be confirmed.

### 6.2. Payment to Council of Governors

Included also under use of goods and services in Note 12 are training expenses of Kshs.54,670,692.05 out of which an amount of Kshs.9,929,020 was in respect of payments to Council of Governors for various purposes described as rent, contribution towards annual devolution conference and office renovations. However, examination of the payment

vouchers revealed that the payments were made as subscription to the Council of Governors (CoG) with different supporting documents. In addition, the management did not provide justification for making such payments to the Council of Governors which has its own budget and is funded by the National Government.

Under the circumstances, the validity of the payment to the Council of Governors of Kshs.9,929,020 for the year ended 30 June 2018 could not be confirmed.

## **7. Acquisition of Assets**

### **7.1. Purchase of Office Furniture and General Equipment**

Disclosed in Note 17 to the financial statements is an expenditure of Kshs.753,599,775.50 relating to acquisition of assets, which includes an amount of Kshs.7,272,081 in respect of purchase of office furniture and general equipment. However, payments details and schedules provided for audit reflects an expenditure of Kshs.14,165,503 on purchase of office furniture and general equipment, resulting in unexplained and unreconciled difference of Kshs.6,893,422.

Further, expenditure records for payments amounting to Kshs.1,992,366 were not presented for audit verification. In addition, the approved budget allocation for the item was Kshs.9,150,000 against the payment details and schedules actual expenditure of Kshs.14,165,503. The resultant difference of Kshs.5,015,503 represents unapproved excess expenditure on the item.

In the circumstances, the completeness and accuracy of purchase of office furniture and general equipment expenditure of Kshs.7,272,180 disclosed in Note 17 to the financial statements could not be confirmed.

### **7.2. Purchase of Specialized Plant, Equipment and Machinery**

Note 17 to the financial statements also includes an expenditure of Kshs.292,838,378 relating to purchase of specialized plant, equipment and machinery. The expenditure in turn include payments made to M/s Lakh Enterprises Ltd, M/s Joytton Enterprises Ltd and M/s Westona Enterprises Ltd comprising Kshs.4,953,473, Kshs.357,000 and Kshs.290,000, respectively which were not supported by relevant documentations such as procurements record, tender evaluation minutes, delivery notes and goods received notes. Consequently, the validity and propriety of the payments totalling Kshs.5,600,473 in respect of purchase of specialized plant, equipment and machinery could not be confirmed.

## **8. Pending Bills**

Disclosed in Note 26.1 to the financial statements are pending bills totalling Kshs.264,306,959.80 which were outstanding as at 30 June ,2018. However, the bills have not been properly disclosed in accordance with the format prescribed by the Public Sector Accounting Standards Board (PSASB). Records maintained in respect of the unpaid bills and related annexures to the financial statements did not include payment voucher numbers,

LPO/LSO numbers and chargeable items. Consequently, the validity, completeness and accuracy of the pending bills as at 30 June ,2018 could not be confirmed.

In addition, had the pending bills of Kshs.264,306,959.80 been paid and the expenditure charged to the accounts for the year under review, the statement of receipts and payments would have reflected a reduced surplus of Kshs.234,206,359.2 instead of the surplus of Kshs.498,513,319 now shown. The pending bills are likely to affect subsequent financial year budget implementation because the County Executive might be forced to clear the bills before embarking on execution of the subsequent year`s programmes.

## **9. Non-current Assets**

### **9.1. Summary of Fixed Assets Register**

Annex 4 to the financial statements relates to summary of fixed assets register of the County Executive. However, the annexure attached to these financial statements does not conform to the reporting format prescribed by the Public Sector Accounting Standards Board (PSASB) through Circular No.AG4/16/1/Vol. IV/76 of 13 July 2017 in that cumulative balances of all assets and additions during the year have not been disclosed. Further, as previously reported, there was no evidence indicating that assets inherited from the defunct local authorities in the County were included in the schedules provided. As a result, the accuracy and completeness of the fixed assets register as at 30 June 2018 could not be confirmed.

### **9.2. Assets Issued to the Council of Governors**

A review of fixed assets register maintained by the County Executive revealed that assets worth Kshs. 2,095,335 were issued to the Council of Governors. Further, additional furniture and fittings of Kshs. 1,971,885 were purchased vide voucher No. 5952 of 30 May 2018 from Fairdeal Furniture Limited and were issued to the Council of Governors office in Nairobi. However, no S11 or goods received note from the Council of Governors were provided to show that the assets were actually received and accounted for.

### **9.3. Unaccounted for Fixed Assets**

During the year under review, the County Executive procured ICT equipment worth Kshs.1,516,000 from M/s Marnytops Solutions Ltd vide LPO No. 2208645 dated 30 May 2017, which were subsequently accompanied by goods received note and S13 No. 8965775 dated 30 May 2017. However, the items were not entered in the fixed assets register. Further, S11 No. 78072533 dated 30 May 2017 was used to issue the ICT equipment to both payroll section and procurement unit. The S11 was however not provided for audit review.

### **9.4. Fixed Assets - Land**

#### **9.4.1. Disputed Ownership of Land – Kiine/Thingirichi/527**

As previously reported, the above parcel of land, measuring approximately 250 acres, was registered on 5 May, 1960 as Native Trust Land Board/County Council of Kirinyaga. The

land was reserved as a cattle holding ground under the veterinary department. A civil suit No. 245 of 2000 was however filed by a Mr. Peterson Mwangi Nguu against the defunct County Council of Kirinyaga claiming legal ownership of this parcel of land. On 25 November, 2004, the land was registered in the name of Mrs. Margaret Wambui Mwangi being the widow of Mr. Paterson Mwangi Nguu. The dispute is still pending in court awaiting determination. No evidence was provided by the County Executive on how this registration was done.

#### **9.4.2. Land Ownership Documents**

As previously reported, records made available from the lands office document Ref: KIR/LND/REG/GRN/ dated 11 April, 2014 indicated the existence of forty-eight (48) parcels of land. However, land ownership documents in respect of these parcels of land were not made available for audit verification. Other vital information among them the date of when they were acquired, purpose of the land and its value were not indicated in the list of parcels of land.

Further, the audit revealed that twelve (12) parcels of land, with an estimated value of Kshs.2,250,000, were reflected in the fixed asset register. However, ownership documents made available were for only three (3) parcels of land namely Kabare/Nyangati/ 1673 approximately 0.405Ha, Kabare/Kiritini/2496 approximately 0.41Ha and Mwerua/Kibiriri/1825 approximately 0.40Ha.

In addition, information from lands office obtained from letter reference No.KIR/LND/REG/GEN of 11 April, 2014, indicated that eight (8) parcels of land owned by the County were not listed in the fixed asset register presented for audit verification. It was not explained why the following parcels of land were omitted from the list of assets:

- a) Mwerua/Kibiriri/825
- b) Kabare/Mikaraba/146
- c) Kiirie/Thingirichi/527
- d) Inoi/Kerugoya/194
- e) Mwerua/Kagio/128
- f) Baragwi/Raimu/38
- g) Mwea//Tebere/92
- h) Mwea/Bricho/285

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kirinyaga County Executive in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 Basis for Conclusions on Lawfulness and Effectiveness in use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections, I have determined that there are no key audit matters to communicate in my report.

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

### Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion and Basis for Conclusions on lawfulness and effectiveness in use of public resources and effectiveness of internal controls, risk management and governance 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

##### 1.1.1. Overall Budgeted and Actual Expenditure

In the financial year ended 30 June 2018, the County Executive had an approved budget of Kshs.5,695,002,017 comprising recurrent vote of Kshs.3,985,799,796 and development vote of Kshs.1,709,202,221. The combined actual expenditure was Kshs.4,617,850,262, resulting an overall under-expenditure of Kshs.1,077,151,755 as analyzed below:

<b>Vote</b>	<b>Approved Budget 2017/2018 -Kshs.</b>	<b>Actual Expenditure 2017/2018 - Kshs.</b>	<b>Under- expenditure Kshs.</b>	<b>Under- expenditure Rate in %</b>
Recurrent	3,985,799,796	3,914,653,199	71,146,597	2%
Development	1,709,202,221	703,197,063	1,006,005,158	59%
<b>Total</b>	<b>5,695,002,017</b>	<b>4,617,850,262</b>	<b>1,077,151,755</b>	<b>19%</b>

It is clear from the above table that the County Executive did not utilize significant resources amounting to Kshs.1,077,151,755 or 19% meant to develop and improve service delivery to the residents of Kirinyaga County. The implication of the under-expenditure is that some of the projects earmarked for development were not implemented and therefore affecting service delivery to the public.

##### 1.1.2. Budgetary Control on Expenditure Heads / Items

Items	2017/2018 Approved Budget Kshs.	2017/2018 Actual Expenditure- Kshs.	Under expenditure- Kshs.	Over expenditure - Kshs.	Over/Under expenditure Rate in %
Compensation of Employees	2,309,678,665	2,446,094,800		136,416,135	6%
Use of Goods and Services	640,483,304	474,994,622	165,488,682	-	26%
Transfer to Other Government Units	990,292,068	842,888,013	147,404,055	-	15%
Other Grants	90,945,650	72,068,000	18,877,650	-	21%
Acquisition of Assets	1,663,502,330	753,599,776	909,902,554	-	55%
Finance Costs	100,000	4,659	95,341	-	95%
Other Payments	0	28,200,392		28,200,392	100%

The County Executive overspent by Kshs.136,416,135 or 6% on compensation of employees and incurred also excess expenditure of Kshs.28,200,392 on other payments for which there was no budget allocation in the printed estimates or approval.

As a result, the management did not comply with the approved budget provisions as appropriated by the County Assembly.

## 1.2. Revenue

### 1.2.1. Overall Budgeted and Actual Revenue

The County Executive of Kirinyaga had an overall revenue budget of Kshs.5,695,002,017 for the year under review and managed to collect a total of Kshs.5,484,484,628 resulting in under-collection of Kshs.210,517,389 or 3.7% as analyzed below:

Revenue Stream	2017/2018 Revenue Budget Kshs.	2017/2018 Actual Revenue Kshs.	Over/(Under) collection Kshs.
<b>Exchequer Releases</b>	4,409,200,000	4,409,200,000	0
Proceed from Domestic & Foreign Grants	121,189,495	189,853,577	68,664,082
Transfers from other Government Entities	199,374,424	172,901,883	-26,472,541
County Generated Revenue	600,000,000	344,408,120	-255,591,880
Unspent Funds	365,238,098	368,121,048	2,882,950
<b>Total</b>	<b>5,695,002,017</b>	<b>5,484,484,628</b>	<b>-210,517,389</b>



No satisfactory reasons have been provided for the net under-collection of Kshs.210,517,389.

### **1.2.2. Revenue Collection from Local Sources**

The County had budgeted to collect KShs.600 million from local sources. However, actual revenue collection from the local sources was Kshs.344,408,120 or 43% of the approved budget, thus recording a shortfall of Kshs.255,591,880 or 57%. The management has not indicated measures being taken to improve on the revenue collection to finance its approved programs and delivery of service to the residents of Kirinyaga County.

## **2. Compensation of Employees**

### **2.1. Over Expenditure on Compensation of Employees**

During the year under review, the County Executive allocated Kshs.2,309,678,665 to compensation of employees but spent Kshs.2,446,094,800 (financial year 2016/2017 Kshs.2,134,561,139) resulting in an excess and unapproved expenditure of Kshs.136,416,135 or 6% of the budget.

### **2.2. High Wage Bill**

The statement of receipts and payments for the year ended 30 June,2018 reflects compensation of employees' expenditure of Kshs.2,446,094,800 which is equivalent to 45% of the total revenue of Kshs.5,484,484,628 collected during the year. The expenditure therefore exceeded the set limit of 35% contrary to regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015, which provides that the county government expenditure on wages and benefits for public officers should not exceed 35 percent of the county total revenue.

The high wage bill means that most of the County's financial resources are spent on staff salaries at the expense of development projects and therefore may affect service delivery to the residents of Kirinyaga.

### **2.3. Lack of Staff Establishment**

Records indicate that as at 30 June 2018, the County Executive had a total of 2,711 employees on permanent and contract/temporary terms out of which 2,249 were paid through IPPD payroll and 443 and 19 ECDE staff and other staff, respectively were paid through manual payroll in June 2018. Further, during the year under review, 134 new staff were recruited comprising of 106 (47 ECDE teachers/caregivers and 59 other staff) appointed by the County Public Service Board, 10 County Executive Committee Members appointed by the Governor and 18 personal staff to Governor and Deputy Governor.

Audit verifications carried out however revealed that contrary to the requirement of Section B 5 (2) and Section B 6 (3) of the County Public Service Human Resource Manual and Transition Authority Circular Ref. No TA/2 dated 18 December 2013, Kirinyaga Executive did not have an approved staff establishment in the 2017/2018 financial year and

therefore optimal staffing levels for all cadre of staff have not been established. As a result, the basis for declaring vacancies, advertising and subsequent recruitment could not be established.

#### **2.4. Irregularities in Recruitment of Staff**

A review of personnel records revealed that the management employed and placed two Chief Drivers at different entry points and used different grading system for the same position without justification. Further, the management backdated effective date of engagement of four casual employees' in the ministry of environment. The officers were employed on 8 December 2017 as support staff at salary scale CPSB 14 but the appointment backdated to 1 September 2017 as contract staff yet the officers were previously in employment as casuals. No explanation has been provided for the irregularity.

#### **2.5. Payment of Special Duty Allowance**

The County Public Service Board appointed one staff on acting capacity on 8 September 2017. The officer was paid special duty allowance of Kshs.27,267 for eight months from July 2017 to February 2018 instead of the maximum of six months contrary to the requirements of Section C15 (4) of Public Service Human Resource Policies and Procedures Manual 2016. No reason has been given for the extra payments of special duty allowance beyond the six months stipulated in the manual.

As a result, the County Executive was in breach of the Public Service Human Resource Policies and Procedures.

#### **2.6. Underpayment of Commuter Allowance**

Examination of human resource records revealed an under-payment of commuter allowances totalling Kshs.4,583,000 to one hundred and six staff as at 30 June 2018. The underpayment arose as a result of inappropriate application of rates used to pay the commuter allowances in IPPD payroll which are lower than the approved rates as per Ministry of State for Public Service Circular Ref MSPS.16/4A VOL.IX (105) dated 27 June 2011 and staff promotion letters. No reason was provided for the failure to use the correct grading of staff and respective remunerative amounts as per the circular.

#### **2.7. Failure to Remit 31% Gratuity for Seconded Staff**

A review of both IPPD system and manual payments on gratuity and pension schedules revealed that during the year, computed 31% gratuity amounting to Kshs. 8,186,940 in respect of eight seconded staff was not remitted to either pension scheme or Director of Pensions.

Further, out of the eight staff, release letters and other records for four staff seconded to the County Government were either incomplete or not provided. In addition, although the IPPD data capture show the staff were on secondment, appointment letters for two staff previously employed by Teachers Service Commission indicate that the two officers were on transfer of service. The management has not given explanations for these irregularities.

### **3. Irregular Extension and Variation of Insurance Contract**

The County Executive signed a contract with Trident Insurance Company for provision of medical insurance services for the County Staff in Job Group P to U on 14 November 2016 at a contract sum of Kshs.28,528,163. The Insurance Company was paid the full contract sum of Kshs.28,528,163 and the contract was to end on 14 November 2017. However, the management did not make arrangements for procuring the insurance services for the subsequent year but instead renewed the earlier contract with the Company. The insurance contract was therefore extended for two months from 14 November 2017 to 14 January 2018. The same was communicated to Trident Insurance Company through a letter ref CGK/SCM/008/OT/2016/17-VOL.1 dated 8 November 2017 and an amount of Kshs.6,883,187 was paid to the Company vide payment voucher 1068 dated 13 November 2017 and Local Service Order No. 0981646.

It was, however, noted that management later gave a second extension of contract for two months for the period between 14 January 2018 and 14 March 2018 at Kshs.6,883,146. The amount was paid vide payment voucher 5134 dated 22 March 2018 and accompanied with Local Service Order No. 1387455. However, the payment was reflected as part of the original extension to reflect 4 months' extension at a cost of Kshs.13,766,333 in the insurance quotation dated 24 November 2017.

The extension apart from being irregular, denied the County an opportunity of obtaining the most competitive insurance services in the market.

### **4. Revenue Collection Agreement with African Banking Corporation**

Examination of payment records revealed that the County Executive paid a sum of Kshs.3,870,000 for legal services in order to end court/arbitration proceedings instituted by African Banking Corporation (ABC) arising from failure by the County Government to adhere to the terms of agreement in respect of provision of revenue collection management system signed by the County Government and the bank on 28 December 2014. The contract was to facilitate the enhancement of revenue collection.

According to available records, the terms of payments to ABC as per contract agreement was Kshs.50,000,000 per annum or 7.5% of revenue collected through the system whichever is higher. Schedule 3 of the agreement provided that the said amount was to be invoiced annually and payable within thirty days from receipt of the invoice from ABC. Records also showed that the Bank had been invoicing the County Government since the implementation of the first phase.

A perusal of legal documents from Karanu Kanai Advocates indicates that ABC Ltd was demanding Kshs.150,000,000 as of 22 June 2017. On receipt of the demand letter, the County Executive instructed its lawyer, M/s V.A Nyamondi Advocates to stop arbitration proceedings that had already been instituted and for which Kyallo Mbonu had been appointed as an arbitrator. The advocates billed the County Government initial fees of Kshs.3,870,000 out of which Kshs.2,000,000 has been paid.

As previously reported, failure to honour the contract could lead to payment of penalties and interest in addition to the principal amount in dispute. This potential liability and financial impact on the County has not been disclosed in these financial statements in form of a note on pending contingent liability as the outcome of the court case could not be determined.

## 5. Stalled Projects

Verification of records and inspection of projects revealed that construction of seventy-seven projects with a total contract sum of Kshs.188,085,355 had stalled. The projects which commenced in prior years appear to have been abandoned as detailed below:

		<b>Area/County Ward</b>	<b>Amount Spent/Cont ract Sum Kshs.</b>
<b>No.</b>	<b>Project Description</b>		
	<b>ECDE Classrooms and Other Projects</b>		
1	Construction of Kirinyaga West offices	Kandogu town	11,275,335
2	Construction of Mwea West offices	Baricho town	19,500,000
3	Completion of Hall at Kanjuu	Njukiini	523,000
4	Construction of 1 No Classroom-Kathunguri	Karumandi	700,000
5	Construction of ECDE Toilets-Kiburia Girls	Baragwi	1,098,645
6	Construction of ECDE Toilets-Kiamwathi	Baragwi	1,096,863
7	Construction of ECDE Toilets-Kiandai	Baragwi	1,157,282
8	Construction of ECDE Toilets At Mahigaini	Gathigiriri	1,184,660
9	Construction of ECDE Classroom At Tebere Sec.	Tebere	788,028
10	Completion of 3no.ECDE Classroom Block at Kianjiru Phase 2	Baragwi	300,000
11	Construction of 1No ECDE Classroom at Kiriko	Gathigiriri	900,000
12	Construction of 1 No ECDE Classroom at Gathigiriri	Gathigiriri	1,000,000
13	Construction of 1 No ECDE Classrooms-Mathangauta	Gathigiriri	1,000,000
14	Construction of 1no. ECDE Classroom at Nyamindi	Gathigiriri	973,937
15	Construction of 1no ECDE Classroom at Kangai Phase 2	Kangai	500,000
16	Refurbishment of ECDE Classroom at Gacharu	Kariti	250,000
17	Improving 1 No Classroom at Mathia	Kiine	500,000
18	Construction of 1no ECDE Classroom at Kairini	Kiine	800,000
19	Construction of 1no Classroom at Nguguini	Kiine	800,000
20	Improvement of 1 No ECDE Classroom at Gathaka	Kiine	300,000
21	Construction of 1 No ECDE Classroom at Ikurungu Phase 2	Murinduko	250,000
22	Refurbishment of 1 No ECDE Classroom at Kangaru	Mutithi	500,000
23	Refurbishment of 1 No ECDE Class at Rukanga	Mutithi	500,000
24	Construction of An ECDE Toilet Kaminji	Mutithi	515,585
25	Construction of 1 No Classroom at Mburi Christian Phase 2	Njukiini	400,000
26	Construction of 1 No ECDE Classroom at Kiumbu	Tebere	1,000,000

	<b>Project Description</b>	<b>Area/County Ward</b>	<b>Amount Spent/Contract Sum Kshs.</b>
<b>No.</b>	<b>ECDE Classrooms and Other Projects</b>		
27	Construction of 1No ECDE Classroom at Marurumo	Wamumu	690,476
28	Renovation of 1No ECDE Classroom at Ciagiini	Wamumu	238,095
29	Construction of 1 No ECDE Classroom at Nganga	Wamumu	674,000
30	Construction of ECDE Classroom at Mbui Njeru Pri. school	Thiba	1,000,000
31	Completion of ECDE Classroom at Ndorome Primary school	Thiba	300,000
32	Construction of ECDE Classroom at Karira Primary school	Thiba	1,000,000
33	Construction of Exhaustible Ablution Block at Kiranja Secondary School	Inoi	1,500,000
34	Construction of ECDE Toilet at Kiamiciri	Kabare	599,315
35	Construction of ECDE Toilet at Ngungu	Kabare	599,315
36	Construction of ECDE Toilet at Nyagithuci	Kabare	599,513
37	Construction of Pit Latrine (Mukui, Githuaini & Karima)	Kariti	850,000
38	Construction of 1No ECDE Toilet at Gathuthini	Kiine	1,000,000
39	Construction of 1 No Toilet at Ndindiruku	Tebere	800,000.00
40	Construction of 1 No ECDE Toilet at Mukou	Thiba	750,000.00
41	Construction of ECDE Toilet at Thiba	Thiba	1,000,000
42	Construction of ECDE Toilet at Thome	Wamumu	634,921.00
43	Construction of Pit Latrine at Karimaini	Mukure	300,000
44	Construction of Pit Latrine at Kiburu	Mukure	300,000
45	Construction of 1no. Toilet at Gathigiini	Murinduko	800,000
46	Construction of 1no. Toilet at Karuangi	Murinduko	800,000
47	Construction of ECDE Toilets at Kaminji	Mutithi	515,585
48	Construction of a Stone Wall Toilet at Mutithi Primary school	Mutithi	515,585
49	Construction of ECDE Toilet at Karira Primary school	Thiba	750,000
50	Completion of ECDE Toilet at Ndorome Primary school	Thiba	200,000
	<b>Sub- Total</b>		<b>64,230,141</b>
<b>No.</b>	<b>Dispensaries and Health Centres</b>		
1	Ciagini Dispensary- Construction and Equipping 2 inpatient Wards(expansion of a maternity ward and construction of MCH)	Wamumu Ward	4,466,302
2	Ciagini Dispensary- Construction of Staff Quarters	Wamumu Ward	1,994,647
3	Joshua Mbai Dispensary- Construction and Equipping the Laboratory	Ngariama Ward	2,888,450
4	Kiandangae dispensary- Construction of Kiandangae dispensary	Kiini Ward	1,763,282
5	Kamwana Dispensary-Construction of dispensary	Ngariama Ward	2,357,256
6	Kariko Dispensary-Completion of Laboratory	Inoi Ward	1,760,856

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

	<b>Project Description</b>	<b>Area/County Ward</b>	<b>Amount Spent/Contract Sum Kshs.</b>
<b>No.</b>	<b>ECDE Classrooms and Other Projects</b>		
7	Kavote Dispensary-Construction of dispensary	Karumande Ward	6,696,950
8	Kiamanyeki Dispensary-Construction of dispensary	Tebere Ward	7,705,580
9	Kiandai Location-Construction of dispensary	Baragwi Ward	6,227,900
10	Kianjiru Dispensary-Construction of dispensary	Baragwi Ward	6,977,835
11	Kianyaga SDH- Conversion of a morgue to MCH block	Baragwi Ward	10,999,971
12	Kianyaga SDH-Construction and Equipping an X-ray Department in Phases	Baragwi Ward	6,605,420
13	Kimweas Dispensary-Construction of dispensary	Njukini Ward	2,780,206
14	Kinyaga Dispensary-Construction of dispensary	Mutithi	6,422,296
15	Kirwara dispensary-Construction of Dispensary Phase I	Mutithi	1,214,679
16	Kutus Dispensary-Expanding maternity Ward at Kutus Dispensary	Nyangati	1,448,046
17	Matandara Dispensary-Purchase of land and Construction	Gathigiriri Ward	2,877,686
18	Mathia Dispensary-Construction of dispensary	Kiini Ward	9,803,343
19	Mucagara Dispensary-Construction of dispensary	Karumande Ward	3,449,730
20	Mukangu Health Centre-Construction of Staff Quarters	Kariti Ward	832,628
21	Ndaba Dispensary-Construction of dispensary	Kangai Ward	3,283,450
22	Ndindiruku Dispensary-Construction of dispensary	Tebere Ward	6,952,018
23	Ngang'a Dispensary-Construction of dispensary	Wamumu Ward	6,498,447
24	Njukini Location- Construction of dispensary	Njukini Ward	8,474,118
25	Riakithiga Dispensary-Construction and Equipping the Laboratory	Kabare Ward	1,901,370
26	Ririi Dispensary-Laboratory Construction and fencing	Wamumu Ward	3,394,993
27	Thigirichi Mukui Dispensary-Construction and Equipping the Laboratory	Kariti Ward	4,077,755
	<b>Sub-Total</b>		<b>123,855,214</b>
	<b>Grand Total</b>		<b>188,085,355</b>

No explanation has been provided for failure to complete the above projects. In the circumstances, it has not been possible to confirm that the County government obtained value for money on the expenditure as public funds may go to waste if the projects are not completed.

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 Conclusions on lawfulness and effectiveness in use of public resources and effectiveness of internal controls, risk management and governance 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**

#### **1. Hospital Stores Management**

An audit of the medical stores records at Kerugoya County Hospital revealed internal controls weaknesses. The hospital did not have controlled and standard accountable documents such as counter requisition and issue voucher (S11), counter receipt voucher (S13), stores ledger cards (S3) and a register for the accountable documents. The hospital management had, however, improvised S11 described as Kerugoya County Hospital Receipt and issue vouchers, which were locally printed in the institution and manually serialized thus no control on their usage. Therefore, the drugs and other assets of the hospital were exposed to possible loss through manipulation of records and misappropriation.

Further, although stores received were posted in bin cards, stock issues were not recorded at all. Therefore, physical stock count could not be carried out. In addition, inspection of the store revealed that the space was inadequate and congested while the items were not properly arranged as they were placed haphazardly making it difficult to carry out physical verification.

As a result, it was not possible to verify stock balances, receipts and issues at Kerugoya Hospital during the year under review.

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 the Kirinyaga County Executive 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 accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the County Executive policies and procedures may deteriorate.

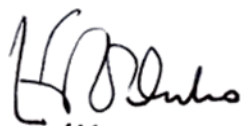
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Executive ability 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 the County Executive of Kirinyaga 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**

**23 January 2019**