

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

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## REPORT ON THE FINANCIAL STATEMENTS

### Disclaimer of Opinion

I have audited the accompanying financial statements of Kitui County Executive set out on pages 7 to 83, which comprise the statement of financial assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, and as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way

### Basis for Disclaimer of Opinion

#### 1.0 Accuracy and Completeness of the Financial Statements

#### 1.1 Variances in Opening Balances

A comparison of the opening balances reflected in the financial statements for the year under review with the audited 2015/2016 financial statements closing balances indicates understatements and overstatements in the financial statements by Kshs.250,700,000 and Kshs.295,398,744 on 1 item and 3 items respectively resulting to a net overstatement of Kshs.44,698,744 as follows:

Items Description	2016/2017 Opening Balance (Kshs.)	2015/2016 closing Balance (Kshs.)	Variance (Kshs.)
Exchequer release	7,267,273,063	7,517,973,063	-250,700,000
Proceeds from Domestic and Foreign Grants	83,985,266	0.00	83,985,266
Transfers from other Government entities	166,714,746	0.00	166,714,746
Construction of	1,616,590,374.00	1,571,891,642	44,698,732

civil works			
<b>TOTAL</b>	<b>9,134,563,449.00</b>	<b>9,089,864,705</b>	<b>44,698,744</b>

The understatement of Kshs.250,700,000 and overstatement of Kshs.295,398,744 have not been explained or reconciled to date.

## 1.2 Unsupported Current Year Balances

A comparison of balances reflected in the financial statements for the year under review with the balances indicated in the respective supporting schedules reflected an understatement and an overstatement of the financial statements on various items all netting of to Kshs.631,041,560 as follows;

<b>Items Description</b>	<b>Financial statement balance (Kshs.)</b>	<b>Supporting schedules balances (Kshs)</b>	<b>Variance (Kshs)</b>
<b>Use of goods and services</b>			
Routine maintenance-vehicles and other transport equipment	47,742,933	24,976,620	22,766,313
Rentals of produced assets	12,611,790	9,130,953.	3,480,837
Utilities, supplies & services	152,193,741	46,463,382	105,730,359.
Office and general supplies and services	49,239,750	36,409,280	12,830,470
Printing, Advertising and Information supplies and services	142,580,710	109,111,534	33,469,176
Training Expenses	99,423,467	42,123,327	57,300,140.
Specialized Materials and Services	437,627,989	231,650,120	205,977,869
Other Operating Expenses	138,159,596	80,876,278	57,283,319
Communication Supplies & Services	24,209,116	17,268,100	6,941,016.
Hospitality, Supplies and Services	91,398,942	54,338,447	37,060,495
Insurance	91,968,088	80,582,837	11,385,251
<b>Total</b>	<b>1,287,156,122</b>	<b>732,930,878</b>	<b>554,225,244</b>
<b>Acquisition of Assets</b>			
Purchase of vehicles and other transport Equipment	51,971,637	21,934,492	30,037,145.
Purchase of certified seeds, Breeding stock and live Animals	26,926,009	24,383,601	2,542,408
Construction and Civil	1,585,520,205	1,556,624,271	28,895,933.

Works			
Construction of roads	537,193,066	357,679,461	179,513,605.
Construction of Buildings	617,927,764	617,152,923	774,841
Purchase of ICT Equipment	13,983,917	13,208,717	775,200
Research, Studies, Project Preparation, Design & Supervision	227,091,764	109,376,510	117,715,254
Acquisition of Land	6,788,374	7,680,400	(892,026)
Acquisition of Intangible Assets	7,852,066	6,658,812	1,193,254.
<b>Total</b>	<b>3,075,254,802</b>	<b>2,714,699,187</b>	<b>360,555,615</b>
<b>Compensation of employees</b>			
Basic Salaries of Permanent Employees	2,165,391,409	2,064,698,872	(100,692,537)
Basic wages of temporary employees	406,426,666	251,033,890	(155,392,776)
Personal allowances paid as part of salary	64,382,829	34,151,803	(30,231,026)
Social benefit schemes outside government	9,065,899	9,063,499	(2,400)
<b>Total</b>	<b>2,645,266,803</b>	<b>2,358,948,064</b>	<b>(285,318,740)</b>
Outstanding imprest	15,548,112	13,968,672	1,579,440.
<b>TOTAL</b>	<b>5,737,356,873</b>	<b>5,820,546,801</b>	<b>631,041,560</b>

### 1.3 Non-Preparation of Trial Balance

The County Executive did not prepare a trial balance and as a result the reported account balances in the financial statements as at 30 June 2017 could not be ascertained.

### 1.4 Fund Balance Brought Forward

Note 24 to the financial statements reflects fund balance brought forward of Kshs.1,838,663,167 whereas the statement of cash flow indicates a balance of Kshs.1,888,105,086 resulting in an unexplained difference of Kshs.49,441,919. Further, the statement of assets reflects a cash and cash equivalents brought forward balance of Kshs.1,996,050,310 leading to an unexplained variance of Kshs.157,945,224 between the two sets of figures that should be the same.

### 1.5 Unsupported Prior Year Adjustments

The statement of financial assets reflects a prior year adjustments of Kshs.107,945,225(2016: Kshs.63,435,604) that are not explained or supported as note 25 to the financial statements shows only the comparative balance only.

## **1.6 Non- Reconciling of IFMIS Records and Financial Statements Balances**

The IFMIS Vote book status report and the financial statements for the year under review reflected a total expenditure of Kshs.8,638,357,012 and Kshs.9,047,468,389 respectively resulting into an unexplained and unreconciled variance of Kshs.409,111,377 as at 30 June 2017. In view of the foregoing circumstances, the accuracy, completeness and presentation of the financial statements as at 30 June 2017 could not be confirmed

## **2 Cash and Cash Equivalent**

### **2.1 Irregular Bank Accounts**

Note 21 A to the financial statements show that Kitui County Executive operated twenty(20) bank accounts with a total bank balance of Kshs.1,551,668,328 as at 30 June 2017. Out of the twenty (20) bank accounts, six (6) were in the Central Bank of Kenya (CBK), while the remaining fourteen (14) with a total balance of Kshs. 79,617,074 were in various Commercial Banks. However, the fourteen (14) bank accounts held in commercial banks were opened contrary to Section 82 (1) (b) of the Public Financial Management (County Government) Regulations, 2015 which stipulates that all County Governments bank accounts should be opened at the Central Bank of Kenya except for imprest account for petty cash. In the circumstances, the County Executive did not comply with the PFM Act, 2012

### **2.2 Non- Provision of Bank Reconciliation for Fourteen (14) Bank Accounts**

The bank reconciliation statements for the fourteen bank accounts and bank balance certificate for all the bank accounts were not availed for audit verification.

### **2.3 Unsupported Debits in Revenue Bank Account**

The Kitui County Executive operated the Kitui County Government Revenue Collection Account Number 1140752855 with the Kenya Commercial Bank (KCB). A review of this account's bank statements for the period July 2016 to June 2017 revealed that a total of Kshs.3,207,517 was withdrawn on various dates as follows;

<b>Date</b>	<b>Amount (Kshs.)</b>	<b>Details</b>
04-04-17	5,000	cash withdrawal
14-03-17	476,267	cash withdrawal
04-04-17	5,000	cash withdrawal
26-01-17	2,721,250	cash withdrawal

<b>Totals</b>	<b>3,207,517</b>	
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The withdrawals are against Section 80 of the Public Finance Management (County Government Regulations). Further, the purpose for the cash withdrawals was not explained as no payment documents was made available to support how the funds were utilized.

As a result, it was not possible to confirm the propriety of the cash withdrawal of Kshs.3,207,517.

In the circumstances, the cash and cash equivalents balance of Kshs.1,551,668,328 could not be confirmed.

### **3 Unsupported Expenditures**

#### **3.1 Pro- Poor Funds**

During the financial year under review, a total of Kshs.49,600,000 was transferred to the Pro-Poor Account number 1149645113 in Kenya Commercial Bank. However, other than the bank statement for the account, no other documents including the Pro-Poor cash book, bank reconciliations, and funds disbursement files were made available to show the funds accountability.

Consequently, the propriety and validity of the Kshs.49,600,000 pro-poor funds expenditure could not be confirmed.

#### **3.2 Construction of Roads and Rehabilitation of Civil Works**

During the year under review, the County Government spent Kshs.537,193,066 and Kshs.10,572,126 in relation to construction of roads and rehabilitation of civil works respectively both totaling to Kshs.547,765,192. However, no tender documents were made available for audit verification to confirm that the procurement was fair, equitable, transparent, competitive and cost effective as required by Article 227 of the Constitution.

As a result, it was not possible to ascertain that the County Executive got value for money in the expenditure of Kshs.547,765,195 .

#### **3.3 Unsupported Provisions in the Contracts**

During the year under review, the County Executive of Kitui entered into a contract worth Kshs.347,657,108 with various contractors for construction of roads and drifts and Kshs.15,470,000 was paid in respect to administration and preliminary provisions. However, no documentary evidence in relation to Kshs.15,470,000 was made available for audit review.

In consequence, the validity and propriety of the Kshs.15,470,000 expenditure could not be confirmed as at 30 June 2017.

### 3.4 Unsupported Fuel Expenditure

During the year under review, the County Executive paid Kshs.29,424,998 to various suppliers of fuel, oil and lubricants. However, no documentary evidence in support of the expenditure in terms of details of how fuel was consumed, the vehicles fueled, the local purchase orders issued, delivery notes for fuel supplied and work tickets of the vehicles using the fuel were made available for audit review.

In the circumstances, it was not possible to confirm the propriety and authenticity of the expenditure of Kshs.29,424,998.

### 3.5 Unsupported Repairs of Motor Vehicles

The financial statements reflects use of goods and services expenditure of KShs.1,813,556,941 which include Kshs.47,742,933 in respect to routine maintenance-vehicles and other transport equipment. However, included in this expenditure was Kshs.9,493,621 in relation to motor vehicles repairs and purchase of spares which was not supported with necessary and relevant documents including pre-inspection and post-inspection report and store records.

In view of the foregoing, the propriety and value for money on the expenditure of the Kshs.9,493,621 could not be ascertained.

### 3.6 Other Unsupported Expenditure

During the financial year under review, a total of Kshs.3,014,303,287 was spent on six items. However, included in this expenditure is an amount of Kshs.382,797,870 tabulated below which was not supported by relevant documents.

<b>ITEM</b>	<b>Total Amount Spent (Kshs.)</b>	<b>Amount not Supported (Kshs.)</b>
Other Infrastructure of Civil Works	1,585,520,205	207,508,907
Other Operating Expenses	138,162,596	15,772,338
Scholarship and Other Educational Benefits	216,375,964	16,902,295
Training Expenses	99,423,467	8,893,260
Specialized Materials	437,627,989	9,990,935
Construction of Roads	537,193,066	123,730,135
<b>Total</b>	<b>3,014,303,287</b>	<b>382,797,870</b>

In the circumstances, it was not possible to confirm that the Kshs.382,797,870 expenditure was a proper charge to public funds.

#### **4 Reallocation of Funds**

During the year under review, the County Executive reallocated Kshs.1,260,777, Kshs.3,724,500 and Kshs.917,510 all totaling to Kshs.5,902,787 from routine maintenance, purchase of information communication and technology (ICT) and research, studies, project preparation, design and supervision to Utilities (electricity), purchase of equipment and refurbishment of building respectively. However, there was no authority or approval for reallocations in the supplementary budget.

#### **5 Pending Accounts Payable**

##### **5.1 Trade Payables (Pending Bills)**

Annexes 1 and 2 of the annexes to the financial statements reflects pending bills for accounts payables and staff payables of Kshs.1,216,292,048 and Kshs.2,690,763 respectively all totaling Kshs.1,218,982,811. However, the respective supporting documents such as contracts, local purchase/service orders, delivery notes, invoices and supplier statements were not made available for audit verification

##### **5.2 Deposits Payables**

Note 23 to the financial statements reflected accounts payable in respect to deposits of Kshs.277,115,001 as at 30 June 2017. However, the respective supporting documents were not made available for audit verification.

In the circumstances, the accuracy, validity and existence of account payables and deposits balance of Kshs.1,218,982,811 and Kshs.277,115,001 respectively could not be confirmed as at 30 June 2017.

#### **6.0 Revenue**

##### **6.1 Under Collection of Own Generated Revenue**

During the year under review, the County Executive had budgeted for own generated revenues totaling to Kshs.668,610,000. However, only Kshs.315,347,363 or 47% of this revenue was collected while Kshs.353,262,637 (53%) remained uncollected.

In addition, a review of the trend analysis for the past two financial years revealed a decline in revenue collection as follows;

<b>Financial Year</b>	<b>Amounts (Kshs.)</b>	<b>% Variance</b>
2014-2015	434,268,204	
2015-2016	416,188,728	-4%
2016/2017	315,347,363	-27%

The County Executive did not therefore institute effective revenue collection mechanisms during the year under review and the Kshs.353,262,637 revenue under collection translated to non- provision of planned, budgeted and promised services to Kitui County residents.

## 6.2 Non Budgeted Revenue Sources

A review of the trend analysis report made available for audit review revealed that out of Kshs.315,347,365 internally generated revenue, Kshs.50,499,235 was from unbudgeted items.

In the circumstance, the 2016/2017 revenue budget could not be confirmed as fully inclusive of all the revenue sources available in Kitui County.

## 6.3 Arrears of Revenue

Records made available reflected revenue arrears totaling to Kshs.266,286,615 as at 30 June 2017 as follows;

<b>ITEMS</b>	<b>Amount (Kshs.)</b>
Property Rates	246,416,020
House and Stalls Rent	6,038,725
Free Maternity	10,845,000
NHIF Rebates	<u>2,986,870</u>
<b>Totals</b>	<b><u>266,286,615</u></b>

In the circumstances, the County Executive did not institute effective debt collection mechanisms during the year under review and the Kshs.266,286,615 revenue arrears translated to an equivalent promised but undelivered service to Kitui County residents.

## 7.0 Procurement of Goods and Services

### 7.1 The Ultra-Modern Resource Centre at Manyenyoni

The County Executive contracted Emjay Wakie Enterprises on 06 June, 2016 at a contract sum of Kshs.106,209,000 at a contract period of twenty-four (24) months to construct Ultra-Modern Resource Centre. However, a physical verification on 15 January 2018 almost eighteen (18) months after the lapse of the contract period, revealed that the project had stalled at the foundation level and the contractor was not on the site. The project was therefore, behind schedule and the contractor may not deliver in the agreed time and cost

Further, the bills of quantity reflected Kshs.200,000, Kshs.200,000 and Kshs.50,000 for NEMA certificate, Insurance and signboard respectively. However, no NEMA certificate and insurance policy was made available for audit verification and no signboard was on the site.



In the circumstances, it was not possible to ascertain that the contractor will deliver a quality and quantity project at the agreed contract price and in time.

## **7.2 Chain Link Fencing and Gate Construction at Voo Secondary School**

During the financial year under review, Esjovia Contractors Ltd were awarded a contract in respect of a Chain Link Fencing and Gate construction at Voo Secondary School and at a contract sum of Kshs.2,692,955. However, the firm submitted two National Construction Authority (NCA) certificates, one certifying them as building works contractor and the other as Water works contractor but both certificates had the same number 002960 with all the details being the same except the purpose for which they were issued. In addition, the firm submitted a letter referenced CR12 C101361 dated 18 September 2014 which was allegedly issued by the Assistant Registrar of Companies confirming the directorship of the company. However, the same letter was used by a competing and unsuccessful bidder Redkam Contractors Ltd raising doubts as to whether the two firms were not related. Further, the postal addresses indicated in the tax compliance certificate of the winning bidder (Esjovia Contractors Ltd) - P.O Box 38-90200 and that submitted by Redkam Contractors were similar.

The two companies' responsiveness is questionable. Further, the bill of quantities indicated that 14-gauge chain link was to be fixed, however, on physical verification it was confirmed that 16 gauge was fixed. In addition, 6 strands of 12.5 gauge barbed wire was to be fixed but 2 strands of 16 gauge were fixed. Records made available showed that the firm had been paid the total contract sum through certificate number 1 of 25 January 2017. The procurement did not comply with Article 227 of the constitution on being fair, equitable, transparent, competitive and cost effective.

In the circumstance, the fencing works were not done as per the bill of quantities hence compromising on quality and raising doubt as to whether the County Executive received value for money in the KShs.2,692,955 expenditure..

## **7.3 Supply of Specialized Survey Equipment**

During the year under review, Measurement Systems Ltd was awarded a contract to supply Survey Equipment through restricted tendering, at a contract sum of Kshs.9,190,680. However, the choice of the procurement method was not supported by a justification of its choice contrary to Section 91 of the Public Procurement and Asset Disposal Act 2015 which recognizes open tender as the preferred procurement method. In addition, the tender opening minutes, tender evaluation report, letter of notification of award and letter of acceptance were not made available for audit.

It was therefore not possible to ascertain that the Executive got value for money in the Kshs.9,190,680 expenditure.

Further, the funds were sourced from two different sub votes namely 3111402- purchase of survey equipment Kshs.5,000,000 and 3111114- Non Residential Buildings

Kshs.4,000,000. The later amount was therefore charged in the wrong account resulting to an unauthorized reallocation of Kshs.4,000,000 meant for non- residential buildings.

This was contrary to Section 53 (8) which require the 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.

#### **7.4 River Athi- Kanyingi- Maluma- Mutomo- Ikutha- Kanziku Water Supply Project**

**7.4.1** During the year under review, four firms were contracted to construct a water project line at a total contract sum of Kshs.130,364,345 as follows;

<b>Line/Phase</b>	<b>Description</b>	<b>Contract amount (Kshs.)</b>	<b>Contractor</b>	<b>Tender Number</b>
3.6 Km	Gravity Line from Treatment Works towards Mutomo and Branch line to Kamutei Hill.	12,971,485	Telina Contractor abd General Suppliers	CGoKTI/283/2016-2017
10 Km	Mutomo Gravity Line Lot II	56,866,655	Liki Contractors and General suppliers	CGoKTI/266/2015-2016
11.5 Km	Mutomo Gravity Line Lot I	42,533,211	Liberty Group	CGoKTI/265/2015-2016
13.45 (As per BQ)	Main Gravity Line from Kyoani Beacon- Ikutha Market.	17,992,994	Quality care enterprises	CGoKTI/289/2016-2017
<b>Total</b>		<b>130,364,345</b>		

However, the procurement records including the tender advert, tender opening minutes and bidders' documents were not made available for audit scrutiny. Further, the evaluation report for the tender numbers CGoKTI/283/2016-2017 and CGoKTI/289/2016-2017 were also not made available. It was therefore not possible to confirm that the County Executive got value for money in respect to the Kshs.130,364,345 procurements as required by Article 227 of the Constitution.

**7.4.2** In addition, records made available showed that Telina Contractor and General Suppliers was paid the full contract price of Kshs.12,971,485. However, included in this payment was Kshs.180,000 for test running of the pipeline which was not done and a further Kshs.200,000 and Kshs.317,486 unsupported supervision and contingencies provisions respectively all totalling to Kshs.697,488.

In the circumstance, it was not possible to confirm that the provisions totalling Kshs.697,488 were a proper charge to public funds.

**7.4.3** Although the bills of quantities for Lot II were not availed, physical verification of the project revealed that the line had been done to completion. However, the testing and commissioning of the pipeline had not been done despite the contractor having been paid Kshs.48,336,657.

In the circumstance, it was not possible to confirm that any provisions made have been accounted for properly. It was also noted that a completion certificate for the works was issued to Liberty Group on 29 May 2017. However, the 11.5 Km pipeline had not been tested and commissioned.

In the circumstance, the completion certificate was irregularly issued.

**7.4.4** Further, although no procurement documents were availed for the Line from Kyoani Beacon to Ikutha Market, a physical verification done on 11 January 2018 revealed that although a completion certificate was issued on 13 June 2017 and Kshs16,193,896 paid, approximately 2.3 Km of the pipeline was not done and the contractor had left the site. The project had also not been tested and commissioned.

It was not possible to establish how the contractor was awarded a completion certificate while there were incomplete works for the pipeline.

A physical measurement of the pipeline from Kyoani Beacon to the Ikutha hospital where the pipeline was ending gave a distance of 12Km and not 13.45KM reflected in the bill of quantities creating a difference of 1.45 Km. This, effectively, could have resulted to irregularly overpricing of the BQ by Kshs.(Kshs17,992,994.95/13.45Kms X 1.45Kms) 1,939,765.

In the foregoing circumstances, the County Executive could have lost the Kshs.1,939,765 through non-existent works.

## **7.5 Upgrading to Bitumen Standard of Kitui School – Ithookwe Show Grounds- Kitui Airstrip Road**

During the year under review, Maangi Construction and General Suppliers was awarded a contract to upgrade Kitui School-Ithookwe Showground- Kitui Airstrip road (4.0KM) at a contract sum of Kshs.133,451,699 and a contract period of 9 months commencing 5 December, 2016. As at 30 June 2017, a total of Kshs.54,366,585 had been paid to the Contractor. However, physical measurement of the road gave a distance of 3.5 Km and not the 4 KM reflected in the bill of quantities resulting into unexplained increase of 500 meters which translated into an increase of the project cost by Kshs.(133,451,698.60/4Km X 0.5Km) 16,681,462. In the circumstance, the distance to be upgraded was therefore doubtful. Further, although the contract was incomplete, the Contractor had demobilized and left the site. In the circumstances, it was not possible to ascertain that the project would be completed within the project time and price.

Further, the contractor raised certificate number 1 on office administration and preliminaries, and Earth works at Kshs.6,338,585 and Kshs.5,524,894 respectively. However, included in the Kshs.6,338,585 was an unsupported expenditure of Kshs.4,800,000, Kshs.347,900, Kshs.100,000 and Kshs.190,000 in respect to training, engineering miscellaneous, insurance and quality control test respectively all totalling to Kshs.5,437,900. In the circumstance, the propriety of the Kshs.5,437,900 expenditure as at 30 June 2017 could not be confirmed.

In addition, included in the above Kshs.5,524,894 earthworks, was Kshs.4,738,600 in respect to "Spoil excess material from side drains excavations" quantities of 2000 cubic meters. However, the quantities paid for were 5510 cubic meters, therefore exceeding the BQ quantities by 3510 cubic meters.

In the circumstances the expenditure of Kshs.3,018,600 could not be confirmed as a proper charge to public funds.

#### **7.6 Supply and Delivery of Various Equipment to Kitui Referral Hospital**

During the year under review, Total Hospital Solutions was awarded a Kshs.5,773,000 contract to supply and deliver various equipment to Kitui Referral Hospital. However, even though the contract was above the Kshs.4,000,000 threshold matrix for quotations as set by the Public Procurement Regulations 2006, quotation method of procurement was used instead of open tender. Further, the respective procurement documents showing how the supplier was identified were not made available for audit review.

In the circumstance, the propriety of the Kshs.5,773,000 expenditure as at 30 June 2017 could not be ascertained.

#### **7.7 Variation Order for County Government Staff Office Block**

The County Executive awarded Kitho Civil and Engineering Co. Ltd a contract dated 18 July 2014 to construct County Government Offices at a contract sum of Kshs.94,849,657 with a contract period of 12 months ending 17 July 2017. However, physical inspection done on 17 January 2018 revealed that the office block was still under construction even though the contract period had expired.

Further, a variation evaluation committee recommended a contract variation of Kshs.21,163,211 which was 22.31% of the original contract price due to changes in design and specifications. However, documents in support of these changes were not made available for audit review.

In the circumstance, it has not been possible to confirm that the contract will be completed within the contract period and price and that the variation was fairly arrived at.

#### **7.8 Opening up of Road from Bavaria Junction- Mutuni Road through Kamangu Stream and Kalundu River**

The County Executive contracted Rene Industries Ltd to open up a road from Bavaria Junction to Mutuni Road through Kamangu Stream and Kalundu River (4.5 Km) at a contract sum of Kshs.26,482,891. However, the tender advert, opening, evaluation documents and contract documents were not made available for audit review.

Further, documents made available showed that the contractor had been paid Kshs.22,521,184 as at 30 June 2017 which included Kshs.16,043,366 in respect to culverts and drainage works. However, a physical inspection showed that there were no culverts and the contractor had demobilized.

In the circumstance the propriety of Kshs.22,521,184 expenditure as at 30 June 2017 including attainment of value for money in the contract sum could not be confirmed.

### **7.9 Extension of Street lighting: Nzelu River to Kwa Kinyai Shopping Centre**

During the financial year under review, Destiny Building and General Contractors was awarded a Kshs.10,338,896 contract for the extension of street lights from Nzelu River to Kwa Kinyai shopping center which was signed on 24 June, 2016. However, the respective procurement records including tender advert, opening minutes and bidders' documents were not made available for audit review. Further the LSO 1185270 was issued on 16 June 2016 contrary to government regulations that no funds should be committed after 31 May of each year.

### **7.10. Storeyed Maternity Ward at Kitui Referral Hospital**

During the financial year under review, Rene Industries Ltd was awarded a contract for the construction of a storey maternity ward at Kitui Referral Hospital at a contract sum of Kshs.242,782,653. However, tender opening minutes, evaluation report, contract document and the bid documents were not made available for audit review.

Further, the unsuccessful bidders were not given regret letters contrary to Section 74 Public Procurement and Asset Disposal (PPAD) Act 2015 and the contract award was not published and publicized contrary to Section 138(1) of the PPAD Act 2015.

In the circumstance, the Executive was in breach of the Public Procurement and Asset Disposal Act, 2015 and it was not possible to ascertain that value for money equivalent to the Kshs.242,782,653 was received in line with Article 227 of the Constitution.

### **7.11 Doubtful Procurement of Non Pharms for Kitui Referral Hospital**

During the financial year under review, assorted pharmaceuticals and non-pharmaceuticals worth Kshs.151,317,786 were procured from the Kenya Medical Supplies Authority which included unsupported non-pharms worth Kshs.20,480,589.

In the circumstance, the propriety of Kshs.20,480,589 unsupported expenditure as at 30 June 2017 could not be confirmed.

#### **7.12 Construction of a Maternity Block at Mbitini**

During the financial year under review, Millenium Stores Ltd was contracted to Construct a Maternity block at Mbitini at a contract Sum of Kshs.9,989,600 and contract period of 16 weeks ending 6 April 2017. However, the respective procurement records including the tender advert, opening minutes, evaluation reports and the full form of contract were not made available for audit review. In addition, a Physical verification done on 9 January 2018 revealed that the plumbing works had not been done and the washrooms were not completed nine months after the elapse of the contract period.

In the circumstance, it was not possible to ascertain that the Kshs.9,989,600 had value for money and that it would be completed within the agreed contract time and price.

#### **7.13 Pipeline Distribution Line, Supply of Materials, Trench Excavations for Kangukangu, Kanyongonyo, Kiseuni**

During the financial year under review, Marolta Construction Co Ltd was contract to undertake Pipeline distribution line, supply of materials and trench excavations at KanguKangu, Kanyongonyo and Kiseuni at a contract price of Kshs.42,382,484. However, the procurement records including tender advert, opening minutes, evaluation and the contract document were not made available for audit review. In addition, except for one paid certificate dated 28 June 2016 for Kshs.17,000,000 no other payment records were availed to show how much had been paid in respect to the contract as at 30 June 2017.

Further, a physical verification revealed although the contractor had left sites that the pipeline distribution line was incomplete and the 3 completed water kiosks had no water flows.

In the circumstances, it was not possible to ascertain that the County Executive got value for money in the Kshs.42,382,484 contract and that the project would be completed within the contract period and price.

#### **7.14 Construction of Lot II Drifts on B7 Kisasi- Mbitini-Yongela-Voo**

During the financial year under review, Jomeg Contractors was contracted to construct Lot II drifts on B7 Kisasi-Mbitini-Yongela-Voo at a contract price of Kshs.13,927,068. Records made available showed that Kshs.11,790,378 had been paid for certified work

as at 30 June 2017. However, the procurement records including tender advert, opening minutes, bidders' documents, evaluation, notification of award of the contract and the contract document were not made available for audit review. Further, there was no recorded deliveries of the regret letters, if any, to the unsuccessful tenderers contrary to Section 74 of the PPAD Act 2015. In addition, the contract award was not published and publicized as required by the Section 138(1) of the PPAD Act 2015.

In the circumstances, the County Executive was in breach of Public Procurement and Asset Disposal (PPAD) Act 2015 and it was not possible to ascertain that value for money was attained in the Kshs.13,927,068 contract.

#### **7.15 Renovations of Buildings at Kitui Level IV Hospital.**

The County Executive awarded a contract to renovate 19 buildings at Kitui level IV hospital to two contractors namely; Timax Building and General Contractors Limited and Afriserve Interventions Ltd, at a total contract sum of Kshs.39,760,426. However, a physical inspection revealed that a construction of a new walkway from Nyayo ward via Theatre to Maternity and execution of other works at a cost of Kshs.330,000 and Kshs.4,104,040 respectively which was included in the BQs and paid for was not constructed.

In addition, no supporting documents were made available for provisions totalling to KShs.2,764,821 mainly for plumbing and mechanical and electrical works which were included in the BQ and paid for.

In the circumstances, the propriety of Kshs.39,760,426 total contract sum as at 30 June 2017 could not be confirmed.

#### **7.16 Road Construction of Enziu- Kamulewa- Kalitini Road Project**

During the financial year under review, Jeti General Constructors Ltd Kitui was awarded a Kshs.18,879,370 contract to construct Enziu- Kamulewa- Kalitini. However, the tender documents, opening minutes, evaluation minutes, the award minutes and the appointment letters to the various committees were not made available for audit verification.

In addition, no supporting documents in respect to provisions totaling to Kshs.390,000 reflected in the BQ were made available for audit review.

In the circumstances, the propriety of Kshs.18,879,370 total contract price could not be confirmed as at 30 June 2017.

#### **7.17 Street Lighting of Kitui Town Mjini Road**

During the financial year under review, M/S. Tryphosa Agencies Ltd was awarded a Kshs.35,950,637 contract for road construction and street lighting of Kitui town Mjini road through tender number CGOKTI/303/2014-2015.

However, the tender documents, the tender processing documents like tender opening minutes, evaluation minutes, the award minutes and the appointment letters to the various committees were not made available for audit verification.

In addition, included in the contract sum of Kshs.35,950,637 was an unsupported general office administration and preliminaries provision of Kshs.1,423,000 .

In the circumstances, it was not possible to ascertain the propriety of the Kshs.39,950,637 total contract sum as at 30 June 2017.

### **7.18 Construction of Ngini River Drift**

During the financial year under review, M/S. Nariana was contracted to construct Ngini river drift at a contract sum of Kshs.69,889,710. However, the tender document and the tender processing documents were not provided for audit verification. Further, included in the Kshs.69,889,710 contract sum was an unsupported expenditure of Kshs.8,977,000 in respect to general office administration and miscellaneous and HIV/AIDS advocacy program. In the circumstances, the propriety of the Kshs.69,889,710 total contract sum as at 30 June 2017 could not be ascertained.

### **7.19 Non Provision of Procurement Documents**

The County Executive contracted twenty-one (21) firms to supply goods, works and services totalling to Kshs.210,630,473 during the year under review. However, the procurement documents including initiation of the procurement process, opening, evaluation and award minutes and contract documents were not made available for audit verification.

In the circumstance, the propriety and value for money in respect to the Kshs.210,630,473 expenditure could not be confirmed as at 30 June 2017.

## **8.0 Human Resources Management**

### **8.1 Organization Structure and Staff Establishment**

The June payroll for the year under review reflected a total staff strength of 5303 both in the IPPD and manual payrolls. However, the County Executive lacked an approved organization structure that depicts the various offices, holders of these offices and their technical and support staff. Their lines of authority were not clearly defined. Further, it was not possible to ascertain stations and department where some officers worked. In addition, the County Executive did not have an approved staff establishment that would show the positions of employment in the Executive, the numbers filled and any under/over establishments including planning for the same.

In the circumstances it was not possible to ascertain how the 5303 staff were held accountable for their jobs and whether there was over or under establishment.



## 8.2 Employees Sharing Same Bank Account Numbers

A review of the June 2017 IPPD payroll revealed that six employees shared three bank account numbers with each account being shared by two employees as follows;

<b>Name</b>	<b>Personal Number</b>	<b>Account Number</b>	<b>Monthly Gross Salary (Kshs.)</b>
Mulindah Pius Samuel	1983060136	68127025556	98,660
Mulindah Everlyne Kavengi	1986020193	68127025556	25,971
Munyoki Janetor Mueni	20160082495	10000050556	26,223
Kimaku Joel Vundi	20160082708	10000050556	26,223
Kyavoa Bernard Ndisya	1987077606	590199510663	63,880
Kyavoa Pauline Jeruto	1987079810	590199510663	63,880
<b>TOTAL</b>			<b>304,837</b>

No explanation was given as to why two different employees with different personal numbers were sharing the same bank account.

Further, a review of the June 2017 payroll revealed that two employees namely Mutua Joseph- ID Number 27640687 and Muthui Stephen Mati – ID number 29603720 who appearing in the manual and IPPD payrolls respectively shared the same KRA pin number A007398585R. The two were paid a total gross salary of Kshs.61,190 in the month of June 2017.

In the circumstances, it was not possible to ascertain the propriety of the Kshs.304,837 and Kshs.61,190, paid to the six and two staff members sharing bank accounts/KRA pin number respectively.

## 8.3 Employees whose Age was Over 60 Years

A review of the June 2017 IPPD payroll revealed that 8 employees, earning a monthly gross pay of Kshs.556,455 were aged over 60 years as follows;

<b>Payroll Num</b>	<b>ID No.</b>	<b>Name</b>	<b>Designation</b>	<b>Date of Birth</b>	<b>Age</b>	<b>Monthly Gross Pay</b>
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1979098282	16000241	Kubora Charles Musyimi	Agricultural Assistant[1]	01-07-56	61 yrs	31,562
1981086924	998366	Kisinzi Mbusya Richard	Senior Assistant Occupational Therapist	07-06-57	60 yrs	20,576
1981110545	6420171	Bernard Kitheka M	Advisor - Economic (County)	01-05-53	64 yrs	166,172
1984068739	5476135	Munyoki Agnes Mwendu	Cleaning Supervisor[2a]	17-10-55	62 yrs	22,080
20140001047	1895575	Muli Patrick Kivaa	Public Relations Assistant[3]	15-08-51	66 yrs	31,369
20140005849	1238476	Kimoli Frederick William Kiema	Chief of Staff (County)	01-07-52	65 yrs	198,501
20140095683	576864	Mutei David Mwandia	Chief Driver	01-07-43	74 yrs	30,304
20160061441	998342	Mbai Richard Mutua	Radiographer[3]	01-07-55	62 yrs	55,891
						<b>556,455</b>

In the circumstance, the Kshs.556,455 monthly pay for the 8 employees who were past the retirement age was irregular and contrary to Government Regulations.

#### **8.4 Over Commitment of Salaries**

A review of the Executive payroll for the year under review, revealed that the net pays of forty one (41) employees were below one third of their basic pay contrary to Section G (21) of the code of regulations (COR) (revised 2006) and Section 19 (3) of the Employment Act 2007

In the circumstances, the County Executive was in breach of the Code of Regulations (revised 2006) and the Employment Act, 2007.

#### **8.5 Ethnicity**

An ethnic analysis of the 2289 employees working directly under the County Executive using the IPPD staff register as at 30 June 2017 revealed that the largest represented ethnic community (Kamba) was at 81% while the lowest was at zero% as follows;

<b>Ethnic Name</b>	<b>Number</b>	<b>Percentage</b>
Kamba	1856	81.08%
Kikuyu	173	7.56%
Meru	76	3.32%
Embu	42	1.83%
Luhya	29	1.27%
Luo	27	1.18%
Kisii	22	0.96%
Mbere	16	0.70%
Tharaka	9	0.39%
MijiKenda	7	0.31%
Kalenjin	7	0.31%
Swahili-Shirazi	4	0.17%
Taita	4	0.17%
Pokomo	2	0.09%
Masai	2	0.09%
Somoli-So-State	2	0.09%
Kenyan Asian	2	0.09%
Kenya Arab	2	0.09%
Bajun	1	0.04%
Kuria	1	0.04%
Taveta	1	0.04%
Teso	1	0.04%
Dorobo	1	0.04%
Boran	1	0.04%
Other Kenyan	1	0.04%
	2289	

Further the majority of the new recruits were from the same community (Kambas) at 96% contrary to the provision of the County Governments Act, 2012.

In view of the foregoing, the County Executive was in breach of Section 65 of the County Government Act 2012.

## **9.0 Budget and Budgetary Controls**

## 9.1 Budget Process

A review of the County Executive's Fiscal Strategy Paper for 2016/2017 dated February 2016 revealed that although it was presented to the County Assembly on 26 February 2016 it was not subsequently published and publicized as required by Section 117 of the Public Finance Management Act, 2012.

In the circumstance, the County Executive was in breach of the public finance management Act, 2012.

Further, the combined summary statement of Appropriation reflected total receipts of Kshs.10,970,406,015 and a similar expenditure for the year under review. However, except for a notification made in one newspaper, no other supporting documents including list of participants, minutes and reports were made available to ascertain that the budget was taken through public participation.

In the circumstances, it was not possible to confirm that the public participation was conducted as required by law.

## 9.2 Expenditure Budget

(i) The approved total budget for the year under review was Kshs.10,970,406,014 which comprised Kshs.5,750,303,233 recurrent budget and Kshs.5,220,102,781 development budget. However, the actual expenditure was KShs.5,185,700 and Kshs.3,862,217,415 in respect to recurrent and development respectively both totaling to Kshs.9,047,918,389 resulting into an under expenditure of Kshs.1,922,487,626.

In the circumstances, the residents of Kitui County did not get promised and expected services equivalent to the under-expenditure of Kshs.1,922,487,626.

(ii) The total development budget of Kshs.5,220,102,781 did not to have a breakdown of the specific proposed projects to be undertaken in each department.

In the circumstance, it was not possible to confirm that the projects implemented during the year were the actual budgeted projects.

(iii) A comparison of the budgeted expenditure with the actual expenditure as per the financial statements revealed that the following 5 items with a total budget of Kshs.762,490,416 had a total expenditure of Kshs.823,749,271, resulting to an unapproved over expenditure of Kshs.61,258,855 as follows:

<b>Title and Details</b>	<b>Sum of Approved Estimates (Net)- Classified (Kshs.)</b>	<b>Financial Statements (Kshs.)</b>	<b>Variance Budget Less Financial Statement Actuals (Kshs.)</b>
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Domestic Travel and Subs.	302,302,427	349,463,826	(47,161,399)
Foreign Travel and Subsistence	22,221,577	24,618,030	(2,396,453)
Specialised Materials	429,032,770	437,627,989	(8,595,219)
Other Capital Grants and Trans	-	1,467,300	(1,467,300)
Rehabilitation of Civil Works	8,933,642	10,572,126	(1,638,484)
	<b>762,490,416</b>	<b>823,749,271</b>	<b>(61,258,855)</b>

No approval was sought for the over-expenditure through a supplementary budget.

In the circumstance, the appropriation of the Kshs.61,258,855 was contrary to the provisions of the public finance management Act, 2012

## **10.0 Non Reconciling Financial Reports**

### **10.0 Unsupported Fixed Assets**

Annex 4 of the annexes to the financial statements reflected fixed asset totaling Kshs.6,962,440,643 as at 30 June 2017. However, the respective supporting schedules were not availed for audit review.

Further, during the year under review, the County Executive did not maintain a fixed assets register as required by Section 149 of the Public Finance Management Act, 2012.

In the circumstances, the accuracy, existence and security of the fixed assets balance of Kshs.6,962,440,643 as at 30 June 2017 could not be confirmed.

### **11.0 Prior Year Audit Issues**

Prior year audit issues raised in the 2015/2016 audit report have not been addressed by the County Executive as shown in Note XIII on follow progress. No reason(s) have been given for this anomaly as at 30 June 2017.

## **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 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.

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**

My responsibility is to conduct an audit of the County's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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 of Kenya. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of Kitui 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.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**16 July 2018**