

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF KITUI FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements County Executive of Kitui set out on pages 1 to 43, which comprise the statement of assets and liabilities as at 30 June, 2019, and statement of receipts and payments, statement of cash flows and the summary statement of appropriation - recurrent and development 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 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.

Basis for Disclaimer of Opinion

1. Unsupported Receipts and Payments

The statement of receipts and payments reflects total receipts and payments of Kshs.9,971,765,460 (2018-Kshs.9,571,591,356) and Kshs.10,402,282,601 (2018-Kshs.9,715,648,143) respectively resulting to a deficit of Kshs.430,517,141 (2018-deficit Kshs.144,056,787). However, there were no documents in support of the receipts and payments by way of receipt counterfoils and payment vouchers. However, as disclosed under Note 1.0 - Other disclosures to the financial statements at page 40, the Management has explained that the documents were destroyed during a fire incidence on the night of 21 July, 2019 when the County Registry was burnt. The outcome of the investigation was still unknown as the investigations was reported to be still underway at the time of concluding the audit.

In the circumstances, it has not been possible to ascertain the accuracy, completeness and validity of the receipts of Kshs.9,971,765,460 and payments of Kshs.10,402,282,601 reflected in the statement of receipts and payments for the year ended 30 June, 2019.

2. Inaccuracies in the Financial Statements

2.1 Variances Between Financial Statements and IFMIS Balances

The financial statements presented for audit and the Integrated Financial Management Information Systems (IFMIS) balances presented in support had significant variances as detailed below:-

Item	Financial Statements Balance (Kshs.)	IFMIS Balance (Kshs.)	Variance (Kshs.)
Exchequer Releases	9,202,030,811	9,616,274,264	(414,243,453)
Proceeds from Domestic and Foreign Grants	12,597,145	399,240,141	(386,642,996)
Transfers from Other Government Entities	313,382,101	325,922,811	(12,540,710)
Tax Receipts	0	214,932,321	(214,932,321)
County Own Generated Receipts	443,755,403	494,503,874	(50,748,471)
Compensation of Employees	3,757,858,768	4,003,717,460	(245,858,692)
Use of Goods and Services	1,828,725,110	1,929,223,760	(100,498,650)
Transfers to Other Government Units	806,554,690	413,052,484	393,502,206
Other Grants and Transfers	632,296,338	90,281,228	542,015,110
Social Security Benefits	0	18,830,127	(18,830,127)
Acquisition of Assets	3,376,847,695	3,119,802,144	257,045,551
Other Payments	0	37,385,012	(37,385,012)
Bank Balances	1,061,634,288	7,455,988,757	(6,394,354,469)
Cash Balances	1,130,781	11,826,467,351	(11,825,336,570)
Outstanding Imprests	9,754,926	171,595,749	(161,840,823)
Deposits and Retentions	293,838,841	6,830,982,421	(6,537,143,580)
Fund Balance B/Fwd.	1,193,873,596	(1,355,492,673)	2,549,366,269
Prior Year Adjustments	15,324,700	0	15,324,700

The variances have not been reconciled or explained by Management.

2.2 Returned County Revenue Fund (CRF) Issues

As disclosed under Note 10 to the financial statements, the statement of receipts and payments for the year reflects nil returns from the County Revenue Fund (CRF). However, the summary statement of appropriation - recurrent and development combined, reflects CRF issues of Kshs1,193,693,597. This amount also differs with the audited financial statements balance for the year ended 30 June, 2018 which had indicated a balance of Kshs.1,503,758,730. No explanations have been given for the inconsistencies.

2.3 Variances in Other Grants and Transfers

As disclosed in Note 15 to the financial statements, the statement of receipts and payments also reflects payments on account of other grants and transfers balance of Kshs.622,296,338 (2018-Kshs.166,500,777). However, the trial balance in support of the amount reflects an amount of Kshs.504,088,312 resulting to a variance of Kshs.128,208,026 as analyzed below:-

Other Grants and Transfers Item	Financial Statements Balance (Kshs.)	IFMIS Balance (Kshs.)	Variance (Kshs.)
Scholarship and Other Educational Benefits	109,573,483	90,281,228	19,292,255
Capital Grants to Other Levels of Government	5,587,645	5,587,645	0
Other Current Transfer, Grants and Subsidies	256,702,458	249,592,523	7,109,935
Other Capital Grants and Transfers	76,348,769	158,626,916	(82,278,147)
Transfer to Health Centres and Dispensaries	72,660,499	-	72,660,499
Transfer to Youth Polytechnics	111,423,484	-	111,423,484
Total	632,296,338	504,088,312	128,208,026

Further, the summary statement of appropriation-recurrent and development combined reflects actual Other Grants and Transfers expenditure of Kshs.806,554,690 resulting in a variance of Kshs358,342,335. The variances have not been explained.

2.4 Pending Bills

Note 5.10 under Other important disclosures for pending accounts payables discloses suppliers' pending bills amount of Kshs.682,397,616 and as detailed out at Annex 2. However, the approved pending bills listing and supporting payment vouchers amounted to Kshs.477,142,269 resulting to an unexplained variance of Kshs.205,255,347. The disclosures of the pending bills at Annex 2 is not in compliance with the standards prescribed by the Public Sector Accounting Standards Board as it fails to disclose the balance brought forward from the prior year, movements during the year and the closing balance as at year end.

Additionally, available information indicates that pending bills on road works and other construction projects brought forward from 2015/2016 financial year totalling to Kshs.819,911,090 were unpaid as at 30 June, 2019 as they were reported to be under investigation with the Ethics and Anti-Corruption Commission. However, no disclosures were made in the financial statements to this effect and the amounts involved.

Further the management has not explained reasons for the continued delay in the settlement of the pending bills despite posting a positive cash and bank balance of Kshs.1,062,765,069 as at 30 June, 2019.

In the circumstances, it has not been possible to confirm the accuracy of the pending accounts payables balances of Kshs.682,397,616 reflected under Annex 2.

3. Motor Vehicles Log Books

Annex 5 to the financial statements discloses transport equipment with historical cost of Kshs.310,470,960 as at 30 June, 2019. However, logbooks for four hundred and eighty-

two (482) vehicles owned by the County were not availed for audit review. Further, the County Government did not provide motor vehicle records for fifty-nine (59) vehicles to show the mechanical status.

Consequently, it has not been possible to confirm the rightful ownership of the transport equipment with a historical cost of Kshs.310,470,960 as at 30 June, 2019.

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

Other Matter

1. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects a final approved receipts budget and actual on comparable basis of Kshs.11,688,672,446 and Kshs.11,165,459,057 respectively resulting to an under-collection of Kshs.523,213,389 or 4% of the budget. Similarly, the statement also reflects final expenditure budget and actual on comparable basis of Kshs.11,688,672,446 and Kshs.10,402,282,601 resulting to under absorption of Kshs.1,286,449,254 or 11% of the budget.

Detailed analysis of the collections by revenue source revealed that the under collection mainly occurred under proceeds from domestic and foreign grants and county own generated receipts that underperformed by Kshs.193,692,169 (31%) and Kshs.316,247,256 (42%) respectively. The Management has not rendered explanations for the shortfalls being in excess of the set thresholds of 10% and the measures being undertaken to remedy the situation in future. The above under-collection and absorption implies that some of the planned activities for the year were not undertaken thus impacting negatively on service delivery to the residents of Kitui County .

In addition, the County Executive had budgeted expenditure of Kshs.545,260,440 on transfers to other government units against actual expenditure of Kshs.632,296,338 thereby exceeding the budget by Kshs.87,035,898 or 16% of the budget without seeking approval from the County Assembly.

2. Unresolved Prior Year Audit Matters

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, although the Management has indicated that the issues have been responded to, the matters have remained unresolved as the Senate has not deliberated on the same.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES.

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

Basis for Conclusion

1. Irregular Use of Temporary Imprest on Expenditure

As disclosed in Note 12 to the financial statements, the statement of receipts and payments reflects use of goods and services payments of Kshs.1,828,725,110 (2018 - Kshs.2,216,121,882). Included in this amount is expenditure on printing, advertising and information supplies and services of which expenditure amounting to Kshs.15,098,736 was funded in cash by way of temporary imprests. Further, no documentary evidence was availed for audit review, to confirm whether the due procurement procedures had been adhered to.

In the circumstances, it was not possible to confirm whether the due procurement procedures were adhered to as per the Public Procurement and Asset Disposal Act, 2015.

2. Accounts Receivable - Outstanding Imprests.

As disclosed in Note 22 to the financial statements, the statement of assets and liabilities reflects accounts receivable- outstanding imprests balance of Kshs.9,754,926 (2018 - Kshs.9,994,888). However, the balance is not supported by way of; imprest registers and IFMIS generated reports of the balance. Included in the amount are prior year imprests amounting to Kshs.7,259,326 and issued to twenty-two (22) officers but remained unaccounted for as at 30 June, 2019. The imprests had also not been recovered from the affected officers' salaries contrary to the provisions of Regulation 91(6) of the Public Finance Management Regulations, 2015 which requires the Accounting Officer to take immediate action to recover from the salaries of the defaulting officers all the imprests not surrendered or accounted for at the due date.

Consequently, the County Government is in breach of the Law.

3. Fixed Assets Register

Contrary to Regulation 136(2) of the Public Finance Management (County Governments) Act, 2012, which stipulates the format for the preparation and maintenance of the fixed assets register, the register in place lacked details of land and buildings such as location, size, acquisition and valuation dates. The register did not also include all the assets

owned by the County Government as furniture and fittings, plant and equipment, motor vehicles were not reflected.

Consequently, the County Government is in breach of the Law.

4. Compensation of Employees

As disclosed in Note 11 to the financial statements, the statement of receipts and payments reflects compensation of employees cost of Kshs.3,757,858,768 (2018 - Kshs.3,321,990,916); a 13% increase from the prior year cost. Review of the employee processes revealed the following unsatisfactory issues: -

4.1 Ethnic Composition

During the year under review, the County recruited three hundred and twenty-nine (329) employees out of which two hundred and ninety-nine (299) or 91% were from the dominant ethnic community in the County. This is contrary to Section 65(1) of the County Government Act, 2012 which states that in selecting candidates for appointment, the County Public Service Board shall consider the need to ensure that at least thirty percent (30%) of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the County.

Consequently, the County Government is in breach of the Law

4.2 Compliance with Public Finance Management Act, 2012 - Fiscal Discipline

Compensation of employees cost is Kshs.3,757,858,768 which represents about 43% of the total receipts from equitable share of revenue of Kshs.8,729,200,000. This exceeds the set threshold of 35% set under Section 26(a) of the Public Finance Management Act, 2012 and Regulation 26(1)(b) of the Public Finance Management (County Governments) Regulations, 2015.

Consequently, the County Government is therefore in breach of the law.

4.3 Unsupported Recruitment of Temporary Employees

In addition, included in the employee cost also is Kshs.66,863,651 in respect to wages for temporary employees. However, there is no documentary evidence to show how the need for the temporary employees was identified and how the persons to fill the posts were recruited. This was contrary to guidelines issued under Section 65 of the County Government Act, 2012 on advertisements for vacant positions of employment. Consequently, it has not been possible to confirm if value for money has been realized from the compensation of employees cost of Kshs.3,757,858,768 for the year ended 30 June, 2019.

From the foregoing, the County is therefore in breach of the Law

5. Operation of Irregular Bank Accounts

Note 21 A to the financial statements discloses thirty-seven (37) bank accounts being operated by the County Government with cumulative bank balances amounting to Kshs.1,061,634,288 as at 30 June, 2019. An analysis of the schedule revealed that thirteen (13) accounts were in the Central Bank of Kenya (CBK), while the remaining twenty-four (24) bank accounts are held at various commercial banks with a combined total balance of Kshs.141,049,010. This is contrary to the provisions of Section 82(1)(b) of the Public Financial Management (County Governments) Regulations, 2015 which stipulates that all County Governments bank accounts except for imprest account should be maintained at the Central Bank of Kenya.

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

I do not express a conclusion on the effectiveness of internal controls, risk management and overall governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Conclusion of Internal Controls, Risk Management and Governance section of my report. I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

Basis for Conclusion

1. Projects Implementation

Review of projects being implemented by the County Government during the year revealed the following unsatisfactory issues on lawfulness and effective use of public resources: -

1.1 Stalled Project - Kitui Referral Hospital

During the year under review, the County Government paid a contractor Kshs.6,533,528 for construction of an amenity ward at the Kitui Referral Hospital. The contract had been awarded in 2016/2017 financial year at a sum of Kshs.144,775,000 and a contract period of 24 months. However, physical verification during the month of November, 2019, revealed that the project had stalled at the foundation (slab) level and the contractor was not on site. Further, only works valued at 16.4% had been certified despite the fact that the contract period had elapsed with no extension of time having been granted.

1.2 Irregular Procurement Process

The County Government through the Department of Environment awarded a contract for procurement and installation of solar powered water pump at Kanyagi Borehole Water Supply in Kitui Rural at a contract sum of Kshs.5,012,215 through restricted tendering. Similarly, a contract was also awarded for Mulinduko Borehole Water Supply, Kitui West at a contract price of Kshs.5,517,314 through use of quotations and direct method. However, the two awards were outside the threshold of restricted tenders of Kshs.2 million and should have been awarded through competitive open tendering. Management has not given any justification on the use of the above procurement method.

1.3 Irregular Procurement Process

The County Government through the Department of Trade, Co-operatives and Investments entered into contract for the supply of a stone crushing plant at a contract price of Kshs.85,305,490 on 25 May, 2018. This was based on a supplementary budget approved in the last quarter of the financial year 2018/2019. Available information indicates that only three (3) bidders had submitted bids and quoted Kshs.85,305,490, Kshs.44,520,000 and Kshs.47,500,000. However, the tender was awarded to the highest bidder who appear to have quoted twice as much. Management did not avail the bidding documents and records in support of the procurement process, to confirm if the procurement was carried out in a transparent and competitive manner.

Further, the geological and feasibility survey reports on suitability and viability of the project were not availed for audit review. Site inspection done in November, 2019 revealed that the ramp constructed was too narrow to allow passage of vehicles delivering boulders for crushing. There was no provision for an ablation block exposing the users of the facility to health risks.

2. Lack of Risk Management Policy and a Disaster Recovery Plan

The Management does not have a Risk Management Policy, a Disaster Recovery Plan or a Business Continuity Plan to help prevent and mitigate against risks. This is contrary to Section 158(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires the County Governments to develop risk management strategies which include fraud prevention mechanisms and a system of risk management and internal control that builds robust business operations.

In the circumstances, Management's ability to identify and mitigate against risks and manage disruptions arising from disasters is in doubt.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall 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 overall governance.

In preparing the financial statements, management is responsible for assessing the ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to dissolve the County Executive or cease operations.

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

My responsibility is to conduct an audit of the 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. 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.

In addition, my responsibility is 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.

I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance 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.

However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

I am independent of in accordance with ISSAI 130 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.



Nancy Gathungu
AUDITOR-GENERAL

30 November, 2020