

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Laikipia County Executive set out 11 to 57, 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 comparative budget and actual amounts: 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 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 Laikipia County Executive as at June 30 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards Cash Basis and comply with the Public Finance Management Act, 2012.

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

Basis for Qualified Opinion

1.0 Variances Between Financial Statements and IFMIS

The financial statements for the year ended 30 June 2017 reflect various balances which are at variance with figures shown in the IFMIS report as detailed below:

Details	Amounts as per financial statements (Kshs.)	Amounts as per IFMIS report (Kshs.)	Variance (Kshs.)
Receipts	4,480,872,882	3,717,621,108	763,251,774
Payments	4,352,835,286	4,053,669,931	299,165,355
Cash & bank	128,037,596	(4,097,849,282)	4,225,886,878
Receivables	-	(142,726)	(142,726)
Payables	-	(5,992,657,792)	(5,992,657,792)

Consequently, the accuracy, validity and completeness of the balances reflected in the financial statements cannot be confirmed.

2.0 Receipts

2.1 Variance in Recorded Receipts

The statement of receipts and payments for the year ended 30 June 2017 reflects receipts figure of Kshs.4,480,872,882. However, the summary statement of appropriation, recurrent and development combined indicated total receipts balance of Kshs.4,406,575,344 resulting in unexplained and unreconciled variance of Kshs.74,297,538. Consequently, the accuracy and completeness of receipts figure of Kshs.4,480,872,882 for the year ended 30 June 2017 could not be ascertained.

2.2 Exchequer Releases

The statement of receipts and payments for the year ended 30 June 2017 reflects exchequer releases balance of Kshs.3,406,107,269 while the schedules and supporting documents availed for audit reflected Kshs.3,722,107,269. The resultant variance of Kshs.315,990,000 was neither reconciled nor explained. Consequently, the accuracy and completeness of exchequer releases balance of Kshs.3,406,107,269 for the year ended 30 June 2017 could not be confirmed.

2.3 Prior, Year Revenue Balances

The statements of receipts and payments reflects prior year county own generated receipts balances of Kshs.483,498,889 for 2015/2016 while audited 2015/2016 balance was Kshs.457,279,691 resulting into unexplained difference of Kshs.26,219,198.

2.4 Unrecorded Revenue

Further, Note 9 reflects County Own Generated Receipts for the year ended 30 June 2017 balance of Kshs.543,756,513. However, verification revealed several long outstanding unsurrendered receipt books held by Laikipia West sub County with approximate value of Kshs.78,588,500. Some of the receipts books were issued in 2013 and no effort has been made by management to recover them. Consequently, the completeness and accuracy of County Own Generated Receipts balance of Kshs.543,756,513 for the year ended 30 June 2017 could not be confirmed.

2.5 Returned CRF Issues

The statement of receipts and payments for the year ended 30th June 2017 reported Returned CRF issues balance of Kshs.312,007,433 while the audited financial statements for the year ended 30 June 2016 reported a bank balance of Kshs.357,115,334 resulting into unaccounted for unspent balances of Kshs.45,107,901 brought forward from the 2015/2016 financial year not transferred to County Revenue Fund. Consequently, the accuracy of Returned CRF issues balance of Kshs.312,007,901 for the year ended 30 June 2017 could not be confirmed.

3.0 Compensation of Employees

3.1 Unreconciled Variances

The statement of receipts and payments for the year ended 30th June 2017 reported compensation of employees balance of Kshs.1,807,170,524 while schedules availed for audit reflected a balance of Kshs.1,928,569,663 resulting to unreconciled and unsupported variance of Kshs.121,399,139. Consequently, the accuracy of compensation of employees balance of Kshs.1,807,170,524 for the year ended 30 June 2017 could not be ascertained.

3.2 Failure to Comply with 30% Regional Staff Balance

During the financial year under review, the county recruited 176 staff, out which only 25 staff came outside that dominant community in Laikipia County. This was less than the recommended 30% which would translate to 53 of the recruited staff.

4.0 Use of Goods and Services – Fuel, Oil and Lubricants

Statement of receipts and payments reflects use of goods and services balance of Kshs.778,426,422 for the year ended 30 June 2017. However, the following were noted:

Note 12 as use of goods and services reflects fuel, oil and lubricants balance of Kshs.31,709,814 for the year under review. Included in the balance is an expenditure of Kshs.4,704,000 that had the following anomalies:

- i. Fuel of Kshs.3,004,000 was drawn using fuel cards but the payment vouchers were not supported by the approved detail records. Further, there was no record of reconciliation of the fuel drawn and the mileage covered by these vehicles.
- ii. Further, fuel amounting to Kshs.1,700,000 were not supported by appropriate documents i.e. Work tickets, detailed orders, fuel consumption statements.

Consequently, the propriety of the fuel, oil and lubricants expenditure for the year ended 30 June 2017 of Kshs.4,704,000 could not be ascertained.

5.0 Other Grants and Transfers

Note 15 as transfer to other Government entities of Kshs.59,149,480 reflects scholarships and other educational benefits balance of Kshs.50,564,521 for the year under review. Included in the balance is bursaries amounting to Kshs.48,500,000 paid to various schools and colleges during the year under review. However, no confirmations for bursaries of Kshs.47,796,200 were made to acknowledge receipts of the funds. Consequently, it has not been possible to ascertain whether the bursaries disbursed reached the intended beneficiaries and were properly accounted for as at 30 June 2017.

6.0 Transfer to Other Government Entities

Statement of receipts and payments reflects transfer to other Government entities balance of Kshs.419,061,406 for the year ended 30 June 2017. However, the following were noted:

6.1 Current Grants to Government Agencies and Other Levels of Government

Note 14 as transfer to other Government entities reflects current Grants to Government Agencies and other Levels of Government balance of Kshs.310,141,311 for the year under review. However, the following anomalies were noted:

6.2 Unrecorded Hospital Equipment

Included in Grants to Government Agencies and other Levels of Government balance of Kshs.310,141,311 in Note 14 is an expenditure of Kshs.8,342,900 for purchase of medical equipment's and linen between Jan-April 2017 for various dispensaries in the county which were receipted in various counter receipt vouchers (S13). However, the equipment were not entered in the stock control card (S3) hence it was not possible to confirm the facilities that received the items. Consequently, the propriety of Grants to Government Agencies and other Levels of Government balance of Kshs.8,342,900 for the year ended 30 June 2017 could not be ascertained.

6.3 Non Recording of Procured Drugs and Non-pharmaceuticals in the Stock Control Cards

Included in Grants to Government Agencies and other Levels of Government balance of Kshs.310,141,311 in Note 14 is procurement of drugs expenditure of Kshs.62,125,692. However, the following anomalies were noted:

a) Doldol District Hospital

Drugs and non-pharmaceuticals worth Kshs 704,060 procured from KEMSA on 28/01/2017 through delivery note/invoice no EMB-2-204891-2016/2017 for Doldol District Hospital was not recorded in the stock bin cards. It could not be confirmed how the drugs were utilized in absence of proper recording in the stock bin cards.

b) Nanyuki Referral and Teaching Hospital

Audit verification revealed that drugs worth Kshs.636,640 purchased on 08/09/2016 from KEMSA was not recorded in the stock control card and it was not clear how the drugs were being controlled in absence of stock control cards.

It was also noted that the hospital was running a manual system in the management of drugs at the dispense section. Considering the level of the activities and the number of patients involved, it was noted that the internal controls at the dispensing section could not have been adequate to safeguard the management of drugs at the hospital.

c) Rumuruti District Hospital

Audit verification revealed that non-pharmaceuticals worth Kshs.528,180 purchased on 08/09/2016 from KEMSA were not recorded in the stock control cards and it was not clear how the drugs were being controlled in absence of stock control cards.

6.4 Unconfirmed Store Balances

Further, included in Grants to Government Agencies and other Levels of Government balance of Kshs.310,141,311 in Note 14 is medical equipment expenditure of Kshs.2,508,000 recorded in the stock control cards (S3) but were not availed for our physical verification. Consequently, the propriety of Grants to Government Agencies and other Levels of Government balance of Kshs.2,508,000 for the year ended 30 June 2017 could not be ascertained.

7.0 Cash and Bank Balances

The statement of assets reflects bank balances as at 30 June 2017 of Kshs.128,037,596. However, as reported in the previous year, the following anomalies were noted:

7.1 Numerous Bank Accounts

Note 21A to the financial statements shows Laikipia Executive operated fifty one (51) bank accounts during the year under review against the recommended six (6) bank accounts in various commercial banks and in Central Bank of Kenya. The county is therefore in breach of the regulation in opening and running of the bank accounts.

7.2 Bank Reconciliation

- (a) Out of the fifty one (51) bank accounts held by the county government, twenty nine (29) bank reconciliation statements and bank confirmation certificates as at 30 June 2017 for these bank accounts were not presented for audit review and therefore bank balances held in those accounts could not be confirmed.
- (b) Further, the County Executive had two Health Services Fund account namely Laikipia Health Services Fund Account No 1000285858 and Laikipia County Health Sector Services Fund(HSSF) account No 114136623700 with a balance of Kshs.24,523,082 and Kshs.3,908,262 respectively. It was not clear the reason for operating the two bank account by the County for the similar activities.
- (c) The bank reconciliation statements were not prepared under IFMIS but were prepared manually

7.3 Bank Accounts Omitted from Financial Statements

The statement of assets reflects bank balances as at 30 June 2017 of Kshs.128,037,596. However, the following bank accounts and their respective balances were not incorporated in the financial statements.

Bank account	Account Number	Balance Amount-Kshs
Rumuruti collection account	Not disclosed	2,004,627
Rumuruti Hospital FIF Account	Not disclosed	125,478
Nyahururu Hospital imprest account	Not disclosed	10,258,902

Doldol Hospital FIF Account	064000064714	2,683,221
Nanyuki Referral Hospital FIF imprest account	064000064087	8,220,979
Laikipia County HSSF Account-cash	114136623700	35,000
Laikipia County Deposit Account	1000285834	1,975,265
Total		25,303,472

Consequently, the accuracy and propriety of bank balances of kshs.Kshs.128,037,596 as at 30 June 2017 could not be ascertained.

7.4 Unreconciled Bank Balances

The following bank balance was not reconciled:

Account Name	Financial statement Balance(Kshs)	Actual Bank Balance (Kshs)	Difference (Kshs)
County Revenue Fund A/C 1000171626	11,347,008	365,297,074	353,950,066

In the circumstance, the accuracy of bank balances as at 30 June 2017 could not be confirmed.

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 Other Matter sections of my report, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1.0 Acquisition of Assets

Statement of receipts and payments reflects use acquisition of assets balance of Kshs.1,109,593,303 for the year ended 30 June 2017. However, the following were noted:

1.1 Poor Workmanship in Construction of Thome Dispensary at Salama ward

Included in construction of building balance of Kshs.1,109,593,303 in Note 17 is an expenditure of Kshs.4,738,459 paid to Nyonjoro for the construction of Thome dispensary. The contract was procured and awarded in the financial year. Audit verification revealed that the dispensary was complete and operational. However, it was noted that the contractor used gauge 30 iron sheets instead of gauge 28 iron sheets as per the bill of quantity. Further, it was noted that there was poor workmanship on windows, the contractor installed 6 domestic sinks instead of 5 medical sinks. Further, the putt used for fixing the windows panes was of low quality. Consequently, the County might not have received value for

money for the project. Consequently, propriety of construction of building expenditure for the year ended 30 June 2017 of Kshs.4,738,459 could not be ascertained.

1.2 Construction of Ewasongiro River Bridge

As reported in the previous year, included in construction of building balance of Kshs.1,109,593,303 in Note 17 is an expenditure of Kshs.15,369,310 paid to M/s Joycot General Contractors of Nyahururu for the construction of Ewasongiro River Bridge. The contract was awarded at a contract price of Kshs.128,000,107 in 2015/2016 financial year. However, no contract agreement between the contractor and the county government was made available for audit verification. Therefore, the terms and condition of this contract could not be established. Also the county executive might not achieve the value for money for this project due to the delays in construction works.

1.3 Purchase of Specialized Plant, Equipment and Specialized Machinery

Included in the acquisition of assets balance Kshs.1,109,593,303 is purchase of specialized plant, equipment and specialized machinery amount of Kshs.61,561,632 for the year under review. However, the following were noted:

(a) Procurement of Excessive Water Tanks

The County Executive purchased water tanks of several sizes and posted as follows:

Type	Number purchased	Amount (Kshs)	Acquisition of Assets (Note 15)
2300litres water tank	2215	48,439,681	Construction and civil works
3000litres water tank	165	3,364,009	Purchase of specialized plant, equipment and machinery
Total	2380	51,803,690	
3000litres water tank	536	20,058,048	Construction and civil works
2300litres water tank	300	7,917,865	Purchase of specialized plant, equipment and machinery
Total	836	27,975,913	
10,000litres water tank	15	1,348,448	Construction and civil works
Grand Total	3231	81,128,051	

However, the following anomalies were noted:

- i) The expenditure on water tanks in the period under audit of Kshs.81,128,051 exceeded the budget of Kshs.9,200,000 in the annual procurement plan(ADP) for 400 pieces of 2,300 liters plastic water tanks each at Kshs.23,000. No explanation was provided for this deviation from the quantities indicated in the annual procurement plan.

- ii) The County government spent Kshs.1,348,448 for supply of 15No. 10,000 litres water tanks. However, audit review revealed 14 out of the 15 water tanks were issued to staff members. It was not clear the how the water tanks were issued to staff members.

Consequently, the value for money for acquisition of assets balance of Kshs.81,128,051 for the year ended 30 June 2017 could not be ascertained.

1.4 Construction of Ewaso Borehole

Included in the construction and civil works balance of Kshs.456,502,824 is an amount of Kshs.11,065,325 paid to M/s Danblaq Company Ltd for the construction of Ewaso Borehole during the year review. However, the following anomalies were noted;

- (i) Records availed for audit revealed that the chairperson of the tender evaluation committee was not among the committee members appointed on 5th December 2016 by the accounting officer. No explanation was given for this anomaly.
- (ii) Further review revealed that the site visit certificate for winning bidder, Danblaq Company Ltd did not have rubber stamp of water officer stationed at Nyahururu, which was a major requirement and was even a basis for disqualification of other bidders. No reason was given for this treatment.
- (iii) Advertisement for the tender and engineers estimate were not presented for audit verification.

In the circumstances the propriety and value for money on the expenditure of Kshs.11,065,325 in respect of Ewaso Borehole for the year ended 30 June 2017 could not be confirmed.

1.5 Unutilized Boreholes – Tura and Kiwanja Ndege Boreholes

Included in the construction and civil works balance of Kshs.456,502,824 as disclosed in note 17 to the financial statement for 2016/2017 is an amount of Kshs.6,892,011 comprising of Kshs.3,391,920 and Kshs.3,500,091 paid to M/s Patmbichi General Contractors and Kiwanji-Talek Enterprises for construction of Tura borehole and Kiwanja Ndege borehole respectively. The contracts were tendered and awarded during the financial year. However, tender documents including evaluation and award minutes for the contracts were not provided for audit review. Further, physical verification carried out on 29th November 2017 revealed that the two boreholes were drilled but are however, not yet operational because of lack of water pump and other accessories

Consequently, the propriety and value for money of Kshs.6,892,011 spent on the two projects during the year ended 30 June 2017 could not be confirmed.

1.6 Construction of Fence for Wildlife Protection

As reported in the previous year, included in construction and civil works balance of Kshs.456,502,824 in an amount of Kshs29,664,168 paid for various materials to two (2) suppliers in the financial year for construction of wildlife fence. The management entered into a private partnership with a number of private and public organization in Laikipia county to upgrade the West Laikipia Fence to provide an effective barrier to elephant movement. The agreement were signed between 25 November 2015 and 19 January 2017 by various stakeholders. However, the following anomalies were noted:

- a) Audit review revealed that the fence has not followed the originally designed path and was experiencing some vandalism on some sections. However, the costing for diversion and vandalized materials have not been taken into consideration and it is not clear how this will be financed.
- b) Though materials were fully provided for by the county government, it is not clear why construction of some sections of the fence have stalled. The project has covered length of about 50kms which is half of the expected 100kms. The management has not provided explanation for the delay in the implementation of the project.
- c) Further, no documentary evidence of the county government independent review on progress of the project, estimated cost to completion and completed works were presented for audit verification.

Consequently the value for money on the expenditure of Kshs.29,664,168 on construction of the wildlife fence could not be confirmed.

2.0 Summary of Fixed Assets

As reported in the previous year, the financial statements did not include a summary of fixed assets disclosure in the Notes to the financial statements as required by the prescribed Public Sector Accounting Standards Board(PSASB) report template. Further, the fixed assets register had not been updated and the last time it was updated was in November 2014.

3.0 Pending Bills

Note 26.1 to the financial statements as at 30 June 2017 reflects Kshs.1,041,142,002 for pending accounts payable as at 30 June 2017. However, no breakdown for the outstanding amount for the previous years was given. Further, had the bills been paid and charged to the 2016/2017 accounts, the financial statements would have reflected a deficit of Kshs.1,141,254,040 and not a deficit of Kshs.100,112,038 now shown.

4.0 Governance Framework- Lack of Audit Committee

The county government is yet to put in place an audit committee as provided under the PFM Act. This exposes the county to financial risks as the necessary mechanisms in terms of audit and risk mitigation structures have not been put in place as provided for in the Act.

5.0 Budgetary Control

5.1 Budget Overview

During the year under review, the approved supplementary budget for Laikipia County Government Executive was Kshs.5,587,772,467 with Kshs.3,093,801,751 (91.66%) allocated to the recurrent expenditure and Kshs.2,493,970,716 (61.95%) to development as follows:

Item	Budgeted 2016/2017 (Kshs.)	Actual 2016/2017 (Kshs.)	Absorption rate %	% of Total Expenditure
Development Vote	2,493,970,716	1,544,968,712	62	35
Recurrent Vote	3,093,801,751	2,807,866,574	92	65
Total	5,587,772,467	4,352,835,286	78	100

The above table shows that the county spent Kshs.1,544,968,712 on development expenditure which is 35 % of total expenditure. This is within section 107 (2) b of PFM Act,2012 which requires that over the medium term, a minimum of thirty (30) percent of the county government's budget shall be allocated to development expenditure.

5.2 Under /Over Expenditure

Item	Budget 2016-2017	Actuals 2016-2017	Over	Under
Compensation of Employees	1,993,837,317	1,114,964,337		878,872,980
Use of Goods and Services	1,038,033,263	794,254,215		691,220,952
Transfers to Other Government Entities	454,228,263	319,756,929		134,471,334
Other Grants and Transfers	92,676,653	59,149,480		33527173

Acquisition of Assets	878,101,614	1,114,964,337	236,862,723	
Other Payments	1,078,147,056	181,465,359		896,681,697
Total	5,535,024,167	4,380,760,844		

From the above analysis, it is clear that the county under spent on compensation of employees, Use of Goods and Services and Acquisition of Assets, but overspent on transfer to other Government entities, other grants, social security benefits and other payments. No explanation was provided for the failure to adhere to the approved budgetary provisions.

5.3 Locally Generated Revenue

The County collected locally generated revenue of Kshs.543,756,513 against the budget figure of Kshs.670,000,000 resulting into under collection of Kshs.126,243,487 which translate to 19% shortfall in revenue collection. Further, locally generated revenue figure of Kshs.543,756,513 was different from figure reported by the Controller of Budget of Kshs.462.72 million. No explanation was provided for this difference.

Further analysis as follows:

Year	Budget	Actual	Over/(under) collection	% Actual/ Budget	% Revenue Growth
2014/2015	628,014,359	428,777,357	(199,237,002)	68%	-
2015/2016	710,000,000	457,279,691	(252,720,309)	64%	7%
2016/2017	670,000,000	543,756,513	126,243,487	81%	19%

The table above reveals a general revenue growth over the three (3) years.

5.4 Arrears of Revenue

Records held in the County revealed that as at 30th June 2017, arrears of revenue in relation to property rates and rent amounted to Kshs.3,157,444,099. In the absence of a clear actionable plan of collection of the arrears, the revenue may never be collected.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the County Executive's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern assumption.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the Executive's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Executive internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Executive's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Executive's to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the County Executive to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

16 July 2018