

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Laikipia set out on pages 12 to 67, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and summary statements of appropriation – recurrent 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 effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of County Executive of Laikipia as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the County Government Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unbalanced Trial Balance

The trial balance as at 30 June, 2018 provided for audit reflects total debit balances of Kshs.28,995,448,748 and total credit balances of Kshs.28,658,798,165 and thus, resulting in unexplained and unreconciled difference or suspense of Kshs.336,650,583.

2. County Own Generated Receipts

The statement of receipts and payments for the year ended 30 June 2018 reflects county own generated receipts of Kshs.608,463,784 and as disclosed in Note 9 to the financial statements comprising various revenue streams.

However, an analysis of revenue records, revenue collection system (LAIFOM) and receipts disclosed in Note 9 to the financial statements revealed variances in fourteen revenue streams as follows:

S/No.	Items	Revenue Amount as per Financial Statements Kshs.	LAIFOM Report/Revenue Schedules Kshs.	Variance Kshs.
1.	Land Rates	45,349,196	42,903,267	2,445,929
2.	Ground Rents	-	10,222,798	(10,222,798)

3.	Business Permits	85,105,405	67,328,320	17,777,085
4.	Miscellaneous Income	63,164	5,723,104	(5,659,940)
5.	Cess	24,065,534	28,756,576	(4,691,042)
6.	Slaughter Fees	9,614,063	6,110,780	3,503,283
7.	Vehicle Parking Fee	45,478,286	54,656,750	(9,178,464)
8.	Market/Trade Centre Fee	10,440,847	6,963,450	3,477,397
9.	Technical services fees	15,928,117	12,834,168	3,093,949
10.	Housing	25,603,130	19,825,488	5,777,642
11.	Public Health Services	8,923,233	-	8,923,233
12.	Public Health Facilities operations/hospital collections	264,785,040	258,505,504	6,279,536
13.	Local Levies	-	205,410,565	(205,410,565)
14.	Various Fees	45,152,279		45,152,279

The above variances were not reconciled or explained satisfactorily by the management. Consequently, the accuracy and completeness of county own generated receipts figure of Kshs.608,463,784 for the year under review could not be ascertained.

3. Variances Between the Financial Statements and Integrated Financial Management Information System (IFMIS)

The financial statements for the year ended 30 June 2018 reflects various amounts and balances which are at variance with IFMIS report as follows:

3.1 Statements of Receipts and Payments

The statement of receipts and payments figures of Kshs.997,724,569 and Kshs.4,337,693,394 are at variance with IFMIS report figures of Kshs.1,924,399,303 and Kshs.4,269,942,778 for receipts and payments respectively, as tabulated below:

Item Category	Amounts as per Financial Statements Kshs.	Amounts as per IFMIS Report Kshs.	Variance Kshs.
Receipts			
Transfers From Other Government Entities	142,704,149	261,408,298	118,704,149
Other Receipts (Own Generated Revenue)	608,463,784	1,221,496,335	613,032,551
CRF Issues	25,809,301		-25,809,301
Proceeds From Domestic and Foreign Grants	220,747,335	441,494,670	220,747,335
Total Receipts	997,724,569	1,924,399,303	926,674,734
Payments			
Compensation of Employees	2,416,274,895	2,416,274,895	0
Use of Goods And Services	807,485,671	787,050,841	-20,434,830

Item Category	Amounts as per Financial Statements Kshs.	Amounts as per IFMIS Report Kshs.	Variance Kshs.
Transfers to Other Government Units	472,199,485	472,199,845	360
Acquisition of Assets	354,274,295	353,189,411	-1,084,884
Other Grants and Transfers	70,592,915		-70,592,915
Other Payments	216,866,133	241,227,786	24,361,653
Total Payments	4,337,693,394	4,269,942,778	-67,750,616

Consequently, the accuracy and completeness of the statement of receipts and payments could not be confirmed.

3.2 Statement of Assets and Liabilities

Similarly, the balances reflected in the statement of assets and liabilities as at 30 June 2018 do not agree with IFMIS report balances as summarized below:

Item	Amounts as per Financial Statements Kshs.	Amounts as per IFMIS Report Kshs.	Variance Kshs.
Bank Balances	688,318,913	-15,246,377,929	-15,934,696,842
Cash Balances	0	21,049,870,712	21,049,870,712
Accounts Receivables – Outstanding Imprests	4,206,387	-161,799	-4,368,186
Accounts Payables – Deposits and Retentions	0	4,434,705,065	4,434,705,065
Fund Balance B/Forward	128,037,596	-5,282,814,045	-5,410,851,641
Prior Year Adjustment	-100,981,774	0	100,981,774
Surplus/deficit for the Year	665,469,478	6,651,439,964	5,985,970,486

3.3 Summary Statements of Appropriation

Further, a comparison of budget figures posted in the summary statements of appropriation – recurrent, development and combined vary with IFMIS budget report as analyzed below:

Item Category	IFMIS Final Budget Kshs.	Financial Statements Budget Kshs.	Variance Kshs.
Exchequer Releases	7,944,465,754	4,005,438,303	3,939,027,451
Return Issues to CRF	0	13,643,512	-13,643,512
Other Payments	690,686,046	346,843,023	343,843,023

County Own Generated Receipts	1,400,000,000	700,000,000	700,000,000
Transfers From Other Government Entities	1,080,985,840	156,942,874	924,042,966
Proceeds From Domestic and Foreign Grants	677,445,280	349,752,846	327,692,434
Transfers to Other Government Units	819,743,605	688,743,605	131,000,000
Use of Goods and Services	1,035,114,440	930,034,620	105,079,820
Acquisition of Assets	910,824,519	869,386,542	41,437,977

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

4. Misallocation of Expenditure

The statement of receipts and payments reflects total payments of Kshs.4,337,693,394 for the year ended 30 June 2018. However, examination of records provided for audit revealed misallocation of expenditure amounting to Kshs.22,101,781 to unrelated items as follows:

S. No.	Expenditure Description	Vote/Item Charged	Amount Kshs.
1.	Casual Wages	Domestic Travel and Subsistence	757,101
2.	Domestic travel and subsistence	Foreign Travel and Subsistence	4,985,170
3.	Domestic Travel and Subsistence	Training Expense	10,783,463
4.	Motor Vehicle Fuel	Construction and Civil Works	1,641,472
5.	Gravel haulage	Other Payments	3,934,575
		Total	22,101,781

As a result, the expenditure shown in the financial statements against domestic travel and subsistence of Kshs.152,910,329, foreign travel and subsistence of Kshs.4,985,170, training of Kshs.12,392,503, construction and civil works of Kshs.76,742,776 and other payments of Kshs.214,111,136 are not fairly stated.

5. Use of Goods and Services

5.1 Domestic Travel and Subsistence Allowances

5.1.1 Irregular Payment of Domestic Travel and Subsistence Allowances

Disclosed in Note 12 to the financial statements under use of goods and services is an expenditure of Kshs.152,910,329 relating to domestic travel and subsistence. The amount includes payments totalling Kshs.1,560,400 made to members of staff while carrying out duties away from the county headquarters. However, a review of records revealed the following anomalies:

- i. An amount of Kshs.498,100 was paid vide imprest warrant number 2832686 for land survey assignment scheduled for twelve days from 2 to 14 October 2017. However, work ticket in respect of the journeys made during the period for the

surrender of imprest supported expenditure for four days only, being one day each in Mirango and Gathinji primary schools and two days in Kiamaringa primary school. Consequently, the propriety of payment in respect of the ten extra days could not be confirmed.

- ii. Subsistence allowances totalling Kshs.1,062,300 were paid to staff on two occasions comprising Kshs.529,200 vide payment voucher number 297 of 8 November, 2017 and Kshs.533,100 vide payment voucher number 298 of 8 November 2017. The payments were approved for facilitation of planning, survey and design of water boreholes within Laikipia County for fourteen days starting on 20 November to 7 December 2017 and thirteen days from 10 to 22 November 2017 for the first and second payments, respectively. However, records indicate that two officers namely Mr. Elisha Munene and Mr. Geoffrey Arimi, were both assigned to carry out the same assignment on 20, 21 and 22 November 2017, dates which overlap, thus resulting in double payment of allowances.

Further, evidence of travel such as work tickets and bus fare tickets were not provided for audit review. In the circumstances, the propriety of the expenditure of Kshs.1,560,400 could not be confirmed.

5.1.2 Unsupported Domestic Travel Expenditure on Revenue Operations and National Music Festival

Included also in the expenditure of Kshs.152,910,329 on domestic travel and subsistence are payments totalling Kshs.11,018,949 made to various staff and three firms for revenue operation within the county, flights charges, and subsistence during National Music Festival event in Kakamega. However, the payment vouchers were not supported with relevant documentation as detailed below:

Date	PV.No.	Payee	Description	Amount Kshs	Remarks
13/2/2018	395	Brightways Travels and Tours	Flight charges	970,544	Not supported with air tickets and purpose
14/2/2018	445	Tropic Air limited	Flight charges	1,034,905	Not supported with air tickets and purpose
Various	Various	Revenue officers	Revenue operations and tours in various wards	7,661,100	No reports attached to payment vouchers. Payments includes general expenses.
Various	Various	Various staff	Subsistence allowances- National music Festival in Kakamega	912,400	Not supported with programme of events and signed schedules
9/5/2018	527	Tropic Air limited	Flight charges for staff to Nanyuki, Wiyumiririe and Nairobi	440,000	Procurement records not provided.
			Total	11,018,949	

In the circumstances, the propriety and validity of the expenditure of Kshs.11,018,949 on domestic travel and subsistence could not be confirmed.

5.1.3 Unsupported Expenditure on KICOSCA Games

Further, included in the expenditure of Kshs.152,910,329 on domestic travel and subsistence are payments totalling Kshs.6,307,600 made to some members of staff while attending KICOSCA games in Machakos County from 19 to 26 November, 2017. Records indicate that each staff was paid transport allowance of Kshs.1,500 for which no bus fare tickets as evidence of travel were provided for verification. Further, the payments were not supported by signed attendance list at the events. Consequently, the propriety and validity of the expenditure of Kshs.6,307,600 in respect of KICOSCA games could not be confirmed.

5.1.4 Allowances to Members of County Assembly

Included also in the expenditure of Kshs.152,910,329 on domestic travel and subsistence expenses are cash payments totalling Kshs.3,168,100 made to Members of County Assembly (MCAs) while attending various consultative meetings during the year. However, the payments were not supported by the relevant documents such as signed attendance schedules, minutes and reports emanating from the meetings. Consequently, the propriety and validity of the subsistence allowances of Kshs.3,168,100 paid to the MCAs could not be confirmed.

5.2 Specialized Materials and Services

5.2.1. Purchase of Medical Drugs from KEMSA

Disclosed under Note 12 to the financial statements under use of goods and services is an expenditure of Kshs.133,753,512 in respect of specialized materials and services for the year ended 30 June 2018. Included in the expenditure, is an amount of Kshs.23,923,203 paid to Kenya Medical Supplies Agency (KEMSA) for supply and delivery of drugs to dispensaries and health centers in the county. The payment was made through payment voucher number 15 dated 15 March 2018 and supported by an invoices of 15 and 21 November 2017. However, requisitions, triplicate copies of Local Purchase Orders, goods received notes from health facilities and inspection and acceptance reports of the supplies were not presented for audit review. The validity of the invoice and payment of Kshs.23,923,203 could not under the circumstances be confirmed.

5.3 Insurance Costs

5.3.1. Procurement of Insurance Services

Disclosed under Note 12 to the financial statements is an expenditure of Kshs.155,785,959 in respect of insurance costs for the year ended 30 June 2018. The expenditure includes an amount of Kshs.34,720,345 paid to four insurance providers for

the contracts awarded for provision of insurance services during the year under review as follows:

	Insurance Provider	Cover	Contract Sum Kshs.	Amount Paid Kshs	Remarks
1	Monarch Insurance Company Ltd	Motor vehicle Insurance	15,161,860	20,472,070	Amount paid include Kshs.5,310,210 premium for 2016/2017
2	Amaco Insurance Company Ltd	Group Personal Accident	6,181,760	6,181,760	
3	CIC Insurance Company Ltd	Fire, Theft and Burglary	5,626,022	5,626,022	
4	Britam Insurance Company Ltd	Work, Injury Benefit(WIBA) and Employees Benefit	2,440,493	2,440,493	
		Total	29,410,135	34,720,345	

A review of records indicate that the insurance services were procured through open national tendering method. However, tender evaluation minutes and policy documents for the insurance covers were not provided for audit review. Consequently, the propriety and validity of the expenditure of Kshs.34,410,135 could not be confirmed.

5.4 Routine Maintenance-Vehicles and Other Transport Equipment

Disclosed under Note 12 to the financial statements is an expenditure of Kshs.24,441,027 in respect of routine maintenance-vehicles and other transport equipment. However, procurement records for the service such as advertisement, tender opening, evaluation and award minutes and contract agreements with various garages were not provided for audit review. Consequently, the validity of the expenditure of Kshs.24,441,027 incurred on routine maintenance-vehicles and other transport equipment could not be confirmed.

5.5 Office and General Supplies and Services

Disclosed in Note 12 to the financial statements are office and general supplies and services expenses of Kshs.22,713,889. Included in the expenditure is an amount of Kshs.2,270,302 incurred on procurement of various goods and services and whose supporting documents were not provided for audit verification. As a result, the propriety and validity of the expenditure of Kshs.2,270,302 could not be confirmed.

5.6 Fuel, Oil and Lubricants Expenses

Included in Note 12 to the financial statements under use of goods and services are fuel, oil and lubricants expenses of Kshs.30,546,913. Records indicate that the fuel cards were issued to county vehicles from M/s VIVO Energy and Total Kenya Ltd service stations. However, the following observations were made on the expenses:

- i. During the year 2017/2018, fuel worth Kshs.11,126,000 was drawn and paid for in cash despite the fact that fuel cards had been issued for use. Further, related payment vouchers were not supported by the required details and records such as receipts, work tickets, requisitions, and fuel consumption statements. There was also no record of reconciliation of the fuel drawn and mileage covered by the vehicles.
- ii. According to records presented for audit, payments described as refund for fuel expenses amounting to Kshs.407,210 were made to the county staff. The payments were processed through voucher number 1063 dated 24 October 2017 for Kshs.320,000 and voucher number 541 dated 28 September 2017 for Kshs.87,210. However, it was not explained why the fuel cards could not be used during the period.

Consequently, the propriety of the payments totalling Kshs.11,533,210 in respect of fuel, oil and lubricants expenses during the year under review could not be confirmed.

6. Acquisition of Assets

6.1 Payment for Gravel Haulage

Included under Note 17 to the financial statements on acquisition of assets is an expenditure of Kshs.42,059,937 relating to construction of roads, out of which an amount of Kshs.17,072,883.70 was in respect of haulage of gravel delivered to various wards in the County. However, evidence of delivery of the gravel including inspection and acceptance committee reports were not provided for audit review hence the validity and propriety of the payment could not be confirmed.

7. Account Receivables- Outstanding Imprests

The statement of assets and liabilities reflects account receivables – outstanding imprests balance of Kshs.4,206,387 as at 30 June, 2018 and as disclosed in Note 22 to the financial statements. However, this amount is at variance with the outstanding balance of Kshs.4,362,087 recorded in the list of imprest holders. The difference of Kshs.155,700 was not reconciled or explained. As a result, the completeness and accuracy of the imprests balance of Kshs.4,206,387 could not be confirmed.

A review of the list of imprest holders revealed that multiple imprests were issued to staff before they had surrendered or accounted for the imprests previously issued to them. The management by approving and issuing multiple imprests, therefore, contravened regulation 93 (3) of the Public Finance Management (County Government) Regulations, 2015.

In addition, the management did not give reasons why the imprests totalling Kshs.4,206,387 that ought to have been surrendered or accounted for on or before 30 June 2018 remained outstanding as at the close of the financial year

8. Pending Bills

Included under Other Important Disclosures to the financial statements are pending bills totalling Kshs.675,177,786 which were outstanding as at 30 June ,2018 as summarized below:

Description/Nature	Amount Kshs
Construction of buildings	287,729,757
Construction of civil works	183,140,230
Supply of goods	95,354,894
Supply of services	108,952,905
Grand Total	675,177,786

However, tender documents; contract agreements; local purchase/service orders; invoices/certificates of works; and schedules detailing names of the contractors/suppliers, purchase/service order numbers, invoice/certificate numbers and description of goods supplied, services provided or works done were not provided for audit review. As a result, the validity, completeness and accuracy of the pending bills totalling Kshs.675,177,786 could not be ascertained.

Had the pending bills of Kshs.675,177,786 as at 30 June 2018 been paid and the expenditure charged to the accounts for the year under review, the statement of receipts and payments for the year ended 30 June ,2018 would have reflected a deficit of Kshs.9,708,308 instead of the surplus of Kshs.665,469,478 now shown.

9. Summary of Fixed Assets Register

Annex 5 summary of fixed assets register attached to the financial statements reflects assets totalling Kshs.3,106,069,496 as at 30 June 2018. The following observations were made:

- i. The County Executive during the year under review had not put in place adequate controls to safeguard the assets including movement registers, accurate and verifiable registers and regular reconciliation of the physical assets and the records.
- ii. Ownership documents for the land and motor vehicles, title deeds and log books were not provided for audit verification.
- iii. The assets did not have identification numbers and tags for ease of tracing and verification.

As a result, legal ownership, existence and location of various assets as well as completeness and accuracy of the summary of fixed assets register balance of Kshs.3,106,069,496 as at 30 June 2018 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Executive of Laikipia in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance

with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Basis for Conclusions on lawfulness and effectiveness in use of public resources and effectiveness of internal controls, risk management and governance sections, I have determined that there are no key audit matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion and Basis for Conclusions on lawfulness and effectiveness in use of public resources and effectiveness of internal controls, risk management and governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Failure to Prepare Financial Statements for Facility Improvement Fund

During the year under review, the Laikipia County Executive transferred funds amounting to Kshs.172,159,573 to various health facilities within the County for operational expenses and improvement of the health facilities through Facility Improvement Fund (FIF). However, the County Executive did not prepare and submit for audit financial statements in respect of the fund contrary to Section 167 of the Public Finance Management Act, 2012. The law requires an administrator of the fund to prepare and submit for audit financial statements in respect of the fund within three (3) months after the end of financial year that is, on or before 30 September of every year. No reason was given for this omission.

2. Revenue

2.1 County Own Generated Revenue

The County collected locally generated revenue of Kshs.608,463,784 against a budget of Kshs.700,000,000 hence an under-collection of Kshs.91,536,216 or 13% of budget. Further, the locally generated revenue figure of Kshs.608,463,784 differs from the amount

of Kshs.352,090,000 reflected in supporting schedules. No explanation or reconciliation was provided for the difference of Kshs.256,373,784.

In addition, a trend analysis on revenue collection for the past four years between 2014/2015 and 2017/2018 revealed persistent failure to meet revenue targets, as shown below:

Year	Budget Amount Kshs.	Actual Collection Kshs.	Under-collection Kshs.	Percentage of Actual Against Budget	Percentage of 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%
2017/2018	700,000,000	608,463,784	91,536,216	87%	12%

2.2 Arrears of Revenue

Records maintained by the County Executive indicate that arrears of revenue in relation to property rates and rent were amounting to Kshs.4,142,734,603 as at 30 June 2018 (2016/2017-Kshs. 3,157,444,099). As reported previously, no indication was given of effort being made by the management to recover the amount. In the absence of a clear actionable plan of collection of the arrears, the revenue may never be collected.

3. Budget Performance

3.1 Overall Budgeted and Actual Expenditure

In 2017/2018 the final budget of the County Executive was Kshs.5,234,284,290 comprising recurrent expenditure - Kshs.3,371,633,222 (64%) and development expenditure - Kshs.1,862,651,068 (36%). Out of the development budget of Kshs.1,862,651,068, the County Executive spent Kshs.1,087,811,159 (or about 58%), while it spent Kshs.3,249,882,235 (or about 96%) of the recurrent budget of Kshs.3,371,633,222, as detailed below:

Item	Budgeted 2017/2018- Kshs.	Actual Amount 2017/2018 Kshs.	Absorption Rate %	Percentage of Total Expenditure
Development Vote	1,862,651,068	1,087,811,159	58%	25%
Recurrent Vote	3,371,633,222	3,249,882,235	96%	75%
Total	5,234,284,290	4,337,693,394	83%	

The above budget performance shows that the County Executive spent Kshs.1,087,811,159 or approximately 25% on development expenditure and Kshs.3,249,882,235 or approximately 75% on recurrent expenditure. The management

therefore did not comply with Section 107 (2) of the Public Finance Management Act, 2012 which requires that a minimum of thirty percent of the County Executive budget be allocated to development expenditure.

3.2 Over/Under Expenditure

The County Executive over-spent by an amount of Kshs.90,266,297 while it under-spent by a total of Kshs.982,650,806 on five (5) expenditure items, as shown below:

Item	Budget 2017/2018 Kshs	Actual Amount 2017/2018 Kshs	Over- Expenditure Kshs.	Under- Expenditure Kshs.
Compensation of Employees	2,324,750,000	2,415,016,297	90,266,297	-
Use of Goods and Services	930,034,620	812,446,896	-	117,587,724
Transfers to Other Government Entities	688,743,605	472,199,485	-	216,544,120
Other Grants and Transfers	74,526,500	70,592,915	-	3,933,585
Acquisition of Assets	869,386,542	354,494,295	-	514,892,247
Other Payments	346,843,023	217,149,893	-	129,693,130
Total	5,234,284,290	4,341,899,780	90,266,297	982,650,806

No explanation was provided for the failure to adhere to approved budgetary provisions. Further, the overall/net underutilization of budgetary provisions by Kshs.892,384,509 affected planned development programmes impacting negatively on service delivery to the residents of Laikipia.

4. Acquisition of Assets

4.1 Construction of Bus Park in Nyahururu Town

Included under Note 17 to the financial statements on acquisition of assets is an expenditure of Kshs.76,742,776 in respect of construction and civil works, which in turn includes an amount of Kshs.8,604,708 paid to M/s Janda Construction (K) Ltd on 4 May 2018 for upgrading of a bus park in Nyahururu town. A review of records indicate that the contract was awarded to the contractor during the year at a cost of Kshs.13,649,778. However, the following issues were noted:

- i. Engineers estimate for the project was not provided for audit verification. Consequently, the reasonableness of the contract sum could not be ascertained.
- ii. There were some conflicts on the dates of various activities. The evaluation committee concluded evaluation on 06 December 2017 while the professional opinion and notification of award were issued on 05 December 2017, a date before the evaluation process was concluded. No explanation was provided for these anomalies.

4.2 Purchase of Office Furniture and General Equipment

Disclosed also under Note 17 to the financial statements is an expenditure of Kshs.7,720,167 relating to purchase of office furniture and general equipment, which includes an amount of Kshs.3,475,693 for purchase of various furniture and equipment. However, a review of records revealed inconsistencies between the dates when the tender was initiated and awarded as follows:

Date	PV. No.	Supplier	Description	Amount Kshs	Remarks
16/5/2018	751	Salgat Enterprises	Supply of furniture	850,655	Quotations were raised on 22/2/2018 and returned and awarded on 26/2/2018; while evaluation committee was appointed on 6/3/2018, after the award
23/5/2018	852	Sonbattis Agencies Ltd	office furniture	800,156	Quotations were issued on 16/3/2018, but award is dated 4 March 2018
		Samtech Agencies Ltd	supply of fireproof cabinets	297,500	The winning quotation was issued and evaluated same day on 1/3/2018, while the other 2 quotations date 16/1/2018
16/5/2018	758		Supply of 5 laptops and antivirus kits	510,793	Tender was awarded on 7/3/2018 while tender evaluation date 1/3/2018 and yet the committee was appointed on 6/3/2018
		Wilwa Enterprises Limited	Office furniture and general equipment	1,016,589	Dates recorded on quotations and acceptance letter appear tampered with to read 10/11/2017 and 16/3/2017 respectively
			Total	3,475,693	

No satisfactory explanations were provided for the above anomalies.

4.3 Purchase of Desk Top Computers

Included also in the purchase of office furniture and general equipment expenditure of Kshs.7,720,167 is an amount of Kshs.611,496 in respect of purchase of six desktop computers and UPS from M/s Global Remote International. The computers were delivered to the county offices on 9 May 2018 and payment made vide payment voucher number 104 of 21 June 2018. Although the procurement was done through request for quotations and the lowest bidder awarded the contract to supply the computers, no market survey was conducted to establish the prevailing market price of computers of similar specifications. In the circumstances, the reasonableness of the purchase cost of Kshs.107,416 for each computer could not be confirmed.

4.4 Procurement of High Density Polythene Dam Liners

Disclosed under Note 17 to the financial statements is an expenditure of Kshs.26,742,736 in respect of purchase of specialized plant, equipment and machinery, out of which an amount of Kshs.10,747,080 was incurred on purchase of high density geo-membrane dam liners from three firms; M/s Creative Edge Solutions, M/s Mwagi Commercial Services, and Gallant Link Limited at a cost of Kshs.3,582,360, Kshs.3,595,200, and Kshs.3,569,520, respectively. However, the tender was split and awarded to three firms through request for quotation method of procurement instead of the open national tendering process yet the value of the items exceeded Kshs.4,000,000 threshold prescribed under class A of the public procurement where the entity falls. No explanation was provided for the breach of the procurement law.

As a result, the County may not have obtained value for money on the expenditure of Kshs.10,747,080 on high density polythene dam liners during the year under review.

5. Transfer to Other Government Entities

5.1 Delayed Implementation of Solio Water Project

Included in the transfers to other government entities' expenditure of Kshs.472,199,485 shown in Note 14 to the financial statements is an amount of Kshs.23,800,000 paid in respect of Solio Water Project, which was to be undertaken in conjunction with Nanyuki Water and Sewerage Company and Water Sector Trust Fund, at a total cost of Kshs.143,319,302. According to Memorandum of Understanding dated 1 July 2015, the County Government was to contribute Kshs.23,120,000. However, despite the payment of Kshs.23,800,000 in June 2018, the project had not commenced as of November 2018. No satisfactory explanation was provided for the delay in commencing the project.

5.2 Casual Employees at the County Health Facilities

Further, included in the transfers to other government entities' expenditure of Kshs.472,199,485 under Note 14 to the financial statements is an amount of Kshs.26,805,749 in respect of casual employees. Available records revealed that the County Executive, engaged casuals in all health facilities within the county on renewable contracts.

The contracts were being renewed on a continuous basis contrary to the provisions of Employment Act, 2012, which requires that a casual employee whose contract has been converted and who works continuously for two months or more from the date of employment as a casual shall be entitled to the same terms and conditions of service as the other non-casual employees. Although the management explained that the casual employees were providing essential services, the county is at risk of litigation by the aggrieved casual employees if remedial action is not taken.

6. Other Payments

6.1 Revenue Automation System

Included under Note 20 to the financial statements in other payments expenditure of Kshs.216,866,133 is a payment of Kshs.10,047,414 in respect of supply of Revenue Automation (Sense Pay) System. The tender was for supply and commissioning of the system was awarded to M/s Sense Network Consultants at a contract sum of Kshs.38,000,000 through notification LCG/PRC.O.AWL/VOL.1/113 dated 02 May 2016. The firm was paid the first installment of Kshs.19,000,000 or 50% of the contract sum after the roll-out of the system including sensitization and training pursuant to the provisions of the contract agreement. Additional amounts of Kshs.11,767,241 and Kshs.10,047,414 were paid in 2016/2017 and 2017/2018, respectively to the firm bringing the total payments as at 30 June 2018 to Kshs.40,814,655.

However, a review of implementation of the system revealed that despite full payment, several system modules have not been utilized or were not functional after roll-out except parking fee collection. Consequently, it has not been possible to confirm whether the County Executive obtained value-for-money on the expenditure incurred on the revenue automation system.

7. Use of Goods and Services

7.1 Procurement of Goods from Non-Prequalified Suppliers

Disclosed in Note 12 to the financial statements under use of goods and services is an expenditure of Kshs.133,753,512, in respect of specialized materials and services out of which, an amount of Kshs.84,726,717 was incurred on medical drugs and non-pharmaceuticals. Included in the expenditure, is an amount Kshs.9,174,450 spent on procurement of medical drugs and non-pharmaceuticals from non-prequalified suppliers contrary to Section 95(3) of the Public Procurement and Asset Disposal Act, 2015. The Act requires that a Public Procuring entity shall invite tenders from only the approved persons who have been pre-qualified.

Further, included in the expenditure are payments totalling Kshs.2,673,000 relating to refurbishment of buildings of Kshs.1,448,000 and other operating expenses of Kshs.1,225,000 which were irregularly charged to specialized materials and services account.

7.2 Airtime Allowances

Included under Note 12 to the financial statements is an expenditure of Kshs.12,441,189 on communication, supplies and services. A review of records maintained by the County Executive revealed that during the year under review, cash payments amounting to Kshs.12,441,189 were made in respect of airtime allowances to various members of staff and charged to the expenditure item. However, the allowances were not taxed and therefore PAYE due was not paid to KRA. Failure to deduct and remit taxes due on the benefits may attract heavy penalties and interest leading to loss of public funds.

7.3 Procurement of Human Resource Consultancy

Disclosed also in Note 12 to the financial statements under use of goods and services is an expenditure of Kshs.102,619,710 relating to other operating expenses. According to the records, an amount of Kshs.5,581,740 was paid to a consulting firm and charged to the expenditure item. The firm had been engaged to recruit County Executive Committee Members, County Secretary and the Deputy County Secretary after the general elections of August 2017. However, no procurement records were provided to confirm how the firm was identified and awarded the contract as required under the Public Procurement and Asset Disposal Act, 2015. Consequently, the validity of the expenditure of Kshs.5,581,740 on human resource consultancy could not be confirmed.

8. Compensation of Employees

8.1 High Wage Bill

The statement of receipts and payments for the year ended 30 June 2018 reflects compensation of employees' expenditure of Kshs.2,416,274,895 which represents about 48% of the total receipts of Kshs.5,003,162,871 during the year. The expenditure therefore exceeded the set limit of 35% contrary to regulations 25(1)(b) of the Public Finance Management (County Government) Regulations, 2015 which provides that the county government expenditure on wages and benefits for public officers should not exceed 35 percent of the county total revenue. The high wage bill is an indication that most of the county's resources are spent on staff salaries at the expense of development projects and thus impacting negatively on service delivery to the residents of Laikipia.

9. Non-Compliance with Ethnic Diversity

A review of personnel records revealed that out of sixty-seven new employees recruited by the County Public Service Board (CPSB) to fill various vacant positions in the County, about 88% of the recruits were from one dominant community in the County. This is contrary to the provisions of Section 65 (e) of the County Government Act, 2012, which requires that at least 30% of the employees be from other communities. No satisfactory explanation was provided for failing to comply with the law.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Lack of Risk Management Policy

During the financial year under review, The County Executive did not have a risk management policy to guide the management in risk assessment and formulation of risk mitigation strategies. In the absence of the policy, the County Executive was not capable of identifying operational areas prone to risks and to come up with mitigation measures against misuse or loss of public resources.

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

Responsibilities of Management and Those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the ability of Laikipia County Executive to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to cease operations, or have no realistic alternative but to do so.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

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

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

18 February 2019