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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the County Executive of Laikipia set out on pages 1 to 44, which comprise the statement of assets and liabilities as at 30 June, 2019, statement of receipts and payments, statement of cash flows, and the 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 effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of County Executive of Laikipia as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Compensation of Employees

The statement of receipts and payments reflects compensation of employees of Kshs.2,616,158,811 against an Approved Budget of Kshs.2,430,324,299. However, the following unsatisfactory matters were observed:

1.1 Unauthorized Reallocation of Development Funds to Pay Salaries

The Management reallocated development funds of Kshs.136,410,000 to pay salaries for the month of June, 2019. However, the Management did not avail for audit review, supporting documents by way of request for the reallocation to the County Treasury and approved Supplementary Budget by the County Assembly for the additional expenditure. This was contrary to Section 135 and 154(1)(b) of the Public Finance Management Act, 2012, which provides that an Accounting Officer shall submit a Supplementary Budget for approval and shall not authorize the transfer of an amount that is appropriated for capital expenditure except to defray other capital expenditure for creation or renewal of assets.

1.2 Over Expenditure on Compensation of Employees

During the year under review, the approved budget on compensation of employees for the County Executive was Kshs.2,430,324,299 while the actual payments amounted to Kshs.2,616,158,811 resulting to an over expenditure of Kshs.185,834,512. However, other than the footnotes to the summary statement of appropriation explaining that the over-expenditure was as a result of salary increments, payment of PAYE and other statutory deductions for the previous year and, payments to interns and temporary staff, the Management did not present for audit review any additional documentary evidence to justify the over-expenditure.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Executive of Laikipia Management 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. 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. There were no key audit matters to report in the year under review.

Other Matter

1. Budget Control and Performance

During the year 2018/2019, the final budget was Kshs.6,451,789,465 comprising recurrent expenditure of Kshs.3,658,763,398 (57%) and development expenditure of Kshs.2,793,026,067 (43%). Out of the development budget of Kshs.2,793,026,067, the Management spent Kshs.1,839,496,349 (or about 66%) of the budget, while it spent Kshs.3,604,117,059 (or about 98%) of the recurrent budget of Kshs.3,658,763,398. The Management has not provided satisfactory explanation for the failure to utilize fully budgetary provisions which negatively affected service delivery to the public.

The underperformance affected the planned activities and could have impacted negatively on service delivery to the public.

2. Arrears of Revenue

Included under Note 5.10 (6) on other important disclosures to the financial statements are arrears of revenue amounting to Kshs.5,270,169,779 as at 30 June, 2019 (2017/2018-Kshs.4,140,206,103). As previously reported, no clear indication has been given of efforts being made by 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. Pending Bills

Included in Note 5.10(1) under other important disclosures to the financial statements are pending bills amounting to Kshs.952,593,490 which were outstanding as at 30 June, 2019, summarized as follows:

Description	Amount

	Kshs.
Construction of Buildings	166,986,427
Construction of Civil Works	502,841,398
Supply of Goods	148,411,876
Supply of Services	134,353,790
Total	**952,593,490**

This is an indication that the Management entered into commitments for which no resources were available.

Had the bills amounting to Kshs.952,593,490 as at 30 June, 2019 been paid and charged to the respective accounts during the year under review, the statement of receipts and payments for the year ended 30 June, 2019 would have reflected a higher deficit figure of Kshs.1,015,800,373 instead of the deficit of Kshs.63,206,883 now shown. Further, failure to settle bills during the year to which they relate, distorts the financial statements for the year and adversely affects the provisions for the subsequent year to which they have to be charged.

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 Conclusion on Lawfulness and Effectiveness in Use of Public Resources section 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. Compliance with the Public Finance Management, Act 2012 County Government Regulations)

The statement of receipts and payments reflects compensation of employees' expenditure of Kshs.2,616,158,811 which represents 48.6% of the total receipts of Kshs.5,380,406,524. The Management, therefore, exceeded the 35% limit set under Section 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015, requiring that that the County Government expenditure on wages and benefits for public officers should not exceed 35% of the County total revenue.

Consequently, the Management was in breach of the law.

2. Irregular Splitting of Procurements

The Management paid Kshs.19,888,482 to six (6) firms for drilling and equipping three (3) boreholes in Muthengera, Milimani and Mwenje wards at a cost of Kshs.6,592,520, Kshs.6,348,859 and Kshs.6,947,103, respectively.

However, the works for each of the boreholes were split and awarded to two (2) firms through request for quotations method of procurement instead of the open national tendering process yet the value of the works exceeded Kshs.6,000,000 threshold prescribed under class A of the Public Procurement where the entity falls contrary to Section 54(1) of the Public Procurement and Assets Disposal Act, 2015 which stipulates that, no procuring entity may structure a procurement as two or more procurements for the purpose of avoiding the use of a procurement procedure except where prescribed. No explanation was provided for the breach of the procurement law.

3. Irregular use of Quotations-Construction of Road

The Management paid Kshs.6,854,440 on construction of Gitumbi – Chumvi Road in Mukogondo East. Documents provided for audit revealed that the Management requested for two requisitions one at a cost of Kshs.2,960,000 and another of Kshs.4,000,000, hence the total cost of Kshs.6,960,000. Thereafter, two (2) bidders were awarded the tender at a cost of Kshs.2,894,200 and Kshs.3,960,240 respectively totalling to Kshs.6,854,440. This was contrary to the Public Procurement and Assets Disposal Act, 2015 that sets the minimum expenditure of Kshs.6,000,000 for open national tendering process for class A of procuring entities.

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 Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1.1. Acquisition of Assets

As disclosed under Note 10 to the financial statements, the statement of receipts and payments reflects acquisition of assets of Kshs.1,213,937,444. However, the following unsatisfactory matters were noted in regards to the figure:

1.2. Maintenance of Roads - Githiga Ward

The Management paid Kshs.2,419,585 to a firm for grading works and installation of culverts at Matwiku Center - Githiga Ward. However, the Management did not provide for audit review, supporting documents by way of registration certificate from Ministry of Water under AGPO, evidence of past experience and tender evaluation minutes.

1.3. Delay in Construction of Water Pans

The Management paid Kshs.13,471,536 for construction of water pans. The Management earmarked to construct five hundred (500) water pans across the County at a total budget provision of Kshs.14,000,000. However, records availed indicated that only one hundred and sixty-nine (169) water pans were advertised. However, the Management did not avail supporting records by way of; evidence of public participation, implementation reports and status of the remaining three hundred and thirty-three (333) water pans.

1.4. Unutilized Garbage Skip Bins

A firm was paid Kshs.3,440,500 to supply ten (10) skip bins which were delivered in June, 2019 to the County offices in Nanyuki. However, physical inspection carried out in October, 2019 revealed that the skip bins had not been put to use. No reasons were provided for the failure to utilize the bins for the intended purpose.

1.5. Poor Workmanship - Lamuria Sub-County Hospital

The Management paid Kshs.8,928,438.80 to a firm for construction of surgical theatre at Lamuria Sub-County Hospital. The tender had been awarded in 2017/2018 for a contract sum of Kshs.14,900,084. Further, progress reports presented for audit review indicated that the theatre was 100% complete as at 30 June, 2019. However, physical verification carried out in October, 2019 revealed that drainage was poorly done while the roof too had visible signs of poor workmanship and was leaking.

1.6. Unutilized Markets Stalls and Pit Latrines

The Management paid Kshs.10,960,494 for construction of pit latrines in various wards within the County and Naibor market stalls. However, physical verification of the Projects in October, 2019, revealed that although the Projects had been completed, they had not been put to the intended use. No justification was provided for failure to utilize the facilities.

1.7. Unsupported Supply of Agricultural Machinery and Equipment

The Management paid Kshs.1,470,000 to a firm for the supply and delivery of agricultural machinery including twenty-two (22) feed choppers, six (6) manual hay balers and six (6) motorized grass cutters. However, supporting documents by way of signed distribution schedule by the beneficiaries was not provided for audit review.

1.8. Equipping of Ndemu Secondary School Borehole

An amount of Kshs.3,952,520 was incurred on equipping of Ndemu Secondary School borehole. However, during the physical verification in October, 2019, it was noted that works valued at Kshs.723,000 had not been done as provided for in the Bill of Quantities (BQ).

2.0 Delayed Completion of Contracts

2.1 Construction of Doldol Hospital Surgical Theatre

The Management paid Kshs.4,635,937 for a contract awarded to a firm in the financial year 2017/2018 at a cost of Kshs.14,764,462 for the proposed construction of Doldol Hospital surgical theatre. The Project was 70% complete by 30 June, 2019. However, physical verification carried out in October, 2019, revealed that construction works had stalled for over six (6) months and the contractor was not on site. The ceilings and doors, internal plastering, electrical and plumbing works had not been done. The abandoned structure continues to deteriorate in value which may lead to cost escalation.

2.2 Construction of Mukogondo East Ward Office

Annexure 2 on other important disclosures to the financial statements are pending bills amounting to Kshs.952,593,490, which also includes an amount of Kshs.2,250,864 owed to a contractor for construction of Mukogondo East Ward Office. Physical verification carried out in October, 2019, revealed that the Project had stalled. The incomplete structure had no doors, windows, wall plastering, electrical and plumbing works. No satisfactory explanation was provided for the failure to complete the Project.

In the circumstances, the County may not have obtained value for money on the acquisition of assets of Kshs.1,213,937,444 reflected in the Statement of Receipts and Payments for the year ended 30 June, 2019.

3.0 Arrears of Revenue

Included under Note 5.10(6) on other important disclosures to the financial statements are arrears of revenue amounting to Kshs.5,270,19,779 (2018: Kshs.4,140,206,103). As previously reported, no clear indication has been given on efforts being made by Management to recover the amount. In the absence of a clear actionable plan of collection of the arrears, the revenue might never be collected.

4.0 Lack of Risk Management Policy

As previously reported, the Management did not avail supporting documents, for audit review, as evidence of existence of a risk management policy to guide the Management on risk assessment and formulation of risk mitigation strategies in the year under review. In the absence of the policy, the County Executive is not capable of identifying operational areas prone to risks or develop mitigation measures against misuse or loss of public resources.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether 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 County Executive's ability to continue to sustain its 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 to 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 County Executive 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 overall 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 overall 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 policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Executive'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 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.

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

19 October, 2020