

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF NAKURU 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 Nakuru set out on pages 1 to 47, which comprise the statement of assets and liabilities as at 30 June 2018, the statement of receipts and payments, statement of cash flows, statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I 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 matter 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 Nakuru 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 Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Bank Balances

The statement of assets and liabilities as at 30 June 2018 reported bank balances totalling Kshs.3,858,426,994. However, these balances have not been supported by bank reconciliation statements. In addition, twenty (20) bank accounts with an aggregated balance of Kshs.3,659,901,738 had no cash books maintained and could therefore not be produced for verifications. Additionally, seven (7) bank accounts with total bank balance of Kshs.198,525,256 had cash book balances totalling Kshs.1,491,701,345 resulting to unexplained and unreconciled difference of Kshs.1,293,176,089.

Further, it was observed that during the year under review the accounting officers did not ensure that bank reconciliation statements were prepared and submitted not later than 10th of the subsequent month as required by Section 90 of the Public Finance Management (County Governments) Regulations, 2015.

In the circumstance, the accuracy and validity of the reported bank balance of Kshs.3,858,426,994 could not be confirmed.

2.0 County Own Generated Receipts

During the year under review, County own generated receipts totalled Kshs.2,280,522,614 an increase in revenue collection of Kshs.319,638,854 compared to

Kshs.1,960,883,760 raised in the year 2016/2017. As detailed in note 9 to the financial statements, business permits revenue collected during the year amounted to Kshs.347,339,824. However, records presented for audit on business permits revealed that actual collection was Kshs.322,485,306 resulting to an overstatement of Kshs.24,854,518 which was not explained or reconciled.

In the circumstance, the own business permits revenue is over stated.

3.0 Compensation of Employees

The figure reported in the financial statement note 11 as the amount spent on compensation of employees is Kshs.5,554,520,308 whereas payment schedule presented in support of these payments totalled to Kshs.5,466,506,171 resulting to unreconciled difference of Kshs.88,014,137. Further, analysis of the payroll summaries revealed a figure of Kshs.5,519,881,154 which ought to have been paid yet the payment schedule shows that only Kshs.5,466,506,171 was paid during the year raising unreconciled difference of Kshs.53,374,983.

No reason was provided for failure to pay the whole amount as captured in the payroll.

3.1 Revenue Collection Management System on Vehicle Clamping Fees

During the year under review, the revenue systems used for collection of motor vehicle clamping fees were ZIZI, Laifoms and manual receipt books. The sampled Nakuru Town East Sub-County revealed collections of Kshs.2,114,000 through ZIZI system while LAIFOMS system collected a sum of Kshs.115,000 giving a total of Kshs.2,229,000. However, the ledger presented in support of these collections had a balance of Kshs.236,400 resulting to unexplained and unaccounted for revenue of Kshs.1,992,600. Further, another, sum of Kshs.11,000,000 was collected as clamping fees through manual receipting system. However, there was no evidence of banking and the receipts were not posted in the ledger and therefore not posted in the financial statements.

In the circumstance, the collection through ZIZI, LAIFOMS and manual System totalling Kshs.12,992,600 could not be accounted for.

4.0 Non-Submission of Financial Statements

The County Government of Nakuru failed to submit to the Auditor-General a financial statements relating to the Car Loan and Bursary Fund contrary to the provisions of Section 116(7) of the Public Finance Management Act, 2012.

No reasons were provided for failure to submit the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Executive of Nakuru 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.

Emphasis of Matter

The financial statements of the County Executive under Annex 2 reflects total pending bills of Kshs.1,912,812,405 which were not settled in the year under review implying that the bills were to form a first charge in the next financial year. Failure to settle current year's bills affect the budget of the succeeding year and its operations.

No reasons were provided as to why the bills were not settled yet they were budgeted for.

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

Other Matter

5.0 Budget Performance

5.1 Excess Expenditure

The summary statement of appropriation recurrent and development combined revealed over expenditures totalling Kshs.1,905,514,892 in four accounts as tabulated below. The over expenditures were not supported by any approved supplementary budget and disclosure in the financial statements. In the circumstance, the over expenditure of Kshs.1,905,514,892 implies that the County Executive did not adhere to the provisions of Section 54(2)(f) of the Public Finance Management (County Governments) Regulations 2015 that requires steps to be taken to ensure that projected expenditure and revenue are within the budget.

Item	Actual Kshs	Budgeted Amount Kshs	Over Expenditure Kshs
Other Grants and Transfers	1,410,323,122	741,212,602	669,110,520
Other Payments	282,127,938	166,327,130	115,800,808
Transfers to Other Government Entities	1,064,527,057	0	1,064,527,057
Use of Goods and Services - Utilities, Supplies and Services	226,463,202	170,386,695	56,076,507

Total	2,983,441,319	1,077,926,427	1,905,514,892
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5.2 Under Collection of Local Revenue

During the year under review the County Executive budgeted to collect a total revenue of Kshs.3,280,045,917 from own generated receipts but it under collected in various sampled accounts as shown below;

Item	Budget Kshs	Actual Collection Kshs	Difference Kshs
Reserved Parking Fee	5,983,000	1,128,000	4,855,000
House Rent	107,350,000	30,013,036	77,336,964
Administrative Fees and Charges	127,335,000	113,876,268	13,458,732
Slaughter House	6,600,000	2,185,080	4,414,920
Market Trade Fees	100,620,000	60,250,486	40,369,514

No reasons were provided for failure by the County Government to meet its local revenue targets.

5.3 Unauthorized Reallocation - Foreign Travel

Ministry of Education budgeted to spend Kshs.4,748,222 on foreign travel. The ledgers presented for audit reported Kshs.2,317,720 spent on foreign travel. Scrutiny of payment records showed that the funds were not used for foreign travel, instead they were used for various votes across the department. Therefore, there was reallocation of funds between votes. No authorization for the reallocation was provided for audit verification.

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 and Qualified Opinion 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. Lack of Fixed Assets Register

Annex 5 to the financial statements reported summary of fixed assets that includes additions to fixed assets of Kshs.1,422,978,207. These assets include heritage and cultural assets of Kshs.1,134,327,407 that have not been supported by a current and accurate asset register. In the circumstance, the existence of these assets could not be confirmed.

2. Outstanding Arrears

2.1 Market and Trade Stalls Fees

The market stalls fees arrears in sampled four (4) Sub Counties which had the biggest and busiest market activities revealed arrears of revenue amounting Kshs.11,848,806 as at 30 June 2018. However, no explanation has been given for the non-collection of the arrears from traders. In the circumstance, the arrears of revenue deny the County the needed funds to implement planned and approved activities.

2.2 Rent

Records presented for audit review revealed that rent outstanding as at 30 June 2018 was Kshs.200,801,350 and Kshs.21,442,446 for Nakuru East and Naivasha Sub Counties respectively. The Nakuru County Finance Act, 2016 states that a surcharge shall be levied for rental default at a cumulative rate of 1% per month resulting to computed surcharge of Kshs.26,669,255.52. Therefore, the total amount outstanding from house rent including the 1% surcharge on rent arrears was Kshs.248,913,051.50. It was also observed that people living in Nakuru East Estates like Kivumbini, Paul Machanga, Flamingo were among those who were not paying monthly rent due for unexplained reasons and the county was not evicting them. In the circumstance, the County underperformed on this revenue stream.

2.3 Liquor License

During the year under audit, records produced revealed that liquor license arrears amounted to Kshs.66,977,000. The County Executive was not collecting the arrears and has not been issuing demand notices to traders to clear the outstanding balances. In the circumstance, the arrears continue to deny the County the needed revenue to implement budgeted and approved projects.

2.4 Plot Rents

Records provided for audit review confirmed plot rates arrears amounting to Kshs.3,711,043,174 and a collection of Kshs.349,270,576 against a budget of Kshs.398,753,823. There was an under collection of Kshs.49,483,247. The arrears of Kshs.3,711,043,174 represent a significant amount of outstanding revenue which needs to be collected as a matter of priority. In the circumstance, there is laxity in revenue collection from this stream.

3. Irregular Increase in Employee Cost

The statement of receipts and payments for the year ended 30 June 2018 reflected employee cost of Kshs.5,554,520,308 having increased by Kshs.443,861,221 from Kshs.5,110,659,087 in 2016/2017. This expenditure is in respect to salaries of permanent and temporary employees as itemized under note 11 to the financial statement. It was observed that employee cost balance of Kshs.5,554,520,308 was forty-four (44%) percent

of the total revenue of Kshs.12,524,886,641 implying that County Government exceeded thirty-five (35%) set limit as per Section 25(1) (b) of the Public Finance Management (County Government) Regulations, 2015. In addition, authority to hire temporary employees was not produced for audit review.

4. Ministry of Finance - Unsupported Expenditures

4.1 Payment of Legal Fees

During the year under review, the budget allocation for legal fees for the department of Finance and Economic Planning was Kshs.4,290,000. Examination of the payment schedule revealed that the department made payments for legal fees totalling to Kshs.97,886,580 against its budget allocation of Kshs.4,290,000 resulting to an over expenditure of Kshs.93,596,580. Further, vouchers revealed that the payments were not adequately supported with relevant documentations as no information provided was to show initial fee note amounts, amounts paid to date, outstanding balances (if any), the case(s) being handled and status of those cases to authenticate the payments. In addition, there was no approval from the Attorney General authorizing engagement of private law firms to offer legal services as required by Section 17 of the Office of the Attorney General Act, 2012.

In the circumstance, the expenditure was irregular.

4.2 Purchase of Vehicles in the Ministry of Finance

The department of Finance purchased a motor vehicle at Kshs.13,832,500 during the year under review. However, the purchase was not factored in the procurement plan for the year. In addition, no records were produced to confirm how the procurement was initiated and if it adhered to the requirements of the Public Procurement and Asset Disposal Act, 2015 with regard to advertisement, tender opening and evaluation, appointment of members to opening and evaluation committees, procurement opinion, award, inspection and acceptance of the motor vehicle. In the circumstance, the procurement, delivery and ownership of the motor vehicle could not be confirmed.

4.3 Loan Interest

The Ministry of Finance made payments totalling to Kshs.44,509,561 being loan repayments during the year to a bank at monthly installment of Kshs.3,709,130. However, the balance could not be verified in the absence of a loan statement.

In the circumstance, it was not possible to ascertain the loan balance and any accruing interests.

4.4 Waiver of Taxes

Records provided for audit review confirmed that the County Government granted waivers amounting to Kshs.4,772,860 to persons with disabilities and general waivers amounting to Kshs.1,600,190 without any reference to the laws guiding waivers. In addition, the technical services fees revenue of Kshs.121,469,067 under note 9 was not supported by

a detailed listing of transactions to confirm persons and entities billed and paid. In the circumstance, the revenue fees could not be confirmed as fairly stated.

5. Ministry of Trade

5.1 Unimplemented Projects

During the year under audit projects amounting to Kshs.93,760,777 were budgeted for by the Department of Trade but none was implemented. Non-implementation of budgeted and approved projects denies the citizens the needed services. In the circumstance, value for money may not be achieved.

5.2 Unsupported Construction of Double Unit Market Stalls at Molo Market

A contractor was paid Kshs.3,808,864.64 for construction of market stalls and ADC fence in Molo Central Sub County through local service order number 126. However, there was no inspection and acceptance report for the work done as audit verification done on 23 October 2018 revealed that eight (8) door stalls had been constructed. The stalls were too tiny such that the traders have not derived much benefit and use from them. There were no completion certificates and it was therefore not clear whether handing over was done to the County Government. In addition, a market shed had also been constructed and was in use, however, the roof of the market shed was too high and did not serve its intended purpose of providing shelter, as rain and sunshine gets inside the shades, while rain water easily sweeps the products in the sheds, therefore, there was no value for money for the stalls and the market shed constructed.

6. Ministry of Education

6.1 Unimplemented Projects

Included in the Nakuru County Executive budget are projects that were to be implemented by the department of education with a total estimated value of Kshs.222,990,775 which were not implemented during the financial year. Indications are that the budget was not realistic as the County Executive lacked capacity to implement the projects. So far no explanation has been given for failure to implement approved budget projects.

6.2 Unsupported Allowances - County Assembly

The County Assembly paid 78 Members night outs for seven (7) days totalling up to Kshs.4,586,400, however, there was no evidence that that all Members of the County Assembly travelled to Machakos for the KICOSCA games, to qualify for the night outs. The payment schedules attached for payment were not supported and did not indicate the games which the players (Members of the County Assembly) were participating in, that made them qualify for the night outs. In the circumstance, the budgeting of the games and subsequent expenditure could not be confirmed a proper charge to public funds.

6.3 Non Acknowledgement of Conditional Grant

During the year under review, the budget for conditional grant was Kshs.35,431,434 for Polytechnics and Vocational Training Centers. Examination of records revealed that Kshs.26,005,000 was disbursed however, no acknowledgment was done by the Polytechnics and Vocational training centers. There was no documentation indicating monitoring and evaluation to confirm that the funds were used prudently once disbursed. In addition, there are no returns to indicate the use of funds by the polytechnics and vocational training centers.

In the circumstance, the disbursement of these funds to Polytechnics and Vocational training centers could not be confirmed as a proper charge to public funds.

7. Ministry of Public Service Management

7.1 Irregular Variation of Contract

The Ministry of Public Service Management made payments totalling to Kshs.4,604,970 to an insurance firm being payment for additional comprehensive medical insurance services for senior staff. As per the Public Procurement and Asset Disposal Act, 2015 Section 139, extension of a contract period should be based on the recommendation of an evaluation committee. Therefore, the contract to the insurance firm was unlawfully extended since it was done contrary to this regulation. In addition, no document was availed to justify how the cost of the premiums were arrived at neither was there a signed agreement for the extension presented for audit review. In the circumstance, the payments were irregular.

7.2 Doubtful Expenditure

An advocate was paid Kshs.4,087,028 through two payment vouchers numbers 43849 and 42978 of Kshs.2,300,000 and Kshs.1,787,028 respectively being payment for legal fees. Examination of payment vouchers revealed that photocopies of the certificate of costs were attached to support the payments. The attached copies of the certificates of costs were both issued by the Deputy Registrar of the High Court of Nakuru on the same date 2 February 2018 and were both bearing similar signature but different names of the Deputy Registrars, therefore, it is not clear who was the official Deputy Registrar. In addition, there was no information provided to show initial fee note amounts, amounts paid to date, outstanding balances (if any), the case(s) being handled and status of those cases to authenticate the payments. In the circumstance, the payment of Kshs.4,087,028 remains doubtful.

7.3 Non-Implementation of Project

Included in the Nakuru County Government budget are projects that were to be implemented by the department of Public Service Management with a total estimated value of Kshs.9,600,000. However, these projects were not implemented during the year. Indications were that the budget was not realistic since the County Government lacked capacity to implement the projects. So far no explanation has been given for failure to implement the projects.

7.4 Non- Budgeted Items

Included in the expenditure schedule for the Ministry of Public Service Management were expenditure on various items totalling to Kshs.58,878,849 which were charged under expenditure code 6530101 (Ministry HQ Recurrent). In the standard charts of account this code is for recording receipt of funds in the operational bank account and not an expenditure account. No explanation was given for charging in this account and therefore the expenditure of Kshs.58,878,849 was incurred outside the budget as it could not be matched to any budget code. In addition, no authority has been provided for spending below the line item since the expenditures had no budget provision. In the circumstance, the expenditures remain unclassified and could not be linked to a line item in the budget.

8. Ministry of Lands

8.1 Delayed Contracts

8.1.1 Preparation of Nakuru County Valuation Roll

The tender for preparation of Nakuru County valuation roll was awarded at a contract price of Kshs.50,591,400 in the year 2014/2015. The tender with a reference number 001/2014/2015 had a budget of Kshs.80,396,242 and its execution was spread to four financial years from year 2014/2015 to 2017/2018. Although, the contract price was Kshs.50,591,400 the excess budgetary provision of Kshs.80,396,242 which exceeded the contract by Kshs.29,804,842 has not been explained. It was observed that payments totalling Kshs.49,861,283 representing ninety-eight percent (98%) have been made in total disregard of the contractual provisions as the draft report though delivered has not been approved and therefore the thirty (30) percent payable upon completion and approval of final draft should not have been paid. The contract is therefore behind schedule by three (3) years as the draft report has not been tabled in the County Assembly for adoption. In the circumstance, the County has not received value for money for this expenditure.

8.1.2 Preparation of Nakuru Spatial Development Plan

The contract for preparation of Nakuru spatial development plan was signed on 22 June 2015 for a sum of Kshs.365,000,000. The contract with a reference number CGN/N.C.S.D. P/04/2014/2015 had a duration of eighteen (18) months ending December 2016. The scope of the consultancy services was digital topographical mapping and preparation of 2014 to 2024 spatial development plan. The budget for this project was Kshs.245,501,290 against the contract sum of Kshs.365,000,000 and it was therefore not clear how the balance of Kshs.119,498,710 was to be financed. It was observed that cumulative payments made to date total Kshs.237,712,512 representing sixty-five (65%) percent yet no substantial work has been carried out and the submitted draft report has not been tabled, discussed and adopted by the County Assembly. In the circumstance, the intended benefits from this project may not be achieved within the set time lines.

8.1.3 Preparation of a Land Information Management System (LIMS) for Nakuru and Naivasha Municipality Areas

The contract for preparation of a Land Information Management System for Nakuru and Naivasha Municipality areas was awarded for a sum of Kshs.33,995,950 and signed on 13 July 2015. The contract with a reference number NCG/LHPP/RFP/010/2014-2015 was for a period of one hundred and twenty days (120) days with a completion date of 14 January 2016. The budget for this project was Kshs.35,706,466. It was observed that despite cumulative payments of Kshs.24,603,427 having been made and the expiry of the contract period, no Land Information Management System as a deliverable has been realized. In the circumstance, the expenditure of Kshs.24,603,427 could not be confirmed as a proper charge to public funds and therefore value for money has not been realized.

9. Ministry of Health

9.1 Irregular Acquisition of Land- Mai Mahiu

Records presented for audit review confirmed that an advocate was paid Kshs.16,768,000 for acquisition of cemetery land at Mai Mahiu known as Longonot/Kijabe block 6/4287 measuring twenty point nine six (20.96) acres at Kshs.800,000 per acre. The County Government of Nakuru signed an agreement for this land on 23 March 2017 with the transactions being completed by 23 June 2017. The sale agreement and the completion clause arrangement provided that the vendor shall through their advocates tender the original title deed, consent to transfer land from the relevant land control board, spousal consent, valid rates clearance certificate and copies of the vendors identity card and personal identification number certificates. Records verified in respect of the sale revealed that Kshs.16,768,000 had been paid to the vendor through his advocate however, the documents specified had not been forwarded to Nakuru County Government as fulfillment of the conditions in the sale agreement. In the circumstance, the conditions for the fulfilment for payment of Kshs.16,768,000 for purchase of land have not been evidenced and therefore it was not clear whether the title to the land has passed to the County Government as the new owner.

9.2 Unsupported Payments

9.2.1 Medical Equipment Supply (MES) Project

Records provided for audit review confirmed that Nakuru County government signed a Memorandum of Understanding (M.O.U) with the Ministry of Health on implementation of Health Care Information Technology (HCIT) component. In the year under review the County Government under Ministry of Health budgeted Kshs.95,744,681 under conditional for leasing of medical equipment. Although, records provided for audit review showed receipt of equipment in Nakuru Provincial General and Naivasha hospital, it is not clear how much the supplier has been paid for these equipment to date, the cost of leasing these equipments, its terms and conditions and the lease period also remained unknown. In addition, budgetary allocation in respect of MES Project is being done every year, instead of doing a consolidated budget once in a year as per the regulation and any outstanding claims to be disclosed in the pending bill as outstanding commitments.

Further, the details of payments for leasing of equipment were not provided for audit verification. In the circumstance, the budget for Kshs.95,744,681 could not be justified.

9.2.2 Procurement of X-Ray Machine

Metisec Imaging Solutions Limited was paid Kshs.2,500,000 for supply of X-Ray machine to Elburgon hospital. However, records verified indicates that the Normal Frequency Stationery X-Ray machine model number TR3004 S/N 16216033006 was supplied less processing unit with a completion date of the project dated 31 March 2017. The machine since delivery has not functioned. No reason or communication has been made as to why the machine could be returned to the supplier and payments withheld.

In addition, the machine was received without any documentation such as user guidelines, delivery details indicating the specification, warranty period and payment was made before delivery.

Further, the department budgeted for Kshs.1,500,000 for equipping Elburgon Hospital with an X-ray machine, but spent Kshs.2,500,000 which in excess of the budget by Kshs.1,000,000. It is not clear from which vote the reallocation was made and whether it was done and approved by the County Treasury in line with Section 154(2) (b) of the Public Finance Management Act, 2012. In the circumstance, no value for money has been achieved.

10. Ministry of Environment

10.1 Incomplete Works at Oljorai Borehole

Included in the pending bill register for the financial year 2017/2018 in the Ministry of Environment, Water and Natural Resources is a contract awarded for completion of proposed borehole and construction of tank at Oljorai borehole in Eburruk Mbaruk ward Gilgil Sub County at a cost of Kshs.2,961,344 during the year 2016/2017. Site visit on 24 October 2018 revealed that the borehole had been drilled but the water tank was incomplete and the contractor had abandoned the site leaving behind incomplete works. In addition, ownership of the land where the construction was done could not be confirmed as the project was not labeled.

In the circumstance, the terms of the contract have not been complied with and the public did not get value for money.

11. Ministry of Public Works

11.1 Over-Expenditure on Electricity Expenses - Ministry of Roads

The department of roads, infrastructure and public works incurred electricity expenses of Kshs.92,987,595 against an approved budget of Kshs.63,500,000 resulting to an over expenditure of Kshs.29,487,595. However, no evidence was produced to show that the excess expenditure was approved as required by Section 39(3) of Public Finance Management (County Governments) Regulations, 2015.

In the circumstance, the expenditure on electricity denied other votes the needed funds for implementation resulting to unimplemented projects.

11.2 Routine Maintenance and Spot Patching of Kenyatta Avenue Lane

Records for routine maintenance of roads revealed that on 27 June 2018 a firm via tender number CGN/RTPW/019/KRB/2017/2018 was paid Kshs.3,883,360 through voucher number 10011938 being payment for routine maintenance and spot patching of Kenyatta avenue lane Government road in Biashara Ward. This payment was charged to development account. Examination of the development budget for the Ministry of roads, infrastructure and public works revealed that the project was not budgeted for under this account. No document of authorization was availed in support of the reallocation of funds earmarked for other projects to pay for a non-budgeted project, therefore the payments were irregular.

11.3 Expenditure on Streetlights (Floodlights)

Various contractors were awarded contracts to supply and install street lights in wards in Nakuru County and collectively paid a total of Kshs.53,033,323.80. As per the inspection and acceptance committee certificates, these street lights were supplied and installed in the financial year under review. Physical verification carried out on 5 and 9 November 2018 in Rhonda, Kaptembwa and London wards revealed that the lights were not labeled and therefore it was not possible to ascertain the actual number of street lights installed and paid for. There are no records to differentiate the street lights installed in the prior years and the current year. In the circumstance, no value for money has been achieved.

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 INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

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 and Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Weak Internal Controls

Review of the internal controls in information technology use revealed that the County Executive has not established an IT strategy committee which should provide leadership on information technology matters, IT strategic plan and IT security policy. In addition, there was no risk management and assessment policy and neither was disaster recovery

plan and business continuity plan in place. Further, the County Executive had installed and implemented ZIZI revenue collection system and LAIFOMS Information systems that had not been integrated with Integrated Financial Management System (IFMIS). In the circumstance, information technology may not achieve its objectives.

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 effective 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 to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the International Public Sector Accounting Standards (Cash Basis) of accounting unless the management of the County Executive of Nakuru either intends to liquidate or 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 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 ability to continue as a going concern or 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 as a going concern or 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

11 February 2019