

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Nyandarua set out on pages 13 to 89, which comprise the statement of financial assets as at 30 June 2017 and the statement of receipts and payments, statement of cash flows, summary statement of appropriation: recurrent and development combined and budget execution by programmes and sub-programmes 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 Nyandarua as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

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

Basis for Qualified Opinion

1.0 Variances between the Financial Statements and IFMIS

The figures in the financial statements for the year ended 30 June 2017 contain discrepancies compared with the IFMIS report totaling Kshs.9,534,551,790 as summarized below:

Item	Amounts as per Financial Statements – (Kshs.)	Amounts as per IFMIS Report – (Kshs.)	Variance – (Kshs.)
Receipts	5,140,592,416	506,695,349	4,633,897,067
Payments	5,094,898,634	4,685,132,868	409,765,766
Cash and Bank	341,841,349	2,168,364,228	(1,826,522,879)
Receivables	2,332,408	-953,790,283	956,122,691
Payables	26,920,119	13,734,734,554	(13,707,814,435)
Total	10,606,584,926	20,141,136,716	(9,534,551,790)

Consequently, the accuracy, validity and completeness of the balances reflected in these financial statements for the year ended 30 June 2017 could not be confirmed.

2.0 Acquisition of Assets

2.1 Accuracy of Acquisition of Assets Balance

The statement of receipts and payments for the year ended 30 June 2017 reflects acquisition of assets balance of Kshs.1,647,360. However, the following were noted:

- i. Included in the acquisition of assets balance as disclosed in Note 17 to the financial statements is acquisition of land worth Kshs.55,508,691. However, annexure 4 on summary of fixed asset register reflects land additions during the financial year totalling Kshs.29,412,332 resulting in unexplained and unreconciled variance of Kshs.26,096,359.
- ii. The reporting template prescribed by the Public Sector Accounting Standards Board require that the closing cumulative balance of assets should include assets as at the beginning of the period and assets acquired during the year. However, note 17 to the financial statements reflects comparative figure for previous year (2015/2016) of Kshs.1,904,484,825 while annexure 4 on summary of fixed asset register reflects additions figure of Kshs.1,367,182,662 resulting in unexplained variance of Kshs.537,302,163.

Consequently, the accuracy of acquisition of assets balance of Kshs.1,647,360,934 for the year ended 30 June 2017 could not be confirmed.

2.2 Summary Statement of Fixed Assets

As previously reported in the financial year 2015/2016, the financial statements excluded the opening balances for assets and liabilities inherited from the defunct Local authorities. Further, the official handover of assets and liabilities inherited from former local authorities of Nyandarua County has not been finalized.

Consequently, the accuracy and completeness of summary statement of fixed assets register as at 30 June 2017 could not be confirmed.

3.0 Pending bills

Note 26.1 and note 26.2 to financial statements as at 30 June 2017 reflects pending accounts payables and pending staff payables of Kshs.311,023,245 and Kshs.76,548,005 respectively. However, the following observations were noted:

- i. Included in outstanding pending accounts payables balance of Kshs.311,023,245 are bills totaling Kshs.98,998,401 and Kshs.24,460,465 relating to 2013/2014 and 2014/2015 respectively for which no reason has been provided for the delay in settling the bills. Further, had the bills been paid and charged to the 2016/2017

accounts, the financial statements would have reflected a deficit of Kshs.341,877,469 instead of the surplus of Kshs.45,693,781 now shown.

- ii. Further, included in the pending accounts payable balance of Kshs.311,023,245 for the year under review is an amount of Kshs.24,107,125.43 relating to Ministry of Roads, Public Works and Transport which was not supported.
- iii. Note 26.1 to the financial statements reflects pending bills of Kshs.219,033,065 as at 30 June 2016 which is at variance with the previously reported balance of Kshs.563,895,932. The resultant difference of Kshs.344,862,867 has not been reconciled or explained.

In the circumstances, the accuracy and completeness of the pending accounts payables balance of Kshs.311,023,245 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 Nyandarua 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 Other Matter sections of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

1.1 Budget Performance Analysis

During the financial year ended 30 June 2017, the Nyandarua County Executive had an approved budget of Kshs.5,668,123,646 comprising of recurrent vote of Kshs.3,929,421,818 (69%) and development vote of Kshs.1,738,701,828 (31%).The summary statement of appropriation recurrent and development; combined reflected overall expenditure totalling Kshs.5,094,898,634 equivalent to 90% absorption rate as follows:

Vote	Approved Budget 2016/17 Kshs.	Actual Expenditure 2016/17 Kshs.	Under Absorption Kshs.	Absorption Rate %
Recurrent	1,738,701,828	1,647,360,934	91,340,894	95
Development	3,929,421,818	3,447,537,700	481,884,118	88

Total	5,668,123,646	5,094,898,634	573,225,012	90
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The above table shows that the county spent Kshs.1,647,360,934 on development expenditure or 32.33% of total expenditure which is above the set threshold as per section 107 (2) b of PFM Act, 2012 which requires that over the medium term, a minimum of thirty (30) percent of the county government's budget shall be allocated to development expenditure. However, overall under expenditure of Kshs.573,225,012 was realized during the year. This implies that planned programmes and activities were not fully implemented for the benefit of residents of Nyandarua County.

1.2 Detailed Expenditure Analysis

Detailed analysis of budget against actual expenditure for the year ended 30 June 2017 is as follows:

Item	Approved Budget 2016/17 (Kshs.)	Actual Expenditure 2016/17 (Kshs.)	Over-expenditure (Kshs.)	Under-expenditure (Kshs.)
Compensation of Employees	1,605,788,286	1,586,803,946		18,984,340
Use of Goods and Services	1,064,181,319	726,657,269		337,524,050
Transfers to Other Government Entities	810,500,445	749,216,763		61,283,682
Other Grants and Transfers	264,877,118	274,296,133	9,419,015	
Social Security Benefits	90,595,490	90,563,589		31,901
Acquisition of Assets	1,812,180,988	1,647,360,934		164,820,054
Other Payments	20,000,000	20,000,000		
Total	5,668,123,646	5,094,898,634	9,419,015	563,627,786

From the above analysis, it is clear that the county under spent in all expenditure items except on other grants and transfers which recorded an over expenditure of Kshs.9,419,015. No explanation was provided for the failure to adhere to the approved budgetary provisions.

1.3 Revenue Budget Analysis

During the year under review, the County Government had projected to collect revenue amounting to Kshs.5,668,123,647. However, the County realized revenue totaling Kshs.5,436,968,011, resulting to overall revenue shortfall of Kshs.231,155,636. Further, revenue records indicate that the County Government realized revenue from local sources of Kshs.300,091,264 against an estimated budget of Kshs.390,000,000, resulting in an under collection of Kshs.89,908,736 or 23% of the budget.

In addition, the actual revenue collection was a marginal increase in 2016/2017 as compared to previous financial year 2015/2016 by Kshs.18,149,795 or 6% as analyzed below:

Year	Revenue Estimates (Kshs.)	Actual Collection – (Kshs.)	Actual/Budget %	Increase from Previous Year (Kshs.)	Revenue Growth %
2014/2015	200,000,000	240,629,472	120		-
2015/2016	392,000,000	281,941,469	72	41,311,997	17%
2016/2017	390,000,000	300,091,264	77	18,149,795	6%
Total	982,000,000	822,662,205	84		

The table above shows a general revenue growth over the three (3) years, but budgeted revenue has not been achieved. The management should put in place revenue collection measures and controls to achieve its revenue targets.

1.4 Arrears of Revenue

Revenue records presented for audit review revealed that as at 30 June 2017, arrears of revenue in respect of property rates and rent amounted to Kshs.5,265,497,440. The management has not explained why the revenue was not collected as and when it is due. The uncollected revenue reduces available resources to the County and impacts negatively on planned development projects and service delivery to the public.

2.0 Value for Money Report on County Projects

2.1 Specialized Materials and Services - Unutilized Health Facility and Idle Medical Equipment – Charagita Dispensary

Note 12 on use of goods and services for the year ended 30 June 2017 reflects specialized materials and services expenditure figure of Kshs.32,270,862. Included in the figure is an expenditure of Kshs.1,506,698 under Ministry of Health being supply of assorted medical equipment to Charagita Dispensary. The Ministry had spent Kshs.3,973,370 during the financial year 2014/2015 on completion of the dispensary and a further Kshs.899,684 on construction of a toilet for the facility.

A physical verification exercise carried out on 12 January 2018 revealed that the health facility had not been put into use despite being complete and equipment purchased. The medical equipment had been stored in the neighboring Ngano Health Centre. Further, the facility lacked water and power supply. The management has not provided explanation for the failure to utilize the facility.

Consequently, the value for money so far spent on the project totaling Kshs.6,379,438 could not be confirmed.

2.2 Construction of Buildings - Unutilized Facility at Tulaga Dumpsite

Included in the construction of building figure of Kshs.147,676,307 as disclosed in note 17 to the financial statements is an expenditure of Kshs.1,000,065 paid to M/s Hapema Building and General Contractors Ltd in respect of 2nd certificate on a contract awarded to the company at a sum of Kshs.3,405,354 for fencing a parcel of land Ref. No. NYA/Tulaga/9233 measuring 2.02Ha earmarked as a dumpsite. The parcel of land was acquired on 12 July 2014 at a total cost of Kshs.5,700,000. Audit verification carried out on 16 January 2018 revealed that the land, which was acquired in the financial year 2014/2015, had not been put into use. It was also noted that the proposed dumpsite was surrounded by several homesteads making it unsuitable for a dumpsite. It is not clear whether the community was involved before the location was identified and purchased. Further, the management has not provided environmental impact assessment report for the dumpsite.

Consequently, the propriety and value for money in respect of the expenditure of Kshs.1,000,065 incurred during the year ended 30 June 2017 could not be confirmed.

2.3 Unutilized Health Facility – Kihuho Dispensary

Further, included in construction of building figure of Kshs.147,676,307 as disclosed in note 17 to the financial statements is an amount of Kshs.2,963,655 paid to M/s Tramtel Enterprises (K) Ltd being full contract sum for renovation of an existing building in Kihuho Dispensary. However, the bill of quantities and contract included provisional sums of Kshs.1,020,000 or 34% of contract sum in respect of drainage, plumbing, firefighting equipment, project management expenses, Kenya Power connection charges and contingencies. No specifications and quantities were provided for the scope of works relating to provisional sums for the bidders to quote. Further, the County Executive did not provide evidence on how these provisional sums were valued and certified in completion certificate issued and payments for works done.

In addition, the County Executive purchased assorted medical equipment at a cost of Kshs.1,508,600 for the health facility. Audit verification exercise conducted on 12 January 2018 revealed that the renovation works were complete but no power had been connected, despite the full contract amount having been paid to the contractor. Further, the equipment purchased for the facility were stored at the neighbouring Mirangine Dispensary.

The management has not explained the anomalies noted.

Consequently, the propriety and value for money so far spent on the project of Kshs.4,472,255 could not be confirmed.

2.4 Unutilized Health Facility – Munoru Dispensary

Included in construction of buildings figure of Kshs.147,676,307 as disclosed in note 17 to the financial statements is an expenditure of Kshs.4,803,707 being second and final

payment in respect of contract No. NYA/CG/OT/HT/03/2015-2016 awarded to M/s Robkam Building Contractors Ltd for the construction and completion of Munoru Dispensary at a contract sum of Kshs.11,615,126.40. As at the time of audit, the full contract sum had been paid to the contractor and a certificate of practical completion issued. It was also noted that the County purchased medical equipment for the facility worth Kshs.1,508,600. Audit verification exercise carried out on 16th January 2018 revealed that the construction works for the dispensary were complete although the facility remains unutilized. The medical equipment had been delivered but stored in the neighboring Tulasha Dispensary.

The county management has not provided reasons for the unutilized facility which deny the public provision of health services.

2.5 Construction of Biogas Digesters

Included in construction of buildings figure of Kshs.147,676,307 as disclosed in note 17 to the financial statements is an amount of Kshs.3,976,200 for construction of biogas digesters in the county during the year under review. According to the work plan and other records made available, the project was to benefit self-help groups. However, physical verification of the projects revealed that the biogases were constructed in private residences of individuals indicated as owned by the self-help groups. A visit to sampled private homes revealed that the biogases were benefitting only the individual homeowners and not the groups as intended.

The county management has not provided explanation for the anomaly and action being taken to ensure that the public benefit from the project.

2.6 Construction of Horticulture Pack House

Included in the construction of building figure of Kshs.147,676,307 as disclosed in note 17 to the financial statements is an amount of Kshs.3,000,000 paid to a construction company for construction of horticulture pack house in Ol Kalou. As previously reported, the contract for construction of the Pack House was competitively awarded by the Department of Agriculture to the lowest evaluated contractor at a contract sum of Kshs.50,175,680. The works involved construction of a cold storage and packing area for county produce by local farmers. The company was paid an amount of Kshs.24,815,708 in 2015/2016 bringing the total payments as at 30 June 2017 to Kshs.27,815,708. The contract agreement was signed on 19 June 2015 and the works were to commence immediately and were scheduled for completion within one (1) year. A review of the progress of the project January 2018 revealed that the contractor was not on site and yet the project was behind schedule with overall progress standing at approximately 60%, while about 250% of the contract period had elapsed. No explanation was provided for the slow progress of the works. Further, it is not clear whether a request for extension of contract period was sought and approved to ensure completion of the project.

As a result, cost escalation on the project may arise and the County Government has not explained measures put in place to ensure that the construction is completed to serve the intended purpose.

2.7 Proposed Construction and Completion of Casualty / Emergency Unit at J. M. Kariuki Hospital

Included in the construction and civil works figure of Kshs.1,197,341,545 is an amount of Kshs.4,290,880.20 paid to a construction company in respect of second certificate for contract no. NYA/CG/OT/06/2015-2016 for construction of casualty / emergency unit at J.M Kariuki Hospital. The procurement for the works was done through open tender and a review of the documents revealed that although one of the bidders, M/s Zaina Building Construction Ltd, was the lowest responsive bidder at a tender sum of Kshs.19,916,719.68, a professional opinion provided by head of supply chain management unit recommended the award of contract to the second lowest bidder, Civitra Company Ltd, at a contract sum of Kshs.21,109,607.08. The reason given was that the winning bidder was undertaking other three contracts in the county and had qualified to be awarded another tender. The decision to award the tender to the second lowest bidder resulted in lost savings on cost of Kshs.1,192,887.40.

Other observations noted on the project are as follows:

- i. Notification of award was issued on 30 April, 2016, and a contract entered into the same day between the County Government and Civitra Company Ltd contrary to provisions of Section 135(3) of Public Procurement Asset Disposal Act, 2015 which prohibits signing of contract before 14 days have expired after notification of award. Further, it was noted that acceptance for the award was issued by the contractor on 3 May 2016 long after the contract had been signed.
- ii. The contract completion period was 28 weeks, approximately 7 months from the date of possession to site which was 16 June, 2016. A physical verification carried out on 18 of January 2018 revealed internal finishes, painting and fixing of doors were remaining. Review of site meeting minutes dated 14th March 2017 indicated that the project was 90% complete. With the contract duration having expired, the project was still incomplete. No evidence of extension of contract period for project was provided for audit. Although the management attributes the delay in completion of the project to delay in release of funds by the National Treasury, adequate measures have not been put in place to ensure that the project is completed to serve the public.

2.8 Proposed Construction and Completion of Gathiriga Dispensary

Included in the construction and civil works figure of Kshs.1,197,341,545 is an amount of Kshs.6,342,786 paid to Gouanzhaou Construction Co. Ltd for construction and completion of a dispensary at Gathiriga. Available records presented for audit indicates the contract period was to run for 28 weeks from the date of site handover on 29 March 2017. However, a physical verification exercise carried out on 16th January 2018 revealed that the project had not been completed and the contract period had lapsed. The remaining works included painting, glazing, fixing of the ceiling, fixing of doors, electrical installations, floor, and construction of a toilet. The project appeared to have stalled since no works were going on as at the time of the visit. No evidence of any extension of contract

was provided for audit verification. It is not clear and it has not been explained when the project will be completed.

2.9 Proposed Construction and Completion of a Twin Ward at Shamata Health Centre

Included in the construction and civil works figure of Kshs.1,197,341,545 is an amount of Kshs.7,000,322.35 paid to Gouanzhaou Construction Co. Ltd for construction and completion of twin ward at Shamata Health Centre. According to the signed contract agreement, the works commenced on 29 March 2017, which was the date of site handing over and the construction was scheduled for completion within a period 25 weeks, thus was expected to be completed by 6 January 2018. However, a physical verification exercise carried out on 17 January 2018 revealed that the project had not been completed although the contract duration had elapsed. The project appeared to have stalled since no works were going on as at the time of this audit. It is not clear whether and when the project will be completed.

2.10 Unutilized Magumu Market Sheds

Note 17 to the financial statements for the year ended 30 June 2017 reflects construction and civil works figure of Kshs.1,197,341,545 out of which an amount of Kshs.4,190,530 was in respect of construction of Magumu market sheds. The contract was awarded to M/s Nyonjoro Hardware and Supplies. However, physical verification revealed that the paving slabs on the floor of the passage around the market had broken and one of the external doors vandalized. Further, the market sheds had not been utilized for over one and a half years since completion, and thus not serving the purpose for which it was intended. The management has not provided justification for the failure to complete and utilize the project for the benefit of Nyandarua residents.

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

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

In preparing the financial statements, management is responsible for assessing the County Executive's ability to sustain services, disclosing, as applicable, matters related to sustainability of services.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the County Executive's 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.



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

Nairobi

25 June 2018