REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF NYERI 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 Nyeri set out on pages 8 to 49, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows, 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 Nyeri 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. Variances Between the Financial Statements and IFMIS Report

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

1.1. Statement of Receipts and Payments

The statement of receipts and payments amounts of Kshs.6,404,017,091 and Kshs.6,320,409,393 are at variance with IFMIS report receipts and payments of Kshs.13,050,757,622 and Kshs.5,429,588,225 respectively as detailed below:

Item	Amount as per IFMIS Kshs.	Amount as per Financial Statements Kshs.	Variance Kshs.
Receipts			
Exchequer Releases	11,781,374,746	4,952,800,000	6,828,574,746
Other Receipts	796,711,714	760,186,651	36,525,063

Proceeds from Domestic and Foreign Grants	0	70,761,342	(70,761,342)
Transfers from other Government Entities	472,671,162	620,269,098	(147,597,936)
Total Receipts	**13,050,757,622**	**6,404,017,091**	**6,646,740,531**
Payments			
Compensation of Employees	2,881,599,215	3,154,347,463	(272,748,248)
Use of Goods and Services	841,179,722	819,772,646	21,407,076
Subsidies	0	1,508,066	(1,508,066)
Transfers to other Government Units	323,628,060	642,754,197	(319,126,137)
Other Grants and Transfers	1,650,066	320,635,860	(318,985,794)
Social Security Benefits	10,743,471	10,743,471	0
Acquisition of Assets	845,206,524	745,066,524	100,140,000
Other Payments	525,581,168	625,581,168	(100,000,000)
Total Payments	**5,429,588,226**	**6,320,409,395**	**(300,644,879)**

No explanation or reconciliation was provided for the above variances.

1.2. Statement of Assets and Liabilities

Further, the balances reflected in the statement of assets and liabilities as at 30 June 2018 differs with the IFMIS report as summarized below:

Item	Balance as per IFMIS Report Kshs.	Balances as per Financial Statements Kshs.	Variance Kshs.
Accounts Payables - Deposits	11,880,989,769.95	-57,191,216.00	11,938,180,985.95
Accounts Receivables - Outstanding Imprest and Clearance Accounts	299,677,074.85	124,409,744.00	175,267,330.85
Bank Balances	-7,576,244,299.70	1,390,216,339.00	-8,966,460,638.70
Cash Balances	42,347,952,929.55	0.00	42,347,952,929.55
Fund Balance Brought Forward	15,595,477,231.15	1,373,827,170.00	14,221,650,061.15
Surplus/deficit for the Year	7,621,169,397.55	83,607,698.00	7,537,561,699.55

No satisfactory explanations or reconciliations were provided for the above variances.

Consequently, the accuracy and completeness of the balances reflected in the financial statements for the year ended 30 June 2018 could not be confirmed.

2. Presentation of the Other Information

The financial statements submitted for audit review did not include information on establishment of other County Government entities and progress on follow up of Auditor-General's recommendations as required in the format prescribed by the Public Sector Accounting Standards Board (PSASB). No explanation has been provided for these omissions.

3. Summary of Fixed Asset Register

Annex 5 – Summary of fixed asset register attached to these financial statements reflects fixed assets balance of Kshs.303,903,996 as at 30 June 2018 compared to a balance of Kshs.89,019,839 as at 30 June 2017, indicating additions of Kshs.214,884,157 during the year under review. However, the County Executive did not provide an updated fixed assets register. Further, the financial statements for the year ended 30 June 2018 excluded the opening balances for assets and liabilities inherited from the defunct Local authorities in Nyeri County.

Consequently, the accuracy and completeness of the fixed assets balance of Kshs.303,903,996 could not be ascertained.

1. Pending bills

Annex 2 - analysis of pending accounts payables to the financial statements reflects pending bills balance of Kshs.360,493,767.63 as at 30 June 2018 (financial year 2016/2017- Kshs.712,444,170). The management did not provide details on how the 2016/2017 bills were paid and accounted for in these financial statements. In addition, pending bills inherited by Nyeri County Government from the defunct local authorities amounting to Kshs.592,807,561 were not included in these financial statements. Consequently, the accuracy and completeness of the pending accounts payable of Kshs.360,493,767.63 as at 30 June 2018 could not be confirmed.

Had the pending bills of Kshs.360,493,767.63 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.276,886,070 instead of the surplus of Kshs.83,607,698 now shown. It is evident that the management entered into financial commitments for which no funds were available.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Nyeri County Executive 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 section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1 Accounts Receivables - Outstanding Imprests

An audit examination of imprest warrants and imprests register revealed that outstanding imprests included multiple and overdue imprests issued to staffwhich had not been accounted for or surrendered as at 30 June 2018.
Further, regulation 93 of the Public Finance Management (County Government) Regulations, 2015, requires that before issuing temporary imprests, the Accounting Officer should ensure that the applicant has no outstanding imprest and the holder of a temporary imprest shall account or surrender the imprest within seven days after returning to duty station. Consequently, the management was in breach of the law and regulations governing issuance and surrender of imprests.

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. Failure to Submit Financial Statements for County Funds

Included in Notes 15 and 20 to the financial statements are other capital grants & transfers of Kshs.126,000,000 and other payments of Kshs.100,000,000. These figures in turn includes transfers amounting to Kshs.170,000,000 in respect of three county funds established for specific purpose as follows:

S. No.	Fund Name	Amount transferred in 2017/2018 Kshs.
1	Enterprise Development Fund	30,000,000
2	Elimu Fund	40,000,000
3	Car Loan and Mortgage Fund	100,000,000
	Total	**170,000,000**

However, the County Executive did not prepare and submit the financial statements for Enterprise Development Fund, Elimu Fund and Car Loan and Mortgage Fund for the year ended 30 June 2018 to the Auditor-General for audit. This is contrary to Section 167(3) of the Public Finance Management Act, 2012 which requires the administrator of a county fund to prepare and submit the financial statements in respect of a fund within three months after the end of the financial year, that is on or before 30 September of every year. No reason has been given for the omission.

2. Budget Performance

2.1. Overall Budgeted and Actual Expenditure

An analysis of the County Executive budgeted and actual expenditure for the financial year ended 30 June 2018 is as follows:

Item	Budgeted Amount 2017/2018 Kshs.	Actual Expenditure 2017/2018 Kshs.	% of Total Expenditure
Development Vote	2,489,533,678	1,334,404,165	21%
Recurrent Vote	5,471,474,383	4,985,958,656	79%
Total	**7,961,008,061**	**6,320,362,821**	100%

The above budget performance shows that the County Executive spent Kshs.1,334,404,165 or approximately 21% of the actual total expenditure on development items while an amount of Kshs.4,985,958,656 or approximately 79% was on recurrent items. The management therefore did not comply with Section 107 (2) b of the Public Finance Management Act, 2012 which requires that a minimum of thirty (30) percent of the County Executive budget be allocated to development expenditure.

2.2. Under/Over Expenditure on Heads/Items

A comparison of the actual expenditure and budgeted amounts revealed the following:

Item	Budget Amount 2017/2018 Kshs.	Actual Expenditure 2017/2018 Kshs.	Over Kshs.	Under Kshs.

Compensation of Employees	3,258,382,730	3,154,347,463		104,035,267
Use of Goods and Services	1,553,528,149	819,772,646		733,755,503
Subsidies	1,800,000	1,508,066		291,934
Transfers to Other Government Entities	737,760,445	642,754,197		95,006,248
Other Grants and Transfers	325,429,931	320,635,860		4,794,071
Social Security Benefits	64,092,628	10,743,471		53,349,157
Acquisition of Assets	1,400,701,499	745,066,524		655,634,975
Other Payments	619,412,680	625,581,167	6,168,487	
Total	**7,961,108,062**	**6,320,409,394**	**6,168,487**	**1,646,867,155**

The above table shows that the County Executive underspent on all items except other payments that had an over expenditure of Kshs.6,168,487 or 1% of the approved budget allocation. The total under-expenditure of Kshs.1,646,867,155 means that planned development programmes were not fully implemented impacting negatively on service delivery to the residents of Nyeri County.

Further, the expenditure of Kshs.3,154,347,463 on compensation of employees represents 50% of the total expenditure of Kshs.6,320,409,394 for the year ended 30 June 2018. The expenditure exceeded the set limit of 35% under regulations 25(1) (b) of the Public Finance Management (County Regulations), 2015 which provides that county government expenditure on wages and benefits for public officers should not exceed 35% of the county total revenue. This may affect service delivery and other development programmes in the County if no measures are taken to contain the high wage bill.

2.3. Revenue Budget Performance

The statement of appropriation – recurrent and development combined for the year ended 30 June, 2018 shows that the County Executive realized revenue from local sources (county own generated receipts) of Kshs.760,186,651 against an estimated budget of Kshs.1,000,000,000, resulting in an under collection of Kshs.239,813,349 or 24% of the budget.

Further analysis of revenue from local sources for last four financial years is as follows:

Year	Budgeted Amount Kshs.	Actual Collection Kshs.	Over/(under) collection Kshs.	% Actual/ Budget	% Revenue Growth
2014/2015	1,373,747,900	842,707,972	(531,039,928)	61%	-
2015/2016	1,082,000,000	809,313,486	(272,686,514)	75%	-4%
2016/2017	1,095,101,000	643,139,153	(451,961,847)	59%	-26%
2017/2018	1,000,000,000	760,186,651	(239,813,349)	76%	18%
Total	**4,550,848,900**	**3,055,347,262**	**(1,495,501,638)**	**67%**	

The table above therefore indicate that the County Executive realized revenue under collection against budget over the years, despite reduction in revenue targets. Further, out of the fifty-seven revenue streams, the County missed its revenue targets in forty-four revenue streams and only managed to surpass the target in thirteen revenue streams during the year under review. This is an indication of revenue leakages and inadequate control measures by the County Executive management which need to be addressed.

3. Delay in Implementation of Street Lighting Project

Disclosed in Note 17 to the financial statements under acquisition of assets is an expenditure of Kshs.199,344,881 on construction of roads. Included in the expenditure is an amount of Kshs.44,608,300 for installation of street lights. However, physical verification carried out in December, 2018 revealed that five projects had not been implemented despite the County Executive having paid a total of Kshs.7,447,000 to Kenya Power and Lighting Company to implement the street lighting projects as follows:

	Project Name/Location	Contract Value Kshs.
1	Othaya Road-Ciara-ini	1,350,000
2	Kimathi Road to Blue Valley	1,370,000
3	Kiambara market	1,450,000
4	PG Murithi-Thunguma Road	2,580,000
5	Extension Othaya Gitandara Road	697,000
	Total	**7,447,000**

No evidence was provided to show when the installation of the street lighting would commence. Further, the management did not give justification for the delay and measures being taken to ensure that the projects were completed as planned. Consequently, it has not been possible to confirm that the County obtained value for money in respect of the payments of Kshs.7,447,000 for the projects during the year ended 30 June 2018.

4. Abandoned Project- Kirimukuyu Footbridge

The expenditure figure of Kshs.199,344,881 on construction of roads also includes an amount of Kshs.1,492,020 being payment for construction of Kirimukuyu Footbridge. A contract for construction of Kirimukuyu Footbridge was signed between the County Executive and a local firm on 1 March 2018 for a contract sum of Kshs.6,787,526.90 and the works were to commence immediately. However, the signed contract agreement did not specify contract duration and expected completion date.

Site verification carried out in December 2018 revealed that only pillars were erected and thereafter the bridge was abandoned by the contractor. The management did not indicate measures put in place to compel the contractor to complete the works. As a result of the incomplete works, the County may not realize value for money on the funds spent so far on this project.

5. Delayed Completion of Titie Water Treatment Plant

Disclosed also in Note 17 to the financial statements under acquisition of assets is an expenditure of Kshs.230,361,046.35 relating to construction and civil works, which includes an amount of Kshs.2,867,416 paid to a Construction company for completion of construction of Titie water treatment plant in Tetu sub-county. The amount was in addition to Kshs.1,987,660 paid in 2016/2017 financial year, thus totalling Kshs.4,855,076 so far paid to the Contractor for the project.

The total contract sum was agreed at Kshs.12,477,690.80 and the project was to take six months from 7 March 2017. However, as of November 2018, about twenty-one months after the contract agreement was signed, the construction works had not been completed and handed over to the County Government. No explanation was provided for failure by the contractor to complete the project within the agreed contract period.

6. Expired Drugs

Physical inspection of health facilities in the County undertaken in December 2018 revealed expired drugs worth Kshs.15,204,884 and non-pharmaceuticals items worth Kshs.771,143, respectively in thirty-one health facilities. It was not explained why the drugs were procured beyond the required levels leading to expiration and loss of public funds.

7. Failure to Achieve 30% Ethnic Diversity in Recruitment Process

A review of human resource records revealed that, during the year under review, the County Executive recruited one hundred and eighty-five staff and all of them came from one dominant community in the County. This is contrary to the requirements of Section 7(2) of the National Cohesion and Integration Act, 2008 and Section 65 (e) of the County Government Act, 2012 which requires that at least 30% of the employees should be from other ethnic communities.

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 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

1. Lack of Audit Committee

As reported in the previous year, the County Executive had not similarly during the year under review put in place an audit committee as provided for under regulation 167(1) of the Public Finance Management (County Government) Regulations, 2015. This exposed the County to financial risks as the necessary mechanisms in terms of audit and risk mitigation structures were not in place as required under the regulations.

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 Nyeri 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`s 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 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 County Executive of Nyeri 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 2018