

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF THARAKA NITHI FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Adverse Opinion**

I have audited the accompanying financial statements of County Executive of Tharaka Nithi set out on pages 5 to 45, which comprise the statement of assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation: recurrent and development combined for the year then ended, together with 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of County Executive of Tharaka Nithi 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 do not comply with the Public Finance Management Act, 2012 .

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, public money has not been applied lawfully and in an effective way.

### **Basis for Adverse Opinion**

#### **1.0 Accuracy, Completeness and Presentation of the Financial Statements**

##### **1.1 Presentation of Financial Statements**

The International Public Sector Accounting Standards (Cash Basis) reporting template prescribed by the Public Sector Accounting Standards Board requires that a report on the follow up of previous year's audit recommendations be included as part of the annexures to the financial statements. However, the report on the follow up of previous year's audit recommendations at page 18 of the financial statements reflects only five (5) issues while the report of the Auditor-General on County Executive of Tharaka Nithi for the year ended 30 June 2016 had an Adverse Opinion with fifteen (15) issues and therefore action taken on ten (10) issues has not been shown. In addition, out of the five (5) issues reflected at page 18 only two audit issues reflect action taken while action taken on the remaining three issues has not been indicated.

Further, the paging of the financial statements for the year is not sequential as pages 8 to 11 have been omitted. In addition, the notes to the financial statements are not properly

presented as two items namely Transfers to other Government Entities and Acquisition of Assets both bear the same Note number 7.

In the circumstances, the presentation of the financial statements for the year ended 30 June 2017 did not comply with the International Public Sector Accounting Standards

(Cash Basis) format/template as prescribed by the Public Sector Accounting Standards Board.

## 1.2 Accuracy and Completeness of the Financial Statements

Review of the financial statements as at 30 June 2017 and the respective supporting schedules/ledgers and cash books revealed unexplained and unreconciled differences as follows;

- i. Note 5 to the financial statements reflects Kshs.1,740,124,638(2016: Kshs.1,426,351,863) in respect to compensation of employees as at 30 June 2017. However, the expenditure ledgers provided reflects Kshs.897,432,809 leaving an unsupported amount of Kshs.842,691,829. Further, the analysis of the cashbook revealed Kshs.1,596,558,574 for compensation of employees resulting to a further unexplained and unreconciled difference of Kshs.143,566,064.
- ii. Note 6 to the financial statements indicates Kshs.100,347,461 in respect to domestic travel and subsistence. However, the expenditure ledgers provided reflects Kshs.37,708,541 resulting into an unsupported amount of Kshs.62,638,920. Further, analysis of the cashbook revealed Kshs.38,144,285 for domestic travel and subsistence resulting to unexplained and unreconciled difference of Kshs.62,203,176.
- iii. Note 10 to the financial Statements reflects Kshs.20,802,831(2016: Kshs.5,015,029) in respect to social security benefits as at 30 June 2017. However, no schedules were provided to support the expenditure nor was the huge increase explained.
- iv. An amount of Kshs.39,857,528 and Kshs.13,899,806 received during the financial year under review in respect to Road Maintenance Fuel Levy and loan from World Bank respectively had been omitted from the Kshs.162,752,269 receipts reflected in notes 2 and 4 respectively to the financial statements.
- v. Understated Taxes on Goods and Services

Note 3 to the financial statements shows taxes on goods and services of Kshs.71,644,702 while the board of survey indicates an amount of Kshs.75,671,402 resulting into an unexplained difference of Kshs.4,026,900 as at 30 June 2017. Vi. Note 7 and Annex 4 to the financial statements in respect to Acquisition of Assets and summary to Fixed Asset Register respectively, reflect similar figures implying inaccuracy in annex 4 as it only reflects assets acquired during the year instead of the total accumulated assets of the County Executive. Further, fifteen (15) items in the financial statements reflected a balance of Kshs. 371,982,559 while supporting ledgers reflected a balance of Kshs.177,740,764 resulting in unexplained and unreconciled variance of Kshs.194,191,795 as follows;

No.	Item	Financial Statements (Kshs)	Ledger / Cash Book (Kshs)	Variance (Kshs)
1	Utilities Supplies	3,288,471	3,176,770	110,701
2	Communication Supplies	4,701,070	2,039,150	2,661,920
3	Hospitality Supplies	30,621,580	10,917,899	19,703,681

4	Insurance Costs	17,052,939	7,249,789	9,803,150
5	Office Supplies	5,360,632	1,996,904	3,363,728
6	Specialized Materials	90,098,037	65,796,878	24,301,159

7	Other Operating Expenses	53,666,146	45,737,210	7,928,936
8	Purchase Of Vehicles & Other Transport Equip.	8,782,660	3,837,160	4,945,500
9	Purchase of Household Furniture	3,588,506	-	3,588,506
10	Printing, Advertising & Info. Supplies & Services	32,164,200	25,744,488	6,419,712
11	Routine Maintenance of Other Assets	109,171,143	674,610	108,496,533
12	Routine Maintenance of Vehicles	4,515,152	3,531,430	983,722
13	Fuel, Oil And Lubricants	8,972,023	7,038,476	1,933,547
	<b>Total</b>	<b>371,982,559</b>	<b>177,740,764</b>	<b>194,191,795</b>

Vi. The huge increase in the routine maintenance – other assets from Kshs.3,094,204 in 2015/2016 to Kshs.109,171,143 ( ledger shows an expenditure of Kshs.674,610 only item (viii) above) an increase of Kshs.106,076,939 or 3428% has not been explained or supported.

Vii. During the year under review, the County Executive reflected nil balance on purchase of computers, printers and other ICT equipment while the ledgers reflected an expenditure of Kshs.11,409,120 in respect to the item and no reconciliation of the two records was made available for audit scrutiny as at 30 June 2017.

Viii. The variance between the budget and actual amount for fixed assets acquisition is shown as Kshs. 421,501,691 in the statement of appropriation: Recurrent and Development Combined. However, the variance the budget of Kshs.1,166,965,490 and actual of Kshs.793,637,253 is Kshs.373,328,237 resulting into an unreconciled amount of Kshs.48,173,454 as at 30 June 2017.

In the circumstances, the accuracy and completeness of the financial statements as at 30 June 2017 could not be ascertained.

## **2.0 Cash and Cash Equivalents**

### **2.1 Cash and Bank Balances**

The financial statements reflects a cash and cash equivalents balance of Kshs.540,995,221 as at 30 June 2017 comprising of cash at bank of Kshs.494,737,066, cash in hand of Kshs.16,080,404(2016: Kshs.1,555,341) and outstanding imprests of Kshs.30,177,751. However, Co-op Bank A/C No. 01141527727501 for education fund's cash book had been overdrawn by Kshs.3,370,483 hence understating the cash and cash equivalents by the same amount. Further, the overdrawn amount Kshs.3,370,483 has not been reflected in the statement of assets as a liability but has been offset from credit balances as at 30 June 2017.

In addition, the imprest Co-op Bank account number 01141527727500 reflects cash book balance of Kshs.76,815 while the financial statements reflects Kshs.2,178,295 resulting to an unreconciled balance of Kshs. 2,101,480. Meanwhile the holding of the huge cash amounts at the closer of the financial year has not been explained.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.540,995,221 as at 30 June 2017 could not be ascertained.

### **2.2 Outstanding Imprests**

Included in the cash and cash equivalents balance of Kshs.540,995,221 was Kshs.30,177,751 in respect to outstanding imprests as at 30 June 2017. However, imprest register showing details of how the imprest of Kshs.102,629,461 (Note 9C) were issued and Kshs.72,451,710 surrendered were not provided for audit review. It was therefore not possible to determine the purpose for taking the imprests and how long the imprests had been outstanding including whether the Kshs.86,016,571 outstanding imprest as at 30 June 2016 had been surrendered.

Further, scrutiny of an imprest schedule provided for audit review revealed that eight (8) officers had more than one outstanding imprest in contravention of the National Treasury Circular No. 14/2013 of 19 November 2013. No measures have been put in place to have the imprests accounted for.

In addition, examination of surrendered imprests revealed that the Events Organizer in the Office of the Governor procured goods and services worth KShs.6,219,150 through direct cash using imprests. However, no competitive procurement was done contrary to threshold matrix of first schedule of the Public Procurement and Disposal Regulations 2006 which sets maximum ceiling under low value procurement at Kshs.30,000 per item.

In the circumstances, it has not been possible to ascertain that imprests of Kshs.102,629,461 were issued in line with the applicable imprests guidelines and together with the brought forward balance of Kshs.86,016,571 were accounted for or recovered in full as at 30 June 2017.

### 3.0 Fixed Assets

The financial statements reflected acquisition of assets worth Kshs.793,637,253 during the year under review. However, an updated register, ownership documents, motor vehicle insurance files and a list of vehicles impounded at the garages were not made available for audit review. Further, the summary of fixed assets register at annex 4 of the financial statements reflects assets worth Kshs. 793,637,253 procured during the year and not the total accumulated assets as at 30 June 2017.

In addition, an allocation schedule for motor vehicles, laptops and tablets/ipads and generators including asset loss/write-off/ lease reports and a list of the assets donated to the county executive of Tharaka Nithi were also not made available for audit review.

Out of the list of 138 motor vehicles and 36 motor bikes submitted for audit verification, only ownership documents of the following 13 motor vehicles were availed;

13CG015A	KAW 799Z	13CG006A	KCD 134G	KUL 933
13CG014A	13CG003A	13CG005A	KBY 672C	
KCC 208B	KAH 100Y	13CG001A	13CG018A	

Further, in public domain was a generator allegedly stolen and found at Sammerton Hotel which was said to have been donated by Ahadi-USAID but no documents have been availed audit scrutiny.

In view of the foregoing, it has not been possible to ascertain the accuracy, completeness, security and ownership of the assets worth Kshs.793,637,253 as at 30 June 2017.

### 4.0 Un Banked and Unreconciled Local Revenue

Note 3 to the financial statements reflects other receipts / local revenue totaling Kshs.96,737,107 as at 30 June 2017. Included in the Kshs. 96,737,107 local revenue was

Kshs.71,644,702 collected in respect to taxes on goods and services / taxes on property. However, supporting documents reflect collections of Kshs.72,726,156 resulting into an unexplained and unreconciled financial statements understatement of Kshs.1,081,452.

Further, out of the Kshs.72,726,156 revenue collections, only Kshs.53,249,265 was banked resulting to unexplained net under banking of Kshs. 19,476,889 as follows;

<b>Month</b>	<b>Collections (Kshs)</b>	<b>Bankings (Kshs)</b>	<b>Under banking (Kshs)</b>
Jul-16	6,311,355	4,790,348	1,521,007
Aug-16	6,453,973	5,126,034	1,327,939
Sep-16	5,479,201	4,075,417	1,403,784
Oct-16	4,727,787	3,844,550	883,237
Nov-16	4,576,825	3,350,533	1,226,292
Dec-16	3,619,828	2,489,475	1,130,353
Jan-17	5,362,844	3,622,174	1,740,670
Feb-17	6,498,604	4,796,928	1,701,676
Mar-17	13,873,646	10,891,515	2,982,131
Apr-17	6,327,898	4,529,530	1,798,368
May-17	5,230,383	3,537,961	1,692,422
Jun-17	4,263,810	2,194,800	2,069,010
<b>TOTAL</b>	<b>72,726,154</b>	<b>53,249,265</b>	<b>19,476,889</b>

Under the circumstances, it has not been possible to ascertain the accuracy and completeness of the local revenue stated as Kshs.96,737,107 as at 30 June 2017.

## **5.0 Irregular Foreign Travel Expenditure**

Note 6 to the financial statements reflects Kshs.25,868,564 in respect to foreign travel and subsistence as at 30 June 2017. However, scrutiny of foreign travel payments revealed anomalies on eight trips as follows;

### **5.1 Denmark Trip for Health Care Capacity Development Benchmarking and Training**

The Personal Assistant to the Governor was paid Kshs.1,188,380 on 7 September 2016 vide imprest warrant number 2095466 to cater for the Governor's travel per diems while travelling to Denmark for Health Care Capacity Development Benchmarking and Training Trip. The activity budget showed that the funds were paid for 7days' per diems of Kshs.445,200, training fees of Kshs.458,180 and air ticket of Kshs.285,000.

However, records provided (copies of passport extract) did not have evidence that the Governor travelled to Denmark between 26 to 30 September 2016.

Further, there was no evidence that the training fees of Kshs.458,180 was paid to Equip Africa Institute who were the organizers of the seminar even though a tax invoice no.241 dated 18 August 2016 was attached as support document.

In addition, it was not clear how Sure Connections (K) Ltd, the firm that purportedly provided travel services was sourced. An Invoice number 00126 of Kshs.559,505 from the firm dated 19 November 2015 attached to the surrender voucher was not related to the trip.

In view of the foregoing, the propriety of the expenditure of Kshs.1,188,380 as at 30 June 2017 could not be confirmed.

## **5.2 Copenhagen-Denmark Conference for First Ladies**

An amount of Kshs.1,751,460 was paid to chief of staff vide imprest warrant number 2513878 of 1-5-2016 for facilitation of First lady's travel to Copenhagen, Denmark Conference. The funds amounting to Kshs.1,200,000 were transferred from the Officer's private account number 0210193027594 in Equity bank, to Amelos Ventures account number 0100004403268 in CIC Stanbic bank, Chiromo branch. The purpose of the transfer was indicated as "purchases". It was not clear as to how the difference of Kshs.551,460 was spent and the relationship between the Amelos ventures and the first lady's travel to Denmark.

The invitation letter for the first ladies conference showed that the conference was to be held between 16-19 May 2016 hence only 4 days' per diems ought to have been paid. However, 10 days' per diems was paid leading to an overpayment of 6 days per diem totaling to Kshs.300,876.

Further, the copies of passport extracts attached had no evidence that the first lady actually attended the conference during the stated period. In addition, no back to office report showing how the residents of Tharaka Nithi County benefited from the conference was made available for audit review.

In view of the foregoing, the Kshs.1,751,460 has not been accounted for and it was not a proper charge to public funds as at 30 June 2017.

## **5.3 UK Oxford -Tharaka Nithi County Knowledge Exchange Program.**

An amount of Kshs.2,022,300 was paid to three (3) officers at Kshs.674,000 per person to attend UK Oxford -Tharaka Nithi County Knowledge Exchange Program. The invitation letter indicated that the conference period was 19 - 26 November 2016 including the travel dates to and from the conference venue in London. The officers were paid for 10 days' per diems each instead of 8 days resulting to overpayment of 2 days' per diems of Kshs.121,380 for each officer all totaling Kshs.364,140.

In addition, there was no evidence availed for audit review to confirm how the firm, BCD Travel (K) Ltd was procured to offer travel services.

Consequently, the propriety of the overpayment of Kshs. 364,140 including value for money for the Kshs. 2,022,300 total expenditure as at 30 June 2017 could not be confirmed.

## **5.4 Nguvu kazi/Juakali Conference in Kampala**

The CEC for Trade and Industry- was paid Kshs.1,397,273.60 vide imprest warrant number 2719089 of 21 November 2016 for the purpose of attending Nguvu Kazi/Juakali Conference in Kampala from 5<sup>th</sup> to 11<sup>th</sup> December 2016.

An invitation letter ref: MSEA/12/03/VOL XII (29) from Micro and Small Enterprises Authority (MSEA) required the County to recruit 6 exhibitors to attend Nguvu Kazi / Juakali Conference

in Kampala. However, though the officer purported to have attended the exhibition, there was no evidence of an activity budget to show the planned activities and their costs.

Further, the supporting work tickets number M791171 for KCA 482F, showed that the vehicle consumed 350 litres of fuel while in Nairobi, Busia and Kampala city. However, no receipts were attached to confirm the purchase of fuel although a cash sale receipt no.1870 dated 3 December 2016 showed that vehicle, KCA 482F was fueled 391.6 litres of diesel costing Kshs.37,593.60 while in Kathwana which indeed was a falsification of the fuel taken and the place where it was taken.

In addition, there was no back to office report to enumerate the benefits that would accrue to the residents of Tharaka Nithi County out of the CEC attending the nguvu kazi/jua kali exhibition.

Further, out of a total imprest of Kshs.1,392,273.60 paid, only Kshs.606,293.60 was purportedly accounted for resulting to an unaccounted for expenditure of Kshs.785,980.

In consequence, the total expenditure of Kshs. 1,392,273.60 was not a proper charge to public funds as at 30 June 2017.

## **5.5 UK Trip and Others**

The Payroll manager was paid three imprests of Kshs.2,409,050; Kshs.468,500 and Kshs. 986,800 vide imprest numbers 2719055; 2719051 and 2719047 of 02/11/2016; 01/11/2016 and 26/10/2016 respectively all totaling Kshs.3,864,350 for a UK trip and two other unspecified trips.

The Kshs.2,409,050 imprest was analysed as foreign per diems for 10 days, local night outs for 4 days and seminar facilitation. However, the reservation confirmation letter showed that the whole trip period was from 19 to 26 November 2016 inclusive of travelling days to and from the UK hence only 8 days' per diems was payable. No explanation was given for the two days' overpayment. In addition, the 4 days night outs of Kshs.56,000 was irregularly paid for alleged visa processing in Nairobi. Further, no evidence of attendance of the seminar in form of attendance register, activity program, timetable or back to office report was availed for audit review.

The Kshs.468,500 and Kshs.986,800 imprests had no activity budgets, no invitation letters and no evidence of travel by the officer. The imprests remained unaccounted for as at 30 June 2017.

Consequently, the propriety and value for money of the expenditure of Kshs.3,864,350 paid to the payroll manager as at 30 June 2017 could not be confirmed.

## **5.6 The 6<sup>th</sup> International Public Service Sector Leadership Workshop in Dubai-UAE**

An amount of Kshs. 871,200 was paid to one officer of Governor's office vide imprest warrant number 2719167 of 07/02/2017 on behalf of the Governor who accompanied members of the Public Service Board to the 6<sup>th</sup> International Public Service Sector Leadership workshop in Dubai-UAE.

However, no evidence of travel to Dubai was made available in form of air tickets, receipts, boarding passes and copies of stamped passport.

Further, the Governor's per-diem entitlement was US\$656 in job group (S-T) cluster of SRC circular on payment of foreign per diems. However, the per diem was paid at an exaggerated rate of US\$1,135.78 per day and no explanation has been given for the anomaly.

In addition, an amount of Kshs.18,200 and Kshs.50,000 paid as local night out and local travel in Dubai respectively has not been accounted for.

Consequently, the propriety of the expenditure of Kshs. 871,200 as at 30 June 2017 could not be ascertained.

## **5.7 Brazil Seminar**

An amount of Kshs.745,700 was paid to CEC – Tourism, Water and Environment vide imprest warrant number 2719181 dated 21 February 2017 for a seminar in Brazil between 3-7 April 2017. However, the officer was paid 10 days' per diems instead of the 4 days' per diem resulting to overpayment of 6 days' per diem totaling to Kshs.298,620. No explanation has been adduced for the discrepancy.

Further, no evidence in form of copies of stamped passport, air tickets and boarding passes were made available for audit verification.

Further, included in Kshs.745,700 was an amount of Kshs.50,400 for 3 days' local night-outs while in Nairobi which had not been accounted for.

In the circumstances, the propriety of the expenditure of Kshs.745,700 as at 30 June 2017 could not be confirmed.

## **5.8 The 12<sup>th</sup> African Dairy Conference and Exhibition in Kigali, Rwanda**

Chief of staff was paid Kshs.610,200 vide imprest warrant number 2513805 Of 27 June 2016 for 12<sup>th</sup> African Dairy Conference and Exhibition in Rwanda between 31<sup>st</sup> August to 2<sup>nd</sup> September 2016.

The conference attracted only 4 days' per diems inclusive of the travelling days. However, the officer was irregularly paid 12 days' per diems resulting into an overpayment of eight days per diem. Further, the officer's rate of foreign per diems was US\$ 305 but was paid at rate of US\$393 hence an overpayment of Kshs.106,740.

In addition, included in Kshs.610,200 was one day per diem of Kshs.16,800 paid for visa processing in Nairobi which has not been accounted for. No evidence of travel to Nairobi was availed for audit review.

Further, other officers namely chief officer - lands, chief officer - health and chief officer – Trade and cooperative development also travelled to the Rwanda Conference and were paid per diems totaling Kshs.1,830,600. However, the officers were paid per diems of 12 days instead of 4 days, hence an overpayment of Kshs.952,632 (101x8x393x3).

In view of the forgoing, the propriety of the Rwanda conference expenditure of Kshs.2,440,800 as at 30 June 2017 could not be confirmed.

## **6.0 Accounts Payables / Pending Bills and Accounts Receivables**



Note 13.2 (See Annex 2) to the financial statements reflected payables / pending bills totaling to Ksh.666, 383,725 comprising of pending accounts payables and staff payables of Kshs.415, 847,617 and Kshs.250,534,108 respectively. However, annex 2 refers to accounts receivables of Kshs.35,011,525 which have not been supported.

Detailed creditors' ledgers reflecting the movement of payables accounts were not maintained. Further, the Kshs.415, 847,617 pending bills on civil works and buildings, supply of goods & services were not supported by contracts, local purchase orders or local service orders, invoices, payment vouchers and ledgers. In addition, an amount of Kshs.250,534,108 for staff payables had not been supported by schedules hence their validity, existence, accuracy and authenticity could not be confirmed.

Notably, the payables increased by Kshs.336,478,860 from Kshs. 329,904,865 as at 30 June 2016 to Kshs.666,383,725 as at 30 June 2017 raising doubts on the ability of the County Executive to pay its debts.

In view of the foregoing, it has not been possible to ascertain the validity, existence, accuracy and completeness of the payables / pending bills totaling Kshs. 666, 383,725 and accounts receivables of Kshs.35,011,525 as at 30 June 2017.

## 7.0 Unsupported Payments

### 7.1 Pre-Feasibility Studies

During the year under review, Tharaka Nithi County Executive paid Kshs.6,842,384 for Research, Pre-feasibility, Feasibility and Appraisal Studies as follows;

<b>PV No.</b>	<b>Payee</b>	<b>Date Paid</b>	<b>Amount (Kshs)</b>
10001994	Samima General Supplies and Services	10/05/2017	1,069,600
10001772	Murkan Africa Limited	21/06/2017	5,145,684
10001588	Chakamwe Investment	10/03/2017	395,000
42899	Ann Kangai	13/06/2017	108,600
42901	Denis Nabiswa Kwendo	15/06/2017	123,500
<b>Total</b>			<b>6,842,384</b>

However, there was no evidence of the services rendered or any document provided to support the payments made to the service providers.

### 7.2 Software

The County Executive paid Finken Holdings Limited Kshs.10,000,000 for purchase of software vide payment voucher number 0045 of 13th October 2016. However, no documents were made available to show that the software was supplied to the County Executive.

### 7.3 Repair of County Offices at Kathwana, Chuka and Chogoria

An amount of Kshs.3,045,000 was paid to Makaburu Ltd for repair of County offices at Kathwana, Chuka and Chogoria vide LSO No.1290018 of 21-2-2017. However, no documents were made available to show that the requisition was approved by the supplies chain management and amount involved was over and above the threshold for call for quotation. Further, physical verification done on 15 January 2018 revealed that no work was done.

In the circumstances, it has not been possible to ascertain the propriety and value for money of the expenditure of Kshs.19,887,384 as at 30 June 2017.

## 8.0 Irregular Contributions to the Council of Governors and Other County Associations

During the year under review, the County Executive made payments totaling Kshs.13,953,438 to the Council of Governors and other related associations.

However, Section 37 of the Inter-Governmental Relations Act 2012 states that all operational expenses of the Council of County Governors should be met by the National Government.

Under the circumstances, the propriety and legality of the expenditure of Kshs.13,953,438 on Council of Governors as at 30 June 2017 could not be confirmed.

## 9.0 Irregular Procurements

The County Executive of Tharaka Nithi procured goods and services and specialized materials worth Kshs.30,711,880 and Kshs.63,645,900 both totaling to Kshs.94,357,780 as follows;

Date	PV No.	Payee	Details	Amount Kshs
29/5/17	0225	Thoma Bookshop	Supply of office stationary	3,224,780
30/5/17	0231	Watatua General suppliers	Supply of revenue books	3,833,550
19/5/17	0167	Watatua General Suppliers	Supply of office stationaries	2,019,850
20/6/17	0085	Watatua General Suppliers	Supply of office stationaries	4,238,300
23/11/16	0070	Susu Gen.Office Supplies	Supply of promotion materials	4,350,000
30/8/16	0019	Allaken General Merchants	Supply of office stationary	3,613,000
15/8/17	0136	Delfan Investment	Sanitation services	2,700,000
7/10/16		Depea Enterprises	Supply of toners	2,480,000
2/2/17		Hardwell Enterprises	Supply of office stationaries	2,090,800
2/2/17		Hardwell Enterprises	Supply of office stationaries	2,161,600
<b>Sub-Total (Goods and Services)</b>				<b>30,711,880</b>
24/1/17	0121	Chawan Company Ltd	Supply of fish feed	2,121,000
3/4/17	0195	Dormin Holdings Ltd	Supply of seedlings bags	2,830,000
19/6/17	0260	Dakiga General Merchants	Supply of seedlings bags	2,540,000
30/5/17	0217	Barani Investment Ltd	Supply of fish food	2,912,500
30/5/17	0233	Imabara International Ltd	Supply of Lab reagents	5,465,000
21/4/17	0024	Dormin Holdings Ltd	Supply of polo T-shirts	2,400,000
21/6/16	0048	Dormin Holdings Ltd	Supply of polo T-shirts	3,160,000
30/6/17	0268	Doperks Enterprises	Supply of non-pharmaceuticals	2,200,000
30/6/17	0269	Maxwell Enterprises Ltd	Supply of T-shirts	2,400,000
27/5/16	0174	Maxwell Enterprises Ltd	Supply of revenue uniforms	4,400,000
2/11/16	0190	Doperks Enterprises	Supply of T-shirts & caps	4,400,000
24/9/16	0184	Watatua General Suppliers	Supply of uniforms	2,882,500
21/2/17	0077	Kimuvist Visioners Ltd	Supply of polo T-shirts	3,650,000
29/5/17	0219	Kimuvist Visioners Ltd	Supply of school games kits	3,100,000
30/5/17	0220	Dormin Holdings Ltd	Supply of polo T-shirts	3,100,000
30/5/17	0221	Depea Enterprises Ltd	Supply of non-pharmaceuticals	3,104,000
29/5/17	0229	Paramount Investment	Supply of uniforms	3,395,000
29/5/17		Doperks Enterprises	Fumigation services	2,918,400
19/5/17	0169	Kimuvist Visioners Ltd	Supply of T-shirts	3,785,000

18/5/17	Depea Enterprises	Supply of revenue uniforms	2,882,500
<b>Sub-Total (Specialized Material)</b>			<b>63,645,900</b>
<b>Grand Total</b>			<b>94,357,780</b>

However, even though all the expenditures exceeded the maximum threshold for request for quotations as set in the Public Procurement Regulations 2006, the Executive used quotations in the above Kshs.94,357,780 procurements.

In the circumstances, the County Executive was in breach of the Public Procurement Regulations 2006 and it was not possible to ascertain whether the County Executive got full value for money in the Kshs.94,357,780 expenditure as at 30 June 2017.

## 10.0 Irregular Reallocation of Funds

During the year under review, an amount Kshs. 94,745,945 was unlawfully reallocated as follows;

S/NO	Item	Amount Kshs	Remarks
1	Hospitality supplies & services	9,064,904	Reallocations done from other recurrent votes
2	Specialized materials & services	47,438,400	Reallocation from the development vote
3	General office supplies	36,117,641	Reallocation from the development vote
4	Purchase of vehicles & other transport equipment	2,125,000	Reallocation done to pay the council of governor's
	<b>TOTAL</b>	<b>94,745,945</b>	

Under the circumstances, the legality of the reallocations amounting to Kshs. 94,745,945 as at 30 June 2017 could not be ascertained.

## 11.0 Human Resource Management

### 11.1 Irregular Hiring of Casuals/Temporary Employees

Note 5 to the financial statements reflects that the County Executive spent Kshs. 1,740,124,638 on compensation of employees which included Kshs.87,008,860.80 in respect of wages on temporary/casual employees as follows;

Month	No of Casuals	Amount (Kshs)
Jul-16	574	6,983,742
Aug-16	591	6,375,866
Sep-16	540	5,874,001
Oct-16	480	5,260,637
Nov-16	599	5,556,670
Dec-16	652	15,622,437

Jan-17	541	6,593,822
Feb-17	608	6,445,285
Mar-17	606	6,688,285
Apr-17	638	7,215,404

May-17	643	6,832,005
Jun-16	660	7,597,952
<b>TOTAL</b>		<b>87,008,861</b>

However, Note 5 reflects that the wage bill on temporary employees increased by on unexplained Kshs.18,766,742.80 or 27.5% from Kshs.68,242,118 as at 30 June 2016 to Kshs. 87,008,860.80 as at 30 June 2017.

Further, the number of casual workers kept fluctuating between 574 as on 1 July 2016 to 660 as at 30 June 2017 despite the County Public Service Board stopping further recruitment of casual workers vide minutes no. MIN05/14/01/2015, of the board meeting held on 14th January, 2015.

In addition, documents in respect to the recruitment process showing, the work they were supposed to do, reason for their recruitment, terms and conditions of service were not provided for audit review. Further, muster rolls showing attendance of the casuals was not provided for audit review.

Although, it was alleged that most of the casuals were inherited from the former defunct local authorities, the list of the inherited casuals was not made available for verification including reasons as to why they have not been absorbed on permanent or contract basis.

In view of the foregoing, it has not been possible to ascertain the propriety of the Kshs.87,008,861 expenditure on casual wages as 30 June 2017.

## 11.2 Salaries Paid Outside the IPPD Payroll

Note 5 of notes to the financial statements reflects Kshs.1,740,124,638 in respect to compensation of employees as at 30 June 2017. Included in Kshs.1,740,124,638 was Kshs.524,534,555 paid outside the IPPD payroll without justification or explanations. Further, the entry and exit in the manual payroll was not controlled by the Human Resources department hence was prone to abuse.

In addition, the County Executive did not have an approved staff establishment to guide the County on recruitment of staff.

Consequently, it has not been possible to ascertain the propriety of the Kshs.524,534,555 of salaries paid outside the IPPD payroll system as at 30 June 2017.

## 12.0 Un-Accounted for IFMIS Payments

Analysis of IFMIS ledger for development expenditures reflected payments totaling to Kshs.1,275,088,258 as at 30 June 2017 as follows;

Docket	IFMIS Ledger Amount (Kshs)
Agriculture	19,014,431
Labour	11,371,495
Education	93,509,600
Trade	19,995,272
Finance	602,241,792
Water	39,571,967
Tourism	6,411,688
Roads	413,717,218
Health	55,947,895

Physical Planning	13,306,900
Total	<b>1,275,088,258</b>

However, a summary of the development cash book reflects that Kshs.895,783,982 had been spent resulting to unexplained and unreconciled difference of Kshs.379,304,276.

Further, scrutiny of IFMIS development Ledger revealed that fifty two (52) suppliers/contractors were paid Kshs.351,230,745 described as default value as follows;

<b>NO</b>	<b>SUPPLIER / CONTRACTOR</b>	<b>AMOUNT (KSHS)</b>
1	Allaken General Merchants	9,835,160
2	Barani Investments Limited	2,912,500
3	Cray Enterprises Limited	2,480,348
4	Dakiga General Merchants	25,789,052
5	Delfan Investment	5,403,914
6	Depea Enterprises	10,166,085
7	Dericks Enterprise	6,350,000
8	Doperks Enterprises	16,079,100
9	Dormin Holdings Limited	8,919,500
10	Duo Building Contractors Limited	7,360,142
11	Eastern Redbull Enterprise Limited	3,344,280
12	Frimut Legal Consultants	6,996,000
13	Glovima Logistics Limited	8,516,720
14	Hamrose General Supplies	2,800,000
15	Imabara International Limited	5,465,000
16	Jogat Supplies Limited	11,000,000
17	Joric Enterprises Limited	4,441,772
18	Julyka Investments	1,170,000
19	Kaikai Trading Company Limited	3,125,000
20	Kambique Limited	1,600,000
21	Kiandele Construction Ltd	5,993,880
22	Kimuvist Visioners Limited	14,320,000
23	Kinsmin Logistics Ltd	9,855,200
24	Lizka Ltd	1,174,383
25	Makaburu Limited	9,003,000
26	Marcan Consulting Group Ltd	9,700,000
27	Maxwell Enterprises Limited	13,350,000
28	Melly and Lelly Contractors Ltd	11,753,931
29	Merchant Africa Limited	2,784,116
30	Mipam Construction Limited	4,254,876
31	Mitangu General Enterprises	2,400,000

32	Mopoa Contractors Limited	6,047,034
33	Moram Contractors	4,264,609
34	Moshimma Validity Limited	3,210,996
35	Mugiira Enterprises	2,550,000
36	Oxygen Cags Limited	2,357,000
37	Paramount Investment Limited	3,395,000
38	Penshawa Construction Company Limit	3,192,804
39	Poltem Logistics Limited	20,815,120
40	Prospect Africa Contractors Ltd	1,100,000
41	Renaissance Planning Limited	14,560,000
42	Sammerton Hotel Limited	2,002,922
43	Seven Eeeleven Contractors	3,579,072
44	Sologracious Company Limited	2,200,000
45	Summer Contractors and General Supplies	2,263,345
46	Supp Merchants	8,172,115
47	Susu General Office Supplies	8,852,500
48	Thoma Bookshop	3,923,738
49	Waciama Company Limited	10,292,686
50	Watatua General Suppliers	16,863,000
51	Wekenya General Suppliers	2,994,845
52	Zacka Construction and Supplies	250,000
<b>Total</b>		<b>351,230,745</b>

Although, it was explained that the default value payments of Kshs.351,230,745 were payments posted in suspense account or below the line payments which had not been cleared as at 30 June 2017, no explanation was made available as to why the expenditures were not charged to the appropriate items.

In view of the foregoing, it has not been possible to ascertain the propriety of the Kshs.379,304,277 unexplained expenditure including why the suspense account figure of Kshs.351,230,745 had not been cleared as at 30 June 2017.

### 13.0 Unaccounted for Expenditure

During the financial year under review, Kshs.468,315,209 was spent on thirteen (13) expenditure items. However, included in this expenditure was Kshs.238,109,346 which was not supported appropriately as follows;

NO	ITEM	TOTAL EXPENDITURE (KSHS)	UNSUPPORTED EXPENDITURE (KSHS)
1	Other Operating Expenses	53,666,146	42,415,784
2	Purchase of Certified Seeds, Breeding Stock & Live Animals	717,770	717,770
3	Purchase of Vehicles & Other Transport	8,782,660	8,782,660

4	Purchase of Household Furniture And Institutional Equipment	3,588,506	5,298,000
5	Social Security Benefits	20,802,831	20,802,831
6	Rehabilitation of Civil Works	8,380,396	8,380,396
7	Rental of Produced Assets.	-	1,094,906
8	Printing, Advertising And Information Supplies and Services	32,164,200	5,868,100
9	Routine Maintenance of Other Assets	109,171,143	153,000
10	Routine Maintenance of Vehicles	4,515,153	460,613
11	Fuel, Oil and Lubricants	8,972,023	3,983,730
12	Construction and Civil Works	117,206,920	79,903,011
13	Domestic Travel & Subsistence	100,347,461	60,248,545
	<b>Total</b>	<b>468,315,209</b>	<b>238,109,346</b>

Under the circumstances, it has not been possible to confirm the propriety of the Kshs.238,109,346 expenditure as at 30 June 2017.

#### 14.0 Wasteful Expenditure by County Public Service Board

An amount of Kshs.408,200 was paid out vide imprest warrant number 2513712 for facilitation of 13 officers constituting of CPSB members and board staff as farewell expenses to Nairobi to escort Demus Muthure Nyaga and Cosmas Samalle Mwaria who were travelling to China on 1st September 2016 for their scholarship. Each board member used own taxi to and from Nairobi (JKIA) and two (2) night outs were paid. However, the wasteful expenditure of Kshs.408,200 was totally unsupported. The payment details are as follows;

No	Names	Job Group	Transport (Kshs)	2 Days' Per diem (Kshs)	Total (Kshs)
1	Stephen Mitugo	S	10,000	33,600	43,600
2	Keneth N. Kanga	R	10,000	28,000	38,000
3	Elosy Murugi	R	10,000	28,000	38,000
4	Angelica Gitonga	R	10,000	28,000	38,000
5	Gilbert Igane	R	10,000	28,000	38,000
6	Charles Njagi	R	10,000	28,000	38,000
7	Anderson Ndwiga	R	10,000	28,000	38,000
8	Callen Ndwiga	N	4,000	22,400	26,400
9	Mecry Mutegi	K	4,000	22,400	26,400
10	Judith Muthoni	K	4,000	22,400	26,400
11	Demus Muthure	K	-	22,400	22,400
12	Cosmas Samalle	K	-	22,400	22,400
13	Nicholas Mwathi	H	-	12,600	12,600
<b>Total</b>			<b>82,000</b>	<b>326,200</b>	<b>408,200</b>

In the circumstances, an expenditure of Kshs.408,200 as at 30 June 2017 was not a proper charge to public funds and have no respective value for money.

## 15.0 Undelivered Water Projects Materials and Services

15.1 During the year under review, water materials worth Kshs.15,235,425 for six (6) water projects were paid for but only Kshs.4,223,000 worth materials were delivered resulting to undelivered materials of Kshs.11,013,425 as follows;

No.	Item	Materials paid for (Kshs)	Materials Delivered (Kshs)	Difference (Kshs)
1	Muthambi Gitije Water Project	6,000,000	4,223,000	1,777,000
2	Thigaa Kithitu Water Project	1,206,055	-	1,206,055
3	Chiakamakama, Mbacaca, Chiakariga & Mitaani Water Projects	3,968,370	-	3,968,370
4	Kakimiki Water Project	2,116,750	-	2,116,750
5	Kabutuko Water Project	1,505,000	-	1,505,000
6	Kinyingiri Water Project	440,250	-	440,250
	<b>Total</b>	<b>15,236,425</b>	<b>4,223,000</b>	<b>11,013,425</b>

15.2 Further, an amount of Kshs.3,300,000 was paid to Maxwell Enterprises on 29/5/2017 in respect of photocopying and binding of tender documents. No evidence was provided that the said services were offered.

In the circumstances, the propriety of the Kshs.11,013,425 and Kshs.3,300,000 undelivered materials and unsupported expenditure respectively both totaling to Kshs.14,313,425 as at 30 June 2017 could not be ascertained.

## 16.0 Irregularities in Construction of Roads

Note 7 to the financial statements reflects Kshs.461,890,671 in respect to construction of roads projects as at 30 June 2017. However, a breakdown of the specific roads was not availed and the BQ's did not also specify the roads to undergo bush clearing and grading including the technical specification and quantities of the works/services

Further, Mopoa Contractors Ltd was irregularly awarded works of bush clearing in three (3) markets namely Kathangachini, Mukothima, and Gathiini despite the fact that the company had quoted the highest price of Kshs.3,220,000. No valid reason was given for awarding the highest quoted company for the bush clearing works.

In addition, the County Executive paid Kshs.2,754,000 to Dakiga General Merchants Suppliers vide an undated invoice number 66 which did not have the company logo, rubber stamps, address or pin number for alleged supply of photo copying papers and binding of construction of roads' tender documents.

Under the circumstances, the propriety and value for money of Kshs.461,890,671 in respect of the construction of roads as at 30 June 2017 could not be confirmed.



## **17.0 Irregularities in Procurement and Unaccounted for Expenditure**

### **17.1 Supply of Various Sports Equipment**

An amount of Kshs.2,852,090 was paid to Makky Enterprises for supply of sports equipment vide payment voucher 22 of 02/06/2016. However, call for quotations method of procurement was used in spite of the amount being above the maximum threshold of Kshs.2,000,000. No explanation was given for the irregularity.

Further, no requisition from football clubs (end user) were made available for audit verification. In addition, records made available for audit review revealed that out of the 706 and 190 uniforms/playing kits and balls respectively procured during the year, only 264 and 54 uniforms and balls respectively were distributed. Distribution list of 78 volley balls, 4 rugby balls, 30 rugby kits, 4 conversion kits, 15 mouth pieces, 4 shoulder guards, 10 knee caps, 15 Referee uniforms, 8 goal nets and 7 volleyball nets procured during the year was not made available for audit review.

In addition, an amount of Kshs.1,053,000 was paid to Makky Enterprises for 462 printed football kits and 72 balls (adidas) delivered vide delivery note number 107 dated 09-11-2016. However, records availed for audit verification revealed that only 262 football kits and 54 balls were distributed to the football clubs leaving 198 football kits and 18 balls all costing Kshs.297,000 and Kshs.90,000 respectively not accounted for.

Consequently it was not possible to establish how the needs of the clubs including the number of balls, uniforms and other sports equipment needed per each club were identified.

### **17.2 Supply of ECDE Teaching and Learning Materials**

An amount of Kshs.5,035,948 was paid to Mountain Top Publishers for supply of ECDE Teaching and learning materials to ECDE centers under the directorate of early childhood development and education in Tharaka Nithi County.

However, no requisition from the end user was availed and therefore it was not possible to establish how the needs were identified.

Further, call for quotations method of procurement was used in spite the amount being above maximum threshold of Kshs.2,000,000. No explanation was given for the irregularity.

### **17.3 Supply of Water Tanks to People Living with Disability**

An amount of Kshs.1,200,000 was paid to Tangerine Auto Hardware in respect to supply of one thousand, seven hundred and sixty five (1765)- 50 litre plastic water tanks for people living with disability. However, the item was not budgeted for and there was no user request.

Further, the quotations did not indicate the quantity of the good (tanks) required while the capacity of the tanks was manually altered with some quotations indicating 150 litres while others showed 50 litres and yet others indicated 250 litres.

In addition, the Tangerine Auto Hardware quoted for 150 litres plastic drum at Kshs.1,000 each but the LPO no 2409163 issued indicated that the capacity of the water drums required was 50 litres at Kshs.680 per drum.

It was noted that a photocopy of the quadruplicate copy of the LPO was attached to payment voucher hence more than one payment could not be ruled out.

A distribution list attached to the payment was a photocopy and it showed that only 421 plastic drums of 50 litres were distributed to the alleged persons living with disability leaving 1,344 plastic drums unaccounted for. Further, no documentary evidence was availed to show that the recipients were actually people living with disability.

#### **17.4 Supply of Games Equipment**

An amount of Kshs.2,766,300 was paid to Doperks Enterprises in respect to supply of games equipment. However, call for quotations method of procurement was used in spite of the amount being above the maximum threshold of Kshs.2,000,000 and no requisitions from the end users was availed and therefore it was not possible to establish how the needs were identified. No explanation was given for the irregularity.

#### **17.5 Supply of Materials for School Greening**

An amount of Kshs.4,193,150 was paid to M/s Famishine Ltd vide payment voucher number 358 in respect to supply of materials for school greening. However, call for quotations method of procurement was used in spite the amount being above maximum threshold of Kshs.2,000,000. No explanation was given for the irregularity.

Further, none of the bidders who quoted were in the list of the Executive's list of registered suppliers as at 30 June 2017. In addition, the quotation sent out to Famishine Limited was received on 20 March 2016 yet the request for the items was made a month later, on 20/4/2016 contrary to Section 52 of the Public Finance Management County Government Regulations, 2015.

#### **17.6 Drafting of Eleven Different Bills**

The Executive paid Kshs.7,735,200 on behalf of the County Assembly to Frimut Legal Consultants on 9 August 2016 being cost of drafting 11 different bills. However, the request for proposals from the approved list of merchants for year under review including the evaluation minutes for the same and agreement/contract for provision of services were not availed for audit review. As a result, the identification, processing, awarding and provision of the legal services cannot be ascertained as at 30 June 2017.

#### **17.7 Printing Wall Calendars, Table Calendars and Diaries**

An amount of Kshs. 3,540,000 was paid to Dakiga General Merchants in respect to printing wall calendars, table calendars and diaries. However, the requisitions and quotations for the calendars did not contain details, specifications and quantities required by the user. Further, the quotations were purportedly opened on 29/8/2016 yet one of the merchants, Dormin Holdings Limited received the quote on 30/9/2016, one month after opening the quotations. In addition, call for quotations method of procurement was used despite the amount being above maximum threshold of Kshs. 2,000,000. No explanation was given for the irregularity.

#### **17.8 Unauthorized Expenditure**

During the year under review, Kshs.6,465,012 was spent and charged to the item rehabilitation and renovation of plant, equipment and machinery. However, the activities

carried out and paid for comprised of supply of school greening materials, tree nursery materials and water pipes which are all not related to the item thus rendering the expenditure unauthorized.

In view of forgoing, the County Executive has not received value for money of Kshs.34,840,700 expenditure as at 30 June 2017.

## 18.0 Irregular Cash Procurement

The County Executive through the office of the Governor spent Kshs.10,253,700 in cash using Imprest in disregard to the Legal Notice No. 106 of the Public Procurement and Disposal (Amendment) Regulations, 2013 that gives a maximum of services to be sourced by cash to Kshs.30,000 per item per year.

Further, the services were single sourced contrary to the Public Procurement and Assets Disposal Act,2015 Sections 103 (1) and 124(12)

Consequently, value for money for the expenditure amounting to Kshs.10,253,700 as at 30 June 2017 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Tharaka Nithi 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 adverse 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 discussed in the Basis for Adverse 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

### 1.0 Lawfulness and Effectiveness (VFM) in Use of Funds

#### 1.1 Budgetary Control and Performance

##### 1.1.1 Revenue

The Tharaka Nithi County Executive had an approved a budget of Kshs.3,970,613,979 comprising of both Recurrent and Development expenditure of Kshs.2,643,574,388 and Kshs.1,327,039,591 respectively. However, out of the total approved revenue budget of Kshs.3,970,613,979, only Kshs.3,849,413,639 was realized resulting to a shortfall of Kshs.121,200,340 as follows;

Receipt Item	Final Budget (Kshs)	Realized Revenue (Kshs)	Shortfall (Kshs)
<b>RECEIPTS</b>			
Balance brought forward	198,284,797	198,284,797	-
Proceeds from Domestic and Foreign Grants	6,165,000	6,165,000	-

Exchequer releases	3,385,474,466	3,385,474,466	-
Other Receipts	150,000,000	96,737,107	53,799,468
Transfer's from other Government Entities	230,689,716	162,752,269	67,937,447
<b>TOTAL</b>	<b>3,970,613,979</b>	<b>3,849,413,639</b>	<b>121,200,340</b>

### 1.1.2 Development Expenditure

Out of the budgeted development expenditure of Kshs.1,327,039,591 only a total of Kshs.1,245,375,321 was spent resulting in gross under expenditure of Kshs. 81,664,270 as follows;

Ministry / Docket	Budgeted Development Expenditure (Kshs)	Actual Development Expenditure (Kshs)	Under /Over Expenditure (Kshs)
Finance and Economic Planning	147,080,000	572,528,855	(425,448,855)
Education, Culture and Social Services	73,500,000	93,509,600	(20,009,600)
	<b>220,580,000</b>	<b>666,038,455</b>	<b>(445,458,455)</b>
Agriculture, Livestock, Fisheries and Irrigation	72,775,000	19,014,431	53,760,569
Health Services	107,300,000	55,947,895	51,352,105
Roads, Housing, Transport and Legal Affairs	568,884,591	413,717,218	155,167,373
Physical Planning, Energy, Lands and ICT	31,000,000	13,306,900	17,693,100
Public Service and Urban Development	71,000,000	11,371,495	59,628,505
Trade, Industry and Cooperative Development	88,000,000	19,995,272	68,004,728
Tourism, Environment and Natural Resources	19,500,000	6,411,688	13,088,312
Water Services and Irrigation	148,000,000	39,571,967	108,428,033
	<b>1,106,459,591</b>	<b>579,336,866</b>	<b>527,122,725</b>
<b>Net Total</b>	<b>1,327,039,591</b>	<b>1,245,375,321</b>	<b>81,664,270</b>

Further, the County Executive spent Kshs.666,038,455 for two dockets whose budgeted development expenditure was Kshs.220,580,000 resulting in unauthorized over expenditure (excess vote) of Kshs.445,458,455.

In the circumstances, the revenue shortfall of Kshs.121, 200,340 and the development under expenditure of Kshs.81,664,270 resulted in non-provision of planned and expected services to the county residents during the year ended 30 June 2017.

### 1.1.3 Recurrent Over-expenditure

The County Executive incurred recurrent over-expenditure of Kshs.575,048,842 as at 30 June 2017 as follows;

Item	Budget Amount (Kshs)	Actual Amount (Kshs.)	Over-expenditure (Kshs)
Transfers to other Agencies	41,670,165	385,100,000	343,429,835
Compensation of Employees	1,508,505,631	1,740,124,638	231,619,007
<b>Total Overpayment</b>			<b>575,048,842</b>

The excess vote of Kshs.575,048,842 has not been explained as at 30 June 2017.

## **2.0 Internal Control Effectiveness**

### **2.1 Failure to Establish an Audit Committee**

The County Executive of Tharaka Nithi did not have an audit committee in place, contrary to Sec.155 (5) of the Public Finance Management (PFM) Act 2012 that states that the County Government shall establish an internal audit committee whose composition and functions are set out in Section 167 (1) of the Public finance management (County Governments) regulations 2015. The County Executive was therefore in breach of the law.

In the circumstances, the internal control system was weak and unable to safeguard the assets and public funds of the County Executive.

### **2.2 Information, Communication and Technology (ICT) Environment**

Further, a review of the ICT environment revealed that the County Executive had not put in place structures to govern and manage information systems as there was no formal approved ICT policy, data security policy data disaster recovery and formal tested emergency procedure.

Further, the County Executive had engaged Telkom Kenya as the service provider for internet services. However, the contract with the firm was not provided, and it was therefore not possible to get details of the terms of the contract. In addition, the County had one (1) data centre (Server Room) at Head Offices. The room was not a restricted area and therefore easily accessible to unauthorized persons. The server was exposed to over-heating and there was no air-conditioning system to control the temperatures. Also, there were no fire extinguishers within reach.

Review of the user access rights revealed that users had been granted more than one user accounts with conflicting roles, which included access to both complement and payroll. This violated the principle of segregation of duties and the explanation for multiple access rights was that officers were given so as to enable them edit employees' details. This action was subject to abuse and may lead to alteration of data for un-authorized benefit of the officers.

In the circumstances, the security and data integrity of the County Executive's ICT infrastructures and information for the year ended 30 June 2017 could be ascertained.

## **3.0 Un-Surrendered/ Unaccounted for Receipt Books**

Scrutiny of County Executive Counter receipt book registers and revenue reports revealed that sixty-nine (69) revenue collection books issued between 24 June 2013 and 22 December 2016 had not been surrendered or collections accounted for. Further, 38 of 69 receipt books had partially been surrendered.

In the circumstances, the control of receipt books and security of revenue collections thereof could not be confirmed.

## **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 continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the County Executive 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.

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.

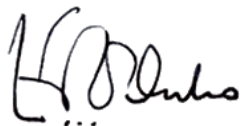
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- 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**

**9 May 2018**