

# REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF THARAKA NITHI FOR THE YEAR ENDED 30 JUNE 2018

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of County Executive of Tharaka Nithi set out on pages 5 to 35 which comprise the statement of financial assets as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation-recurrent and development 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 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 Tharaka Nithi 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 and County Government Act, 2012.

### Basis for Qualified Opinion

#### 1.0 Accuracy of the Financial Statements

#### 1.1 Variance Between Financial Statement and the General Ledger

The financial statements for the year ended 30 June 2018, reflected balances that were at variance with the balances reflected in the ledger as shown below:

Item	Financial statement figure (Kshs.)	Ledger balance (Kshs.)	Variance (Kshs.)
<b>Transfers from National Government Entities</b>			
Ministry of health - User fees foregone/Free maternal	4,209,599	18,419,197	(14,209,598)
Hospital expenditure-Kibunga Sub- District Hospital	657,099	-	657,099
Hospital expenditure-Magutuni District Hospital	2,603,770	-	2,603,770
Hospital expenditure-Chuka District Hospital	22,451,782	-	22,451,782
Hospital expenditure-Tharaka District Hospital	12,088,155	-	12,088,155

<b>TOTAL</b>	<b>42,010,405</b>	<b>18,419,197</b>	<b>23,591,208</b>
<b>Transfer to other government entities</b>			
Transfers to Hospitals and Dispensaries- Danida and other funds	49,871,503	-	49,871,503

Transfers from National Government entities total balance of Kshs.42,010,405 exceeded the ledger balance of Kshs.18,419,197 resulting to unexplained variance of Kshs.23,591,208. Further, transfers to other government entities amount of Kshs.49,871,503 had a respective nil ledger balance again resulting to unexplained or unreconciled variance of Kshs.49,871,503.

In the circumstances, the accuracy of the transfers from other government entities balances of Kshs.23,591,208 and transfers to other National Government entities of Kshs.49,871,503 for the year ended 30 June, 2018 could not be ascertained.

## **1.2 Variance in the Statement of Appropriation – Recurrent**

The summary statement of appropriation (recurrent) reflected Kshs.2,441,028,985 in respect to actual receipts for the year ended 30 June, 2018, while a recasting of the figures results in a total of Kshs.2,728,582,277 resulting to unreconciled variance of Kshs.287,553,292.

In the circumstances, the accuracy of the summary of appropriation (recurrent) for the year ended 30 June, 2018 could not be ascertained.

## **1.3 Variance between the Statement of Appropriation and Statement of Receipts and Payments**

The summary statement of appropriation (recurrent and development combined) reflected Kshs.4,089,057,384 and Kshs.3,613,096,536 in respect to actual receipts and actual payments respectively for the year ended 30 June, 2018, while the statement of receipts and payments reflected balances of Kshs.3,801,504,092 and Kshs.3,613,718,560 in respect to total receipts and total payments respectively resulting in unreconciled variances of Kshs.287,553,292 and Kshs.622,024 between summary statement of appropriation (recurrent and development combined) and statement of receipts and payments for the year ended 30 June, 2018.

In the circumstances, the accuracy of the two sets of financial statements balances for the year ended 30 June, 2018 could not be ascertained.

## **2.0 Compensation of Employees**

### **2.1 Basic Wages of Temporary Employees**

Note 5 to the financial statements reflected Kshs.2,034,044,172 in respect to compensation to employees which included Kshs.30,798,833 reflected as basic wages

of temporary employees. However, the respective supporting documents including user department's requisitions for the casual workers, application letters, personal files, engagement letters, copies of identity cards and certificates whereby skilled employees were recruited were not made available for audit review.

In the circumstances, the accuracy and value for money of the basic wages of temporary employees of Kshs.30,796,833 reflected in the financial statements for the year ended 30 June, 2018 could not be ascertained.

## **2.2 Double Salary Payments to a County Government Employee**

The statement of receipts and payments reflected a balance of Kshs.2,034,044,172 as compensation to employees which included Kshs.363,989 salary paid to an employee who had two personnel files and who was paid double salary for ten (10) months from November 2017 to August 2018 totalling to Kshs.363,989 through the two personal numbers.

In the circumstances, the Kshs.363,989 was not a proper charge to public funds and may not have resulted in an equivalent value for money during the year ended 30 June, 2018.

## **2.3 Payment of Commuter Allowance to Officers with Official Vehicles**

The statement of receipts and payments reflected an amount of Kshs.2,034,044,172 as compensation to employees. An analysis of the payroll revealed that included in this amount was Kshs.1,649,028 paid to officers as commuter allowance comprising of Kshs.17,419 paid in the month of December 2017 and Kshs.20,000 each from January 2018 to June 2018. However, records available indicated that during the said period, the officers were allocated and utilized County Executive vehicles for official use.

In the circumstances, the Kshs.1,649,028 commuter allowance for the year ended 30 June, 2018 may not have been a proper charge to public funds.

## **3.0 Use of Goods and Services**

### **3.1 Training Expense**

Note 6 to the financial statements reflected Kshs.282,282,412 in respect to use of goods and services which included Kshs.10,770,426 in respect to training expenses which further included Kshs.101,500 paid as ¼ per diem allowances to seven (7) officers attending a sector planning and budget workshop and Kshs.181,000 paid to three (3) officer attending a DANIDA-IFMIS training both at Kenya School of Government in Nairobi both totalling to Kshs.282,500.

However, both the workshop and training were residential and the Kshs.282,500 allowances should not have been paid.

In the circumstances, the Kshs.282,500 training expenses reflected in the financial statements for the year ended 30 June 2018, was not a proper charge to public funds.

## **3.2 Domestic Travel and Subsistence**

### **3.2.1 Committee Allowances**

Note 6 to the financial statements reflected Kshs.282,282,412 in respect to use of goods and services. Included in this amount is Kshs.22,622,346 for domestic travel and subsistence which further included Kshs.4,021,365 and which comprised of Kshs.1,625,365 paid as allowances to the committee on assumption of office for the governor for field visits, report writing, airtime/internet, lunches, stationery and other expenses and Kshs.2,396,000 paid in respect to secretariat allowances, administrator's allowances and driver's allowances. However, supporting documents including payment vouchers, details of the payees, and attendance list were not availed for audit review.

In the circumstances, the propriety of the Kshs.4,021,365 allowance paid to the committee members reflected in the financial statements for the year ended 30 June 2018, could not be ascertained.

## **3.3 Expenditure on Foreign Travel**

### **3.3.1 Unaccounted for Expenditure on USA-Trip**

Note 6 to the financial statements reflected Kshs.282, 282,412 in respect to use of goods and services. Included in this amount is Kshs.12,788,138 reflected as foreign travel and subsistence which further included Kshs.1,829,887 used to facilitate and sponsor the County Women representative to attend the 62nd Commission on Status of Women (CSW) in New York. The amount consisted of Kshs.867,290 for per diem and Kshs.962,597 for air ticket.

However, the following anomalies were observed in relation to this expenditure:

- i) There was no formal request from Tharaka Nithi County women representative to the County Executive requesting for sponsorship to attend the CSW conference.
- ii) There was no specific provision in the County Executive budget for such an expenditure on foreign travel sponsorships.
- iii) Though the passport for the Women Representative showed that she exited Kenya on 12 March 2018 and came back to Kenya on 19 March 2018, there was no evidence to confirm including air tickets, boarding passes and certificate of participation that the Women Representative entered and exited the USA and attended the CSW. Further, the passport showed that she was out of Kenya for seven days while she had been paid per diem for thirteen (13) days.

- iv) There was no back to office reports to show how the residents of Tharaka Nithi County benefited from Kshs.1, 829,887 expenditure on public funds.

In the circumstances, the propriety and value for money of the Kshs.1,829,887 foreign travel and subsistence reflected in the financial statements for the year ended 30 June 2018 could not be ascertained.

### **3.3.2 Unaccounted Expenditure on UK-Travel**

Note 6 to the financial statements reflected Kshs.282,282,412 in respect to use of goods and services. Included in this amount is Kshs.12,788,138 reflected as foreign travel and subsistence which further included Kshs.3,287,664 paid for a trip to United Kingdom (UK) by the Governor, County Executive Committee (CEC) for Finance and members of Parliament for Maara and Chuka constituencies. The payments were made by the chief of staff from imprest issued to him to facilitate the travel. However, the purpose of the travel was not clear from the invitation letter. Further, no reason was given as to why the two members of parliament who were not county employees were paid from the Executive's funds.

In the circumstances, it has not been possible to ascertain that the Kshs.3,287,664 expenditure on foreign travel and subsistence was expended as appropriated and that the Executive got value for money on the expenditure for the year ended 30 June, 2018.

### **3.3.3 Unaccounted Expenditure on China-Trip**

Note 6 to the financial statements reflected Kshs.282, 282,412 in respect to use of goods and services. Included in this amount is Kshs.12,788,138 reflected as foreign travel and subsistence which further included Kshs.2,884,526 comprising of Kshs.1,226,800 paid as per diems and Kshs.1,657,726 spent on air tickets to facilitate a foreign trip to China for the Governor, Chief Officer for youth sports and tourism, and three Members of County Assembly (MCA). However, there was no invitation letter and itinerary showing daily activities. Further, it was not clear why the County Executive paid expenses for the MCAs instead of being financed from County Assembly budget.

In the circumstances, it was not possible to ascertain that the Kshs.2,884,526 was expended as appropriated and that the Executive got value for money on the expenditure for the year ended 30 June, 2018.

### **3.3.4 Unsupported Expenditure on Foreign Travel**

Note 6 to the financial statements reflected Kshs.282, 282,412 in respect to use of goods and services. Included in this amount is Kshs.12,788,138 in respect to foreign travel and subsistence. However, the Integrated Financial Management Information System (IFMIS) reflected additional payments of Kshs.6,583,060 for foreign travel and Kshs.673,700 in respect to domestic travel but paid through foreign travel vote which were not included in the Kshs.12,788,138 foreign travel and subsistence expenditure. Further, included in the

Kshs.12,788,138 foreign travel is Kshs.5,445,260 paid to a travel agency whose supporting documents including payment vouchers were not availed for audit review.

In the circumstances, the propriety of Kshs.12,788,138 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be ascertained.

### **3.4 Expenditure on Fuel**

Note 6 to the financial statements reflected Kshs.282,282,412 as use of goods and services which included Kshs.9,694,531 reflected as Fuel, Oil and Lubricants which further included Kshs.1,036,488 paid as a pending bill in respect to fuel supplied to County Executive in the financial year 2014/2015. However, this expenditure on pending bills did not have a budgetary provision and it was also not supported by fuel registers.

Further, the Local Purchase Orders (LPOs), delivery notes, invoices and detail orders supporting the payment were all photocopies which created room for possible double payment. There was no explanation why the originals were not availed for audit verification as requested.

In addition, included in the fuel, oil and lubricants balance of Kshs.9,694,531 is Kshs.1,379,743 paid as refund claims to officers who spent personal funds on fueling County vehicles without prior approval on the expenditure contrary to Section 43 (2) of the Public Finance Management (County Governments) Regulations of 2015 which states that County government entities shall execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan with the exception of unforeseen and unavoidable spending dealt with through the County Emergency Fund, or supplementary estimates.

In the circumstances, the accuracy and propriety of the Kshs.1,036,488 pending bills payment and the Kshs.1,379,743 refund claims both totalling Kshs.2,416,231 reflected in the financial statements for the year ended 30 June 2018 could not be ascertained.

### **3.5 Unaccounted Expenditure on Airtime**

Note 6 to the financial statements reflected Kshs.282,282,412 in respect to use of goods and services which included Kshs.3,204,347 reflected as communication, supplies and services which further included Kshs.1,555,000 paid in cash as airtime allowances to County Officers. However, included in Kshs.1,555,000 was Kshs.247,000 which was not supported by a signed beneficiaries list confirming receipt of the air time cash allowance. Further, though the total payment of Kshs.1,555,000 was an employment benefit there was no evidence that it was taxed and the same remitted to Kenya Revenue Authority (KRA).

In the circumstances, the accuracy and propriety of Kshs.1,555,000 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be ascertained.

## **4.0 Acquisition of Assets**

#### 4.1 Procurement of Additional Works for the Governor's Office

Note 8 to the financial statements reflected Kshs.795,417,655 in respect to acquisition of assets which included Kshs.173,891,042 reflected as construction of buildings which further includes Kshs.3,230,528 paid to a contractor for additional works at the Governors offices and who was not in the County Executive's list of registered contractors contrary to Section 57(1) of the Public Procurement and Asset Disposal Act , 2015 which requires that the head of the procurement entity shall maintain and update lists of registered suppliers, contractors and consultants in the category of goods, works or services according to its procurement needs. In addition, included in Kshs.3,230,528 is Kshs.92,800 which is a duplicated payment.

In the circumstances, the accuracy of Kshs.3,230,528 expenditure reflected in the financial statements for the year ended 30 June 2018 could not be ascertained.

#### 4.2 Motor Vehicle Logbooks and Title Deeds

The summary of fixed assets register at annex 6 to the financial statements reflected assets with a historical cost of Kshs.4,101,577,696 as at 30 June 2018. Included in these assets were 223 vehicles consisting of motor vehicles, motor cycles and trailers as follows;

Location	Number
Chuka General Hospital	8
Kathwana County Headquarters	48
Tharaka South Sub-county	54
Tharaka North Sub-county	21
Maara Sub-county	25
Chukalgambang'ombe	67
<b>Total</b>	<b>223</b>

However, the respective logbooks were not availed for audit review. In addition, the County development plan showed that the County Executive possessed land within the County. However, the respective title deeds/allotment letters were not availed for audit review.

In the circumstances, the existence, value, ownership and security of the fixed assets balance of Kshs.4,101,577,696 as at 30 June 2018 could not be ascertained.

#### 5.0 Pending Bills

##### 5.1 Closing Amount of Pending Bills

Annex 3 to the financial statements reflected Kshs.376,124,808 and Kshs.40,989,738 as pending bills for development and recurrent expenditures respectively both totalling to Kshs.417,114,546.

Although the County Executive constituted a pending bills committee that verified the validity of the pending bills, the payment vouchers and original documentation relied upon by the committee to arrive at their findings were not availed for audit review.

In the circumstances, the accuracy and validity of pending bills of Kshs.417,114,546 reflected in the Annex 3 for the year ended 30 June 2018 could not be confirmed.

## 5.2 Inaccuracies in the Pending Bills

Annex 3 to the financial statements reflected Kshs.376,124,808 and Kshs.40,989,738 as pending bills for development and recurrent respectively both totalling to Kshs.417,114,546.

Included in this amount is Kshs.111,816,675 pending bills that were reflected in the financial statements but were not voted in the respective vote book as shown below:

Department	Development Vote			Recurrent Vote		
	F/S Figure (Kshs)	Vote Book Report (Kshs)	Variance (Kshs)	F/S Figure (Kshs)	Vote Book Report (Kshs)	Variance (Kshs)
Water Services and Irrigation	57,969,321	41,977,077	15,992,244	10,103,707	0	10,103,707
Trade, Industry and Cooperatives	58,543,199	18,902,484	39,640,715	591,750	0	591,750
Education, Youth, Sport, Culture and Tourism	63,829,718	20,033,459	43,796,259	1,692,000	0	1,692,000
Totals	180,342,238	80,913,020	99,429,218	12,387,457		12,387,457
<b>Total Variance</b>						<b>111,816,675</b>

Further, the Kshs.111,816,675 pending bills did not qualify to be included in the list of pending bills as the same were committed after 31 May 2018 contrary to Section 50(1)(2) of Public Finance Management (PFM) County Government Regulations 2015 which prohibits commitments after 31 May of the respective year.

In the circumstances, the accuracy and validity of the Kshs.111,816,675 pending bills reflected in the Annex 3 of the financial statements for the year ended 30 June 2018 could not be confirmed.

## 6.0 Outstanding Imprest

Note 9C to the financial statements for the year ended 30 June 2018 reflected an amount of Kshs.19,905,764 as outstanding imprest. However, the imprest register revealed the following anomalies:

- i) Applicants were issued with multiple imprest at the same time contrary to Section 93(4b) of Public Finance Management (PFM) County Government Regulations 2015 which requires the accounting officer to ensure that the applicant has no outstanding imprest before issuing temporary imprest.



- ii) Personal numbers of applicants were not indicated in the imprest register.
- iii) One officer who had exited service had an outstanding imprest of Kshs.215,850.00 which raised doubt as to its recoverability.
- iv) Funds for office operations was issued as imprest without controls as there was no authorized float and memorandum cashbook for accountability contrary to Section 93(12) and (13) of Public Finance Management Act 2012 which requires a holder of standing imprest to keep a memorandum cash book to record all receipts and payments.

In the circumstances, the accuracy and recoverability of the outstanding imprest balance of Kshs.19,905,764 as at 30 June 2018 could not be ascertained.

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

#### 1.0 Budget Control and Performance

##### 1.1 Receipts Budget

The County Executive had a budgeted revenue of Kshs.4,632,233,415 but realized Kshs.4,089,057,384 during the year ended 30 June, 2018 resulting in a revenue under-realization of Kshs.590,729,323 in four items and excess revenue of Kshs.47,553,292 in one item as shown below:

	Approved Budget (Kshs)	Actuals (Kshs)	under (Kshs)	Overs (Kshs)	%
Receipts					
Return to CRF issues	240,000,000	287,553,292		(47,553,292)	-20%

Proceeds from Domestic and Foreign Grants	104,684,863	94,684,863	10,000,000		10%
Exchequer releases	3,847,098,842	3,389,648,000	457,450,842		12%
Other Receipts from own sources	143,314,734	141,157,929	2,156,805		2%
Tranfers from other Government Entities	297,134,976	176,013,300	121,121,676		41%
<b>Total</b>	<b>4,632,233,415</b>	<b>4,089,057,384</b>	<b>590,729,323</b>	<b>(47,553,292)</b>	

The under-realized budget of Kshs.590,729,323 and excess budget of Kshs.47,553,292 may be an indication of improper planning on the budget making process. The unrealized budgeted receipts may have negative impact on the service delivery to County residents of Tharaka Nithi.

## 1.2 Expenditure Budget

The County Executive had a total expenditure budget of Kshs.4,632,233,415 for the financial year ended 30 June 2018 while the actual expenditure is Kshs.3,613,096,536 resulting to net under-absorption of Kshs.1,163,899,420 in 6 items and over absorption of Kshs.144,762,541 in 2 items as summarized below:

Item	Approved Budget (Kshs.)	Actual Expenditure (Kshs.)	Under (Kshs.)	Over (Kshs.)	(%) of Approved Budget
Compensation of Employees	2,038,639,623	2,034,044,172	4,595,451		0.2%
Use of goods and services	251,641,501	282,282,412		(30,640,911)	-12.2%
subsidies	5,200,000	0	5,200,000		100.0%
Transfer to other Government Units	661,387,733	383,257,317	278,130,416		42.1%
Other Payments	3,973,350	118,094,980		(114,121,630)	97 %
Social Security Benefits	28,078,431	0	28,078,431		100.0%
Other Grants and Transfer	147,137,777	0	147,137,777		100.0%
Acquisition of assets	1,496,175,000	795,417,655	700,757,345		46.8%
<b>Totals</b>	<b>4,632,233,415</b>	<b>3,613,096,536</b>	<b>1,163,899,420</b>	<b>(144,762,541)</b>	

The budget under-absorption of Kshs1,163,899,420 implies that the residents of Tharaka Nithi County did not receive equivalent planned goods and services for the year ended 30 June 2018 and also an indicator of improper budget planning process. Further there was no indication that the excess expenditure of Kshs.144,762,541 was approved by the County Assembly in line with Section 39 (1) of Public Finance Management (County Governments) Regulations, 2015 which states that the accounting officers shall within the guidelines of supplementary budget circular and in conformity with the budget guidelines

issued by the County executive member prepare revised budget estimates in the format to be issued by the Cabinet Secretary.

The county executive was therefore in breach of the law.

## **2.0 Presentation of the Financial Statements**

Included in the financial statements for the year ended 30 June 2018 was a statement of assets. However, the International Public Sector Accounting Standards (IPSAS) - Cash Basis requires this statement to be referred to as statement of assets and liabilities. In addition, the County Executive's financial statements did not include a statement of budget execution by programs and sub-programs as required by International Public Sector Accounting Standards (IPSAS) - Cash Basis.

## **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**

#### **1.0 Construction of Civil Works**

Note 8 to the financial statements reflected Kshs.795,417,655 in respect to acquisition of assets for the year ended 30 June 2018 which included Kshs.220,279,265 used for construction of civil works by the County Executive and which was not included in the 2017-2018 budget.

Further, included in Kshs.220,279,265 is Kshs.4,963,596.00 used for the supply and installation of UPVC pipes for Kirigicha Gichini water supply project where the County Executive used request for quotations method of procurement without justification contrary Section 91(1 & 2) of the Public Procurement and Asset Disposal (PPAD) Act, 2015 which provides that open tendering is the preferred procurement methods for procuring of goods work and services but procuring entities may use alternative procurement method only if that procedure is allowed and satisfy the condition of the Act.

In the circumstances, the Executive was in breach of law in the Kshs.220,279,265 expenditure for the year ended 30 June, 2018.

#### **2.0 Refurbishment of Buildings**

Note 8 to the financial statements reflected Kshs.795,417,655 in respect to acquisition of assets which included Kshs.58,118,334 reflected as refurbishment of buildings which further included Kshs.42,778,349 paid to two companies for refurbishment of buildings as follows;

<b>Project Name</b>	<b>Contract Date</b>	<b>Contract Amount (Kshs)</b>	<b>Amount Paid (Kshs)</b>	<b>Date Paid</b>	<b>Tender Number</b>
Modern Outpatient Block Phase 1- Chuka Hospital	05th March 2018	231,178,468.	22,608,874	15 June 2018	TNCG/31/2017-2018
Tuition Block - Kenya Medical Training College - Chuka Campus	05th March 2018	117,005,825.	20,169,475	16 June 2018	TNCG/28/2017-2018
<b>Totals</b>		<b>348,184,293</b>	<b>42,778,349</b>		

Although Section (151) (2) (a) (b) (d) of the Public Procurement and Asset Disposal (PPAD) Act, 2015 requires the clerk of works or a representative of the procuring entity to provide an independent assessment of the works undertaken and produce regular reports on progress of works, there was no evidence to show that such supervisory works on behalf of the County Executive was carried out. In addition, included in the Kshs.58,118,334 is Kshs.12,750,000 paid to a Company for refurbishment of buildings whose tender documents were not availed for audit review.

In the circumstances, the County Executive was in breach of the law and the value for money for the Kshs.58,118,334 expenditure as at 30 June, 2018 could not be ascertained.

### **3.0 Revenue Under Banking**

The statement of receipts and payments for the year ended 30 June 2018 reflected Kshs.141,157,929 in respect to other receipts being the total revenue locally generated by the County Executive. However, the total deposit to the County Revenue Fund (CRF) account amounted to Kshs.135,347,462 resulting into Kshs.5,810,467 revenue collected and not banked contrary to Section 63(4) of Public Finance Management (PFM) County Regulations 2015 which states that all public moneys collected by a receiver of revenue or collector of revenue or collected and retained by a county government entity, shall be paid into the designated bank accounts of the county government and shall not be used by any public officer in any manner between the time of their receipts and payment into the bank except as provided by law.

In the circumstances, the County Government is in breach of the law.

### **4.0 Procurement of Motor Vehicles**

Note 8 to the financial statements reflected Kshs.795,417,655 in respect to acquisition of assets for the year ended 30 June 2018 which included Kshs.27,419,280 in respect to purchase of vehicles and other transport equipment which further included Kshs.19,419,280 spent on procurement of a motor vehicle registration number GVNO13B under government contract number SB/012/2017 from a car dealer. However, the vehicle procured, Land Cruiser V.X 4.5 L with a capacity of 4,500 cc is outside the government contract and is also contrary to Section 137 (1) of the Public Finance Management (County Governments) Regulations 2015 which states that official vehicles purchased for use by governors shall not exceed 2600cc for saloon cars and 3000cc for 4x4 utility vehicle.

In the circumstances, the County Government is in breach of the law.

### **5.0 Ethnic Distribution**

A review of the composition of the County Executive staff for the year under review indicated that the dominant ethnic group is 73.1% which is more than 70% maximum allowed by Section 65 (e) of the County Government Act, 2012 and which states that in selecting candidates for appointment, the County Public Service Board shall consider the need to ensure that at least thirty percent of the vacant posts at entry level are filled by candidates who are not from the dominant ethnic community in the County.

In the circumstance, the County Executive is in breach of the law.

### **6.0 Bank Accounts Operated in Commercial Banks**

Note 9A to the financial statements reflected thirty-one (31) bank accounts comprising of eleven (11) bank accounts held in the Central Bank of Kenya (CBK) and twenty (20) banks accounts held in commercial banks which further comprised of ten (10) bank accounts closed during the year under review.

However, this is contrary to Section 82 (1) (b) of the Public Finance Management (PFM) (County Regulations) 2015 which states that all bank accounts shall be opened at the Central Bank of Kenya except for imprest bank account for petty cash. Further, Section 82 (4) says that the authority from the County Treasury has to be given to operate any other account outside the Central Bank of Kenya.

However, no such authority was made available to operate the ten (10) banks outside CBK.

In the circumstances, the County Executive was in breach of law.

### **7.0 Recruitment of County Revenue Director and Assistant Director Accountant General**

Note 5 to the financial statements reflected Kshs.2,034,044,172 in respect to compensation of employees which further included Kshs.1,505,309 comprising of Kshs.474,033 and Kshs.1,031,276 paid to County Revenue Director and Assistant Director Accountant General respectively recruited without qualifications as required by

the advertisement in the daily nation newspaper on 4 December 2017. One of the minimum requirements for the position of County Revenue Director is that he should be a Holder of Public Accountants' of Kenya certificate (CPA K). However, records available indicate that the position was filled by an officer who had a Master degree in finance.

Further, the advert for the Assistant Director Accountant General required the applicant to have a Bachelor's degree, be affiliated to a professional body and have a Master's degree. However, the records available indicated that the officer recruited had Bachelor of Commerce (Accounting option) and an Oracle certified specialist.

In the circumstances, the integrity and validity of the recruitment process could not be ascertained and failed to adhere to the set recruitment guidelines.

### **8.0 Staff Salary Payment Outside Integrated Personal Payroll Data (IPPD)**

The statement of receipts and payments reflected Kshs.2,034,044,172 in respect to Compensation to Employees which included Kshs.222,569,156 paid to staff as salary through manual payrolls outside the Integrated Personal Payroll Data (IPPD) payroll system without justification as shown below:

<b>Month</b>	<b>Manual Excel Gross Pay (Kshs)</b>
July	33,690,339
August	7,221,608
September	21,115,733
October	43,044,384
November	8,495,328
December	16,898,967
January	12,886,059
February	21,268,759
March	4,171,348
April	3,926,994
May	27,973,299
June	21,876,338
<b>TOTALS</b>	<b>222,569,156</b>

However, Section 6.3 of the County Financial Accounting and Reporting Manual indicates that the salaries, allowances and/or arrears of County Government employees are to be processed on Integrated Personal Payroll Data (IPPD).

No explanation was available as to why the Kshs.222,569,156 was paid manually. The County Executive was therefore in breach of the law.

### **9.0 Rental of Office Space**

Note 6 to the financial statements reflected Kshs.282,282,412 in respect to use of goods and services which included Kshs.749,000 for rentals of office spaces occupied by the

County Executive officers. The offices were procured from various landlords using direct procurements without competition contrary to Section 91(1 & 2) of the Public Procurement and Asset Disposals (PPAD) Act, 2015 which provides that open tendering is the preferred procurement method for procuring of goods work and services but procuring entities may use alternative procurement procedure only if that procedure is allowed and satisfy the condition of the Act. Further there was no evidence that the rented office spaces were valued before renting to ascertain the fair market rent.

In the circumstances, the County Executive was in breach of law and it has not been possible to ascertain that the County Executive got value for money in the Kshs.749,000 expenditure for the year ended 30 June, 2018.

### 10.0 Payments to Council of Governors

Note 6 to the financial statements reflected Kshs.282,282,412 in respect to use of goods and services. Included in this amount is Kshs.20,172,771 in respect to other operating expenses which further included Kshs.4,890,771 paid to the Council of Governors as shown below;

<b>Payee</b>	<b>IFMIS Purchase Order Number (PO NO)</b>	<b>Amount (Kshs)</b>
Council of Governors	971	599,467
	244	1,718,478
	523	572,826
	749	2,000,000
<b>Total</b>		<b>4,890,771</b>

However, this expenditure is contrary to Section 37 of the Intergovernmental Relations Act 2012 which indicates that any expenditure related to the Council of Governors should be met by the National Government.

In the circumstances, the County Executive is in breach of law.

### 11.0 Specialized Materials and Services

Note 6 to the financial statements reflected Kshs.282,282,412 in respect to use of goods and services which included Kshs.107,620,258 in respect to specialized materials and services which further include Kshs.15,451,891 spent in procuring non-pharmaceutical products directly from a supplier without competitive bidding contrary Section 91(1 & 2) of the Public Procurement and Asset Disposals (PPAD) Act, 2015 which provides that open tendering is the preferred procurement methods for procuring of goods work and services but procuring entities may use alternative procurement procure only if that procedure is allowed and satisfy the condition of the Act. Further, the Kshs.15,451,891 was paid to a clinic and which was not in the County Executive's list of pre-qualified supplier for non-pharmaceutical products.

In the circumstances, the Executive was in breach of the law.

## **12.0 Procurement of Assets from Non-Prequalified Suppliers**

Note 6 and note 8 reflect use of goods and services and acquisition of assets balances of Kshs.282,282,412 and Kshs.795,417,655 respectively both totalling to Kshs1,077,700,067. However, included in this expenditure is Kshs.3,738,800 paid to suppliers who were not pre-qualified by the County Executive contrary to Section 93(1) of Public Procurement and Asset Disposal Act, 2015 which requires that an accounting officer's to conduct a prequalification procedure as a basic procedure prior to adopting an alternative procurement method other than open tender. The Kshs.3,738,800 comprised of Kshs.2,240,000 and Kshs.1,498,800 spent in respect to specialized materials and services and purchase of specialized plant, equipment and machinery respectively as listed below.

<b>Type of assets</b>	<b>Amount (Kshs)</b>
Flood lights	2,240,000
Fish pods	1,498,800
Totals	3,738,800

However, it was not clear how the firms were identified and whether they had met the criteria to do business with the County Executive. Further, no documents were made available to show that proper procurement procedure was adhered to in line with the Public Procurement and Assets Disposal Act, 2015.

In the circumstances, the County Executive was in breach of law.

## **13.0 Procurement of Insurance for Plant, Equipment and Machinery**

Note 6 to the financial statements reflected Kshs.282,282,412 in respect to use of goods and services which included Kshs.7,108,464 paid to an insurance company for insurance of plant equipment and machinery and whose valuation certificates and tender documents were not availed for audit verification.

In the circumstances, the value for money for Kshs.7,108,464 in respect to insurance of plant equipment and machinery could not be ascertained.

## **14.0 Procurement of Computers, Printers and Other IT Equipment**

Note 6 to the financial statements reflects Kshs.282,282,412 in respect to use of goods and services which includes Kshs.107,620,258 in respect to specialized materials and services which further includes Kshs.252,000 paid to a firm for purchase of Computers, Printers and other IT equipment whose tender documents were not availed for audit review.



In the circumstances, the value for money for Kshs.252,000 in respect to purchase of Computers, Printers and other IT equipment could not be ascertained.

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, because of the significance of the matters discussed in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirmed that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **1.0 Internal Audit**

A review of the Internal Audit Section of the County Executive of Tharaka Nithi indicated that the department has only three staff members who included a Senior Auditor and who was seconded to Kenya Climate Smart Agricultural Programme by County Executive leaving the Internal Audit Section with only two junior staff.

In the circumstances, the ability of the Internal Audit Section to adequately discharge its functions could not be confirmed.

#### **2.0 Lack of Audit Committees**

The County Executive did not have in place an audit committee contrary to Section 167 (1) of the Public Finance Management-County Government Regulations, 2015 which states that each County Government entity shall establish an audit committee.

As a result, the County Executive was in contravention of the law.

#### **3.0 Record Keeping**

A review of the County Executive record keeping during the year under review indicated that payment vouchers were not numbered or filed serially and records in the cashbooks were not referenced to the respective documents. Further, there were no systematic

references of records posted in the Integrated Financial Management Information System (IFMIS) to the cashbooks and the physical payment vouchers. In addition, payment vouchers were also not examined before payment.

In the circumstances, the security and internal controls in the Executive's records could not be ascertained.

#### **4.0 Bank Reconciliation Statement**

The County Executive of Tharaka Nithi operated four (4) bank accounts with Cooperative Bank for various hospitals.

However, there was no evidence that bank reconciliation statements for the bank accounts were counterchecked by a senior officer as required by Section 90(4) of the PFM County Government Regulation, 2015 which states that the County Treasury shall analyze and review the bank reconciliation statements submitted under paragraph (3) of this regulation and take the necessary action.

In the circumstances, the internal controls and risk management in the bank reconciliation process could not be ascertained.

#### **5.0 Staff Recruitments**

An audit review of the human resource process during the year under review indicated that personnel for various vacant positions were recruited during the year which included positions for the County Executive Committee (CEC), Chief Officers (COs), Directors and Administrators. However, no authorized staff establishment to show the need and the number of staff to be recruited was availed for audit review. Further the Executive did not have an approved organizational structure that would clarify lines of authority and span of control.

In addition, interview score sheets for the staff recruited during the year were not availed to determine whether the recruitment process was competitive as required by Section 227 (1) of the Constitution of Kenya, 2010 which states that where a state organ or any other public entity contract for goods or services it shall do so in accordance with a system that is fair, equitable, transparent, competitive and cost effective.

Further, a review of sampled employee personal files revealed that the files lacked vital personal information such as evidence of past work experience, copies of Identity Cards (ID) and appointment letters.

In the circumstances, the integrity and internal controls of the staff recruitment process for the year ended 30 June 2018 could not be ascertained.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires that I plan and perform the audit to obtain assurance about whether effective

processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and Those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 Tharaka Nithi County Executive's ability to continue 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 liquidate the Tharaka Nithi 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.

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 money is applied in an effective manner way.

Those charged with governance are responsible for overseeing the Tharaka Nithi County Executive's 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 with limited assurance as to 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 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 noncompliance. 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 Tharaka Nithi County Executive's policies and procedures may deteriorate.

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.
- 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 Tharaka Nithi 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's 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's 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**

**04 February 2019**