

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF THARAKA-NITHI FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Tharaka-Nithi set out on pages 2 to 57, which comprise the statement of assets and liabilities as at 30 June, 2019, and statement of receipts and payments, statement of cashflow, and the summary statement of appropriation-recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Executive of Tharaka-Nithi as at 30 June, 2019, 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 the County Governments Act, 2012.

Basis for Qualified Opinion

1. Accuracy of the Financial Statements

A review of the financial statements revealed significant discrepancies between the financial statements balances and the ledger balances under the Integrated Financial Management Information System (IFMIS) as detailed in Appendix I.

The Management has attributed the discrepancies to transactions processed outside the Integrated Payroll and Personnel Database (IPPD) system and IFMIS system for compensation of employees and for other payments respectively; and absence of regular reconciliation between IFMIS and the financial statements over a number of years.

In the circumstances, it has not been possible to confirm the accuracy of the financial statements for the County Executive for the year ended 30 June, 2019.

2. Acquisition of Assets

As disclosed under Note 13 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.1,234,345,058 (2018 - Kshs.795,417,655 restated) in respect of acquisition of assets. Examination of records revealed the following observations:

2.1. Unsupported Expenditure

Included in the above amount is Kshs.106,950,325 on account of refurbishment of buildings. However, the Management did not provide supporting documents for expenditure amounting to Kshs.51,409,586 incurred at the Department of Medical Services by way of original payment vouchers and procurement records for audit review. Management indicated that the original payment vouchers and procurement records for the expenditure had been picked by the Ethics and Anti-Corruption Commission officers based in Isiolo and efforts to have them released for audit were unsuccessful.

2.2. Overpayment of Construction Works

Further, included in the amount is costs for construction of buildings amounting Kshs.255,026,649. The amount of Kshs.28,221,842 relates to payments for the construction of Agricultural Training Institute at Itugururu with an estimated budget of Kshs.46,000,000. However, the two payments to the contractor amounting Kshs.28,221,842 differed from works measured as was evidenced by certificates of works which estimated the works done at Kshs.20,816,767, thus resulting to an overpayment of Kshs.7,405,075.

2.3. Payment for Undelivered Seedlings

In addition, the payments further include expenditure of Kshs.26,176,996 incurred towards purchase of certified seeds, breeding stock and live animals. Examination of documents in support of the expenditure revealed that Kshs.2,700,000 was paid to Kenya Agricultural and Livestock Research Organization (KALRO), Mtwapa for purchase of 20,000 cashew nut seedlings. However, delivery records in support of the payment indicate that only 2,809 seedlings were delivered resulting in non-delivery of 17,191 seedlings valued at Kshs.2,320,785.

2.4. Unsupported Payments for Supply and Installation of Incinerator

Expenditure for construction and civil works amounting to Kshs.179,630,962 that was part of acquisition of assets includes payments amounting to Kshs.34,998,500 for the supply and installation of an incinerator. However, the payments were not supported by payment vouchers and procurement records. Management indicated that the original payment vouchers and procurement records for the expenditure had been picked by the Ethics and Anti-Corruption Commission officers based in Isiolo and efforts to have them released for audit were unsuccessful.

2.5. Misclassification of Expenditure

The construction of roads expenditure of Kshs.432,812,472 includes the cost of purchase of road construction equipment amounting to Kshs.108,312,241 which should have been classified as specialized machinery and equipment. Consequently, the reported cost on construction of the roads is overstated.

In view of the foregoing, the accuracy, validity and value for money from the expenditure of Kshs.1,234,345,058 on acquisition of assets for the year ended 30 June, 2019 could not be established.

3. Motor Vehicles without Logbooks and Land without Title Deeds

As similarly reported in the prior year, the summary of fixed asset registers at Annex 6 to the financial statements reflected assets with a historical cost of Kshs.3,561,308,523 (2018 - Kshs.4,101,577,696). The assets include two hundred and twenty three vehicles consisting of motor vehicles, motor cycles and trailers with a cost value of Kshs.191,503,536. However, respective logbooks for these vehicles were not availed for audit.

In addition, the County development plan for the prior year showed that the County Executive possessed land within the County. However, the respective title deeds/allotment letters were not available for audit verification.

In the circumstances, the existence, valuation and ownership of the fixed assets valued at Kshs.3,561,308,523 reflected in the fixed assets register 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 Management in accordance with ISSAI 130 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. I have determined that there are no key audit matters to communicate in my report.

Other Matter

1.0. Budgetary Control and Performance

1.1. Revenue Not Realized

The summary statement of appropriation-recurrent and development combined reflects a final receipts budget and actual on comparable basis of Kshs.5,721,000,703 and Kshs.4,781,031,707 respectively, resulting in budget underperformance by Kshs.939,968,996 or 16% of the budget.

In view of the foregoing, the County did not undertake all planned activities and programmes for the year thus impacting negatively on service delivery for the residents of Tharaka-Nithi County.

1.2. Budget Overruns

The statement also reflects over expenditure on six (6) items totalling to Kshs.307,248,186. However, there was no authority from the County Assembly to incur the over expenditure on the items as detailed below:

| Expenditure Item | Approved Budget (Kshs.) | Actual on Comparable Basis (Kshs.) | Over Expenditure (Kshs.) |
|--|--------------------------------|---|---------------------------------|
| Compensation of Employees | 1,970,335,329 | 2,116,561,414 | 146,226,085 |
| Social Security Benefits | 60,000,000 | 74,340,425 | 14,340,425 |
| Acquisition of Assets | | | |
| Purchase of Vehicles and other Transport Equipment | 73,999,800 | 76,488,600 | 2,488,800 |
| Purchase of Specialized Plant, Equipment and Machinery | 58,400,000 | 132,331,516 | 73,931,516 |
| Purchase of Certified Seeds, Breeding Stock and Live Animals | 25,000,000 | 27,796,654 | 2,796,654 |
| Hospitality Supplies and Services | 56,328,738 | 123,793,444 | 67,464,706 |
| Totals | 2,244,063,867 | 2,551,312,053 | 307,248,186 |

2.0. Pending Bills

Other disclosures to the financial statements reflect pending bills balance of Kshs.493,228,840 (2018 - Kshs.417,114,544) and detailed out in Annex IV and Annex V. Of this amount, pending bills totalling to Kshs.121,482,074 had been outstanding for more than one year with some dating back to 2013/2014 in spite of the County Government having received all the budgeted revenues as per the County Allocation of Revenue Act, 2018.

Further, the pending bills balance of Kshs. 493,228,840 exceeded the closing cash and bank balance of Kshs. 91,651,102 implying there was no adequate cash reserves to cater for the bills contrary to Section 53 (8) of the Public Procurement and Asset Disposal Act, 2015 that requires the procuring entity to have sufficient funds to meet the obligations of the resulting contract.

3.0 Prior Year Matters

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, although the Management has indicated that the issues have been responded to, the Management has not availed the relevant verifiable records for audit review.

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 discussed 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. Expenditure on National Government Functions

The County Government incurred expenditure during the period under review that are not classified as a devolved function contrary to the provisions of the Fourth Schedule of the Constitution of Kenya, 2010. These are namely: -

1.1. Reallocation of Funds Without Approval

Note 13 to the financial statements discloses expenditure on construction of roads amounting to Kshs.432,812,472. Examination of supporting documents for the amount revealed that Kshs.3,594,715 was spent on the construction of a Chief's and Deputy County Commissioner's offices at Kathwana. Further, the expenditure had not been planned for in the budget and the procurement plan for the period under review.

1.2. Construction of Kenya Medical Training College

Included in acquisition of assets cost is refurbishment of buildings which includes part payment to a contractor for the construction of Kenya Medical Training College (KMTC) at Tharaka Nithi of Kshs.10,000,000. The contract price for the construction of the college is listed as Kshs.117,005,825, however the contract agreement was not made available for audit review. There was also no evidence that the project had been subjected to public participation as required by the law.

2.0. Bank Accounts Operated in Commercial Banks

Note 15 to the financial statements discloses that the County Executive operated twenty-one (21) bank accounts comprising of twelve (12) and nine (9) accounts held at the Central Bank of Kenya (CBK) and commercial banks respectively. The nine (9) bank accounts held at the commercial banks that were operational during the year, were not evidenced with an authority from the County Treasury as required by the Regulations.

This was contrary to Regulation 82(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 which provides that all bank accounts shall be opened at the Central Bank of Kenya except for the imprest bank account for petty cash.

In addition, Regulation 82(4) states that the authority from the County Treasury has to be given to operate any other account outside the Central Bank of Kenya. Management has not availed the approvals from the County Treasury to operate the said accounts.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the

financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else 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. Controls Over Miscellaneous Receipt Books

A review of the revenue collection records and related controls revealed that a total of forty-four (44) miscellaneous revenue receipt books with undetermined collected amounts relating to the current and past financial years had not been surrendered by the revenue collectors. This is indicative of controls weaknesses over issuance and return of receipts books which are accountable documents for the revenue collection.

2. Recruitment of Candidates Without Requisite Qualifications

The County Government recruited two officers to the positions of County Revenue Director and Assistant Director Accountant General in December, 2017. However, the two who were still employees of the County Executive had not met the requisite qualifications of the positions they were recruited. According to the job advertisement at the time, one of the minimum requirements for the position of County Revenue Director was that the suitable candidate be a Certified Public Accountant of Kenya (CPA-K). However, information available indicated that the position was filled by an officer who did not possess this qualification. Further, the advertisement 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 did not show evidence that the officer was affiliated to a professional body or possessed a Master's degree.

In the circumstance, the competence of the officers recruited to the positions as well as the integrity of the recruitment process could not be ascertained.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion

Responsibilities of Management and those charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the 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 Management is aware of the intention to dissolve the County Executive or cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with overall governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the County Executive 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 overall governance and risk Management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in

compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk Management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.



Nancy Gathungu

AUDITOR GENERAL

Nairobi

18 November, 2020

Appendix I: Variance Between Financial Statements and IFMIS Ledgers

| Item | Financial Statements Balance (Kshs.) | IFMIS Balance (Kshs.) | Variance (Kshs.) |
|---|--------------------------------------|-----------------------|------------------|
| Fuel Levy Fund Account | 2,176,009 | - | 2,176,009 |
| Recurrent Bank Accounts | 7,643,060 | 3,424,066,856 | (3,416,423,796) |
| Development Bank Accounts | 1,272,678 | 1,007,116,308 | (1,005,843,630) |
| Cash in Hand | 1,496,350 | 8,709,855,747 | (8,708,359,396) |
| Other Debtors & Pre-payments | - | 123,698,991 | (123,698,991) |
| Government Imprests | 2,906,630 | 302,635,036 | (299,728,405) |
| Other Liabilities | - | (6,670,176,111) | 6,670,176,111 |
| Retention from Contractors | 49,007,726 | - | 49,007,726 |
| Withholding Taxes | 24,235,895 | 43,275,389 | (19,039,494) |
| System Required Liabilities A/cs | - | 771,429,591 | (771,429,590) |
| Opening Balance Bank | 581,982,648 | 2,660,767,978 | (2,078,785,329) |
| Opening Balance Cash | 311,010 | 4,409,609,413 | (4,409,298,403) |
| Opening Balance Receivables - Imprest and Clearance Accounts | 13,426,864 | 371,309,347 | (357,882,482) |
| Opening Balance - Deposits | - | 5,098,819,369 | (5,098,819,369) |
| Purchase of Vehicles and Other Transport Equipment | 76,488,600 | 55,918,600 | 20,570,000 |
| Purchase of Specialized Plant, Equipment and Machinery | 132,331,516 | 24,300,275 | 108,031,241 |
| Treasury Bank Accounts (Exchequer and CRF Accounts) | 1,450,539 | 3,607,379 | (2,156,840) |
| Basic Salaries - Permanent Employees | 1,058,544,498 | 1,034,658,949 | 53,402,995 |
| Basic Salaries - Temporary Employees | 41,166,479 | - | 41,166,479 |
| Personal Allowances paid as part of Salary | 1,009,454,013 | 971,029,170 | 21,555,278 |
| Employer Contributions to Compulsory National Social Security Schemes | 7,396,424 | 11,594,390 | (4,197,966) |
| Hospitality Supplies and Services | 123,793,444 | 45,809,008 | 77,984,436 |
| Fuel Oil and Lubricants | 59,930,740 | 57,266,835 | 2,663,904 |
| Routine Maintenance - Other Assets | 10,171,328 | 4,150,444 | 6,020,884 |
| Government Pension and Retirement Benefits | 74,340,425 | 64,640,118 | 9,700,307 |
| Other payments - Bank charges | 137,756 | - | 137,756 |