

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF WAJIR FOR THE YEAR ENDED 30 JUNE, 2019**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of County Executive of Wajir set out on pages 1 to 41, which comprise the statement of assets and liabilities as at 30 June, 2019, statement of receipts and payments, statement of cash flows 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 effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Executive of Wajir 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. Presentation of the Financial Statements**

The financial statements reflect the following anomalies:

##### **1.1 Unreconciled Opening Cash and Cash Equivalents Balance**

The statement of asset and liabilities reflects opening bank balances under cash and cash equivalents totalling Kshs.2,618,351,122, as further disclosed in Note 21A to the financial statements. However, the statement of cash flows reflects nil cash and cash equivalents balance at the beginning of the year resulting to an unreconciled variance of Kshs.2,618,315,122. No plausible explanation has been provided by Management for the anomaly.

Consequently, the accuracy and completeness of the statement of cash flows for the year ended 30 June, 2019 has not been confirmed.

#### **2. Unsupported Expenditures**

##### **2.1 Transfers to County Executive Entities**

The statement of receipts and payments reflects transfers to other Government entities totalling Kshs.643,968,369 and Other Grants and Payments totalling Kshs.492,765,643. Examination of records indicated that during the year under review, remittances totalling Kshs.398,500,972, were made to four entities established by the County Executive as shown in the table below:

	<b>Name of Fund</b>	<b>Amount Transferred (Kshs)</b>
1.	Executive Emergency Fund	151,335,400
2.	Executive Bursary Fund	82,000,000
3	Climate Change Adaptation Fund	80,000,000
4.	Wajir Water and Sewerage Company	85,165,572
<b>Total</b>		<b>398,500,972</b>

However, contrary to the reporting framework prescribed by the Public Sector Accounting Standards Board(PSASB), the disbursements have not been separately disclosed in the financial statements for the year under review.

In addition, Management did not avail the financial statements on the operations of the entities. Management has therefore, contravened Section 167 of the Public Financial Management Act, 2012 which requires County entities to prepare and submit financial statements in the format prescribed by the PSASB.

In the absence of financial statements on the entities, the occurrence, validity and accuracy of transfers totalling Kshs.398,500,972 reported to have been made to the four entities during the year under review has not been confirmed.

## **2.2 Use of Goods and Services**

The statement of receipts and payments reflects expenditure totalling Kshs.1,194,803,545 in respect of goods and services. However, the following anomalies were noted in regard to the expenditure:

### **2.2.1 Medical Supplies and Veterinary Drugs**

Available records indicated that payments totalling Kshs.384,275,962 were incurred on purchase of specialized materials and services. The sum included purchases of medical supplies and veterinary drugs worth Kshs.158,624,082. However, Management did not avail counter receipt vouchers (S13) and stores ledgers(S3) cards to show the receipt and issue of the supplies. Similarly, delivery documents issued by the Kenya Medical Supplies Unit as well as goods inspection and acceptance committee reports were not presented for audit review. In addition, a supplier for items worth Kshs.19,994,996 was not among those included in the list of the County's prequalified suppliers.

In view of these omissions, adherence of the County Executive to procurement laws in the purchase of medical supplies worth Kshs.158,624,082 has not been confirmed. In addition, it was not possible to confirm whether the supplies were received by the County Executive or used for the intended purposes, and whether value for money was attained on the spending.

### **2.2.2. Office General Supplies and Services**

Included in the use of goods and services expenditure balance totalling Ksh.1,194,803,545 reflected in the statement of payments and receipts is Kshs.36,423,820 spent on general office supplies and services. Out of this amount, payments totalling Kshs.20,272,050 were for office supplies shown in records as having been received in the County Stores. However, the respective counter requisition and issue vouchers (S11) were not presented to confirm how the stores were used.

In the absence of relevant records, it was not possible to confirm whether the supplies worth Kshs.20,272,050 were rightfully issued from the stores or used for the intended purpose.

## **2.3 Compensation of Employees**

The statement of receipts and payments reflects payments on compensation of employees totalling Kshs.3,398,148,913. The audit noted the following anomalies in respect to the expenditure:

### **2.3.1 Casual Wages**

The expenditure records indicated that Kshs.163,399,923 was spent on basic salaries of temporary employees during the year under review. However, the wages were not supported with original muster rolls to confirm the location of the casual employees and their attendance at work. It was therefore, not possible to confirm that the workers performed the duties they were paid for.

## **2.4 Pending Bills**

Annex 2 to the financial statements reflects pending bills totalling Kshs.1,705,568,762. However, review of the bills has revealed the following anomalies:

- (i) the disclosures made on the bills in the financial statements are insufficient as they do not provide all the information prescribed in the reporting template issued by the Public Sector Accounting Standards Board (PSASB). The template requires reporting entities to disclose the opening balances of pending bills, additions for the period, bills paid during the year and closing balances. These details have not been disclosed in respect to the balance and as a result, it was not possible to confirm whether any of the pending bills reported in the audited financial statements for 2017/2018 was paid during the year under review.

- (ii) The opening pending bills balance disclosed in the financial statements for the year under review is Kshs.2,357,171,364. However, the pending bills balance in the financial statements for 2017/2018 financial year amounted to Kshs.2,744,229,088. No plausible explanation has been provided by Management for the difference amounting to Kshs.387,057,724 between the two sets of records.
- (iii) No information was provided to show the period the pending bills related to. Similarly, the goods, works and services on which the bills were incurred were not disclosed. As a result, it was not possible to confirm how the bills were incurred.
- (iv) Further, the creditors' ledger showing change of creditors balance from Kshs.2,744,229,088 as at 30 June, 2018 to Kshs.1,705,568,761 as at 30 June, 2019 was not presented for audit.

In view of these omissions, the accuracy, completeness, validity and existence of the pending bills balance totalling Kshs.1,705,568,762 have not been confirmed.

## **2.5 Hospitality Supplies and Services**

Examination of expenditure records indicated that during the year under review, the County Executive spent Kshs.53,027,735 on hospitality supplies and services. Included in the balance is Kshs.8,429,600 spent on catering services. However, requisitions from the Departments that used the services, work programs and proof for occurrence of events for which the services were procured were not presented for audit review.

In view of these anomalies, the occurrence and validity of the expenditure totalling Kshs.8,429,600 reported to have been incurred on catering services has not been confirmed.

## **3. Unconfirmed Cash and Cash Equivalents Balance**

The statement of assets and liabilities reflects a cash and cash equivalents balance totalling Kshs.1,740,139,078 as at 30 June, 2019, as further disclosed in Note 21A to the financial statements. Examination of the cash book and bank reconciliation statements supporting the balance revealed that the Universal Health Account included therein had a balance of Kshs.29,816,646 as at 30 June, 2019. However, the certificate to the bank account was not presented for audit.

In addition, the bank reconciliation statements for the Finance and Economic Planning Department's bank account at the Central Bank of Kenya reflected unrepresented cheques totalling Kshs.215,199,352 as at 30 June, 2019. No plausible explanation was provided by Management for the large unrepresented cheques balance.

Further, Board of Survey reports for the Revenue Account and the Kenya Roads Board Account as at 30 June, 2019 were not presented for audit verification. Also not availed were the cash book and bank reconciliation statements for Kenya Urban Support Project bank account shown to have held cash totalling Kshs.301,617,966 as at 30 June, 2019.

In view of these anomalies, it has not been possible to confirm whether the cash and cash equivalents balance totalling Kshs.1,740,139,078 reflected in the statement of assets and liabilities as at 30 June, 2019 is fairly stated.

#### **4. Un-updated Fixed Assets Register**

Annex 5 to the financial statements includes a summary of fixed assets which indicates that the County Executive owned assets valued at Kshs.9,289,557,225 as at 30 June, 2019. However, the asset register presented for audit did not indicate the assets procured during the financial year under review, and those inherited from defunct Local Authorities.

Further, the Register did not reflect sufficient details on the assets as required by the International Public Sector Accounting Standard (IPSAS) 17 and the reporting format prescribed by the Public Sector Accounting Standards Board. The undisclosed information included serial numbers of the assets, their dates of acquisition, descriptions, location, class, cost of acquisition, accumulated depreciation and net book value and identification codes.

In the circumstances, it has not been possible to confirm the completeness, accuracy existence and ownership by the County Executive of the assets valued at Kshs.9,289,557,225 shown in the summary of fixed assets as at 30 June, 2019.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Executive of Wajir 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 were no key audit matters to report in the year under review.

#### **Other Matter**

##### **1.1 Budget Control and Performance**

The summary statement of appropriation: recurrent and development combined reflects final total receipts budget and actual on comparable basis amounting to

Kshs.13,175,690,252 and Kshs.11,909,468,873 respectively resulting to under-funding by Kshs.1,266,221,379 equivalent to 10% of the budget. In addition, the statement reflects county own-generated receipts budget and actual on comparable basis amounting to Kshs.200,000,000 and Kshs.62,123,112 respectively resulting to a revenue shortfall of Kshs.139,876,888 equivalent to 70% of the budget.

Further, the total County budget was Kshs.13,175,690,252 against actual payments of Kshs.10,174,556,165 resulting to under-expenditure of Kshs.3,001,134,087 or 23% of the budget. In addition, Kshs.1,734,912,708 of the receipts equivalent to 15% of collections for the year remained unspent as at 30 June, 2019.

No explanation has been provided by Management for the under-expenditure. The underfunding and under absorption of funds meant that some the planned activities were not executed which in turn hindered economic activity and delivery of goods and services to the residents of Wajir County.

## **1.2 Lack of Disclosure on Previous Year's Audit Issues**

In the audit report for the previous year, several issues 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, the Management has neither resolved the issues nor, as required under the reporting template prescribed by the Public Sector Accounting Standards Board, provided a summary in the financial statements outlining the actions envisaged or taken to resolve them.

In the circumstance, the financial statements do not comply with the prescribed reporting framework and further, no confirmation has been obtained that the issues raised in the audit report for the previous year have been resolved.

## **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 Qualified Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections 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. Irregularities in Acquisition of Assets**

Expenditure records indicated that the County Executive spent a total of Kshs.4,069,174,288 on acquisition of assets, as reflected in the statement of receipts

and payments for the year ended 30 June, 2019. Examination of records on the payments however, revealed the following unsatisfactory matters:

## **1.1 Construction of Roads**

The records indicated that Kshs.1,215,236,850 was spent on construction of roads during the year. However, audit review of the expenditure and other supporting documents revealed the following anomalies:

### **1.1.1 Inadequate Disclosure on Road Works Contracts**

There was no evidence to confirm that contractors, awarded various works valued at Kshs.256,506,151 in aggregate, were qualified to execute their respective contracts. The missing information included proof that they were pre-qualified contractors with valid annual practising licenses issued by their professional associations as prescribed in Section 80 (2) of Public Procurement and Asset Disposal Act (PPADA), 2015.

Further, the records indicated that Inspection and Acceptance Committee members were appointed and allocated sub-counties and not specific projects. As a result, the Committees were permanent rather than ad hoc contrary to the requirements of Section 48 of the Act.

### **1.1.2 Insufficient Disclosure on Road Maintenance Levy Fund (RMLF) Projects**

Management awarded contracts totalling Kshs.163,584,865 to various contractors. However, important information on the contracts including their inclusion in the Kenya Roads Board approved Work Plan for the year, engineer's estimates, schedules of payments, evaluation committee recommendations and approval of the projects by the Accounting Officer as prescribed in Section 139(2) of the (PPADA) Act, 2015 were not presented for audit. Other missing information included evidence of previous work done by the contractors, proof of ownership of plant and equipment, availability of cash capital, and qualifications of the technical staff they deployed to carry out the works.

In the absence of sufficient information, it was not possible to confirm that the projects executed during the year under review were in the County Executive's approved work plans for the year, and that the costs incurred conformed to the respective budgets. Further it was not possible to confirm that the contractors were appointed in a competitive and fair way as required by the Public Procurement and Asset Disposal Act, 2015, and that value for money was obtained on the contracts.

### **1.1.3 Stalled Road Projects**

Examination of procurement records also indicated that the Management awarded contracts for road works valued at Kshs.369,814,720 in aggregate, out of which payments totalling Kshs. 207,078,668 were made to various contractors. The works were meant to improve roads in Wajir Town to bitumen standards. However, physical

verification carried out in September 2019 revealed that all the projects had stalled and further, that the respective contract periods lapsed in July 2018. Management did not provide progress of works reports and bid bonds prescribed in Section 41(4) and (5) of the Public Procurement and Disposal Regulations, 2006.

No plausible explanation was provided by Management for the stalled works. In addition, the plans, if any set by Management to revive and complete the projects, were not disclosed.

In view of the failure to complete the projects, public funds totalling Kshs.207,078,668 invested therein have not yielded the value expected by the residents of Wajir County.

#### **1.1.4 Inadequate Disclosure on Appointment of Road Graveling Contractors**

Management awarded a contract for graveling of Wajir Bor-Ibrahim Ure Road to a contractor at a tender sum of Kshs.9,175,600. However, the mandatory requirements that the bidders were expected meet during preliminary evaluation of the tenders, and the letters of appointment for members of the Evaluation Committee and the contract performance bond submitted by the contractor were not availed for audit.

In the absence of information on criteria and means used to appoint the contractors, it was not possible to confirm whether they were selected in a lawful way.

## **2. Unsatisfactory Matters on Construction, Overhaul and Refurbishment of Civil Works**

The expenditure records further indicated that during the year under review, Management spent Kshs.1,051,475,108 on construction of civil works and Kshs.316,132,274 on overhaul, refurbishment and construction of civil works, as reflected in Note 11 to the financial statements. The works mainly entailed construction of water pans to provide water for both human and livestock consumption.

However, various unsatisfactory matters were noted during the audit, mainly relating to unconfirmed validity of contracts and failure to execute works in accordance with the respective contracts:

### **2.1 Water Pans**

Management spent Kshs.192,895,977 on construction works for seven (7) water pans contracted through open tenders. However, no evidence was availed for audit to confirm that the works were in the County's Annual Development Plan for the year under review. In addition, environment impact assessment reports, soil test reports, and design drawings for the projects were not presented for review. Further, audit verification carried out at the project site in October, 2019 revealed that two weighted gabion mattresses and signboards costing Kshs.180,000 were not installed.



The expenditure records further indicated that during the year under review, Management spent Kshs.215,600,524 on desilting of water pans, drilling of boreholes and related civil works executed under 59 (fifty-nine) projects at an overall cost of Kshs.226,403,922. The respective contractors were appointed through requests for quotations. However, Management did not avail important procurement records such as engineers' estimates, hydro-geological survey reports, water drilling permits and practice licenses issued to the contractors. In addition, evidence that the contractors had been pre-qualified by the County before they were awarded the contracts was not presented for audit. As a result, it was not possible to confirm that the works were procured and executed in accordance with the laws and regulations that govern implementation of public projects.

## **2.2 Water Pans and Water Tank Works**

During the year under review, Management awarded contracts totalling Kshs.236,905,225 to various contractors for construction of large water pans and excavation and desilting of old ones, as well as building standard masonry water tanks. However, the respective procurement documents including engineer's estimates, needs assessments and soil topography tests, appointment letters and the respective quotations, were not availed for audit review. Further, no evidence was presented to show that the appointed contractors were among those pre-qualified to undertake civil works in the County.

As a result, it was not possible to confirm that the contracts were awarded in a fair and competitive manner and that the residents of Wajir County obtained value for money on the expenditure incurred on the works. Further, audit verification of the desilted water pans confirmed that several components that included heavy gauge material sign posts, silt traps, spill way and outlet channel, estimated to cost Kshs.530,750 in aggregate, were not done.

## **2.3 Masonry Water Storage Tanks**

The County Executive hired a contractor to build three (3) new standard surface 50M<sup>3</sup> masonry water storage tanks at Hungai Village in Tarbaj Sub-county at a cost of Kshs.1,333,000 each. However, audit verification conducted in September, 2019 revealed that the contractor instead repaired one existing masonry water tank previously built by a donor, Oxfam GB, and built only one 50M<sup>3</sup> water tank instead of the three prescribed in the contract.

No explanation was provided by Management why the contractor failed to execute the projects as provided for in the Bills of Quantities (BQs) and the respective contract agreement. An audit inspection of the works further noted that the repaired water tank had several visible cracks on its walls, an indication of poor workmanship. The defects cast doubt on the quality of work done. Further, the contractor did not supply or execute, the following items provided for in the BQs: 2" Gs pipe, 2" gate valves, 2" union socket, 2" GS pipe(outlet), 2" GS pipe(overflow) M, 2" scour GS pipe, 2 GI Nipples, valve chambers 1x1x0.9m and steel lockable covers, all costed at Kshs.197,550.

In spite of these anomalies, Management issued the works completion certificate and made full payment to the contractor. No plausible explanation has been provided by Management for the unsatisfactory execution of the contract.

As a result of failure to implement the contract as prescribed, value for money was not attained on the expenditure totalling Kshs.3,999,000 incurred on the project. Further, the additional supply of water that residents of Hungai Village had expected to receive from the two water tanks that were not built was not received.

#### **2.4 Incomplete Bio Gas Plant at Wajir Slaughter House**

During the year under review, Management paid Kshs.18,676,000 to a contractor to build a biogas plant at Wajir Slaughter House. However, there were no documents to confirm that an environmental impact assessment study was conducted on the project before it was started, as required in Section 58 of the Environmental Management and Coordination Act,1999 (Amended ,2015) and Regulation 10 of the Environmental (Impact Assessment and Audit) Regulations, 2003. Similarly, designs on the bio-gas digester were not availed for audit and as a result, it was not possible to confirm whether the works were executed as contracted.

Further, Management issued the contractor with the certificate of practical completion in April, 2019, long before the works were completed. At the time of the audit inspection in September, 2019, the biogas plant had not been installed.

No plausible explanation was provided by Management for issuing the contractor with the completion certificate before the works were completed.

In view of these anomalies, the legality, propriety and validity of the expenditure amounting to Kshs.18,676,000 incurred on the bio-gas digester project has not been confirmed. In addition, with the bio-gas plant yet to be installed, there is risk that no value will be received from the tax payers' funds spent on the project.

#### **2.5 Unconfirmed Validity of Borehole Spare Parts Supplies Contract**

During the year under review, the County Executive appointed a contractor through the direct method of procurement to supply emergency borehole spare parts at a cost of Kshs.10,221,000. The supplies were received, taken on charge in stores ledger records and issued out for use. However, Management did not avail evidence to confirm that the firm was in the list of prequalified suppliers for Wajir County.

Consequently, the validity of the contract and value for money on expenditure amounting to Kshs.10,221,000 spent through the uncompetitive contract has not been confirmed.

#### **2.6 Unconfirmed Validity of Construction and Refurbishment of Buildings Contracts**

During the year under review, Management spent Kshs.758,842,333 after paying Kshs.704,016,908 and Kshs.54,825,425 for construction and refurbishment of buildings respectively. However, records to show that the contracts complied with all public procurement regulations were not presented for audit. The missing records included contractors' tax compliance certificates, proof for similar works done previously and Access to Government Procurement Opportunities (AGPO) certificates. In addition, the quotation control registers, with information on the firms that placed bids and records showing that the contractors had been pre-qualified for such works, were not submitted for audit.

In the circumstances, it was not possible to confirm the validity of the expenditures totalling Kshs.758,842,333 reportedly incurred on construction and refurbishment of buildings during the year.

### **3. Unconfirmed Validity of Furniture and Equipment Purchases**

#### **3.1 Office and Household Furniture Purchases**

Examination of expenditure records indicated that payments totalling Kshs.82,239,028 were made on purchase of furniture and equipment during the year under review. Out of this sum, Kshs.18,379,900 was incurred on purchase of household furniture and institutional equipment, and Kshs.63,859,128 on office furniture and general equipment. However, important records on contractor information, such as tax compliance certificates, proof for similar contracts fulfilled previously and AGPO certificates for the latter two purchases, were not availed for audit review.

The records further indicated that over-expenditure amounting to Kshs.835,000 was incurred on purchase of laptops and printers by the Department of Agriculture.

In view of these anomalies, the validity and propriety of the expenditures totalling Kshs.82,239,028 reported in respect to purchase of furniture and equipment during the year under review could not be confirmed.

#### **3.2 Unconfirmed Validity of Specialized Equipment Purchases**

The expenditure records further indicated that the County Executive spent Kshs.99,716,411 on purchase of specialized plant, equipment and machinery. However, the Management did not avail for audit review inspection and acceptance reports for contracts worth Kshs.3,795,200; Local Service Orders or contract agreements for supplies worth Kshs.1,998,000, and letters of appointments for the Procurement Committee members that presided over award of procurement contracts worth Kshs.38,527,746.

In the circumstances, the validity of the expenditure totalling Kshs.44,320,946 out of the aggregate of Kshs.99,716,411 incurred on purchases of specialized plant, equipment and machinery during the year under review could not be confirmed.

#### **4. Other Grants and Payments**

The statement of receipts and payments for the year under review reflects other grants and payments totalling Kshs.518,563,158, as further disclosed in Note 15 to the financial statements. However, the following unsatisfactory observations were made in respect to some of the expenditures included in the balance:

##### **4.1 Unconfirmed Validity of Emergency Relief and Refugee Assistance Contract**

Records presented for audit indicated that Management spent Kshs.190,226,519 on emergency relief and refugee assistance during the year under review. The sum included payments totalling Kshs.114,222,800 spent on purchase of relief foodstuffs, collapsible water tanks and water trucking services for drought affected families. The whole food supply contract was awarded to one contractor but Management did not avail evidence of the firm's existence in the list of the County's prequalified foodstuff suppliers. In addition, Management did not provide evidence that suppliers awarded contracts to truck water under various contracts valued at Kshs.31,200,000 in aggregate were prequalified suppliers for the service. Further, there was no evidence that a market survey was conducted to assess the possible cost of the service before it was procured.

Also, contrary to the requirements of Section 104 of the Public Procurement and Asset Disposal Act, 2015, there was no evidence that Management conducted negotiations with the contractor appointed to supply relief food and collapsible water tanks through direct procurement.

In view of the irregular and uncompetitive manner in which Management entered into the contracts for emergency relief supplies, it is unlikely that value for money was attained on expenditure totalling Kshs.190,226,519 incurred on the contracts.

##### **4.2. Unconfirmed Validity of Other Current Transfers, Grants and Subsidies**

Expenditure records examined indicated that during the year under review, the County Executive incurred a sum of Kshs.3,600,000 on legal services and charged these to other current transfers, grants and subsidies. However, no documents were availed to confirm that the services were procured competitively as Public Procurement Regulations require. Further, Local Service Orders and signed contract agreements for payments totalling Kshs.7,707,914 incurred on purchase and delivery of spare parts, printing and publishing, and construction of shallow wells, were not availed for audit review.

In the circumstances, the propriety and validity of the expenditure totalling Kshs.11,307,914 incurred on these items could not be confirmed.

## **5. Use of Goods and Services**

The statement of receipts and payments for the year ended 30 June, 2019 reflects use of goods and services expenditure totalling Kshs.1,194,803,545, as further disclosed in Note 12 to the financial statements. However, the following unsatisfactory observations were made in respect to the payments:

### **5.1 Unconfirmed Validity of Expenditure on Maintenance of Vehicles and Other Transport Equipment**

The expenditure records further indicated that payments totalling Kshs.18,715,512 were made to various vendors for mechanical supplies used on vehicles and transport equipment. However, tax compliance certificates, business permits and certificates of incorporation, all required of suppliers before they are contracted by public entities, were not presented for audit.

In the absence of these documents, it was not possible to confirm that the supplies valued at Kshs.18,715,512 were made in accordance with the Public Procurement and Asset Disposal Act (PPADA), 2015.

### **5.2 Unconfirmed Validity of Grants to Executive Government Agencies**

Available records indicated that during the year under review, the County Executive paid for expenditure totalling Kshs.85,165,572 incurred by Wajir Water and Sewerage Company. The payments were accounted for as transfers to other government entities.

Examination of the respective payment vouchers, procurement records and other supporting documents availed for audit review indicated that payments made by the County Executive on behalf of the Company for various goods and services amounted to Kshs.18,719,920 during the year under review. The purchases were procured through requests for quotations. However, supporting documents such as tax compliance certificates, business permits and certificates of incorporation required of the suppliers were not presented for audit review. In addition, payments expenditure totalling Kshs.17,678,440.80 were not supported with requests for quotations.

In the absence of relevant records, it was not possible to confirm the validity of expenditure totalling Kshs.18,719,920 included in the sum of Kshs.85,165,572 paid by the County Executive on behalf of Wajir Water and Sewerage Company.

## **6. Compensation of Employees**

The statement of receipts and payments for the year ended 30 June, 2019 reflects compensation of employees expenditure totalling Kshs.3,398,148,913, as further disclosed in Note 11 to the financial statements. However, the following unsatisfactory matters were noted in respect to the balance:

### **6.1 Irregular Wage Bill**

The wage bill totalling Kshs.3,398,148,913 was equivalent to 39.6% of the aggregate operational revenue amounting to Kshs.8,571,176,224 received by the County Executive during the year under review. Therefore, the expenditure exceeds the limit of 35% of revenue set for County Governments in Regulation 25(1) of the Public Finance Management (County Governments) Regulations, 2015. As a result, Management is in breach of the law and has not used public funds in an effective way.

### **6.2 Irregularities in Payrolls and other Personnel Records**

Examination of payroll records revealed that during the year under review, Management maintained both the prescribed electronic Integrated Payroll and Personnel Database(IPPD) system payroll and a manual payroll for 1,158 and 3,224 employees respectively. Analysis of the two payroll systems revealed the following anomalies:

- i. The manual payroll was maintained on a data spreadsheet and did not indicate the gender of the employees. It was therefore, not possible to confirm whether the County Executive had complied with the one-third gender staffing rule. In addition, Management did not submit the authorized staff establishment for audit and therefore it was not possible to confirm whether the cadres, skills and competencies of its staff conformed to the requirements of the County Service Board.
- ii. Fifteen (15) employees whose contracts had expired in the years 2012, 2013, 2014 and 2015 were still in the payroll and were receiving their monthly pay. No plausible explanation was provided by Management for the anomaly.
- iii. Twenty-nine (29) employees were above 60 years of age, which is the mandatory retirement age for public servants, except those living with physical disability. No records were availed for audit to confirm that the 29 possessed any special skills that earned them additional years in public office; or that they were living with disabilities.
- iv. Some of the new employees hired during the year under review did not present all the mandatory personal documents and other information required of them for appointment to the posts they were holding. The missing information included copies of National Health Insurance Fund (NSSF) certificates, clearance certificates from the Criminal Investigative Department, Higher Education Loans Board, Ethics and Anti-Corruption Commission, Credit Reference Bureau, and Kenya Revenue Authority certificates, among other documents.

In view of these anomalies, the validity of salary and other emoluments spent on the staff cited could not be confirmed.

### **6.3 Irregularities in Employment of Casual Workers**

The following irregularities were observed in respect to hire and management of casual workers:

- i. In the month of July 2018, each casual employee was paid salary arrears amounting to Kshs.18,000 per month. However, no deductions for Pay-As-You-Earn (PAYE) were made on the accumulated arrears even though the payments were in excess of the minimum taxable benefits amounting to Kshs.15,000 set in the Income Tax Act.
- ii. The manual payroll for the month of July, 2018 indicated there were a total of 25 casual employees in the payroll who were not attached to any Department or any known area of deployment. Therefore, the County Executive may have paid salaries to staff who did not perform any duties during the year under review or who were not in existence.
- iii. Staff in middle-level and senior level posts were, against common practice, hired to work as casual employees but were not sourced competitively.
- iv. Even though monthly deductions in respect of both the National Health Insurance Fund (NHIF) and National Social Security Fund (NSSF) were made on their wages, some staff lacked NSSF and NHIF identity numbers to which deductions made on their salaries were to be directed. As a result, it was not possible to confirm whether the deductions were remitted and credited to their respective Fund accounts.

These anomalies indicate that Management did not observe regulations on hire and maintenance of staff. As a result, the salaries and other emoluments paid to some of its staff were irregular.

## **7. Unsatisfactory use of Donor Funds**

Note 1C to the financial statements reflects donor funds released through the Exchequer amounting to Kshs.459,883,775. The funds were conditional allocations financed through external loans and grants from development partners and were intended to supplement financing of devolved functions in the whole country. However, review of the Revenue Fund statement of account as well as the project's bank statements for Wajir County revealed the following anomalies:

### **7.1 Unutilized Donor Funds**

During the year under review, the County Executive received conditional grants totalling Kshs.416,811,943 for use in the Urban Support Project-Urban Development Grant, Kenya Climate Smart Agricultural Project and Healthcare System for Universal Care Project (THSUCP). However, only funds totalling Kshs.78,600,711 equivalent to 19% of the receipts were utilized resulting to under-expenditure of Kshs.338,211,232 equivalent to 81% of the funds received. No plausible explanation was provided by Management for the failure to utilize the funds.

Failure to spend the funds denied the residents of Wajir County goods and services planned for their use and hampered the attainment of the County's development goals.

## **7.2 Conditional Grant Not Used for the Intended Purpose**

Revenue records examined indicated that during the year under review, a sum of Kshs.15,784,997 was received as a conditional allocation from the National Government to compensate Health-Care Facilities in the County for foregone user-fees revenue. However, examination of the cash book and County Health Management Team bank statements revealed that the funds were not disbursed to the health facilities but were instead used on operations and maintenance activities. However, no evidence was presented to confirm whether the National Government and the County Assembly agreed that the funds could be diverted to other uses.

The decision by Management, not to use the conditional grants totalling Kshs.459,883,775 as intended, resulted in failure to fulfill the service delivery needs identified for the conditional grant.

## **8. Unauthorized Expenditure on National Government Functions**

Project records indicated that during the year under review, Management spent Kshs.21,056,645 on construction of dormitories, toilet blocks and fencing of primary and secondary schools, which the Constitution defines as National Government functions. The projects were implemented without written agreement between the County Executive and the National Government as required by Article 187 of the Constitution.

Further, examination of procurement records on the projects revealed the following anomalies:

- i. Some contractors were not required to submit requests for quotations before they were contracted to carry out works.
- ii. Tender evaluation reports indicated that some of the bidders awarded the contracts did not submit documents required of them when they placed their bids.



- iii. Several of the requests for quotations issued to the losing bidders were not signed or stamped by the bidders, which omission suggested that the bid documents may not have been authentic.

In view of these anomalies Management breached the Law and as a result, the expenditure totalling Kshs.21,056,645 incurred on refurbishment of the schools was invalid.

## **9. Irregular Cash Purchases**

Records on payments made for goods and services indicated that cash totalling to Kshs.1,200,000 issued to various officers was used to buy breakfast and lunch as well as refreshments, hire of a public address system and payment for publicity in the local media. The purchases were made contrary to the provisions of the Public Procurement and Disposal Regulations, 2006 which limits cash purchases of goods and services to low value transactions of Kshs.30,000 for each procurement and item. In addition, the payment was not supported with an imprest warrant for the cash issued to the Officer who procured the services.

Management, therefore, breached the law on use of cash in Procurement.

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 procedures performed, except for the matters described in the Basis for Qualified Opinion, Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources and Basis for Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **1. Lack of Audit Committee**

Regulation 167 of the Public Finance Management (County Governments) Regulations, 2015 provides that each County Government shall establish an Audit Committee to provide oversight on financial and other operations of the County Executive.

No evidence was presented by the Management to indicate that the County Executive had established an Audit Committee.

Consequently, the County Executive is in breach of the Law. In addition, oversight on financial and other affairs of the County Executive is inadequate. This has, in turn, raised the risk of mismanagement of public assets in the County.

## 2. Lack of Risk Management Framework

Regulation 158(1) of the Public Finance Management (County Governments) Regulations, 2015 requires the Accounting Officer of a County Entity to develop risk management strategies and frameworks that support robust business operations. However, Management did not avail evidence to confirm the existence of a risk management strategy and policy framework that identifies, measures and mitigates risks that the County Executive may face from time to time.

Failure to establish a risk management framework has exposed the operations of the County Executive to severe risk of disruption from unforeseen and other unfavorable events.

## 3. Delayed Banking of Revenue

Audit review of revenue records indicated that revenue collections were not banked promptly. The table below shows instances of delayed banking of revenue between April and September, 2018:

<b>Receipt Number</b>	<b>Dates Collected</b>	<b>Dates Banked</b>	<b>Amount Kshs.</b>
158402-158447	April 2018	August 2018	19,700
159536-159550	June and July	September 2018	6,900
162301-162350	August, July, June	September 2018	40,400
162137-162868	August 2018	September 2018	49,900
162136-162136	July 2018	September 2018	37,000

Failure to bank revenue promptly contravenes Section 63 (1) (a) of the Public Finance Management Act, 2012 and may lead to misappropriation of public funds.

No plausible explanation was provided by Management for the irregularity.

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 aspects. 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 its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of 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 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 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 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 applicable 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 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 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 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**

**25 January, 2021**