

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF WEST POKOT 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 West Pokot set out on pages 28 to 79, which comprise of 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 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 matter 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 West Pokot 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**

#### **1.0 Inaccuracies in Cash and Cash Equivalents**

The statement of assets and liabilities and as disclosed under Note 21A of the financial statements reflects bank balances of Kshs.675,139,684. A review of bank reconciliation statements revealed that the Management did not carry out bank reconciliations in IFMIS for all bank accounts. Instead the bank reconciliations were prepared outside the IFMIS system. The following observations were made: -

- i. The balance excluded Agricultural Sector Development Support bank account with a balance of Kshs.8,043,154.
- ii. The development bank account reflected a balance of Kshs.4,495,286 whereas the cash book balance as per the bank reconciliation was Kshs.12,735,761.
- iii. The Kenya Urban Support Programme bank account had a balance of Kshs.73,392,300 which has not been reconciled to the reported balance of Kshs.39,394,606.
- iv. Unpresented cheques amounting to Kshs.253,889,813, Kshs.268,190,975 and Kshs.53,877,821 reflected on the bank reconciliation statements for recurrent, development and road maintenance bank accounts respectively were not supported with a list of the unpresented cheques and dates when they were cleared by the bank.

Under the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.675,139,684 as at 30 June, 2019 could not be confirmed.

## **2.0 Unsupported Transfers to Other Government Entities**

The statements of receipts and payments reflects transfers to other government entities amount of Kshs.1,075,389,326 as disclosed under Note 14 to the financial statements. The amount includes transfers to the County Assembly of Kshs.559,786,655. However, a review of the financial statements of the County Assembly revealed that an amount of Kshs.108,530,560 was transferred from the County Executive which has not been included as part of the transfers to other Government entities. No explanation or reconciliation of the amounts reported by the two entities have been provided for audit verification.

The amount also includes Kshs.271,035,232 and Kshs.236,967,439 in respect of current and capital grants transfers to semi-autonomous entities respectively. However, details of the semi-autonomous entities that received the monies together with the accountability statements were not provided by Management for audit examination.

Under the circumstances, the accuracy, completeness and validity of transfers to other government entities of Kshs.1,075,389,326 reflected in the statements of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

## **3.0 Unsupported Compensation of Employees**

The statement of receipts and payments reflects compensation of employees of Kshs.2,049,883,311 as disclosed under Note 11 to the financial statements. Included in the amount is casual wages of Kshs.104,541,351. However, Management did not provide information about the casual employees such as date of hire, period served, department deployed, duties performed, qualifications, departmental casual needs or approval by the County Public Service Board. Further, review of the financial records revealed that a total of Kshs.9,098,352 was deducted from casual wages in respect of NSSF - Kshs.1,400,600, NHIF - Kshs.4,033,875 and PAYE - Kshs.3,663,877. However, no evidence was provided, for audit verification, to confirm whether the deductions were paid to respective institutions.

Under the circumstances, the accuracy, completeness and validity of compensation of employees of Kshs.2,049,883,311 reflected in the statement of receipts and payments for the year ended 30 June, 2019 could not be confirmed.

## **4.0 Lack of Land Title Deed**

The statement of receipts and payments reflects acquisition of assets amount of Kshs.1,161,825,796 as disclosed under Note 17 to the financial statements. The figure includes an amount of Kshs.11,200,000 for purchase of 22.5 acres of land for construction of tourism cottages. However, Management did not avail a title deed for the land. Further, the purchase of the land was not included in the County Integrated Development Plan (CIDP) as provided for under Section 125(1) of Public Finance Management Act, 2012 which provides that the budget process of a county

government shall be drawn from an integrated development plan which includes both long term and medium term planning.

Consequently, the validity of the expenditure of Kshs.11,200,000 for purchase of 22.5 acres of land and the ownership of the parcel of land could not be confirmed

## **5.0 Unapproved Variation of Cost of Construction of Operating Theatre**

The County Executive entered into a contract for the construction of the operating theatre at the Kacheliba Sub County Hospital at a contract cost of at Kshs.29,150,750 on 5 May, 2014. The contract sum had been paid in full during the financial year 2018/2019. The following was noted;

- i. Management made an additional payment of Kshs.4,500,000 during the year under review which was a variation of the contract. The variation was not supported by an approval as required by section 139(1) of the Public Procurement and Asset Disposal Act, 2015.
- ii. Management set aside an amount of Kshs.10,550,000 as a provisional sum. However, details on how the funds were utilized has not been provided. There was no approval for the expenditure of the provisional sums as required by section 139(2) of the Public Procurement and Disposal Act, 2015 which stipulates that the expenditure of provisional sums should be approved by the Accounting Officer.
- iii. The Bills of Quantities included an amount of Kshs.1,000,000 in respect of project management. However, the payments made regarding project management were not supported with payment schedules, site meeting minutes and the engineer's instructions.

Consequently, the validity of the payment of the Kshs.4,500,000 as variation to the contract, Kshs.10,550,000 provided as provisional sums and the Kshs.1,000,000 project management fees could not be confirmed.

## **6.0 Unsupported Payment for Road Maintenance Through Labour Based Method**

The statement of receipts and payments reflect acquisition of assets amount of Kshs.1,161,825,796 as disclosed under Note 17 to the financial statements. Included in the acquisition of assets is construction of roads an amount of Kshs.180,659,870. The County Executive issued an imprest of Kshs.7,563,960 to the Chief Officer in charge of Transport for the payment of casual laborers working on road improvement under labour based method as follows;

<b>Date</b>	<b>PV. No</b>	<b>Payee</b>	<b>Particulars</b>	<b>Amount (Kshs.)</b>
27/02/2019	149	Chief Officer - Transport	Maintenance of Cheptokol Road	1,899,756

05/03/2019	159	Chief Officer - Transport	Maintenance of Kaptarkach Road	999,971
01/04/2019	166	Chief Officer - Transport	Maintenance of Chuwai Road	979,257
01/04/2019	169	Chief Officer - Transport	Maintenance of Kapem Road	685,406
01/04/2019	179	Chief Officer - Transport	Maintenance of Mariny Road	999,688
07/05/2019	242	Chief Officer - Transport	Maintenance of Akirimaet Road	999,911
13/05/2019	241	Chief Officer - Transport	Maintainace of Ptuyony Road	999,971
		<b>Total</b>		<b>7,563,960</b>

A review of the available records revealed that the payments were not supported by the inspection and acceptance reports that ensures that works done meets the set standards before payment is done, daily work sheets such as measurement of area of bush cleared and number of stumps removed which should be compared with the daily set standards. In addition, the casual pay sheets lack casuals details such as phone number and identification card number among others details.

Consequently, the validity of the expenditure of Kshs.7,563,960 for casual labourers working on road improvement could not be confirmed.

## 7.0 Unsupported Summary Fixed Assets Register

The summary fixed assets register attached as Annexure 5 to the financial statements reflects total a fixed assets balance of Kshs.2,310,318,548. However, the statement reflects opening balance of Kshs.1,148,492,752 whereas the audited closing balance for the year 2017/2018 was Kshs.5,232,315,953 resulting into an unexplained difference of Kshs.4,083,823,201. Further, the register did not include the values of the fixed assets inherited from the defunct local authorities in the County which were handed over to the County Government. In addition, the balances in the Annex on fixed assets was not supported by a fixed assets register contrary to Section 136(1) of Public Finance Management (County Governments) Regulations, 2015 which requires each Accounting Officer to maintain a register of all assets under his control. In addition, the summary of the fixed assets included as annexure does not conform to the reporting format prescribed by the Public Sector Accounting Standards Board (PSASB) through circular reference No.AG4/16/1/VOL.IV/76 of 13 July, 2017. The circular requires that the balances as at the end of the year is the cumulative cost of all assets bought and inherited by the County Government and additions during the year should tie with the acquisition of assets balance in the statement of receipts and payments.

Consequently, the accuracy, completeness and validity of the fixed assets balance of Kshs.2,310,318,548 presented in the financial statements as at 30 June, 2019 could not be confirmed.

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

### **Other Matter**

#### **1.0 Budget Control and Performance**

During the year under review, the County Executive had a total budget of Kshs.6,369,512,380 and actual expenditure of Kshs.5,478,327,646 resulting to an overall under absorption of Kshs.891,184,733 or 14% of the budget. Management allocated Kshs.4,139,234,607 for recurrent expenditure but spent a total of Kshs.4,073,560,401 resulting in under-expenditure of Kshs.65,674,206. Further, Kshs.1,510,573,173 was allocated for development projects but only Kshs.1,161,825,797 was spent resulting in under expenditure of Kshs.359,501,653 or 24% of budget. Management has not provided satisfactory explanation for the under-expenditure.

The under absorption of approved budget is an indication that activities and projects in the annual work plan were not implemented by Management which is likely to have negative effect on service delivery to the residents of the West Pokot County.

#### **2.0 Prior Year Matters**

In the audit report of 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 not included the unresolved issues as per the reporting template. No explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular was provided.

## **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 Non Compliance with the Public Finance Management (County Government) Regulations, 2015 on Fiscal Discipline**

The statement of receipts and payments reflects total receipts of Kshs. 5,523,216,628 and compensation of employees of Kshs. 2,049,883,311. The wage bill constitutes thirty-seven percent (37%) of the total receipts contrary to Section 25(1b) of the Public Finance Management (County Governments) Regulations, 2015 which requires that the wage bill should not exceed thirty-five (35) percent of total revenue.

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

### **2.0 Unsupported Construction of Buildings**

The statement of receipts and payments reflects acquisition of assets amount of Kshs.1,161,825,796 as disclosed under Note 17 to the financial statements. Included in the acquisition of assets is construction of buildings amount of Kshs.567,159,964. The County Executive awarded the construction of County Commissioner's Office block to a local firm at a cost of Kshs.68,500,250 . The contract was to be completed within fifty two (52) weeks effective June, 2018.

Review of the County Integrated Development Plan (CIDP) revealed that Management did not include the project in the County Integrated Development Plan (CIDP) as required by section 125(1) of Public Finance Management Act, 2012. Further, physical verification of the project in November, 2019 revealed that the works had stalled and the contractor was not on site. The project is clearly behind schedule and there was no evidence of an approval of an extension of contract period.

The delay in implementation of the project is likely to affect service delivery to the residents of West Pokot County.

### **3.0 Unsupported Improvement and Maintenance of Road**

The County Executive paid an amount of Kshs.4,996,082 for the improvement and maintenance of Raira-Serewo road as emergency works. Management used direct method of procurement to engage the contractor. However, Management did not avail information indicating the nature and the cause of the emergency, appointment of the negotiation ad hoc evaluation committee, minutes of meetings, plans and designs, site handing over certificate, certificate of the company's registration, contract performance bond and the completion certificate.

Review of the contract revealed that the contract agreement between the two parties was not dated. Further, the payment voucher was not supported with plans and designs, site handing over certificate, certificate of registration, contract performance bond and the completion certificate.

Consequently, Management was in breach of law.

#### **4.0 Unsupported Purchase of Specialized Plant, Equipment and Machinery**

The County Executive paid an amount of Kshs.64,611,325 for purchase of specialized plant, equipment and machinery which includes Kshs.30,000,000 relating to procurement of lightning arrestors. However, the tender was awarded to the highest bidder on the strength that the lowest bidder missed some requisite documentations even though the referred missing documentation were confirmed by the audit team to have been part of the bid documents.

Consequently, Management was in breach of law.

#### **5.0 Employees in Service Beyond the Retirement Age**

A review of the human resource records revealed that there were several officers who were above sixty (60) years of age but had not retired from service. An amount of Kshs.13,947,960 was paid to the officers in the financial year under review. The management did not explain the conditions under which the officers were still engaged contrary to section 27 of the Public Service Superannuation Scheme Act, 2014 which provides for retirement on attaining the age of sixty years, or where the exact date of birth is not known, on the 1st July in the year in which the sixtieth birthday is deemed by the Board to occur.

Consequently, the Management was in breach of the law.

#### **6.0 Failure to Comply with the Provisions on Ethnic Diversity**

A review of the staff establishment revealed that as at 30 June, 2019 the County Executive had a total of 2188 employees in its payroll. Analysis of the ethnic composition revealed that the dominant ethnic community comprised 1,904 employees which represent 87% while other tribes stand at 13% of the total employees. This was contrary to section 65(1)(e) of the County Government Act, 2012 which provides that in selecting candidates for appointment, the County Public Service Board shall consider the need to ensure that at least thirty per cent (30%) of the vacant positions at entry levels are filled by candidates who are not from the dominant community.

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

#### **7.0 Stalled Projects**

Physical verification of the projects revealed that twenty-three (23) projects started in the financial year 2016/2017 and earlier with cumulative payments of Kshs.545,762,611 had stalled. Though there were details of payments made to date, details of technical evaluation of project status were not provided for audit verification. Further, Management had paid in full the total contract cost of Kshs.79,583,909 for three (3) of the stalled projects. There was no evidence of Management follow up of the contractor to complete or deliver the projects as per the contract. Also, there were no budgetary allocations to the projects in the financial years 2017/2018 and 2018/2019.

In the circumstances, the residents of West Pokot County have not realised value for money from the expenditure of Kshs.545,762,611 on the stalled projects.

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, I confirm 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**

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 its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of intention to dissolve the County Executive or to 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 County Executive's financial reporting process, reviewing the effectiveness of how Management 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 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 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**

**21 April, 2021**