

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF KAJIADO FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Kajiado set out on pages 1 to 54, which comprise the statement of assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation - recurrent and development combined for the year then ended, 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 Kajiado as at 30 June, 2020, 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 County Government Act, 2012 and the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1.0 Inaccuracies in the Summary Statements of Appropriations: Recurrent and Development Combined

Review of the summary statement of appropriation: Development and Recurrent Combined revealed final receipts budget of Kshs.10,260,481,525 against final expenditure budget of Kshs.11,096,424,309 resulting to a budget deficit of Kshs.835,942,784. This was contrary to Regulation 31(c) of the Public Finance Management (County Governments) Regulations, 2015 which provides that the County Government entity budget on revenue and expenditure appropriations shall be balanced.

Consequently, the accuracy and completeness of the summary statement of appropriation: Development and Recurrent Combined as at 30 June, 2020 could not be confirmed.

2.0 Inaccuracies in Cash and Cash Equivalents

The statement of assets and liabilities and as disclosed under Note 21 to the financial statements reflects cash and cash equivalents balance of Kshs.643,258,049. Review of development account bank reconciliation statement for June 2020 indicated receipts in cashbook not recorded in bank of Kshs.16,132,200 which was not reconciled.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.643,258,049 as at 30 June, 2020 could not be confirmed.

3.0 Unreconciled Other Grants and Transfers

The statement of receipts and payments and as disclosed under Note 15 to the financial statements reflect other grants and transfer of Kshs.2,086,606,173. Included in this amount is Kshs.1,015,589,752 in respect of Other Grants and Transfers which differed from the ledger amount of Kshs.1,327,275,714 by Kshs.311,685,962.

In the circumstances, the accuracy and completeness of Other Grants and Transfers amount of Kshs.1,015,589,752 as at 30 June, 2020 could not be confirmed.

4.0 Inaccuracies in Pending Accounts Receivables

The Statement of Assets and Liabilities and as disclosed under Note 22 to the financial statements reflects Nil balance in respect of accounts receivables as at 30 June, 2020. However, the County Executive had outstanding accounts receivable comprising of uncollected land rent and royalties amounting to Kshs.10,656,036,019 which has not been disclosed in the financial statements.

Consequently, the accuracy and completeness of the Nil balance impending accounts receivables as at 30 June, 2020 could not be confirmed.

5.0 Unsupported Imprest Surrenders

The statement of assets and liabilities and as disclosed under Note 22 to the financial statements reflects Nil balance in respect of receivables - outstanding imprest. Review of imprest records revealed imprest surrenders from various departments amounting to Kshs.43,409,100 recorded in the cashbook were not supported by surrender vouchers.

Consequently, the accuracy and completeness of the Nil balance in respect of receivables - outstanding imprest as at 30 June, 2020 could not be confirmed.

6.0 Irregular Payment to the Council of Governors

During the year under review, the County Executive made payments of Kshs.2,000,000 in respect of Council of Governors' membership subscription of the 7th Annual Devolution Conference. However, the payments were unauthorized as they were not included in the approved budget for the year. Management did not explain what the contributions related to and reasons why the County had to fund the operations of the Council of Governors which had its own budget allocation in line with Section 37 of the Intergovernmental Relations Act, 2012.

Consequently, the validity of the expenditure of Kshs.2,000,000 in respect of Council of Governors' membership subscription 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 Kajiado 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 period under review.

Other Matter

1.0 Budget Control and Performance

The summary statement of appropriation: recurrent and development combined actual amounts reflects final receipts budget and actual on comparable basis of Kshs.10,260,481,525 and Kshs.7,695,321,750 respectively resulting to an under-funding of Kshs.2,673,528,413 or 28% of the budget. Similarly, the County Executive expended Kshs.7,391,481,160 against an approved budget of Kshs.11,096,424,309 resulting to an under-expenditure of Kshs.2,860,837,141 or about 28% of the approved budget. The underperformance may have impacted negatively on service delivery to the public.

2.0 Delayed Exchequer Releases

The County Executive received exchequer releases amounting to Kshs.5,872,404,300. Included in this amount is Kshs.1,161,097,669 received between 1 June, 2020 and 3 July, 2020. The delay in disbursements of funds by The National Treasury adversely affected implementation of projects for financial year 2019/2020.

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 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 believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 Non-Compliance with the One Third of Basic Salary Rule

A review of payroll data provided for audit that eleven (11) employees were receiving net salaries that were less than one third (1/3) of their basic pay. This is contrary to Section 19(3) of the Employment Act, 2007, which requires the total amount of all deductions which may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of the basic pay.

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

2.0 Irregular Staff Medical Insurance with N.H.I.F

Review of medical insurance records revealed that the County Executive paid Kshs.50,000,000 to National Hospital Insurance Fund (N.H.I.F.) in respect of staff medical cover on the strength of a proposal. This was contrary to Section 135(5) of the Public Procurement and Asset Disposal Act, 2015 which provides that the existence of a contract shall be confirmed through the signature of a contract document incorporating all agreements between the parties and such contract shall be signed by the accounting officer.

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

3.0 Public Participation During Budget Process

The Summary Statement of Appropriation: Recurrent and Development combined show original receipts Budget of Kshs.10,286,441,043 and expenditure original budget of Kshs.10,286,441,043 respectively. The summary statement also show budget execution by programmes and sub-programmes approved budget of Kshs.10,280,481,525 against approved expenditure budget of Kshs.11,096,424,309. However, the responsibility statement by the County Executive Committee Member confirming the extent to which the general public was consulted particularly on the County Strategy Paper and Sector Working Groups in accordance with regulation 7(4) of the Public Finance Management (County Governments) Regulations, 2015 was not provided for audit verification contrary to Section 9(1)(e)(i) of the Public Audit Act, 2015.

In the absence of the responsibility statement, it was not possible to confirm if there was public participation during budget process.

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 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

1.0 Lack of Risk Management Policy and Strategy

The County Executive Management had not put in place risk management policy, strategies and risk register to mitigate against risk. It was, therefore, not clear how the management manages risk exposures. This is in contravention of Regulation 158 (1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer to ensure that the county government entity develops risk management strategies, which include fraud prevention mechanism; and the county government entity develops a system of risk management and internal control that builds robust business operations.

2.0 Lack of Approved Information Technology Security Policy

A review of governance and Information Technology (IT) environment revealed the County Executive did not have an approved IT security policy to ensure that data stored in its systems is confidential, has integrity and is readily available when required. Also, the County Executive did not have a disaster recovery, backup and data retention plan.

3.0 2.3 Lack of Authorized Staff Establishment

The county executive did not have an approved staff establishment and organizational structure for each department detailing hierarchy for authority and responsibilities. This is contrary to Section 5(2) (f) of the County Government Act, 2012 and Article 235 of the Constitution of Kenya, 2010. It was therefore not possible to establish the span of control and responsibilities for staff which may result in excess staff leading to unsustainable wage bill.

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.

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. Management is aware of the 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 money is applied in an effective manner.

Those charged with governance are responsible for overseeing the County Executive's financial reporting process, reviewing the effectiveness of how the 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 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 review is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

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

occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of 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 Executive 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 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 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.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

03 December, 2021