

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF KERICHO 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 Kericho set out on pages 1 to 105, which comprise the statement of assets and liabilities as at 30 June, 2020, the statement of receipts and payments, statement of cash flows and summary statement of appropriation recurrent and development combined and budget execution by programmes and sub-programmes for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the 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 Kericho 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 Public Finance Management Act, 2012 and the County Governments Act, 2012.

### **Basis for Qualified Opinion**

#### **1.0 Unreconciled Cash and Cash Equivalents**

The statement of assets and liabilities and as disclosed in Note 21 to the financial statements reflects Kshs.890,221,000 as cash and cash equivalents. The balance includes bank balances of Kshs.890,208,000 and cash in hand balance of Kshs.13,000. The bank balance included an amount of Kshs.10,612,000 in respect of bank balances for dispensaries. Management did not provide bank reconciliation statements and updated cashbooks for audit verification. Further, Management did not provide a board of cash survey certificate in support of the cash in hand balance of Kshs.13,000.

In addition, Management did not provide a bank accounts register for audit verification. This was contrary to Regulation 87(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that the County's Head of Accounting services shall maintain a register of all county treasury and other bank accounts opened by the county government entities including public funds and donor funded projects.

Consequently, the accuracy and completeness of the cash and cash equivalents figure of Kshs.890,221,000 could not be confirmed as at 30 June, 2020.

## 2.0 Transactions Processed Outside the Integrated Financial Management Information System (IFMIS)

The financial statements submitted for audit contained variances with the supporting ledgers on four components as summarized below:

Item	Amounts as Per Financial Statements 30 June, 2020 (Kshs.)	Amount as Per Ledgers 30 June, 2020 (Kshs.)	Variance (Kshs.)
Construction and Civil Works	650,454,000	588,259,000	62,195,000
Construction of Building	169,685,000	165,539,177	4,145,823
Hospitality Supplies	80,518,000	74,153,255	6,364,745
Training Expenses	71,118,000	59,540,658	11,577,342

Although Management has explained that the variances are in respect of expenditures relating to Kenya Urban Support Programme which were spent outside IFMIS, no justification was provided for not processing all payments through the IFMIS system as required.

## 3.0 Inaccuracies in Fuel, Oil and Lubricants Expenditure

The statement of receipts and payments and as disclosed under Note 12 to the financial statements reflects use of goods and services balance Kshs.1,150,801,000 which further includes Kshs.37,664,000 expenditure on fuel, oil and lubricants. However, payments of Kshs.6,056,225 were payments to individuals and service providers not engaged in supply of fuel, oil and lubricants. The management attributed the anomalies to an error in invoicing which has not been corrected.

Consequently, the accuracy and completeness of the expenditure of Kshs.37,664,000 on fuel, oil and lubricants for the year ended 30 June, 2020 could not be confirmed.

## 4.0 Fixed Assets from Defunct Local Authorities

Annex 5 to the financial statement reflects Kshs.9,462,997,000 as total historical cost of assets as at 30 June, 2020. However, fixed assets register did not include assets taken over by the County from the defunct Local Authorities.

Consequently, the accuracy of the Kshs.9,462,997,000 historical cost of assets as at 30 June, 2020 could not be confirmed.

## 5.0 Acquisition of Intangible Assets

The statement of receipts and payments and as disclosed under Note 17 to the financial statements reflects acquisition of assets amount of Kshs.1,831,945,000 out of which an amount of Kshs.7,210,000 on intangible asset was not supported by documentary evidence such as invoices and payment vouchers.

Consequently, the accuracy and completeness of the expenditure of Kshs.1,831,945,000 on acquisition of assets for the year ended 30 June, 2020 could not be confirmed.

## **6.0 Compensation over Encroached Land**

The statement of receipts and payments and as disclosed under Note 17 to the financial statements reflects Kshs.1,831,945,000 in respect of acquisition of assets which includes Kshs.10,000,000 paid as court compensation for encroachment on private land by Kericho Water and Sanitation Company Limited and the defunct Municipal Council of Kericho. However, the following anomalies were noted from the transactions;

- i) The Kericho Environment and Lands Court issued a decree for general damages that the County Government of Kericho fully compensate three families for the amount of Kshs.12,902,000 payable in two instalments. The first instalment of Kshs.2,000,000 was to be paid on or before 30 June, 2018 and second instalment of Kshs.10,902,000 on or before 30 September, 2018. Payments made after 30 September, 2018 were to attract interest at commercial rates until the balance was cleared.
- ii) The unpaid balance of Kshs.3,159,850 being part compensation and interest accrued was not reported in the pending bills as at 30 June, 2020 or disclosed in the financial statements hence not recognized for future clearance.
- iii) The Management charged the payment of Kshs.10,000,000 under purchase of land as opposed to other payments.
- iv) The title deed for the land was not provided for audit review.

The Accounting Officer of the County Government entity did not ensure that all interest payments are included in the estimates and that they are within the capacity of the county government entity within the year contrary to Regulation 29(2)(a) of the Public Finance Management (County Governments) Regulations, 2015.

In the circumstance, the accuracy and completeness of the acquisition of assets and the use of goods and services could not be confirmed.

## **7.0 Confidential Expenditure**

The County Executive incurred expenditure of Kshs.401,556 as confidential expenditure paid between October, 2019 and June, 2020. Management did not provide explanations on the nature and purpose of the confidential expenditure

Consequently, the validity of the expenditure of Kshs.401,556 could not be confirmed.

## **8.0 Irregular Payment of Task Force Allowances**

The County Public Service Board paid a total of Kshs.2,404,000 as task force allowances charged to daily subsistence allowance in the months of May, 2020 and June, 2020 for 28 and 20 days respectively to its members who were tasked with the duty of sorting manual and online applications for the Health sector. However, eleven officers were appointed to two taskforces contrary to circular SRC/ADM/CIR/1/13(122) of 16 April, 2014 which states that an officer should not be appointed to more than one task force at a time resulting in an extra cost Kshs.900,000.

In addition, the task force allowances paid were not disclosed separately in the financial statements. This was contrary to Section 122(2) of the Public Finance Management (County Governments) Regulations, 2015 which states that the

remuneration of all members of a committee shall be disclosed as foot notes to the financial statements of the county government entity by the accounting officer.

Consequently, the accuracy of the expenditure of Kshs.2,404,000 paid as task force allowance could not be confirmed.

## **9.0 Irregular Contribution to Council of County Governors**

The statement of receipts and payments and as disclosed under Note 20 to the financial statements reflects Kshs.30,368,000 in respect of other payments. Included in this amount is Kshs.2,000,000 paid to the Council of Governors (COG). The expenditure is contrary to Section 37 of the Intergovernmental Relations Act, 2012 states that the operational expenses in respect of structures and institutions established in this Act shall be provided for in the annual estimates of revenue and expenditure of the National Government to cater for the Activities of the Council of County Governors.

Consequently, the propriety and value for money of the Kshs.2,000,000 expenditures for the year ended 30 June, 2020 could not be ascertained.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Executive of Kericho Management in accordance with ISSAI 130 on code of Ethics. I have fulfilled other ethical responsibilities in accordance with 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**

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

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.8,746,126,000 and Kshs.6,153,569,000 respectively resulting to an under-funding of Kshs.2,592,557,000 or 30% of the budget. Similarly, the County Executive incurred expenditure of Kshs.6,766,453,000 against an approved expenditure budget of Kshs.8,746,126,000 resulting to an under-expenditure of Kshs.1,979,673,000 or 33% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

## 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 Failure to Prepare Consolidated Financial Statements**

The County Executive did not prepare and submit for audit the consolidated financial statements to the Auditor-General. This was contrary to Section 163(1) and 164(4) of the Public Finance Management Act, 2012 which states that at the end of each financial year, the county treasury shall, for the county government consolidate the annual financial statements in respect of all county government entities in a format prescribed by the Accounting Standards Board.

Consequently, the Management was in breach of the Law.

#### **2.0 Non-Compliance with the Fiscal Responsibility**

Review of the County Government expenditure revealed the following anomalies on fiscal responsibility: -

- i) The County Government incurred expenditure of Kshs.1,831,945,000 on acquisition of assets during the year under review being 27% of the total expenditure of Kshs.6,766,453,000. The development expenditure was below the legislated lower limit of 30% contrary to Regulation 25(1)(g) of the Public Finance Management (County Government) Regulations, 2015.
- ii) The compensation for employees cost also accounted for 37.95% of the total county revenue. This is above the 35% limit set out by regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015.

Consequently, the Management was in breach of the Law.

#### **3.0 Ethnic Composition of Employees**

Review of the IPPD payroll data revealed that 92% of the employees were from the dominant ethnic community. This was contrary to the provisions of Section 65(1)(e) of the County Governments Act, 2012 which states that the County Public Service Board to ensure that at least thirty percent of the vacant posts at the entry level are filled by candidates who are not from the dominant ethnic community in the county and the National Cohesion and Integration Act, 2008 Section 7(1) and(2) which provides that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and that no public establishment shall have more than one third of its staff from the same ethnic community.

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

#### **4.0 Irregular Tender Award - Supply and Delivery of Water Proofing Materials and Stabilizer**

The County Executive awarded a tender for supply and delivery of water proofing materials and stabilizer to a vendor on 04 March, 2020. However, the Company that was awarded the contract had ceased to carry out business from 25 February, 2020 as per notice by the Registrar of Companies and was therefore not eligible to participate in the procurement process. Management went ahead to incur expenditure of Kshs.3,958,500 on the contract.

Consequently, the Management was in breach of the law and the validity of the expenditure of Kshs.3,958,500 could not be confirmed for the year ended 30 June, 2020.

#### **5.0 Projects Verification**

Physical verification of the following projects indicated issues with the works performance despite payments having been made:

<b>Project</b>	<b>Amount (Kshs.)</b>	<b>Issues Noted</b>
Soko Huru ICT Centre	1,702,400	The fabrication and erection of mast was completed in December, 2017. However, the project cannot be commissioned due to lack of electricity.
Store at Londiani Sub-County Hospital	5,418,383	The works were poorly done with floors having developed cracks. The store could not be used for storage of drugs and other pharmaceuticals due to lack of ceiling which was not factored.
Laboratory at Londiani Sub-County Hospital	8,490,160	Though construction works have been completed, the floor developed cracks before the laboratory could be put to use.
<b>Total</b>	<b>15,610,943</b>	

As a result, it was not possible to confirm that the County Government obtained value for money on the expenditure of Kshs.15,610,943 for the year ended 30 June, 2020.

#### **6.0 Stalled Works - Construction of a Laboratory at Roret Sub-County Hospital**

The County Executive incurred expenditure of Kshs.3,501,148 on the construction of a laboratory at Roret Sub-County Hospital. However, the contractor terminated the works on 16 January, 2020 due to cash flow problems. Further, the Management has developed a revised bill of quantities for remaining works to cost Kshs.6,482,355 which exceeds the projected development budget for 2020/2021 of Kshs.3,431,450 by Kshs.3,050,905.

Consequently, value for money has not been realised and the validity of the expenditure of Kshs.3,501,148 for the year ended 30 June, 2020 could not be confirmed.

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 governance were not effective.

### **Basis for Conclusion**

#### **1.0 Officers Without Payroll Numbers**

A review of the employment records revealed that a total of 1,955 employees had not been allocated personal numbers and were paid outside the IPPD system as at 30 June, 2020. The lack of payroll numbers may lead to loss of funds through ghost employees.

#### **2.0 Voided Payments**

A review of the IFMIS payment details for the Department of Health revealed voided payments on acquisition of assets amount of Kshs.74,014,434. The voided payments were not supported by a register as required. Management has not demonstrated the controls over the voiding process.

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 governance.

In preparing the financial statements, Management is responsible for assessing the ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to dissolve the County Executive or 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 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 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 governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.



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

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism 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.



**CPA Nancy Gathungu, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**03 November, 2021**