

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF TAITA/ TAVETA 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 Taita/Taveta set out on pages 1 to 36, 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 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 Taita/Taveta 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 Unconfirmed Balances

1.1 County Own-Generated Revenue

The statement of receipts and payments reflects county own-generated receipts totalling Kshs.296,039,122. Review of revenue records revealed the following anomalies:

1.1.1 Market and Trading Centres Revenue

Note 9 to the financial statements reflects market and trade centres fee receipts totalling Kshs.26,162,199 collected during the year under review. Examination of revenue documents revealed that both Government Printer miscellaneous receipt books and receipt books printed by the County Executive were used to collect the revenue. However, there was no indication that Management had established a robust system to track issues of new receipt books and returns of used ones. As a result, the receipt books were not properly accounted for.

In the circumstance, the accuracy and completeness of revenue totalling Kshs.26,162,199 reported to have been collected from market and trading centres during the year under review has not been confirmed.

1.2 Sub-County Health Facilities Revenue

The statement of receipts and payments reflects County own-generated receipts totaling Kshs.296,039,122 which include Kshs.50,299,006 from public health facilities. However, reports on revenue collected at Mwatate Sub-County Hospital were not presented for verification. As a result, it was not possible to confirm whether all the revenue due was collected, recorded and banked as required.

1.3 Pending Bills

1.3.1 Discrepancies in Pending Accounts Payables and Other Payables

Other important disclosures to the financial statements reflect pending accounts payables as at 30 June, 2020 totalling Kshs.756,735,853 in Annexure 2 and other pending payables totalling Kshs.48,912,001 in Annexure 4, all totalling Kshs.805,647,854.

However, the identities of the creditors owed the other pending payables totalling Kshs.48,912,000 ,and the dates the respective debts were incurred, was not disclosed. Further, recasting of the amounts depicted in the balance revealed a casting error of Kshs.184,390,146 suggesting that the pending payables balance as at 30 June, 2020 may have amounted to Kshs.233,302,147 and not Kshs.48,912,001 as reflected in the financial statements.

In addition, the analysis of pending accounts payables in Annex 2 to the financial statements reflects nil outstanding balances as at 30 June, 2019 whereas the pending accounts payables indicated in the financial statements for the year then ended reflected payables totalling Kshs.652,861,867.

Other records examined indicated that the County Executive made commitments under County Emergency – Covid-19 Vote amounting to Kshs.104,170,688 but only paid Kshs.42,908,527, leading to unsettled commitments of Kshs.61,262,161 as at 30 June, 2020.

Failure to settle bills in the year they occur distorts the financial statements for the year and adversely affects the provisions for the subsequent year to which the bills have to be charged.

1.3.2 Undisclosed Revenue Management System Fees

As previously reported, the County Executive implemented a new electronic revenue collection system in 2014/2015 financial year at a contract sum of Kshs.27,999,320. Fees equivalent to 4% of revenue collected through the system were, in addition, payable to the system's vendor every year for the three-year duration of the contract. As at 30 June, 2020, the fees paid by the County Executive to the vendor amounted to Kshs.33,295,472, out of which only Kshs.1,330,849 related to the year under review. However, the outstanding fees as at 30 June, 2020, if any, have not been disclosed in the pending bills balance reflected in the financial statements for the year under review.

In view of these discrepancies, the accuracy and completeness of the pending bills balance totaling Kshs.805,647,854 as at 30 June, 2020 could not be confirmed.

1.4 Acquisition of Assets

1.4.1 Inadequate Disclosures on Fixed Assets

The summary of fixed assets register in Annex 5 to the financial statements reflects a fixed assets balance of Kshs.3,804,896,006 as at 30 June, 2020. However, records on the respective assets did not indicate important information such as the dates the assets were acquired, their costs and location.

As a result, the valuation and completeness as well as ownership and custody of all the assets valued at Kshs.3,804,896,006 as at 30 June, 2020 could not be confirmed.

1.4.2 Misclassified Expenditure

Note 17 to the financial statements indicates that Kshs.376,948,877 was spent on acquisition of assets during the year under review. Included in the balance is Kshs.13,430,247 spent on purchase of household furniture and institutional equipment. However, examination of procurement records revealed that the balance included several non-asset items valued at Kshs.2,842,010. Their inclusion in the balance has overstated expenditure on assets reported in the year under review.

1.5 Discrepancies in Donor Programme Receipts

Note 1C to the financial statements indicates that Exchequer Issues for donor funds in the year under review totaled Kshs.375,197,314. Included in the balance is Kshs.35,761,940 for Urban Development Grant (UDG) and Kshs.8,800,000 for Urban Institutional Grant (UIG) both disbursed under the Kenya Urban Support Programme funded by the World Bank and the National Government. However, the Programme's bank account reflected receipts totalling Kshs.50,000,000 under UDG and Kshs.8,800,000 under UIG resulting in unexplained variances of Kshs.14,238,060 and Kshs.32,400,000 in the records maintained for the respective grants.

In the circumstance, the accuracy and completeness of the Exchequer Issues totalling Kshs.44,561,940 for the Kenya Urban Support Programme has not been confirmed.

2.0 Unsupported Expenditure

2.1 Undelivered Medical Equipment and Supplies

Note 12 to the financial statements reflects use of goods and services expenditure totalling Kshs.869,642,744. Included in the balance is Kshs.207,829,509 spent on purchase of specialized materials and services. However, records on the spending indicated that the County Management contracted a vendor to supply medical equipment and other supplies at a cost of Kshs.42,882,950 but only supplies worth Kshs.13,000,000 were delivered. The records further indicated that the Inspection and Acceptance Committee accepted supplies valued at Kshs.9,000,000 only.

Consequently, no value for money was obtained on public funds worth Kshs.33,882,950 spent on the undelivered and rejected medical supplies.

2.2 Unsupported Cash Transfer

In addition, the payments totalling Kshs.13,430,247 made for household furniture and institutional equipment include Kshs.1,300,000 being a transfer of funds from the Central Bank of Kenya Recurrent Account to the County Treasury Standing Imprest Account. However, the transfer was not explained or supported with any records and as a result, its occurrence and validity could not be confirmed.

3.0 Failure to Return County Revenue Fund Issues

The statement of receipts and payments for the year ended 30 June, 2020 reflects returned County Revenue Fund Exchequer issues totalling Kshs.79,418. The Notes 21A and 21B to the financial statements reflect bank and cash balances totalling Kshs.242,093,200 as at 30 June, 2019. However, as indicated in the statement of receipts and payments, only Kshs.79,418 of the unspent issues was transferred to the County Revenue Fund Account after the closure of the financial year leaving Kshs.242,013,782.

Management therefore contravened Section 136 (2) of the Public Finance Management Act, 2012, which requires each County Government holding unspent appropriated funds at the end of the respective financial year to repay the unspent money to the County Revenue Account. Further, the omission has distorted the financial position of the County Executive as at 30 June, 2020 as presented in the financial statements.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Executive Taita Taveta 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

Budgetary Control and Performance

The summary statement of appropriation: recurrent and development combined for the year ended 30 June, 2020 reflects final receipts budget and actuals on comparable basis totalling Kshs. 5,664,527,854 and Kshs.4,818,704,414 respectively resulting to an under-funding of Kshs.845,823,440 or 15% of the budget. Similarly, the County Executive spent

Kshs.4,730,113,309 against an approved budget of Kshs.5,664,527,854 resulting to an under-expenditure of Kshs.934,414,545 or 16% of the budget. The funding shortfalls constrained execution of planned activities and service delivery to the residents of Taita/Taveta County.

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 has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis of Conclusion

1.0 Implementation of Projects

The project status report prepared by Management indicated that the County Executive had budgeted to implement 492 projects at an aggregate cost of Kshs.614,590,781 during the year under review, and that at least 350 of these were completed. However, as outlined below, the audit confirmed that not all projects were executed as planned:

1.1 Unimplemented Projects

Project records indicated that as at 30 June, 2020, ten (10) projects budgeted at Kshs.18,047,510 were not implemented whereas six (6) others approved for implementation in the previous financial year at an estimated aggregate cost of Kshs.4,607,915 had stalled.

Among the unimplemented ones was Kenya Climate Smart Project funded by the World Bank. Records presented for audit indicated that a sum of Kshs.33,305,640 was transferred to various wards for use in community development activities under the project during the year. However, as at 30 June, 2020, the funds had not been spent and as a result, the benefits that they were expected to provide to the targeted communities were not realized.

1.2 Delayed Projects

Sampled verification of project execution activities indicated that several key projects were behind their respective completion schedules as outlined below:

1.2.1 Banana Processing Factory

Expenditure records indicated that a sum of Kshs.15,847,997 was during the year under review paid to a contractor for construction of a banana processing plant in Taveta. The project was initiated in May, 2019. The budget for the project amounted to Kshs.31,721,780 whereas the contract value was for Kshs.39,740,573. With the project planned for completion during the year in October, 2019, it was not clear how the financing shortfall amounting to Kshs.8,018,793 would be met. A progress-of-work report dated 27 December, 2019 indicated that only 36% of the contracted works had been done even though the project was behind schedule by three (3) months.

An audit inspection carried out in November, 2020 revealed that the building works were still incomplete and the banana processing plant had not been installed.

1.2.2 Construction Works at Moi Stadium

Procurement records indicated that a contract to build a wall, ticket booth, security rooms and two stalls at Moi Stadium was awarded at a cost of Kshs.8,437,333 in March, 2020. Payments made to the contractor totaled Kshs.5,000,000 as at 30 June, 2020.

However, verification of the project in November, 2020, indicated that the works were yet to be completed thirteen (13) weeks after the lapse of the expected completion date in August, 2020.

No adequate explanation was provided by Management for the delay.

1.2.3 Rehabilitation of Mwatate County Administration Offices and Other Miscellaneous Projects

The County Government in August, 2019 awarded a contract costing Kshs.48,162,006 for miscellaneous works that included rehabilitation of Mwatate County Administration Offices Access Road, construction of an 8-door modern toilet and construction of garbage receptacles. The other projects in the portfolio entailed construction of a car park and walkway and supply and installation of solar street lighting.

The contract period was to last for 20 weeks from 1 September, 2019 to 16 January, 2020. However, at the time of the audit in November, 2020 the works had not been completed even though ten months (10) had passed after the end of the contract completion date and payments totalling Kshs.40 million made to the contractor. No adequate explanation was provided by Management for the delay in completion of the works.

In view of the delay, the residents of Taita Taveta are yet to enjoy the benefits that the projects were intended to provide.

2.0 Irregularities in Compensation of Employees

Examination of personnel records indicated the following irregularities related to compensation of employees:

3.1 High County Wage Bill

The statement of receipts and payments reflects compensation of employees' expenditure totalling Kshs.2,131,653,372, as further disclosed in Note 11 to the financial statements. The expenditure was equivalent to 44 % of the reported County revenue receipts totalling Kshs.4,818,704,414 for the year and was in excess of the threshold of 35% prescribed for staff emoluments in Regulation 25 (1)(b) of the Public Finance Management (County Governments) Regulations, 2012. Therefore, the expenditure totalling Kshs.445,106,827 incurred in excess of the threshold was irregular and would otherwise have funded development projects and public services in the County.

3.2 Salaries Paid Outside the Integrated Payroll and Personnel Database System

Examination of payroll and salary records revealed that payments amounting to Kshs.230,481,849 were processed outside the Integrated Payroll and Personnel Database (IPPPD) System.

The payments were made contrary to the National Treasury Circular No.13/2019 which requires personnel emoluments payments to be supported by Integrated Personnel Payroll Data (IPPD) system records.

4.0 Outstanding Imprests

Records examined indicated that outstanding imprests totalling Kshs.6,796,700 were overdue for surrender as at 30 June, 2020. Further, the imprests included a sum of Kshs.997,150 issued to four officers with previous imprests, contrary to Regulation 93(4) of the Public Finance Management (County Governments) Regulations, 2015.

Failure by Management to recover the imprests contravened Regulation 93(5) of the Public Finance Management (County Governments) Regulations, 2015 which requires officers issued with temporary imprest to account or surrender the imprest within seven days after returning to the duty station.

5.0 Underperformance of Revenue Collection System

In addition, despite the electronic system, some revenue reports for the year under review were published from manual records and therefore all of the County's revenues were not collected through the system. Further, procurement records indicated that, the cost of the system amounting to Kshs.27,999,230 included Kshs.2,250,000 for the purchase of 100 point-of-sale (PoS) devices that were to automate receipting and recording of revenues collected. However, the devices were disabled in January, 2018 after which the Management reverted to using the manual system. As a result, the County Executive may

not have attained value for money on the expenditure totalling Kshs.27,999,320 spent to procure and install the electronic system.

Overall own-generated revenue in the year under review totalled Kshs.296,039,122 having declined by Kshs.36,673,429 or 11% from the sum of Kshs.332,712,551 collected in the previous year.

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.

1.0. Weak Internal Audit and Audit Committee Functions

Records availed for audit review indicated that controls required to ensure that necessary approvals given for all transactions and financial and other organizational records and documents are properly kept were either weak or not functioning as intended. No adequate explanation was provided by Management for the anomaly.

2.0 Lack of Risk Management Framework

Review of operational systems indicted that Management had not established a risk management framework as required by Section 157(b) and 158 (1)(a) of Public Finance Management (County Governments) Regulations, 2015. The provision requires the Accounting Officer in every County Government entity to ensure that the County Government develops risk management strategies, among other systems needed to build robust business operations.

In the absence of a rational framework, the Management may not respond effectively to operational and other risks faced by the County Executive.

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 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 sustain its 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.

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 manner.

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, 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 ability of Taita Taveta County Executive 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 Taita Taveta 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 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

12 October, 2021

Appendix I

Unimplemented Projects

S/NO	Project Title and Project Code	Outstanding Project Cost	Contract Amount (Kshs.)
1.	Taita Taveta County Spatial Planning	6,000,000	6,000,000
2.	Establishment of County Wananchi Settlement Scheme Mining Park	500,000	500,000
3.	Artisanal and Small Scale Mining Development Programme - Review of all Community Mining Agreements	1,000,000	1,000,000
4.	Policy and Environmental Impact Assessment Review	500,000	500,000
5.	Rehabilitation of Mining Sites	1,000,000	1,000,000
6.	Equiping Ndilidau Dispensary	700,000	2,500,000
7.	Kachero Dispensary Equipment	1,000,000	2,300,000
8.	Werugha HC Makandenyi Furniture	1,050,000	2,500,000
9.	Construction of an Incinerator plant Complete with an Incinerator	800,000	1,397,510
10.	Construction of Rumangao Toilet	350,000	350,000
		12,900,000	18,047,510