

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF TRANS NZOIA 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 Trans Nzoia set out on pages 1 to 94, 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 statement of comparison of budget and actual amounts recurrent and development combined, for the year then ended, 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 Trans Nzoia 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 Differences Between Financial Statements and Ledger Balances

The statement of receipts and payments reflects receipts for the year under review totaling Kshs.6,618,185,169 whereas the Integrated Financial Management System (IFMIS) ledger reflects receipts totalling Kshs.7,836,553,113 resulting to an unreconciled variance of Kshs.882,525,197. In addition, the statement reflects payments totalling Kshs.6,453,732,447 against Kshs.5,816,244,849 reflected in the IFMIS ledger resulting to a variance of Kshs.637,487,598 which has, similarly, not been explained.

As a result of the unexplained variances, the accuracy and completeness of the receipts and payments reflected in the financial statements was not confirmed.

2.0 Unsupported Balances

The following balances reflected in the financial statements were not supported with sufficient relevant records:

2.1 Revenue

The statement of receipts and payments reflects County own-generated receipts totalling Kshs.356,077,068 for the year under review as further disclosed in Note 3 to the financial statements. The balance includes Kshs.171,260,536 collected in public health facilities. However, examination of revenue records at the Kitale County Referral Hospital revealed under-banking of revenue totaling Kshs.25,471,505 being the difference between total receipts amounting to Kshs.121,485,992 and amounts banked, denoted by transfers to the County Revenue Fund, totalling Kshs.96,014,487.

As a result, the own-generated revenue receipts balance totalling Kshs.356,077,068 reflected in the financial statements may not be fairly stated. Further, by failing to bank all receipts, Management contravened Section 109(2) of the Public Finance Management Act, 2012 which requires all revenue receipts to be paid into the County Revenue Fund.

2.2 Use of Goods and Services

The statement of receipts and payments reflects use of goods and services expenditure totalling Kshs.1,088,798,679. Examination of records on the expenditure indicated that payments totalling Kshs.248,716,057, Kshs.30,685,996 and Kshs.123,731,127 were made for purchase of specialized materials and services; office and general supplies and services, and hospitality supplies and services respectively.

However, Management did not present for audit review procurement and other support documents for supplies totalling Kshs.15,357,380 comprised of veterinary supplies costing Kshs.6,588,000; office and general supplies costing to Kshs.5,074,130 and hospitality supplies and services worth Kshs.3,695,250.

The missing records included user requisitions, letters of notification and acceptance of tender awards, contract documents, delivery notes, invoices, inspection and acceptance reports, counter receipt and issue vouchers and user distribution lists. As a result, supply of the items reported to have been purchased through the payments could not be confirmed.

2.3 Other Grants and Transfers

The statement of receipts and payments reflects other grants and transfers totaling Kshs.9,327,794, as further detailed in Note 8 to the financial statements. Included in the balance are payments totaling Kshs.5,870,000 incurred by the Department of Agriculture in Sirende Ward as follows:

No.	Item	(Kshs.)
1.	Purchase of Acaricides	2,894,000
2.	Supply and Delivery of Chicken and Fish Feeds	1,976,000
3.	Supply and Delivery of 10 Incubators	1,000,000
	Total	5,870,000

However, the respective payment vouchers were not supported by approved user requisitions, Requests for Quotation documents, evaluation reports, stores receipts and issue vouchers and stores distribution lists.

Consequently, the receipt and use of the goods by the County Executive could not be confirmed.

2.4 Accounts Payables

The financial statements reflect pending accounts payables totalling Kshs.785,959,394 as at 30 June, 2020, and as disclosed in Note 15.9(1) to the financial statements. However, Management did not provide supporting records such as local purchase or service orders, invoices, goods received notes, inspection and acceptance reports and certified interim completion certificates for sampled pending accounts payables totalling Kshs.206,680,489 shown in the following table:

No.	Department	Amount (Kshs.)
1.	Education and ICT	7,091,469
2.	Gender, Youths & Culture	16,817,812
3.	Health Services	19,431,882
4.	Lands Housing and Urban Development	6,148,000
5.	Public Service Board	6,520,000
6.	Public Works, Transport and Infrastructure	121,744,348
7.	Trade Commerce and Industry	5,243,869
8.	Water, Environment & Natural Resources	23,683,109
	Total	206,680,489

In the absence of relevant and sufficient evidence, the accuracy, completeness and validity of the pending bills balance totalling Kshs.785,959,394 as at 30 June, 2020 could not be confirmed.

Further, pending accounts payables totalling Kshs.301,044,551 or 47% of the total reported balance totalling Kshs.635,856,406 reflected in Annexure 2 to the financial statements, had been outstanding for several years with some incurred in the 2013/2014 financial year when the County Government came into being.

By failing to pay or reject the bills, Management contravened Regulation 51(1) of the Public Finance Management (County Governments) Regulations, 2015 which requires all commitments for supply of goods or services be done not later than the 31 May in the year they occur, except with the approval of the Accounting Officer in writing.

Further delay in payment of pending bills slows down economic activity by denying vendors of goods and services and working capital for operations and investments and may discourage the private sector from trading with public entities.

2.5 Cash and Cash Equivalents Bank Balances

The statement of assets and liabilities as at 30 June, 2029 reflects bank balances totaling Kshs.541,188,193 as disclosed in Note 13 to the financial statements. However, Management did not provide bank certificates and bank reconciliation statements for two (2) bank accounts held at the Central Bank of Kenya and one commercial bank (1)

account reported to have held cash balances totalling Kshs.137,733,011 as at 30 June, 2020.

In the absence of sufficient and reliable evidence, the accuracy and completeness of the cash and cash equivalents balance totaling Kshs.541,188,193 reflected in the statement of assets and liabilities as at 30 June, 2020 could not be confirmed.

2.6 Acquisition of Assets

2.6.1 Purchase of Specialized Plant, Equipment and Machinery

The statement of receipts and payments reflects acquisition of assets expenditure totaling Kshs.1,327,570,936, as further disclosed in Note 10 to the financial statements. The balance includes payments totalling Kshs.76,385,260 spent on purchase of specialized plant, equipment and machinery, which in turn includes Kshs.11,924,000 on purchase of various non-pharmaceutical items. However, payment vouchers for the items were not supported with approved user requisitions, quotation documents, tender evaluation reports, letter of notification and acceptance of award, inspection and acceptance reports as well as stores records and user distribution lists.

Consequently, regularity of the processes applied in procuring the assets, and their receipt and custody, could not be confirmed.

2.6.2 Valuation of Fixed-Assets

The historical cost of the County Executive's fixed assets as at 30 June, 2020 amounted to Kshs.9,363,149,354, as detailed in Annex 5 to the financial statements. The balance includes additions during the year under review totalling Kshs.1,327,570,936 some of which were, however, not supported with appropriate documentation, as explained below:

- (i) Logbooks to confirm ownership by the County Executive of motor vehicles and other transport equipment totalling Kshs.3,005,061 were not provided for audit.
- (ii) Specialized plant, equipment, machinery, office furniture and general equipment valued at Kshs.120,801,751 purchased in the year under review were not recorded in the assets register:

Asset Category	Cost (Kshs.)
Purchase of Office Furniture and General Equipment	44,416,491
Purchase of Specialized Plant, Equipment and Machinery	76,385,260
Total	120,801,751

As a result, it was not possible to confirm the accuracy and completeness of the fixed assets balance totalling Kshs.9,363,149,354 as at 30 June, 2020. In addition, ownership by the County Assembly of the undocumented motor vehicles costing Kshs.120,801,751 included in the balance 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 Trans Nzoia 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 are no key audit matters to communicate in my report.

Other Matter

1.0 Budgetary Control and Performance

1.1 Under-Collection of Own Revenue

The summary statement of appropriation - recurrent and development combined reflects a county own-generated receipts budget totaling Kshs.500,000,000 and actual receipts totalling Kshs.356,077,068 resulting to a revenue shortfall of Kshs.143,922,932 equivalent to 39% of the budget.

1.2 Under-Absorption of Budget

The summary statement of appropriation: recurrent and development combined reflects approved budget expenditure totalling Kshs.7,974,386,342 against actual expenditure totaling Kshs.6,453,732,447 resulting to under-absorption of Kshs.1,520,653,895 equivalent to 19% of the budget.

As a result of the shortfall of revenue and the under-expenditure, some of the programmes and activities planned for the year under review were not implemented and as a result, delivery of services to the residents of Trans Nzoia County was constrained.

2.0 Late Exchequer Releases

Revenue records indicated that a significant portion of the Exchequer Releases due to the County Executive in the year under review were delayed, or not received, as follows:

Particulars	Date Received	(Kshs.)
Recurrent Vote	29 June, 2020	52,000,000
Recurrent Vote	Not Received	129,161,202
Total		181,161,202

Failure by The National Treasury to remit the funds in due time may have hindered efficient and effective delivery of services to the residents of Trans Nzoia County.

3.0 Unresolved Prior Year Audit Issues

The report on follow-up of Auditor's recommendations at Note 16 to the financial statements indicates that several of the issues highlighted in the audit report for the previous year had not been resolved as at 30 June, 2020. Some issues are denoted as resolved but the manner of their resolution has not been explained.

The status of the issues shall be confirmed upon their deliberation by the Legislature.

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 Irregularities in Use of COVID 19 Funds

Revenue records indicated that transfers received from government entities during the year under review totaled Kshs.400,756, 907 out of which Kshs.160,903,000 was to be used to mitigate the effects of COVID-19. However, review of the special audit report of the Auditor-General on utilization of COVID-19 funds by the County Governments dated December, 2020 noted the following unresolved procurement irregularities:

- Contrary to Section 48(1 & 3) of the Public Procurement and Asset Disposal Act (PPADA), 2015 expenditures totalling Kshs.14,814,087 spent on non-pharmaceutical items were not supported by duly signed inspection and acceptance reports prepared by the Inspection and Acceptance Committee. The provision requires the Accounting Officer to establish an Inspection and Acceptance Committee to inspect and review goods, works or services procured so as to certify compliance with the terms and specifications of the respective contracts.
- Contrary to Section 80(1) of the Public Procurement and Asset Disposals Act (PPADA), 2015, a local contractor was awarded a tender valued at Kshs.3,020,000 for supply of non-pharmaceutical items without having fulfilled the conditions of the tender.
- Items costing Kshs.5,675,000 procured from various contractors through own-source funds were not supported by stores records. As a result, Management contravened Section 162(1) of the Public Procurement and Asset Disposal Act, 2015 which requires an Accounting Officer of a procuring entity to ensure that all inventory, stores and assets purchased are received and accounted for.

In view of these anomalies, validity and value for money on the Covid-19 mitigation expenditures totalling Kshs.160,903,000 could not be confirmed.

1.1 Delayed Completion of Construction of Trans Nzoia Teaching and Referral Hospital

Examination of procurement records indicated that the County Executive awarded a contract for construction of a Teaching and Referral Hospital at Kshs.1,419,530,596 in the financial year 2016/2017. The project commenced on 15 December, 2017 and was expected to be completed in sixty-two (62) weeks on 23 February, 2019.

Examination of project documents indicated that cumulative payments to the contractor as at 4 December, 2020 totalled Kshs.1,315,468,955. In addition, the contractor had partially handed over completed sections of the works namely; the warehouse, incinerator, biomedical gases unit, kitchen and laundry.

However, contrary to Section 139(1 & 2) of the Public Procurement and Assets Disposals Act, 2015, there were no records showing that the extension of the contract period was approved after the lapse of the original due date on 23 February, 2019,

2.0 Compensation of Employees

The statement of receipts and payments reflects employee costs totalling Kshs.2,429,057,373 equivalent to 37% of the County Executive's total receipts for the year amounting to Kshs.6,618,185,169. The expenditure exceeds the threshold of 35% prescribed in Regulation 25(1a) of the Public Financial Management Act, County Government Regulations, 2015.

In addition to being irregular, excessive use of limited funds on payment of personnel emoluments constrained funding for provision of services to the residents of Trans Nzoia County.

3.0 Construction of Buildings

Examination of records on construction of buildings indicated that two projects, namely completion of maternity units at Suwerwa Health Centre and Chepsiro Dispensary implemented by the Department of Health at contract sums totalling Kshs.6,853,787 were not executed in line with the quality standards specified in the Bills of Quantities. In addition, the Department of Roads and Public Works implemented two road projects at a contract sum of Kshs.5,638,775. However, the quality in some of the portions was low, as highlighted below:

Project Name	Amount (Kshs.)	Audit Observation
Kiungani – Wekhonya Road	2,667,235	Side drains and mitre drains not excavated. Gravelling not done in most areas and as a result sections of the works damaged by flood waters.
Fedha Road	2,971,540	
Total	5,638,775	

Further, the Department of Water spent Kshs.1,900,000 to install water pumping equipment at a borehole. However, the solar power panels installed failed to function and appeared to have been damaged.

In view of the foregoing, it was not possible to confirm whether public funds totalling Kshs.14,392,562 spent on the projects were applied in an effective way.

4.0 Irregular Employment of Locum Staff

Examination of records on compensation of employees indicated that Kitale County Hospital had in its payroll temporary staff, commonly referred to as locum, and whom it paid wages totalling Kshs.7,321,000 in the year under review. However, records on selection of candidates to the posts, including results of the interviews conducted, if any, were not provided for audit.

Further, no records were provided to confirm that the appointments were authorized by the County Public Service Board as required by Section 59(1b) of the County Governments Act, 2012 which empowers the Board to appoint persons to hold or act in offices of the County Public Service. As a result, the validity of the appointments could not be confirmed.

5.0 Unsatisfactory Implementation of Electronic Revenue Management System

Audit review of the County Executive's revenue management system indicated the following inadequacies in implementation of the e-revenue collection:

- There were no records to confirm the existence of an active Steering Committee to oversee implementation of the Project as stipulated in Section 7.1 and 7.2 of the respective contract.
- Only two (2) out of ten (10) modules provided for in the contract were implemented, as highlighted in the attached Appendix. No plausible explanation was provided by Management, for the failure to implement 'all the modules included the system. No records were provided for audit on Management having notified the vendor of the need to install all the modules.

In view of these issues, value for money was not obtained on public funds totalling Kshs.79,112,598 incurred in procuring the system.

6.0 Weak Own-Source Revenue Collection System

- i) Review of the County's Cess revenue collection system revealed that the county lacked a billing system and instead relied on reports submitted by external cess collection agents. The accuracy of the reports could not be confirmed.

In addition, records provided for audit reflected uncollected cess on several items identified in the Trans Nzoia County Finance Act, 2020. These included forest cess, sand harvesting, quarry, bricks and hardcore and ballast. Moreover, Management did not collect any cess from the nine (9) major companies identified in the Trans Nzoia County Integrated Development Plan 2018- 2022. Further, there

was no evidence of Management attempting to enlist the companies as its cess collection agents.

- ii) Review of the County's electronic (LAIFOMS) records indicated that Management did not collect outstanding property rates totalling Kshs.12,004,774,350 owed over the years within Kitale Municipality and other areas in the County. No records were provided for audit to show efforts made by Management to recover the outstanding monies. Further, the Valuation Roll used in the County was last updated in 2006. As a result, the land rate charges applied in the year under review were low and did not reflect the true property prices in the County.

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 Inadequate Internal Audit Function

The following internal audit and governance weaknesses previously reported prevailed in the year under review:

- (i) The Internal Audit Charter prepared by the Internal Audit Unit was not approved by the Audit Committee for adoption by the County Executive.
- (ii) The Audit Committee did not approve the Internal Audit Annual Work Plan for the year under review and did not perform the programs and activities prioritized for its attention in the approved in the plan.
- (iii) The Internal Audit Unit had, in the draft workplan scheduled audits of seven key operational areas. However, only two of the areas were reviewed and further, the respective audit reports were not finalized and submitted to the Audit Committee for adoption. Therefore, the Department did not discharge its oversight role in an effective way.
- (iv) There was no risk management framework and policy to take care of operational and other risks faced by the County Executive.

By failing to establish an effective internal audit function and a risk management policy, the County Executive contravened the law and exposed the public resources put under its care to severe risk of misuse and loss.

2.0 Inadequate Internal Controls on Information and Communication Technology (ICT)

Audit review of the County Executive's Information and Communication Technology (ICT) system revealed it had the following weaknesses:

- (i) The County Executive did not have an approved disaster Recovery Plan and as a result, the risk of the operations of the County Executive being disrupted on occurrence of unfavorable, unexpected events was high.
- (ii) Access to sensitive ICT areas was not adequately controlled. Moreover, there was no air-conditioning and sufficient facilities in the computer server room.
- (iii) There was no ICT strategic plan to guide management of ICT resources and align their use with the County Executive's strategic plans.

In view of these weakness, the County Executive's ICT infrastructure and resources may not support its operations in an effective way.

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 governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide 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 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 entity 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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the County Executive's 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 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

08 December, 2021

APPENDIX

Report of the Auditor-General on County Executive of Trans Nzoia for the year ended 30 June, 2020

Unsatisfactory Implementation of Electronic Revenue Management System

No.	Module	Cost (Kshs.)	Implementation Status	In Use?
1.	Hospital Management Information System (HMIS)	29,531,120	Awaiting integration with other modules. Initially used at Mount Elgon Hospital but stopped shortly thereafter	No
2.	Cess	49,581,478	Previously used, no longer in use.	No
3.	Street Parking Module		Completed and deployed.	Yes
4.	Markets		Completed and deployed.	Yes
5.	Business Permits		System developed, awaiting deployment.	No
6.	Land Management		System developed, awaiting deployment.	No
7.	Rent Management		Developed, awaiting configuration and deployment	No
8.	Market Stalls		System developed, awaiting deployment.	No
9.	Liquor Permits		System developed, awaiting deployment.	No
10.	Universal Billing		System developed, awaiting activation before deployment.	No
		79,112,598		