

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF MANDERA FOR THE YEAR ENDED 30 JUNE 2018**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of County Executive of Mandera set out on pages 1 to 45, which comprise the statement of financial assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts 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 County Executive of Mandera as at 30 June 2018, 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.

### **Basis for Qualified Opinion**

#### **1. Fixed Assets Register**

Summary of fixed assets register in Annex 5 to the financial statement reflects Kshs.19,644,794,907. However, the data captured in the provided assets register is not linked to the information disclosed on Annex 5 of summary of fixed assets register. Further, valuation for the assets reported was not done and the register lacked identification or serial numbers, acquisition date, description of asset, location, class and cost of acquisition and hence the asset register presented for audit review was not prepared in a format prescribed for a fixed assets register as per IPSAS 17.

In view of the foregoing, it was not possible to ascertain the validity, completeness and accuracy of the assets balance of Kshs.19,644,794,907.

#### **2. Pending Bills**

Reflected in the financial statements under Annex 2 is Kshs.310,860,504 in respect of pending account payables as at 30 June 2018. However, the account payable ledger with crucial information such as supplier's name, purchase order number, date of invoicing, amount paid and amount outstanding for respective pending bills were not maintained. Further, Annex 2 to the financial statements providing analysis of the pending bills in some cases lacked information on dates when goods and services were contracted making it difficult to confirm authenticity, existence and accuracy of pending bills.

In addition, out of the pending bills amounting to Kshs.310,860,504 is an amount of Kshs.176,383,395 which relates to the financial year 2014/2015 and 2015/2016. Failure to pay bills in the year they relate to, distorts the financial statements for the year and adversely affects the provisions for the subsequent years they have to be charged to.

The financial statements reflect a surplus of Kshs.831,470,998 and net balance of cash and cash equivalents of Kshs.2,512,768,513 and yet debts dating back to 2014/2015 and 2015/2016 were not settled.

Consequently, the legality, authenticity and validity of the pending bills balance of Kshs.310,860,504 could not be ascertained.

### **3. Compensation of Employees**

#### **3.1 Pension and Other Social Contribution Variance**

Note 11 to the financial statements reflects an amount of Kshs.2,114,496,497 as compensation of employees out of which an amount of Kshs.152,094,157 relates to pension and other social security contribution. However, a comparison between actual figures reported in the financial statements for the financial year under review and the comparative figure for the payroll data showed an unexplained variance as indicated below:-

<b>Item</b>	<b>Financial Statements Kshs</b>	<b>Payroll Ledger Kshs</b>	<b>Variance Kshs</b>
Pension & other social security contributions	152,094,157	142,628,464	9,465,693

In view of the anomaly, the accuracy, completeness and reliability of the pension and social security balance of Kshs.152,094,157 as at 30 June 2018 could not be confirmed.

#### **3.2 Variances Between Current Year and Prior Year Actuals for Pension and Other Social Contribution**

A comparison between actual figures reported in the financial statements for the year under review and the comparative figure for the previous year for pension and social contribution reflected an unexplained variance as indicated below;

<b>Item</b>	<b>Current Year</b>	<b>Prior Year</b>	<b>Variance</b>
Pension & other social security contributions	152,094,157	38,933,170	113,160,987

It would have been expected that variance would have been in tandem with increase with basic salaries to permanent employees.

In view of the foregoing, it has not been possible to confirm authenticity of the variance of Kshs.113,160,987.

#### 4. County Own Generated Receipts

The Executive had budgeted to collect local revenue of Kshs.141,000,000 during the year under review. However, the statement of receipts and payments reflects Kshs.61,031,471 as collected resulting in an under collection of Kshs.79,968,529 or 56.7% the budgeted collections.

In view of the under collection of revenue, the development votes for the County Executive were adversely affected and crucial goals as well as service delivery may not have been achieved.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Executive of Mandera in accordance with ISSAI 30 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. Except for the matters described in the Basis for Qualified Opinion section of my report, I have determined that there are no other key audit matters to communicate in my report.

#### Other Matter

##### 1. Budgetary Control and Performance

##### 1.1 Recurrent Expenditure

Audit review of Executive's vote book shows that during the year under review, a sum of Kshs.5,361,008,746 was allocated to various departments of the County Government for recurrent expenditure against the recurrent budget of Kshs.6,471,919,189 as analyzed below:

Departments/Sectors	2017/2018 Budget/ (a) Kshs.	2017/2018 Actual /(b) Kshs.	Under Absorption (Budget-Actual) c=a-b Kshs.	%Under Absorption D=c/a
County Assembly	802,350,157	490,710,756	311,639,401	38.8%
Agriculture and Fisheries	251,184,914	231,906,826	19,278,087	7.7%
Education, Culture and Sports	578,870,804	448,658,709	130,212,094	24.5%
Public Service	1,060,059,069	960,624,603	99,434,466	9.4%
Finance, Economic Planning, ICT and Special Programme	608,625,704	427,657,305	180,968,399	29.7%

Health Services	1,774,421,189	1,539,964,303	234,456,886	13.2%
ICT, Trade, Investments Industrializations and Cooperative Development	51,924,032	47,326,611	4,597,421	8.9%
Lands, Housing and Physical Planning	83,278,302	78,231,973	5,046,331	6.1%
Office of the Governor and Deputy Governor	389,801,167	340,642,718	49,158,449	12.6%
County Public Service Board	57,161,652	48,276,048	8,885,604	15.5%
Roads	118,411,141	107,406,176	11,004,965	9.3%
Livestock	98,590,712	40,978,685	57,612,027	58.4%
Water, Environment and Natural Resources	597,240,346	598,624,033	(1,383,687)	(0.23%)
<b>Total</b>	<b>6,471,919,189</b>	<b>5,361,008,74</b>	<b>1,110,910,443</b>	<b>17.17%</b>

However, the actual recurrent expenditure of Kshs.5,361,008,746 reflected in the vote book differed with the corresponding balance in the summary statement of appropriation recurrent which was Kshs.4,489,930,164 resulting in an unexplained and unreconciled difference of Kshs.871,078,582.

In the circumstances, it has not been possible to confirm the accuracy of the recurrent expenditure balance.

## 1.2 Development Expenditure

A review of Executive's IFMIS vote book revealed that a sum of Kshs.4,091,751,250 was allocated to various departments for development expenditure against the development budget of Kshs.5,774,937,741 as detailed below: -

Departments/ Sectors	2017/2018 Budget (a) Kshs	2017/2018 Actual (b) Kshs	Under Absorption (Budget-Actual) c=a-b Kshs	% Under Absorption D=c/a
County Assembly	123,174,818	15,256,863	107,917,955	87.6%
Finance, Economic Planning, ICT and Special Program	355,916,847	365,985,861	(10,069,014)	-2.8%
Agriculture	265,225,439	170,425,303	94,800,136	35.7%
Water, Environment and Natural Resources	1,287,772,280	830,677,853	457,094,427	35.4%
Education	302,351,202	232,050,066	70,301,136	23.2%
Health Services	788,459,774	393,287,233	395,172,541	50%

Lands, Housing and Physical Planning	258,003,094	131,268,485	126,734,609	49%
Public Works Roads and Transport	1,824,180,858	1,698,349,437	125,831,421	6.9%
Office of the Governor and Deputy Governor	-	-	0	0%
Livestock	55,500,000	-	55,500,000	100%
Public Service, Management and Devolved Unit	255,217,393	109,659,042	145,558,351	57%
ICT	259,136,031	144,791,107	114,344,924	44%
<b>Grand Total</b>	<b>5,774,937,741</b>	<b>4,091,751,250</b>	<b>1,683,186,486</b>	<b>29.15%</b>

The actual development expenditure of Kshs.4,091,751,250 reflected in the vote book differed with the reported expenditure of Kshs.5,057,100,541 in the summary statement of appropriation-development by Kshs.965,349,291.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matters described in the Conclusion on Report 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 money has not been applied lawfully and in an effective way.

### Basis for Conclusion

#### 1. Acquisition of Assets

##### 1.1 Delayed Construction of Mandera Roads to Bitumen Standard

###### 1.1.1 Lot I Contract

The Executive entered into an agreement on 1 July 2014 with M/s Frontier Engineering Company Limited, for construction of Mandera roads to bitumen standards (Lot I) at a contract cost of Kshs.1,218,599 534 with an expiry date of 30 June 2016. After the expiry of the contract period, the contractor requested for extension which was granted from 1 June 2017 to 30 April 2018. The contract was then extended again from 1 May 2018 to 30 April 2019. However, scrutiny of records availed for audit review and physical verification carried out on 2 November 2018 revealed that the following sections of the roads had not been completed as detailed below: -

No	Road Name and Location	Pending Activities
1	Road 1 - Km 1+230 to Km 1 +1500	Pavement layer works pending
2	Road 2 -Km 1+350 to Km 1+500	Pavement layer works pending
3	Road 2 - Km 1+350	Box Culvert Pending
4	Road 1-Km 0+000 to Km 7 + 800 Road 2 -Km 0+000 to Km 3+ 300	Road Furniture pending
5	Road 1 Km 3+260 to Km 3+450 & Km 5+ 360 to Km 5+870	Repairs required to remedy bleeding of bitumen noticed at the section of the road indicated
6	Bridge	Fixing of accessories for expansion joints pending and finishing to make good.
7	Road 2	The section of rough road from Laga to Takbir petrol station showed that initial project activities like site clearance and top soil removal had not started.

As at the time of the audit, Kshs.938,720,491 had already been spent on the project. The project was behind schedule by over two years thus casting doubt on its actual completion time.

In the circumstances, the propriety of Kshs.1,218 599 534 could not be confirmed.

### 1.1.2 Lot II Contract

The Executive entered into an agreement with M/s Lafey Construction Co. Ltd for the construction of Mandera roads to bitumen standards at a cost of Kshs.1,218,599,534 on 1 July 2014. The contract expired on 30 June 2016 and later the contractor requested for extension which was granted from 1 June 2017 to 30 April 2019. However, scrutiny of the project progress report availed for audit review and physical verification carried out on 2 November 2018 revealed that the following sections of the road have not been completed;

No	Road Name and Location	Pending Activities
1	Road 5: Km 0+000 to Km 2+120	Cleaning of drains
2	Annan Roads: Km+000 to 0+220	Cleaning of drains
3	Mwalimu Garage Road: Km 0+000 to Km 0+220	Cleaning of drains
4	Road Extension Km 0+000 to Km 1+580	Cleaning of drains
5	Road 13: Km 0+000 to Km 0+280	Cleaning of drains and repair of kerbs
6	Old Town Road: Km 0+000 to Km 0+340	Foot paths and cleaning of drains
7	Road 8: Km 0+000 to Km 0+240	Cleaning of drains.
8	Road 11: Km 0+0000 to Km 2+480	Repair of pot holes
9	Khadija Girls Road	Cleaning of drains

By the time of the audit, Kshs.962,780,861 had already been spent on the project which was equivalent to 79% of the contract sum. The project was also (2) years behind scheduled and its prolonged contract extensions was a clear indication of its slow implementation casting doubt on its actual completion.

Consequently, the probity of Kshs.1,218 599 534 could not be confirmed.

## 1.2 Completion of County Headquarters

The County Executive awarded the contract to M/s Green County Construction Company Limited on 2 April 2014 at a contract sum of Kshs.290,230,790. According to the contract agreement signed between the contractor and the Executive, the contract commenced on 1 May 2014 and was expected to be completed on 30 October 2015.

On 10 November 2017 the Chief Officer, Public Works and Roads terminated the initial contract citing non-performance by the contractor. However, valuation of works carried out on 18 December 2017 by M/S Odese International Limited, the consultant manning the project revealed the following:-

<b>Valuation</b>	<b>Amount (Kshs.)</b>
1. Preliminaries	8,115,000
2. Demolitions	994,000
3. Value of work done	
a) Substructure	47,520,873
b) Superstructures concrete frames	63,713,430
c) Walling	10,954,530
d) Builders in connection to services	165,300
4. (a) Services installations (electrical works)	7,600,000
(b Services installations (plumbing works)	3,400,000
5. Materials on site	23,729,274
<b>Total</b>	<b>166,192,408</b>
Previous payments	(166,000,000)
Amount due for payments	192,408

It was noted that the Department of Roads and Public Works did not engage Government registered valuer to carry out valuation of the project but instead engaged M/s Odese International Ltd whose mandate was to man and act as a project management consultant. Further, valuation for the outstanding works to completion of the project was not carried out hence the value of the outstanding works was not determined in monetary terms.

The contract was subsequently re-advertised and was awarded to M/s Bima Investment Limited on 5 March 2018 at a contract sum of Kshs.455,354,521 for completion of the project. However, tender documents for the new contract were not availed for audit review although physical verification of the project on 24 October 2018 established that the contractor was on site and the project was ongoing.



In view of the anomalies, the authenticity of the total contract sum of Kshs.621,546,929 could not be confirmed.

### **1.3 Completion of County Rest House**

The Executive awarded the contract to M/s Diwafa Investment Company Limited on 2 April 2014 at a contract sum of Kshs.293,717,521 for completion of County rest house. According to the contract agreement, the project commencement date was on 1 May 2014 and was expected to be completed on 30 October 2015. However, on 10 November 2017 the Chief Officer Public Works and Roads terminated the contract citing non-performance by the contractor. The contract was subsequently re-advertised and was awarded to M/s Mohamed Mohamud & Sons Construction Co. Ltd on 12 March 2018 at a contract sum of Kshs.308,671,300 in respect of completion of the project.

The project progress report and the breakdown of the amount paid up to the final certificate for the previous contractor M/s Diwafa Investment Limited was not available for audit review. Further, comprehensive valuation of the project detailing amount of works that had been done and the outstanding works before the contract was terminated was not carried out.

In the circumstances, the probity of the total contract sum amounting to Kshs.602,388,821 could not be confirmed.

### **1.4 Water Supply in Shafshafey and Kamor**

During the financial year 2014/2015, the Executive initiated a project for rehabilitation of water supply in Shafshafey and Kamor in Mandera East Sub-County at a total contract price of Kshs.39,600,000 payable in two instalments the first payment of 40% after completion of 50% of the work and the remaining balance when the project is 100% complete. However, scrutiny of the project status report dated 30 January 2018 revealed that the Executive had made payments totalling Kshs.33,195,550 representing 83% of the contract price to M/s Gingo Construction Co. Ltd while physical verification revealed that the project was not in operation. Similarly, verification of the project also revealed the following:

- i. The contractor elevated three (3) 50 m<sup>3</sup> steel tanks costing Kshs.26,315,100 and not 100 m<sup>3</sup> as stated in the contract documents.
- ii. Only 3 water kiosks had been constructed which were incomplete. However, the contract stated 6 standard water kiosks with an estimated cost of Kshs.1,800,000.
- iii. Works on the construction and equipping of infiltration gallery & sump well estimated to cost Kshs.3,060,000 had not been done.
- iv. The project had been abandoned for long and the contractor was not on site as at the time of verification on 2 November 2018.

It was further observed that the management did not avail any plan initiated to address the wastage.

In view of the foregoing, it has not been possible to confirm the probity of Kshs.39,600,000.

### 1.5 Elwak SME Market

The Executive awarded contract for the construction of Elwak SME Market at a contract sum of Kshs.326,581,496. The tender opening minutes and the tender opening register were not made available for audit review. However, a provisional sum of Kshs.31,450,000 was made in the bills of quantity as follows:-

	Item	Amount (Kshs.)
1.	Security for Works and Workers	1,000,000
2.	Project Manager's vehicle (Toyota Land Cruiser)	6,000,000
3.	Clerks of Works	2,400,000
4.	Stationery & Equipment	1,200,000
5.	Staff Training	500,000
6.	Airtime for project team	2,250,000
7.	Hotel accommodation & expenses	2,250,000
8.	Cost for Profit (15%) and Attendance (15%)	5,850,000
9.	Contingencies	10,000,000
	<b>Total</b>	<b>31,450,000</b>

The total provisional and contingencies amounting to Kshs.31,450,000 was not recommended by the evaluation committee and subsequently no approval was granted by the accounting officer as required by Section 139(2) of the Public Procurement and Assets Disposal Act, 2015. Further, there was no documentary evidence to show how provisional amounts were utilized and accounted for.

Although physical verification carried out on 24 October 2018 established that the contractor was on site, electrical installation, land escaping and final coat for paint work were still pending.

In view of the foregoing, the propriety and validity of the provisional sums and contingencies of Kshs.31,450,000 as at 30 June 2018 could not be ascertained.

### 1.6 Construction of Rhamu IDP Housing Units Phase II

During the year under review, the management awarded contracts amounting to Kshs.92,685,954 to various contractors for construction of Rhamu IDP housing units Phase II. However, the following anomalies were noted: -

- i) The bid documents required that bidders submit a minimum bid security of Kshs.400,000 whereas the tender advertisement in a local daily of 18 January 2018 prescribed a minimum bid security of Kshs.200,000. Further, the bidders were also required to submit 3 original recommendation letters from 3 different reputable clients not older than one month from the date of submission of the tender. However, these were not reflected in the evaluation report.

- ii) One of the bid requirements in the preliminary stage was that all entries must be typed or written in ink. Additionally, another condition was that mistakes must not be erased but should be crossed and corrections made must be counter signed by the person signing the tender document. Contrary to this, some winning bidders bills of quantities had figures erased and some altered but were not counter signed by the person who signed the tender document. Further, under the same bid requirements, contractors were required to submit serialized bid documents but this was not done by some contractors.
- iii) The bid documents required that the tenderers to disclose principal place of business, total monetary value of construction works performed for the last five (5) years, proof of ownership of major items of construction, reports of financial statements and auditor's report of the financial performance of the company for the last five (5) years and submit three (3) original recommendation letters from three (3) different reputable clients not older than one month from the date of submission of the tender. However, the same were not reflected in the evaluation reports.
- iv) Tender documents such as tender opening register, tender opening minutes and tender evaluation minutes and report were noted to be copies rather than originals. Further, copy of the tender opening register availed for audit scrutiny lacked vital important information such as date when the tenders were opened and postal addresses of the companies whose bids were opened.

In the circumstances, the propriety of the expenditure of Kshs.92,685,954 could not be confirmed.

### **1.7 Construction of Cattle Troughs for Various Boreholes**

The Executive awarded contract for the construction of cattle troughs for various boreholes at a contract sum of Kshs.41,669,997. However, departmental requisition and tender opening register was not made available for audit review. Further, the bidders were required to submit certified copy of certificate of incorporation and 5% performance bond. On the contrary, the successful contractor did not submit the certified copy of certificate of incorporation as well as the 5% performance bond.

In the circumstances, the authenticity of the expenditure for Kshs.41,669,997 could not be confirmed.

### **1.8 Construction of County Dry Cereals Central Stores**

An amount of Kshs.13,610,424 was paid to M/s Haigurach Construction Co. Ltd in respect of construction of County dry cereals central stores for a contract worth Kshs.36,090,900. However, there was no tender purchase register maintained to ascertain the number of bidders which purchased the tender. Further, the project file was not availed for audit review hence it was not possible to ascertain whether the tender was

fairly awarded. Physical verification carried out on 26 October 2018 revealed that the project was still ongoing but floor works and paintings were still pending.

Under the circumstances, it was not possible to ascertain the propriety of the expenditure of Kshs.13,610,424.

## 2. Stalled Projects

As reported in previous year, the Executive initiated various projects for the financial year 2013/2014 and 2014/2015, as tabulated below:-

	<b>Project Title/ Location/Site</b>	<b>Contractor</b>	<b>Contract Sum Kshs.</b>	<b>Amount Certified Kshs.</b>	<b>Start Date</b>	<b>Status</b>
1	Construction of the Governor's Residence, Mandera. MCG/134/13-14	M/s Seo & Sons Ltd.	107,481,060	119,481,060	09/06/14	Works had stalled since October 2016. Overall status: - 70% complete.
	<b>Project Title/ Location/Site</b>	<b>Contractor</b>	<b>Contract Sum Kshs.</b>	<b>Amount Certified Kshs.</b>	<b>Start Date</b>	<b>Status</b>
2	Construction of County Assembly, Mandera. MCG/137/13-14	M/s Bayan Construction Co. Box 45107 - 00100 Nbi.	185,438,634	183,396,773	09/06/14	Works had stalled as at time of audit. Overall status: - 70% complete.
3	Construction of Regional Livestock Market, Mandera.	M/s Lakole Bld. Constr.	169,922,255	83,633,305	Nov/14	Works have stalled since October 2016. Overall status: - 40% complete.
4	Rhamu Water Supply MCG/314/2014/2015	M/s Dabarbale construction	21,581,752	16,112,436	1/03/15	Works have stalled since October, 2016. Overall status:- 65% complete.
		<b>Total</b>	<b>484,423,701</b>	<b>402,623,574</b>		

Physical verification of these projects carried out on 24 October 2018 revealed that the projects with contract sums amounting to Kshs.484,423,701 that were initiated in prior years had stalled and contractors were not on site and the work was not in progress.

According to the projects progress reports, total payments for the projects was Kshs.402,623,574 representing 83.1% of the contract sum. The Executive did not take any initiatives to save the project from further depletion nor to add value on the investments of the public funds.

In view of the foregoing, the residents of Mandera County may not have obtained value for money on Kshs.402,623,574 spent on these projects.

### **3. Award of Water Projects**

The Executive initiated piping, improvement and interconnection of Falama water supply within Mandera South during the financial years 2016/2017 and 2017/2018 at a cost of Kshs.211,940,665. However, the tender purchase register for the projects was not availed for audit review. It was therefore not possible to ascertain the total number of tenderers who applied in each category of projects procured. Similarly, the Executive did not maintain tender opening register as required by Section 78(6) of the Public Procurement and Assets Disposal Act, 2015. It was also observed that the contract agreement for some of the projects had long expired and there were no extensions availed for audit review. In addition, no claims for liquidated damages on these projects were made at the expiry of the contract period.

Further, one of the bid requirements for some of the contracts was that the bidder should be registered with water regulatory body in Kenya for the current year and copy of the current license be submitted. However, the same was not included in the either preliminary or technical evaluation criteria.

A total provisional sum of 10% of the contract sum amounting to Kshs.26,346,356 were provided as contingencies in the bills of quantities. However, no evidence was availed to show how contingencies were utilized. Further there was no documentary evidence to prove that the contingencies were recommended by the tender evaluation committee and were subsequently approved by the accounting officer as required by section 139(2) of Public Procurement and Assets Disposal Act, 2015.

Under the circumstances the propriety of Kshs.26,346,356 could not be confirmed

### **4. Skip Loader Trucks**

During the financial year 2017/2018, the Executive had budgeted and procured 2 skip loader trucks and 14 garbage bins amounting to Kshs.29,905,600 to help in collection and management of garbage in Mandera town. However, physical verification carried out on 3 November 2018, revealed that the trucks had not been put into use and no work tickets for the two trucks were availed for audit review. The garbage collection bins were still lying at the store and thus the residents of Mandera County had not benefitted from the intended garbage collection project.

In view of the foregoing, value for money for the expenditure of Kshs.29,905,600 could not be confirmed.

### **5. Use of Goods and Services**

Included in the use of goods and services of Kshs.1,628,542,341 under Note 12 to the financial statements is Kshs.479,440,082 in respect of specialized materials and services which in turn includes medical equipment and other specialized materials worth

Kshs.172,059,142 from various suppliers. However, there was no evidence to confirm that the items were requested from the user departments hence it was not clear how the procurement of the equipment was initiated without the involvement of the end users. Further, some of the purchase orders lacked specifications for the items requested. Similarly, the payments lacked supporting documents such as tender evaluation minutes and inspection and acceptance committee report for the goods delivered contrary to the requirement of Section 48(3) of Public Procurement and Assets Disposal Act, 2015.

Under the circumstances, it has not been possible to ascertain the probity of the expenditure of Kshs.172,059,142 as at 30 June 2018.

### **6.0 Anomalies in Newly Recruited Staff Personal Files**

Audit review of 10 randomly selected personal files of employees recruited in the year under review revealed some anomalies in the documentation as analyzed below:

<b>Designation</b>	<b>Observations</b>
Watchman	No academic certificate filled and there was no certificate of good conduct filled
Revenue Collector	No academic certificate filled
Orthopedic Trauma Technician	Academic certificates not certified, No Health Certificate
Dental Technologist	Academic certificates not certified
Senior Support Staff	Academic certificates not certified, certificate of good conduct and secrecy act form not filled
Assistant Office Administrator	Academic certificates not certified
Registered Clinical Officer	Academic certificate not certified

The above observations is a clear indication that due diligence was not carried on the recruitment of the staff and there was no evidence indicating that hiring of employees was competitively done.

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 procedures performed, except for the matters described in the Report 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. Non Establishment of Internal Audit Committee**

A review of the overall Internal control environment of the Executive as at the time of Audit revealed that the internal audit department was not functional as required by law and it has not yet constituted audit committee as required by Section 167(1) of Public Finance Management (County Governments) Regulations, 2015, which requires County Governments to establish an audit committee.

In the absence of a functional internal audit department, the management can easily override controls in such instances, cases of fraud and errors may not be detected and corrected in a timely manner.

### **2. Risk Management Policy Framework**

The Executive operated without a documented risk management policy framework contrary to the requirements of Treasury Circular No.3/2009 of 23 February 2009 which requires all heads of public institutions to develop and implement a risk management frame work as a fundamental step towards establishing an accountable and innovative public service. In addition, there was no effective reporting system that includes hotlines, report centers and whistle blower policy.

### **3. IT Internal Controls**

Review of the County Executive's ICT environment revealed that there was no formal approved ICT Policy in place as at 30 June 2018 which could include data security policy and disaster recovery plans. Further, formally documented and approved processes to manage upgrades made to all financial/performance information systems were not provided for audit.

Under the circumstances, the organization may fail to undertake adequate measures to safeguard its resources in the event of unforeseen disasters. This would result to lack of a consistent approach towards addressing of and handling ICT issues due to lack of ICT policy.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 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 unless the management either intends to liquidate the Executive or to cease operations or have no realistic alternative but to do so.

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 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.

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's policies and procedures may deteriorate.

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.
- 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 going concern 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 as a going concern or 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.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**18 February 2019**

