

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF NAROK FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Narok set out on pages 1 to 36, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and statement of appropriation: recurrent, development and 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 County Executive of Narok 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

1.0 County Own Generated Receipts- Single Business Permit

The county own generated receipts balance of Kshs.1,781,035,419 includes revenue of Kshs.31,410,023 which was generated from Single Business Permits (SBP). However, the Single Business Register shows that there were 8,444 eligible businesses who were invoiced for a total sum of Kshs.60,761,867. This implies that the county government had outstanding fees from single business permits amounting to Kshs.29,351,844 (or 48%) of the SBP revenue.

2.0 Grants for Health Sector Support Fund

The statement of receipt and payments reflects transfers from other government entities of Kshs.598,080,402 which includes conditional grants for Health Sector Support Fund (HSSF) of Kshs.162,981,737. The HSSF grants comprises Health Centre & Dispensaries (HCD) user fees of Kshs.20,106,734, World Bank Result Based Financing (RBF) of Kshs.81,201,403 and Danida HSSF of Kshs.15,267,292. These monies are received in the Health Special Purpose Account No.1000 294 779 for onward transfer to health centers and dispensaries to support their activities. However, examination of various records show that the amount received in the Special Purpose Account was Kshs.210,274,956, which differs with the HSSF grants in the financial statement by Kshs.49,509,953 as shown below:

| Component | Amount as per the Financial Statement (Kshs) | Amount as per the Special Purpose Account (Kshs) | Variance (Kshs) |
|---|---|---|----------------------------|
| HCD –User Fees | 20,106,734 | 10,053,367 | (10,053,367) |
| World Bank RBF | 81,201,403 | 138,000,000 | 56,798,597 |
| DANIDA HSSF | 15,267,292 | 24,212,292 | 8,945,000 |
| World Bank Transforming Health System (THS) | 38,009,297 | 38,009,297 | 0 |
| DANIDA THS | 8,397,011 | 0 | 8,397,011 |
| Total | 162,981,737 | 210,274,956 | 49,509,953 |

The variances have not been explained.

3.0 Compensation of Employees - Casual Wages

The compensation of employees balance of Kshs.3,383,671,695 includes an expenditure of Kshs.12,125,115 in respect of casual wages paid during the year. The casual workers were engaged in the County Department of Health. However, the expenditure on casual wages was not supported by approval letters from the CPSB as required by clause B.16 of the County Public Service Human Resource Manual, master rolls and letters of engagement. Therefore, it was not possible to confirm whether the expenditure of Kshs.12,125,115 in respect of casual wages was justified.

4.0 Garbage Collection Services

The use of goods and services balance includes other operating expenses of Kshs.842,641,934 out of which Kshs.14,253,753 was paid to two firms for garbage collection services at a cost of Kshs.13,920,000 and Kshs.3,813,753 respectively. According to the contract agreement for cleaning and garbage collection, the service provider is required to submit to the County government certified job cards showing details of the job done within a specified period. However, the payment vouchers were not supported by documents to verify the job done.

Therefore, the propriety of the expenditure of Kshs.14,253,753 in respect of garbage collection services could not be confirmed.

5.0 Travel and Subsistence

The use of goods and services balance of Kshs.1,935,758,883 includes an expenditure of Kshs.96,561,065 in respect of domestic travel and subsistence. Out of this amount, payments totaling Kshs.12,907,814 were made to various officers for domestic travel and subsistence. However, no supporting documents have been provided to confirm that the funds were spent for the intended purposes.

Consequently, the regularity and occurrence of the expenditure of Kshs.12,907,814 in respect of domestic travel and subsistence could not be confirmed.

6.0 Foreign Travel

The use of goods and services balance includes an expenditure of Kshs.20,007,178 in respect of foreign travel. Out of this amount, payments totaling Kshs.2,722,350 were made to five (5) officers through imprest system. However, at the time of audit in October 2018,

the amount had not been accounted for. Therefore, the occurrence and propriety of the expenditure could not be confirmed.

7.0 Routine Maintenance of Vehicles and other Transport Equipment

The use of goods and services expenditure includes Kshs.77,825,086 in respect of routine maintenance of vehicles and other transport equipment. The motor vehicle register showed that the County Government owns ninety-seven (97) motor vehicles and other transport equipment. Even though work tickets and list of vehicles were provided for audit, other supporting documents like expenditure receipts, fuel register, inspection certificates and payment vouchers were not presented for audit verification. Therefore, the validity of the expenditure of Kshs.77,825,086 in respect of maintenance of vehicles and other transport equipment could not be confirmed.

8.0 Unsupported Expenditure - Refurbishment of Buildings

The acquisition of assets figure of Kshs.1,875,312,356 includes expenditure of Kshs.60,531,468 in respect of refurbishment of buildings. Out of this amount, is Kshs.4,101,457 for which supporting documents were not provided for audit review. In the circumstance, it was not possible to confirm the correctness, occurrence and validity of the expenditure of Kshs.4,101,457 in respect of refurbishment of buildings.

9.0 Maasai Mara Community Support Fund - Payments of Medical Bills

The transfer to other government units balance of Kshs.468,368,521 includes Kshs.139,528,988 in respect of remittances to the Maasai Mara Community Support Fund (MMCSF). Out of the remittance, Kshs.9,957,621 was used to settle medical bills. According to Section 15 (2) of the Maasai Mara Community Support Fund Act 2016, medical bills are settled for members of the community who are injured as a result of wildlife aggression. However, although there was evidence of the affected people attending various hospitals, there was no evidence to indicate that persons whose bills were paid, had suffered due to wildlife aggression.

10.0 Accounts Receivables - Outstanding Imprest

The statement of assets and liabilities reflects outstanding imprest of Kshs.12,992,364 as at 30 June 2018, whose breakdown is provided under Note 15 to the financial statements. However, examination of the imprest register revealed that it did not reflect vital details such as the personal numbers of the staff who held imprest and the reference numbers of payment voucher for cases that had been surrendered.

Therefore, the validity and accuracy of the outstanding imprest balance of Kshs.12,992,364 as at 30 June 2018 could not be confirmed.

11.0 Fixed Assets

Annex 3 to the financial statements reflects a balance of Kshs.37,573,561,199 which is the summary of fixed assets owned by the County Government. However, the fixed asset register reflects a summary of Kshs.49,667,708,457, which implies a variance of Kshs.12,094,147,258. It was noted that the register also reflects assets inherited from the defunct local authorities which were under the jurisdiction of Narok County. However, verification of these assets and formal handing over to the County Government has not been done.

Consequently, the completeness and accuracy of the balance of fixed assets as at 30 June 2018 could not be confirmed.

12.0 Unaccounted for Rent Income

During financial year 2017/18, the County Government deducted Kshs.7,068,026 through the salary payroll as rent receivable from their staff who occupy the County houses. However, the amount was not remitted to the County Revenue Fund Account as required by Section 109(2) of the Public Finance Management Act, 2012 which provides that all money raised or received by or on behalf of the County Government is paid into that account.

Further, the County Government did not collect rent estimated at Kshs.2,568,000 from its 26 houses inside and around the Maasai Mara National Reserve.

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

Emphasis of Matter

Pending Bills

Annex 1 to the financial statements reflects a balance of Kshs.1,858,297,237 in respect of pending bills as at 30 June 2018. Out of the amount, Kshs.637,151,857 was owed to suppliers of goods and services while Kshs.1,221,145,380 was owed to civil works contractors. However, bills amounting to Kshs.758,297,237 were yet to be supported by local procurement orders, invoices, fee notes and delivery notes.

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, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1.0 Variance between figures in the Financial Statement and those in IFMIS

A comparison between data obtained from the Integrated Financial Management Information System (IFMIS) and the expenditure balances in the financial statement revealed material variances as shown in the table below:

| Item | IFMIS Figures Kshs | Financial Statements Kshs | Variance Kshs |
|---------------------------|-------------------------------|--|--------------------------|
| Acquisition of Assets | 372,813,463.90 | 1,853,084,070.00 | 1,480,270,606.10 |
| Compensation of Employees | 2,452,327,381.50 | 3,383,671,694.96 | 931,344,313.46 |

| | | | |
|---|-------------------|------------------|-------------------|
| Exchequer releases | 12,002,688,000.00 | 6,523,200,000.00 | -5,479,488,000.00 |
| Other Grants and Transfers | 307,866,080.75 | 198,200,000.00 | -109,666,080.75 |
| Other Receipts | 4,810,954,421.65 | - | -4,810,954,421.65 |
| Proceeds from Domestic and Foreign Grants | 208,544,734.80 | | |
| Social Security Benefits | 83,383,168.75 | - | - 83,383,168.75 |
| Transfers from Other Government Entities | 780,676,388.00 | 598,080,402.40 | -182,595,985.60 |
| Transfers to Other Government Units | 568,527,220.00 | 980,368,521.00 | 411,841,301.00 |
| Use of goods and Services | 865,080,804.75 | 1,935,758,883.00 | 1,070,678,078.25 |

Concrete review of IFMIS data and reconciliation is required to be made to determine the correct position of the county financial statements.

2.0 Unaccounted for Receipt Books

Examination of the counterfoil receipt book register (CRBR) revealed that 9 receipt books, each holding 50 receipts (totaling to 450 receipts) for collection of miscellaneous income issued to staff had not been surrendered at the time of audit in October 2018. Some of the books had been outstanding for over one year. The receipts were meant to collect various types of revenue under miscellaneous income, and therefore it was not possible to estimate the actual revenue collected.

Further, the CRBR also indicated that 109 receipt books issued to officers for collection of revenue from markets and car parks, had not been surrendered at the time of audit in October 2018. Some of the receipt books were issued as far back as 2014.

It appears that adequate safeguards have not been put in place for the prompt collection and proper accounting for revenue as required by clause 63(1)(a) of the Public Finance Management (County Governments) Regulations, 2015.

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 Over-Employment of Staff

The statement of receipt and payments reflects expenditure of Kshs.3,383,671,695 in respect of compensation of employees whose population was 4904 as at 30 June 2018. In a meeting held on 18 February 2015, the County Public Service Board (CPSB), adopted a report on capacity assessment and rationalization of the public service (CARP), prepared by a local firm, which indicated that the optimal number of staff for all the four hundred and sixty-seven (467) cadres in the County's establishment is 6216. However, the audit analysis revealed that in 40 out of the 467 cadres, the County Government has over-employed 249 staff beyond the optimal number. It was further noted that there were several vacancies in other cadres which have not been filled. Therefore, the level of expenditure of Kshs.3,383,671,695 in respect of compensation of employees is significantly high and unsustainable.

2.0 Procurement of Goods - Laundry Equipment

The County Government procured laundry equipment from a company at a cost of Kshs.20,665,400. The items were supplied to three different hospitals, Narok District Hospital, Lolgorian Hospital and Ololulunga Sub County Hospital. It was noted that quotations were invited from six suppliers out of whom three responded. However, the request for quotations method for the procurement was irregular since the expenditure was above the maximum threshold of Kshs.1,000,000 allowed for Class A entities. Therefore, it is not possible to confirm if the items were procured at the most economical value.

3.0 Stalled Project - Construction of Facilities in Schools

In the financial year 2016/2017, Kshs.393,116,850 was remitted to primary schools and early childhood learning centres for the construction of classrooms and other infrastructure. A further Kshs.212,110,000 was remitted to secondary schools for construction of classrooms, laboratories, dormitories and other school infrastructure, all totalling Kshs.605,226,850. Physical verification done on 8 November 2018 revealed that the structures were not complete and there was no work going on.

In the circumstance, the objective of these projects have not been achieved. Further, the public has not realized value out of the funds that have been tied in the stalled projects.

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 matter 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

Lack of an Audit Committee

The County Executive of Narok on 29 July 2016, posted an advertisement in a newspaper with national circulation, inviting applications for membership to the County Audit Committee. However, at the time of audit in October 2018, no committee had been established as required by clause 167(1) of the Public Finance Management (County Governments) Regulations 2015. Therefore, the County Executive was in breach of the law.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the 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 County Government either intends 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 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.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

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

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

28 February 2019