

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF NAKURU FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the County Executive of Nakuru set out on pages 1 to 161, which comprise the statement of assets and liabilities as at 30 June, 2021, the statement of receipts and payments, statement of cash flows and summary statement of appropriation: recurrent and development combined for the year then ended, , and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Executive of Nakuru as at 30 June, 2021 and 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 County Governments Act, 2012.

Basis for Qualified Opinion

1.0 Presentation of the Financial Statements

The annual reports and financial statements prepared and submitted for audit indicates the County did not prepare separate financial statements for Facility Improvement Fund (FIF) as provided for under Section 10 of the Public Finance Management (PFM) Nakuru County Hospital Management Services Regulations 2014.

Consequently, the presentation and completeness of the financial statements for the year ended 30 June, 2021 could not be confirmed.

2.0 Inaccuracies in the Financial Statements

The annual report and financial statements as submitted for audit had the following inaccuracies:

2.1 Inaccuracies in Acquisition of Land

As disclosed in Note 17 to the financial statements, the statement of Receipts and payments reflects a balance of Kshs.2,926,770,598 in respect to Acquisition of Assets. Included in this balance is an amount of Kshs.28,403,000 relating to acquisition of Land. However, Annex 6 – summary of non-current asset register reflects a balance of Kshs.68,889,570 being additions on land during the year therefore resulting to unreconciled variance of Kshs.40,486,570.

Further, review of records revealed that seven (7) parcels of land were procured in various parts of the County at a cumulative cost of Kshs.57,700,000 whereas the amount disclosed in Note 17 as acquisition of land is kshs.28,403,000 resulting to unreconciled variance of Kshs.29,297,000.

In addition, ownership documents for the acquired parcels of land were not provided for verification.

Consequently, the validity , accuracy, completeness and ownership of the acquisition of land balance of Kshs.28,403,000 for the year ended 30 June, 2021 could not be confirmed.

2.2 Variances Between Financial Statements and IFMIS/Supporting Schedule Balances

A review of balances disclosed in the financial statements and the supporting Integrated Financial Management Information System (IFMIS) ledger and/or schedule balances revealed several variances on components itemized below:

Component	Financial Statements Balance 30 June, 2021 (Kshs.)	IFMIS/Schedule Balances 30 June, 2021 (Kshs.)	Variance (Kshs.)

County Own Generated Receipts	2,822,949,912	1,774,983,431	1,047,966,480
Compensation of Employees	5,878,455,127	8,148,758,987	(2,270,303,860)
Subsidies	0	75,082,655	(75,082,655)
Use of Goods and Services	1,952,995,769	2,163,315,066	(210,319,297)
Transfers to Other Government Units	1,091,058,398	0	1,091,058,398
Other Grants and Transfers	3,041,097,916	1,067,971,450	1,973,126,466
Social Security Benefits	0	533,388	(533,388)
Acquisition of Assets	2,926,770,598	3,038,650,063	(111,879,465)
Bank Balances	4,880,879,377	0	4,880,879,377
Accounts Receivables	0	215,402,590	(215,402,590)
Accounts Payables	180,117,147	148,020,475	32,096,672
Training Expenses	41,665,516	41,666,515	(999)
Donor Fund Account Expenditure	18,303,516	28,525,354	(10,221,838)
KDSP Payments	132,981,523	132,983,523	(2,000)

In the circumstances, the completeness and accuracy of balances reflected in the financial statements for the year ended 30 June, 2021, could not be confirmed.

3.0 Exchequer Releases

As disclosed in Note 1 to the financial statements, the statement of receipts and payments reflects total receipts balance of Kshs.15,113,593,091 for the year ended 30 June, 2021. Included in this balance is Kshs.10,850,022,832 in respect of exchequer releases out of which Kshs.890,472,750 received in July, 2021 have been included in the receipts for current year contrary to section 97(4) of the Public Finance Management (County Governments) Regulations 2015, which states that the actual cash transactions taking place after 30 June shall not be treated as pertaining to the previous financial year even though the accounts for that year may be open for end of year procedures and adjustments.

Consequently, Management was in breach of the law and the accuracy and completeness of the exchequer releases balance of Kshs.10,850,022,832 for the year ended 30 June, 2021 could not be confirmed.

4.0 County Own Generated Receipts

As disclosed in Note 9 to the financial statements, the statement of receipts and payments reflects receipts balance of Kshs.2,822,949,912 in respect of county own generated revenue. However, the following unsatisfactory matters were observed

4.1 Uncollected House Rent

Included in the reported balance of Kshs.2,822,949,912 is an amount of Kshs.14,351,317 being receipts in respect of house rent for the year ended 30 June, 2021. However, records provided for review revealed uncollected rent arrears amounting

Kshs.439,756,748. In addition, no evidence was provided to show efforts made by the Management to recover the arrears. Further, no documentary evidence was provided to confirm the basis upon which the rents are charged.

Further, and as previously reported, it was observed that ninety (90) County houses in Molo Sub-County with annual rent revenue of Kshs.741,132 were being managed by National Housing Corporation as a result of Kshs.30,460,177 debt owed to the corporation by the defunct local Authorities. No efforts have been made by the County Government to take charge of these houses and recover the long outstanding rent.

This is contrary to Section (157) (2) of the Public Finance Management Act, 2012 which require the receiver of the County Government revenue to ensure that the revenue for which the receiver is responsible is collected or recovered, and is accounted for.

Consequently, the accuracy, completeness and recoverability of house rent balance of Kshs.439,756,748 for the year ended 30 June, 2021 could not be ascertained.

4.2 Plot Rent Arrears

Similarly, included in the balance of Kshs.2,822,949,912 is an amount of Kshs.401,518,169 received in respect of plot rents for the year ended 30 June, 2021. However, records provided indicate that property owners owed the County Kshs.6,999,290,698 in form of accrued land rates. Management has not provided evidence to indicate effort being made to recover the outstanding amount, which is contrary to Section (157) (2) of the Public Finance Management Act, 2012.

Consequently, the accuracy and completeness of plot rent balance of Kshs.401,518,169 for the year ended 30 June, 2021 could not be ascertained.

4.3 Delayed Development of Valuation Roll

Further, and as reported previously, the County is yet to develop the County valuation roll. Review of the current status of implementation of the project by the Department for Lands, Housing and Physical Planning revealed that the valuation roll is incomplete despite the full payment of the contract sum of Kshs.50,591,400 to the valuer made on 05 May, 2018. This was contrary to the contract agreement which provided final payment of 30% to be made upon completion and approval of the final draft of valuation report by the County Assembly. The current valuation roll used for billing the plot owners expired in 2015 and had not been updated with new land subdivisions. Information available indicates that the new valuation roll had been finalized, there was no indication that the county had started making use of it.

Consequently, the Management was in breach of the procurement regulations and non-implementation of the valuation roll denies the County expected revenue.

4.4 Inaccurate Market and Trade Centre Fee Arrears

Included in the balance of Kshs.2,822,949,912 is an amount of Kshs.40,093,432 received in respect of market and trade centres fees for the year ended 30 June, 2021 and as

disclosed in Note 9 to the financial statements. However, records provided for audit reflected outstanding arrears of Kshs.2,848,926 for the year under review and there was no evidence of the measures put in place by Management to enforce collection. The variance between the two sets of record has not been explained or reconciled.

Consequently, the accuracy and completeness of market and trade center fee balance of Kshs.40,093,432 for the year ended 30 June, 2021 could not be ascertained.

4.5 Failure to Maximize Revenue Collection on Vehicle Parking

Included in the balance of Kshs.2,822,949,912 is an amount of Kshs.219,378,664 received in respect of vehicle parking fees for the year ended 30 June, 2021 and as disclosed in Note 9 to the financial statements. However, the balance of Kshs.219,378,664 reduced from the previous year balance of Kshs.253,340,376 by Kshs.33,961,712 on a comparable basis. The drop was attributed to non-gazettement of already identified prime parking areas, non-painting and demarcation of all parking bays and non-charging of parking fees in outlying sub Counties.

Consequently, the Management is making little effort to optimize parking fee collections and the accuracy and completeness of vehicle parking fees balance of Kshs.219,378,664 for the year ended 30 June, 2021 could not be confirmed.

5.0 Irregularities in Compensation of Employees

As disclosed in Note 11 to the financial statement, the statement of receipts and payments reflects compensation of employee's balance of Kshs.5,878,455,127 for the year ended 30 June, 2021. However, the balance differs with the gross payroll amount of Kshs.5,705,382,888 resulting to unreconciled or unexplained variance of Kshs.173,072,239.

Further, the County Executive of Nakuru incurred expenditure of Kshs.5,878,455,127 on compensation of employees representing thirty-nine percent (39%) of the county total revenue of Kshs.15,113,593,091. The expenditure exceeds the prescribed limit of thirty-five per cent (35%) on employee cost under Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulation 2015.

In addition, analysis of the June, 2021 payroll revealed that two hundred and eighty-six employees were drawing net salary of less than one third of their basic pay. This is contrary to Section 19(3) of the employment Act 2007 which require the total amount of all deductions which may be made by an employer from the wages of his employee at any one time should not exceed two-third of the basic pay.

Consequently, the Management was in breach of the law and accuracy and completeness of the compensation of employee's balance of Kshs.5,878,455,127 for the year ended 30 June, 2021 could not be confirmed.

6.0 Use of Goods and Services

6.1 Expenditures Incurred after the Financial Period of 30 June, 2021

As disclosed in Note 12 to the financial statements, the statement of receipts and payments reflects use of goods and services balance of Kshs.1,952,995,769 for the year ended 30 June, 2021. Included in this balance is expenditure amounting Kshs.691,177,056 incurred after 30 June, 2021. This is contrary to Section 97(1) of the Public Finance Management (County Governments) Regulations, 2015, which provides that the accounts of County Government entities shall record transactions which take place during the financial year running from 1 July to 30 June.

Consequently, the validity, accuracy and completeness of the use of goods and services balance of Kshs.1,952,995,769 for the year ended 30 June, 2021 could not be ascertained.

6.2 Unsupported Legal Fees

Disclosed in Note 12 to the financial statements is other operating expenses balance of Kshs.380,335,865 for the year ended 30 June, 2021. However, included in the balance is legal fees amounting Kshs.98,353,889 that have not been supported by way of legal opinion by the County Attorney. Further, the County went ahead to engage the litigants for case settlements without legal opinion on whether the County had merited cases or not. The figure also includes Kshs.7,860,000 incurred on audit of legal cases which is not supported by way of a final report. In addition, the balance includes Kshs.5,960,114 incurred on accrued interest due to failure by the County Executive of Nakuru to pay decreed amounts on a timely basis contrary to section 210(1)(i) of the Public Finance Management (County Governments) Regulations 2015.

Consequently, validity, accuracy and completeness of other operating balances of Kshs.98,353,889 incurred on legal fees for the year ended 30 June, 2021 could not be ascertained.

7.0 Other Grants and Payments

As disclosed in Note 15 to the financial statements, the statement of receipts and payments reflects other grants and transfers balance of Kshs.3,041,097,916 for the year ended 30 June, 2021. However, the following unsatisfactory matters were observed:-

7.1 Unutilized/Idle Roads Maintenance Levy Fund

Included in the balance of Kshs.3,041,097,916 is an amount of Kshs.258,625,985 conditional grants transfers from Kenya Roads Board for the year ended 30 June, 2021. However, the balance has not been supported by way of approved work plans. Further, the Fund had an opening balance of Kshs.390,416,395 and additional transfers of Kshs.258,625,985 were received during the year, totalling Kshs.649,042,380 against a budget of Kshs.684,422,889 resulting to over budgeting by Kshs.35,380,509.

In addition, out of the available funding of Kshs.649,042,380, an amount of Kshs.422,334,994 remained unutilized comprising of Kshs.287,082,671 and Kshs.135,252,323 held in the CRF and Road maintenance Levy Fund Account

respectively. The County Executive of Nakuru failed to utilize the roads levy funds and implement projects on a timely basis as provided in the yearly work plan.

Consequently, the validity, accuracy and completeness of conditional grants transfer from Kenya Roads Board balance of Kshs.258,625,985 for the year ended 30 June, 2021 could not be ascertained.

7.2 Delayed Disbursement to Vocational Training Centers Support Grant

As disclosed in Note 15 to the financial statements, the balance of Kshs.3,041,097,916 includes an amount of Kshs.74,397,000 in respect to conditional grants transfer to Village Polytechnics Fund account for the year ended 30 June, 2021. Although the grants of Kshs.33,144,947 were received on 26 February, 2021 they were transferred on 7 July, 2021, 130 days after receipt of the funds in breach of output-based conditions that set a limit of 15 working days after receipt.

In the circumstances, the County is in breach of the regulations and the value for money was denied from the public during the year ended 30 June, 2021.

7.3 Unsupported Other Current Transfers and Grants

Included in the balance of Kshs.3,041,097,916 is an amount of Kshs.6,771,586 in respect of other current transfers and grants for the year ended 30 June, 2021 and as disclosed in Note 15 to the financial statements. However, the balance has not been supported by way of detailed schedule, expenditure returns or bank statements.

Consequently, the validity, accuracy and completeness of other current transfers and grants balance of Kshs.6,771,586 for the year ended 30 June, 2021 could not be confirmed.

7.4 Unsupported expenditure - PGH Nakuru Account

Included in the balance of Kshs.3,041,097,916 is an amount of Kshs.12,837,058 in respect of PGH Nakuru Account expenditure for the year ended 30 June, 2021 and as disclosed in Note 15 to the financial statements. The balance relates to contractor retention refund of Kshs.12,800,000 and cash transfer of Kshs.37,058 upon closure of the bank account. However, the retention refund of Kshs.12,800,000 has not been supported by way of official receipt, copy of bank statements, certificate of completion, authority to pay from public works department and approved payment voucher.

Further, the cash transfer of Kshs.37,058 is simply a movement of money from one account to another and does not amount to an expenditure.

In the circumstance, the validity, accuracy and completeness of PGH Nakuru Account expenditure balance of Kshs.12,837,058 for the year ended 30 June, 2021 could not be ascertained.

7.5 Unreconciled Donor Fund Account Expenditure

Included in the balance of Kshs.3,041,097,916 is an amount of Kshs.18,303,516 in respect of Donor Fund Account expenditure for the year ended 30 June, 2021 and as disclosed in Note 15 to the financial statements. However, the supporting schedule reflects a balance of Kshs.28,525,355 resulting in unreconciled variance of Kshs.10,221,839. Further, the outstanding project bank account balance as at 30 June, 2021 has not been disclosed in the financial statements.

In the circumstances, the validity, accuracy and completeness of the Donor Fund Account expenditure balance of Kshs.18,303,516 for the year ended 30 June, 2021 could not be ascertained.

7.6 Unsupported Other Capital Grant

Included in the balance of Kshs.3,041,097,916 is an amount of Kshs.69,749,814 in respect of other capital grants for the year ended 30 June, 2021 and as disclosed in Note 15 to the financial statements. However, expenditure amounting to Kshs.40,532,800 for Department of Youth as well as Trade in respect of sport equipment and allowances respectively were not supported by way of policy document.

Consequently, the validity, accuracy and completeness of other capital grant expenditure of Kshs.40,532,800 for the year ended 30 June, 2021 could not be ascertained.

8.0 Lack of ownership of Motor vehicles and other transport equipment

As disclosed in Note 17 to the financial statements, the statement of receipts and payments reflects acquisition of assets balance of Kshs.2,926,770,598 for the year ended 30 June, 2021. Included in this balance is purchase of vehicles and other transport equipment totalling Kshs.188,782,830 for the year ended 30 June, 2021. The balance includes an amount of Kshs.186,353,630 incurred in procurement of seventeen (17) motor vehicles and cycles during the year under review. However, Log books or ownership documents for the procured motor vehicles and motor cycles were not provided. In additions, two motor cycles procured were not in use.

Consequently, the validity and ownership of the acquired motor vehicles and other transport Equipment totalling Kshs.186,353,630 for the year ended 30 June, 2021 could not be confirmed.

9.0 Inaccuracies in Cash and Cash Equivalents

As disclosed in Note 21 to the financial statements, the statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.4,880,879,377 as at 30 June, 2021. However, the balance includes Kshs.4,227,905,563 in respect of one (1) bank account and two (2) pay-bill accounts. The certificate of bank balances confirms a balance of Kshs.4,284,990,490 resulting to unreconciled variance of Kshs.57,084,927.

Further, the bank reconciliation statements for the bank account and pay-bill statements were not provided for review.

In addition, Note 21 on cash and bank balances does not report or disclose the bank balances held as at 30 June, 2021 by County Health Centers and Dispensaries across the County on account of money disbursed to augment their operations during the year.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.4,880,879,377 as at 30 June, 2021 could not be confirmed.

10. Issuance of NHIF Cover without Guiding Policy and Legislation

The statements of receipt and payments reflect use of goods and services balance of Kshs.1,952,995,769 for the year ended 30 June, 2021 of which Kshs.145,755,622 is in respect of insurance costs that further include an amount of Kshs.14,000,000 incurred on NHIF cover for 2,331 persons in seven wards of the County by the Department of Health without being supported by any legislation or policy framework. In addition, no documents were provided to support this expenditure.

Consequently, the propriety and validity of NHIF cover balance Kshs.14,000,000 for the year ended 30 June, 2021 could not be ascertained.

11. Variance between Annual Development Plan and Approved Budget

The summary statement of appropriation - recurrent and development combined reflects a total final expenditure balance of Kshs.20,971,169,054 for the year ended 30 June, 2021. However, the annual development plan reflects a balance of Kshs.20,158,092,227 resulting to unexplained variance of Kshs.813,076,830. Management has not addressed the inconsistency between the two sets of documents.

Consequently, it has not been possible to ascertain the accuracy and completeness of the summary statement of appropriation - recurrent and development combined balance of Kshs.813,076,830 for the year ended 30 June, 2021.

12. Unsupported Pending Accounts Payable

Disclosed in Note 7.10.1 to the financial statements and Annex 2 is pending accounts payable balance of Kshs.781,291,220 for the year ended 30 June, 2021. However, the balance has not been supported by way of a detailed schedule showing supplier name, invoice No. and date, nature of service, goods or works provided and reasons for the delay in making payments. Further, the balance increased from the prior year amount of Kshs.590,417,269 resulting to an increase of Kshs.190,346,072 that has not been supported by way of IFMIS Vote book.

Consequently, the accuracy, existence and completeness of the pending accounts payable balance of Kshs.781,291,220 could not be confirmed for the year ended 30 June, 2021.

13. Purchase of Specialized Plant and Equipment - Medical Equipment

As disclosed in Note 17 to the financial statements, the statement of receipts and payments reflects acquisition of assets balance of Kshs.2,926,770,598 for the year ended

30 June, 2021. Included in this balance is an amount of Kshs.213,968,785 in respect of purchase of specialized plant, equipment and machinery. which further includes Kshs.21,671,500 in respect of medical equipment for use at the Provincial General Hospital Nakuru, Liwet Dispensary and Gatundu - Merironi Dispensary. However, supporting documents provided were not sufficient to ascertain propriety of the expenditure.

Consequently, the validity for payments of Kshs.21,671,500 for purchase of specialized equipment for the year ended 30 June, 2021 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 Nakuru 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.

Emphasis of Matter

1. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects a final total revenue budget of Kshs.20,971,169,054 against actual receipts of Kshs.21,001,160,634 on a comparable basis for the year ended 30 June, 2021 resulting to a revenue over funding of Kshs.29,991,580.

The statement also reflects a final total expenditure budget of Kshs.20,971,169,054 against actual expenditure of Kshs.14,890,377,807 on a comparable basis for the year under review resulting to budget under absorption of Kshs.6,080,721,246 or (29 %) of the budget.

The under-expenditure of Kshs.6,080,791,246 or (29%) of the budget indicates that the County Executive of Nakuru failed to fully utilize the budget and offer quality services to the Citizens.

2. Long Outstanding Unimplemented Projects

The summary statement of appropriation - development for the year ended 30 June, 2021 reflects a budget adjustment balance of Kshs.Nil. However, the balance differs with County records on long outstanding unimplemented projects balance of Kshs.6,217,901,810 which has been raising since 2013/2014.

Consequently, it has not been possible to ascertain the correctness of the figure of Kshs.6,217,901,812 representing ongoing projects provided for in the debt resolution paper for 2020/2021.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

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. Non-Compliance with Affirmative Action on Gender Balance, Ethnic and Regional Distribution

Records provided for audit revealed that the County recruited two hundred and sixty-five (265) employees for the year ended 30 June, 2021. However, 54% of the 265 newly recruited staff were from the same ethnic community and surpassed the recommended threshold of 33%. This is in breach of Sections 7(1) and (2) of the National Cohesion and Integration Act, 2008 that states that all public establishments shall seek to represent the diversity of the people of Kenya in the employment of staff and no public establishment shall have more than one third of its staff from the same ethnic community.

Consequently, the Management was in breach of the law.

2. Purchase of Certified Seeds, Breeding Stock and Live Animals Not supported by Permits

Note 17 to the financial statements reflect purchase of certified seeds, breeding stock and live animals figure of Kshs.66,047,380 for the year ended 30 June, 2021. However, included in the balance is Kshs.43,971,420 incurred on procurement of seedlings and live animals that have not been supported by valid nursery phytosanitary inspection certificates or animal movement permits.

Consequently, the quality of certified seeds, breeding stock and live animals could not be confirmed and therefore, value for money may not have been obtained from these procurements.

3. Irregular Procurement of Land for Lanet Health Centre

The County Government through the Department of Lands Housing and Physical Planning procured 5 acres of land in respect of Umoja Lanet Health Centre at a Cost of Kshs.95,000,000 and a deposit of Kshs.20,000,000 made to the seller vide payment voucher number 10020297. However, the requisition required undeveloped land size of one to two acres without encumbrance but a developed land size of five acres with Kshs.3,000,000 encumbrance was procured. In addition, the budget for the land was

Kshs.20,000,000 while the purchase price was Kshs.95,000,000 resulting to unauthorized commitment of Kshs.75,000,000. The signed contract agreement dated 6 July, 2020 between law firm and the County Government of Nakuru required payments to be made to the law firm's bank account upon execution of the agreement. Instead, the payment was made to another entity without variation of the contract terms. Further, Clause 2(b) of the contract agreement required the balance of Kshs.75,000,000 to be paid on or before 30 June, 2021 and any breach would attract a penalty of 10% of the purchase price. The contract agreement was drawn by a private law firm at a cost of Kshs.1,900,000 instead of the County Attorney.

Consequently, the Management breached the law and value for money of the deposit paid of Kshs.20,000,000 towards purchase of this land could not be confirmed for the year ended 30 June, 2021.

4. Delayed Projects Implementation

The statement of receipts and payments reflects acquisition of assets balance of Kshs.2,926,770,598 for the year ended 30 June, 2021. However, the balance includes ongoing projects with a budget of Kshs.2,020,173,356 out of which Kshs.901,735,051 had been paid leaving a balance of Kshs.1,118,438,305 unpaid as at 30 June, 2021. The projects were between 50% and 90% complete several months after expected completion date. No cogent reason has been provided for delay in their implementation.

Consequently, it could not be established when these Projects shall be completed to enable the residents of Nakuru County to enjoy better public goods and services.

5. Stalled/Incomplete Projects

During the year under review, the County Executive through the various departments paid Kshs.346,354,758 for implementation of various construction projects. Audit inspection of sampled projects with a cumulative contract amount of Kshs.1,015,689,076 revealed that several projects had either stalled, were incomplete, stopped due to dispute or had not been handed over. This is contrary to Section 149(1)(a) of the PFM Act 2012 which states that, "the accounting officer should ensure that all contracts entered into by the entity are lawful and are complied with".

Consequently, the public may not have benefited from the intended services and works from the incomplete or stalled projects.

6. Inherited Debt from Defunct Local Authorities

County Medium Term Debt Management Strategy paper dated February, 2020 disclosed inherited debt from defunct Local Authority of Kshs.575,756,714 out of which debts of Kshs.552,057,453 relates to outstanding Water bills and legal fees.

Consequently, no clear strategy has been put in place for the payment of these debts and failure to pay debts might attract litigation costs.

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 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. Lack of Risk Management and Fire Policy

The County Government does not have a risk management and fire policy contrary to Section 158(1)(a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which requires the Accounting Officer to develop risk management strategies which include fraud prevention mechanism and internal control that builds robust business operations.

Consequently, it was not possible to confirm whether the Management is capable of surmounting risks if and when they happen.

2. Non - Activation of the IFMIS Revenue Module

The County Executive of Nakuru has not activated the IFMIS Revenue Module for its revenue collection and continues to rely on manual procedures in revenue collection and accounting. This is in breach of Section 109(1) of the Public Finance Management (County Governments) Regulations, 2015 that provides for efficient and effective utilization of electronic systems in processing financial data.

Consequently, the Management has failed to institute internal controls relating to management of revenue as per the Public Finance Management (County Governments) Regulations, 2015.

3. Non-Implementation of the County Project Management System

The County Executive of Nakuru procured a Project Management System at a cost of Kshs.11,985,468 during the year under review. Although, the system was developed, installed and the Inception report submitted on 10 March, 2021 it was not functional as at 30 June, 2021.

Consequently, the County Executive of Nakuru did not realize value for money from the Project Management's system during the year ended 30 June, 2021.

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

Responsibilities of Management and those Charged with Governance

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

In preparing the financial statements, Management is responsible for assessing the ability of the County to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to dissolve the County Executive or to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the County 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 County Executive of Nakuru 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 applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability 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 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 to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

27 May, 2022

