

## **REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF NAKURU FOR THE YEAR ENDED 30 JUNE, 2022**

---

### **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 the 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**

#### **Adverse Opinion**

I have audited the accompanying financial statements of County Executive of Nakuru set out on pages 1 to 49, which comprise the statement of assets and liabilities as at 30 June, 2022, 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the County Executive of Nakuru as at 30 June, 2022 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 do not comply with the Public Finance Management Act, 2012 and the County Governments Act, 2012.

## **Basis for Adverse Opinion**

### **1. Inaccuracies of the Financial Statements**

The the statement of receipts and payments reflects total receipts of Kshs.16,654,957,076 which differ with county revenue fund balance of Kshs.17,690,796,337 resulting to unreconciled variance of Kshs.1,035,839,261. Further, the statement of receipts and payments reflect total payments amounting to Kshs.18,444,366,382 which differed with recomputed amount of Kshs.18,443,366,382 resulting to unexplained variance of Kshs.1,000,000. In addition, the budget execution by programmes and contingent liabilities have not been included in the financial statement.

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed. Further, the financial statements do not comply with the Public Sector Accounting Standards reporting framework.

### **2. Payments after the Financial Year End**

The statement of receipts and payments reflects payments totalling to Kshs.18,444,366,382 out of which an amount of Kshs.517,969,341 was paid after the closure of the financial year. This is contrary to the International Public Sector Accounting Standards (Cash Basis) reporting framework and Regulation 97(1) of the Public Finance Management (County Governments) Regulations, 2015 which states that the accounts of County Government entities shall record transactions which take place during the financial year running from 1 July of the preceding year to 30 June of the following year.

In the circumstance, the accuracy and completeness of the statement of receipts and payments could not be confirmed.

### **3. Inaccuracies in Other Receipts**

The statement of receipts and payments reflects other receipts (own source revenue and donor funds) totalling to Kshs.3,628,840,753 out of which an amount of Kshs.3,259,072,974 was in respect of own source revenue as disclosed in Note 3 to the financial statements. Included in own source revenue amount is cess revenue amounting to Kshs.19,906,004 which differed with the supporting schedule amount of Kshs.17,689,504 resulting to unreconciled variance of Kshs.2,216,500.

Further, the cess collections was below the budgeted target of Kshs.30,000,000 by Kshs.10,093,996 or approximately 34% of the budget. No explanation was provided for the under collection which negatively affected the delivery of services.

In addition, other receipts amount of Kshs. 3,628,840,753 varies with the balance of Kshs.9,324,388,779 reflected in the statement of comparison of budget and actual amounts: Recurrent and Development combined of Kshs.5,695,548,026.

In the circumstances, the accuracy and completeness of the cess revenue totalling to Kshs.19,906,004 and other receipts amount of Kshs.Kshs.3,628,840,753 respectively could not be confirmed.

#### **4. Unsupported Expenditure on Use of Goods and Services**

The statement of receipts and payments reflect use of goods and services amounting to Kshs.19,906,004 as disclosed in Note 5 to the financial statements. Review of the expenditure revealed the following anomalies:

##### **4.1 Rentals of Produced Assets**

The balance includes rentals of produced assets balance of Kshs.20,492,849 which includes rent expenditure on ward offices totalling to Kshs.4,754,282. However, lease agreements and invoices in support of the rent paid were not provided for audit verification.

##### **4.2 Insurance Costs**

Further, included in the insurance costs balance of Kshs.140,633,620 is an expenditure balance of Kshs.42,139,944 incurred on insurance for two hundred and twenty-seven (227) vehicles with effect from 01 November, 2021 to 31 October, 2022. However, Insurance valuation reports, copies of insurance certificates and policy documents were not provided for audit review.

##### **4.3 Routine Maintenance of Motor Vehicles and Other Transport Equipment**

Included in the routine maintenance of vehicles and other transport equipment balance of Kshs.727,787,363 is Kshs.24,658,844 which was not supported by motor vehicle maintenance logbooks showing repairs, driver defects report, pre and post repair inspection reports and receipt of tyres. Further, routine routine maintenance of vehicles and other transport equipment cost increased from the prior year balance of Kshs.40,393,869 to the current Kshs.727,787,363 resulting to an increase of Kshs.687,393,494 or 1701% which was not explained.

In the circumstances, the accuracy and propriety of use of goods and services expenditure amounting to Kshs.71,553,070 could not be confirmed.

## **5. Unsupported Other Grants and Transfers**

The statement of receipts and payments reflects other grants and transfer totalling to Kshs.3,157,011,991 as disclosed in Note 8 to the financial statements. However, review of records revealed the following anomalies;

### **5.1 Emergency Relief and Refugee Assistance (Emergency Fund)**

Included in other grants and transfer amount of Kshs.3,157,011,991 is emergency relief and refugee assistance (Emergency Fund) totalling to Kshs.70,000,000. The amount differed with the total payments reflected in the bank statements of Kshs.85,000,000 resulting to unexplained variance of Kshs.15,000,000.

### **5.2 Facility Improvement Fund Utilized as Appropriation in Aid (AIA) by Health Facilities**

Included in other grants and transfers amount of Kshs.3,157,011,991 is facility improvement fund utilized as AIA by health facilities totalling to Kshs.1,499,756,915 spent at source by level 4 and 5 hospitals. However, the spending of the revenue at source had not been authorized by way of legislation and the hospitals had not prepared separate financial statements as provided for under paragraph 2.2.3.1 of the National Treasury and Planning Circular AG.4/16/3 VOL.II (66) of 6 July, 2022.

Further, the amount included Kshs.279,891,046 incurred on salaries, compensation to casual workers and contracted professional services in the health facilities which had not been charged to compensation of employees.

### **5.3 Conditional Grants Transfer to Village Polytechnics Fund Account**

Included in other grants and transfers amount is conditional grants transfer to Village Polytechnics Fund Account totalling to Kshs.61,035,855. The amount includes disbursements totalling to Kshs.43,212,400 paid to seventeen (17) institutions for 2,135 students. However, the disbursements exceeded the approved subsidy entitlement at Kshs.13,814 per student resulting to an overpayment of Kshs.13,719,510. Further, disbursements totalling to Kshs.17,315,560 paid to 16 other institutions for 2,284 students was less than the entitlement of Kshs.31,551,176 resulting to under disbursements of Kshs.14,235,616. No explanation was provided for the over/under- disbursement of the funds.

### **5.4 Other Capital Grants**

Included in other capital grant totalling to Kshs.87,151,641 and as disclosed in Note 8 to the financial statements is an expenditure totalling to Kshs.27,377,650 for the supply of sports kitty and empowerment items. However, the criteria for identifying the beneficiaries and signed distribution list were not provided for audit review. Further, distribution of the items to the public was not supported by any legislation.

## **5.5 Accuracy of Kenya Devolution Support Programme (KDSP)**

Included in other grants and transfers is an expenditure on Kenya Devolution Support Programme totalling to Kshs.111,558,895. However, the amount differs with the balance of Kshs.120,374,189 paid into the Programme resulting to unreconciled variance of Kshs.8,815,294.

Further, the expenditure includes an amount of Kshs.12,001,150 paid to various firms for consultancy services. However, procurement documents, including proposals for the consultancy services were not presented for audit review. The terms of reference for the services could therefore not confirmed.

In the circumstances, the accuracy and propriety of other grants and transfer could not be confirmed.

## **6. Acquisitions of Assets**

The statement of receipts and payments reflects acquisition of assets expenditure totalling to Kshs.3,721,716,188 and as disclosed in Note 10 to the financial statements. Review of the expenditure revealed the following anomalies:

### **6.1 Construction of Buildings**

The acquisition of assets expenditure includes construction of buildings amount totalling to Kshs.640,817,888 out of which a transfer of Kshs.31,262,065 was made to Kenya Electricity Generating Company (KeNGEN) for construction of proposed out-patient block at Naivasha level 5 hospital. There was an agreement between the County Government and KeGEN to construct an out-patient block at Naivasha level 5 hospital as part of the later corporate social responsibility (CSR). The County Government was supposed to contribute part funding. Though the county Government made their contribution, the project file and the joint financing agreement of the project were not provided for audit verification and it was therefore not possible to confirm the status of the project. In addition, the funds were not budgeted for in the County Executive

Further, the construction of buildings balance includes an amount of Kshs.87,179,496 in respect of construction of office of the Governor Block Annex. Review of documents revealed that the County Executive entered into a contract for the construction of office of the Governor Block Annex at a contract sum of Kshs.288,557,450 with effect from 18 November, 2020. The construction works commenced on 12 February, 2021. No explanation was provided for the delayed commencement of the project. A total of Kshs.87,179,496 was paid for certificates 1 to 5 during the year. However, the certificates were not supported by measurements of work done and certified by the inspection and acceptance committee. This was contrary to Clause 6 of the contract signed on 18 November, 2020 between the County Executive and the contractor which states that all payments shall be based on measured work done.

Field verification done on 20 September, 2022 revealed that the project had stalled and the contractor was not on site. The contractor also made a claim of Kshs.16,199,428 through certificate 1 contrary to clause 6 of the contract which required the contractor to have completed at least 10% of the contract sum or Kshs.28,885,745 before lodging any claim.

## **6.2 Purchase of Specialized Plant, Equipment and Machinery**

The expenditure further includes purchase of specialized plant, equipment, and machinery amounting to Kshs.325,890,158 which includes hire of motor grader, excavator and dozers for road construction works totalling to Kshs.103,128,101. However, the daily equipment utilization schedule indicating daily odometer readings at start and end for each equipment and downtime were not provided for audit verification.

## **6.3 Unsupported Expenditure on Rehabilitation of Water Projects**

Construction and civil works balance of Kshs.1,114,687,232 includes expenditure totalling to Kshs.13,429,326 incurred on repairs and rehabilitations of water projects, boreholes, existing water pipeline works, water tanks and intake work. However, the rehabilitation works were not supported with the pre post inspection reports, and bills of quantities. The nature and extent of the repairs and rehabilitation works could therefore not be confirmed.

In the circumstances, the accuracy and propriety of acquisition of assets expenditure of Kshs.3,721,716,188 could not be confirmed.

## **7. Cash and Cash Equivalent – Unreconciled Balances**

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.4,431,637,923 and as disclosed in Note 14 to the financial statements. The following anomalies were noted:

### **7.1 Revenue Fund Account Held at Central Bank of Kenya**

Included in the reconciling items is a receipt in the cash book but uncredited in the bank totalling to Kshs1,042,089,307. However, receipt vouchers in support of the receipts were not provided for audit verification. The amount had also not been cleared in the subsequent months.

### **7.2 Nakuru County Primary Health Care-Central Bank Account**

Bank reconciliation statement for the month of June, 2022 reflected receipts in cash book amounting to Kshs.11,533,279 which were not banked dating back to 30 June, 2021. However, no explanation was provided for failure to bank the money for over twelve months.

### **7.3 Naivasha Hospital-Kenya Commercial Bank Account**

Note 14 to the financial statements indicates a balance of Kshs.46,907,633 held at the hospital bank account. However, the cash book in support of the balance was not provided for audit verification.

### **7.4 Molo Sub-County Hospital- National Bank of Kenya**

The bank reconciliation statement for the month of June, 2022 reflects receipt in bank statement not yet recorded in cash book amounting to Kshs.1,032,637 described as NHIF deposits. However, there was no schedule provided to support the amount. Further, the bank reconciliation statement reflected receipts in cash book not yet recorded in bank statement amounting to Kshs.202,902 which was not supported.

### **7.5 PGH Main Account-National Bank of Kenya**

The bank reconciliation statement for the month of June, 2022 reflected payments in cash book but not recorded in bank statements totalling to Kshs.91,734,275. The amount includes stale cheques amounting to Kshs.4,203,419 which have not been reversed in the cash book.

Further, the bank reconciliation statement reflects payments recorded in bank statement not yet recorded in cash book totalling to Kshs.12,428,645 which have not been investigated or explained.

In addition, the reconciliation statement reflects unreceipted credits amounting to Kshs.68,822,114 which have not been explained, out of which receipts amounting to Kshs.1,684,080 date back to 4 August, 2020.

### **7.6 Nakuru Municipality Urban Development Grant Account (UDG)-I&M Bank**

Bank reconciliation statement for the month of June, 2022 reflects receipts in the cash book but unrecorded in bank statement amounting to Kshs.369,962,536 described as funds received on 13 May,2022 which were not supported.

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.4,431,637,923 could not be confirmed.

## **8. Unaccounted for Imprest**

The statement of receipts and payments reflects total payments of Kshs.18,444,366,382 out of which Kshs.25,527,596 was imprests expensed directly at the point of issue and not after surrender by the imprest holders.

In the circumstance, the propriety and occurrence of the expenditure amounting to Kshs.25,527,596 could not be confirmed.

## 9. Inaccuracy of Prior Year Adjustment

The statement of assets and liabilities reflects prior year adjustments amounting to Kshs.1,201,546,593 as further disclosed in Note 18 to the financial statements. The amount relates to adjustment of bank account balances for project accounts. However, the amount includes opening balance of Kshs.1,201,546,593 which vary with the audited balances for 2020/2021 of Kshs.1,188,393,903 resulting to unexplained variance of Kshs.13,152,690 as detailed out below:

<b>Account</b>	<b>Schedule (Kshs.)</b>	<b>Audited Financial Statement (Kshs.)</b>	<b>Variance (Kshs.)</b>
National Agriculture and Rural Growth Account (NARIG)	33,064,954	28,278,042	4,786,912
Agriculture Sector Development Support Account (ASDSP)	20,248,636	13,338,036	6,910,600
Urban Institutional Grant Nakuru (UIG)	750,317	665,141	85,176
Naivasha Municipal Urban Development Grant (UDG)	291,869,054	291,869,052	2
Nakuru Municipal Urban Development Grant (UDG)	854,243,632	854,243,632	0
Donor Fund Account	1,370,000	0	1,370,000
<b>Total</b>	<b>1,201,546,593</b>	<b>1,188,393,903</b>	<b>13,152,690</b>

Further, included in the Agriculture Sector Development Support Account (ASDSP) opening balance adjustment are two payments totalling Kshs.902,500 described as refund of borrowed money which was not supported. In addition, the Donor Fund Account opening balance of Kshs.1,370,000 relate to unspent imprest issued to various officers on diverse dates within the year under review. However, the balance was not supported by imprest warrants and imprest register. Further, the unspent imprest of Kshs.1,370,000 relates to the year under review and therefore could not be a prior year adjustment.

In the circumstances, the accuracy of the prior year adjustment amount of Kshs.1,201,546,593 could not be confirmed.



## 10. unsupported Payment in the Integrated Financial Management Information System (IFMIS)

Review of transaction in IFMIS revealed the following anomalies:

Description	Amount (Kshs)	Remarks
Voided payments	625,295,777	<ul style="list-style-type: none"> <li>i) 448 transactions were voided</li> <li>ii) Request to void payments, voided payment vouchers, National Treasury approval and exchequer requisitions from the Controller of Budget were not provided for audit review</li> <li>iii) The voided payments have not been disclosed as pending bills under pending accounts payable</li> <li>iv) The utilization of funds meant for the voided transaction could not be ascertained as no documentation was provided.</li> </ul>
Payments in excess of Local Purchase Order	51,263,347	Payments in IFMIS amounting to Kshs.51,263,347 were made which were higher than the corresponding local purchase and service orders amount totalling Kshs.21,558,858.
Payments not in IFMIS	8,070,665,467	Twelve thousand eight hundred and twenty-eight (12,828) transactions valued at Kshs.8,070,665,467 were effected in the internet banking (IB) but were not recorded in IFMIS.
Payments without Local Purchase Orders	74,458,486	Payments amounting to Kshs.74,458,486 were made through forty-four (44) invoices without the corresponding local purchase and service orders
Irregular charge of expenditure	453,261,908	Payments totalling Kshs.453,261,908 which were irregularly charged to various expenditure items

In the circumstances, the accuracy and completeness of the financial statements could not be confirmed.

## 11. Variance Between Financial Statement Amount and Supporting Schedules

The statement of receipts and payments reflects use of goods and services balance of Kshs.3,845,940,577 and as disclosed in Note 5 to the financial statements. However, supporting schedules for three expenditure items differed with the financial statement balances as detailed below:

<b>Particulars</b>	<b>Financial Statement (Kshs.)</b>	<b>Supporting Schedule (Kshs.)</b>	<b>Variance (Kshs.)</b>
Routine Maintenance-vehicles and other Transport Equipment	727,787,363	63,294,367	664,492,996
Fuel, Oil and Lubricants	63,294,367.01	139,343,387.35	(76,049,020.35)
Other Operating Expenses	139,343,387	727,787,363	(588,443,976.40)
<b>Total</b>	<b>930,425,117</b>	<b>930,425,117</b>	

In the circumstances, the accuracy and completeness of the expenditure on use of goods and services could not be confirmed.

## **12. Unsupported Lease of Medical Equipment**

Review of the project implementation status report for the County Executive revealed that the County Executive and National Governments through the Ministry of Health signed a Memorandum of Understanding (MoU) on the provision of medical equipment and related services referred to as the Managed Equipment Services (MES) in 2015. However, the lease agreement as well as the list of equipment leased was not provided for audit review.

Further, the lease payments are reflected in the CARA as a conditional grant for leasing of medical equipment. However, expenditure amounting to Kshs.153,297,872 made in the year under review were not disclosed in the financial statements. The County Executive has paid cumulative lease amounting to Kshs.904,468,086 as at 30 June, 2022. In the absence of proper costing and details of equipment respective values, the County Executive may exorbitantly pay for equipment, some of which may not have been delivered. The ownership of the equipment could also not be confirmed.

In the circumstance, the propriety and accuracy of the expenditure could not be confirmed

## **13. unsupported Procurement of Revenue System Hardware Equipment**

A company was paid Kshs.8,763,750 for the supply and delivery of revenue system hardware equipment vide payment voucher number 10022469 dated 6 July, 2021. The equipment included 350 11A Samsung Dual phone and 100 Thermos printers. However, the goods were received and recorded in counter receipt voucher dated 21 December, 2020 which was earlier than the local purchase order date of 12 February, 2021.

Further, the user requisition raised on 16 November, 2020 did not give specifications of the smart phones and thermos printers requisitioned. The distribution list of the recipients was also not provided for audit verification.

In addition, tender advertisement, bids, appointment letters to tender opening and evaluation committee, tender evaluation minutes or scores, professional opinion, inspection and acceptance report were not provided for audit verification.

In the circumstances, the propriety of the expenditure on the purchase of the revenue system hardware equipment could not be confirmed.

#### **14. Irregular Purchase of Land**

As previously reported, the County Executive 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. Whereas, the user department had sought for undeveloped land size of one to two acres without encumbrance, the Management purchased a developed five acres land with Kshs.3,000,000 encumbrances. During the year under review, a payment of Kshs.30,000,000 was made to a payee other than the real owner or seller.

Further, Management paid a total of Kshs.127,753,335 for purchase of various pieces of land. However, no requisitions from user departments and title deeds for the purchased land were provided for audit verification. Physical verification of the purchased land conducted on 22 and 25 September, 2022 revealed that the County Executive had not taken possession of the three parcels of land in Dondori, Kihingo market and Kamara market costing Kshs.95,000,000, Kshs.13,000,000 and Kshs.9,800,000 respectively which are still being occupied by the sellers. In particular, the Kihingo market parcel and another one in Kaptembwa costing Kshs.6,000,000 had also not been demarcated.

In the circumstances, the valuation and ownership of the purchased parcels of land could not be confirmed

#### **15. Construction of Proposed Electrical and Mechanical Works at Out Patient Department at Rift Valley Provincial General Hospital**

Note 10 to the financial statements reflects construction of building expenditure amounting to Kshs.640,817,888. The amount includes an amount of Kshs.140,554,073 which was paid to a contractor for the construction of proposed electrical and mechanical works at outpatient department at Rift Valley Provincial General Hospital vide tender number NCG/MOH/ONT/460/2020-2021 and at a contract sum of Kshs.160,988,441. However, tender documents such as copy of the advertisement, bid documents, bills of quantities, appointment letters for opening and tender committee, copy of the tender opening and evaluation committee report, evaluation committee minutes, professional opinion and contract agreement were not provided for audit verification.

Further, a sight inspection visits on 15 September, 2022 revealed that the project was about 85% complete.

In the circumstances, the propriety of the expenditure of Kshs.140,554,073 could not be confirmed.

## **16. Utilities, Supplies and Services**

Note 5 to the financial statements reflectS utilities, supplies and Services expenditure amounting to Kshs.188,861,024. Included in this expenditure is an amount of Kshs.12,570,000 paid to three banks for the supply of murrum and gravel. However, payment vouchers, user requisitions, tender evaluation minutes, tender award, professional opinion, delivery note, and inspection and acceptance reports in support of the expenditure were not provided for audit verification. Further, Management has not provided any explanation on the circumstances under which the banks were contracted to supply murrum and gravel.

In the circumstances, the propriety of the expenditure of Kshs.12,570,000 could not be confirmed.

## **17. Unsupported Consultancy Services for Rapid Review Assessment and End Term Assessment of County Integrated Development Plan of 2018-2022**

The County Executive procured consultancy services for rapid review assessment and end term assessment of County Integrated Development Plan of 2018-2022 at a contract sum of Kshs.19,832,520. The contract was for a period of three months ending 25 March, 2022. The consultant had been paid Kshs.15,465,946 as at 30 June, 2022. However, the expenditure was not budgeted for and the user requisition, tender advertisement, bids, appointment letters to tender opening and evaluation committee, tender evaluation minutes or scores, professional opinion, and inspection and acceptance report were not provided for audit verification.

In the circumstances, the propriety of the expenditure of Kshs.15,465,946 already incurred could not be confirmed.

## **18. unsupported Supply and Delivery of Seedlings to Farmers**

The County Executive incurred an expenditure on supply and delivery of seedlings for distribution to farmers valued at Kshs.52,993,824. However, the user requisition, tender advertisement, bids, appointment letters to tender opening and evaluation committee, tender evaluation minutes or scores, professional opinion, inspection and acceptance report and distribution list were not provided for audit verification.

In the circumstances, the propriety of the expenditure of Kshs,52,993,824 could not be confirmed.

## **19. Unsupported Supply and Delivery of Revenue System Laptops and Accessories**

During the year under review, Management paid Kshs.9,059,765 for the supply and delivery of revenue system equipment and installation of internet at sub county revenue offices. The supplied equipment were three Laptops, one server, one UPS, three Smart phones and connectivity of internet at sub county revenue offices. However, user

requisition, tender advertisement, bids, appointment letters to tender opening and evaluation committee, tender evaluation minutes or scores, professional opinion, inspection and acceptance report were not provided for audit verification.

In the circumstances, the propriety of the expenditure 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 adverse 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. There are no key audit matters to report in the year under review.

### **Other Matter**

#### **Budgetary Control and Performance**

The statement of Comparison of Budget and Actual amount: Recurrent and Development combined reflects budgeted receipt and actual amounts on comparable basis of Kshs.23,513,986,580 and Kshs.22,350,505,102 respectively resulting to under collection of Kshs.1,163,481,478 or 6% mainly contributed by undercollection of other receipts. Similarly, the County Executive had an approved expenditure budget of Kshs.23,513,986,580 against the actual expenditure of Kshs.18,443,366,382 resulting to an under expenditure of Kshs.5,070,620,198 or 22%.

The budget under funding and under performance affected the planned activities and may have impacted negatively on service delivery to the public.

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

### **Conclusion**

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

## **Basis for Conclusion**

### **1. Legal Expenses**

During the year under review, a law firm was paid legal fee totalling to Kshs.12,049,000 for reviewing pending legal claims against the County. This is contrary to Section 5(1)(d) of the Nakuru County Attorney Act, 2017 which requires the County Attorney to represent the County Government in any legal proceedings arising from county legislation or any other legislation which the County Government is party to or has interest. The letter of engagement was dated 29 May, 2019 but was signed a year later. The contract provided for payment of instruction fees of Kshs.2,000,000 on execution of the engagement letter and 5% performance fees of the amount saved. However, record of the amount saved was not provided for audit verification and therefore it was not possible to determine the amount paid.

Further, review of records provided for audit revealed that legal fees totalling to Kshs.439,852,209 to four hundred and seventeen (417) law firms for the provision of legal services have not been paid. This is contrary to Section 5(1)(d) of the Nakuru County Attorney Act, 2017 which provides that the County Attorney shall represent the County Government in any legal proceedings arising from county legislation or any other legislation which the county Government is party to or has interest, other than criminal proceedings. Further, no record of services provided by the law firms was provided for audit verification.

In addition, the law firms were directly procured. However, the services were not urgent and reason for using direct procurement was not provided.

In the circumstances, Management was in breach of the Law.

### **2. Lack of Staff Establishment**

The County Executive does not have an approved staff establishment. This is contrary to Policy B.2 (1) of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which requires every Ministry and State Department to prepare Human Resource Plans to support achievement of goals and objectives in their Strategic Plans. The plans shall be based on comprehensive job analysis and shall be reviewed every year to address emerging issues and needs.

Further, review of personnel records revealed that 472 employees have served the County Executive for more than six (6) months but were yet to be confirmed to permanent and pensionable terms or their probationary period extended. This is contrary to Policy B.18 (1) of the Human Resource Policies and Procedures Manual for the Public Service of May, 2016 which provides that an officer appointed to the service in a pensionable post will be confirmed in appointment and admitted into the permanent and pensionable establishment on completion of probationary period of six (6) months of satisfactory service. Further, sixty-five (65) employees on probation were promoted and no explanation was provided for promoting officers on probation.

In the circumstances, Management was in breach of the Law.

### **3. Non-Compliance with Implementation of E-procurement**

Review of procurement records revealed that the County Executive procured goods, works and services totalling Kshs.868,592,308. However, the procurement was not undertaken through e-Procurement. This is contrary to Executive Order No.2 of 2018 on procurement of public goods, works and services by public entities that requires all procurement be undertaken through e-Procurement.

In the circumstances, Management was in breach of the law.

### **4. Irregular Procurement of Conference Facilities and Services**

The County Executive incurred expenditure amounting to Kshs.4,152,448 on the provision of conference and accommodation services. However, direct procurement method was used to procure the services despite the fact that they were not urgent and no satisfactory reason was given for use of this method. This is contrary to Regulation 90(1)(a) of the Public Procurement and Asset Disposal Regulations, 2020 which requires the Accounting Officer to record reasons upon which a determination that the relevant conditions for Direct Procurement set out in section 103 of the Public Procurement and Asset Disposal Act, 2015 have been satisfied. Further, no documentary evidence was provided in support of prior approval of the direct procurement, appointment of evaluation committee, negotiation by evaluation committee, market survey, signed contract and reporting of the procurement to the Public Procurement Regulatory Authority. Invitation letters to participants and signed attendance register were also not provided for audit review.

In the circumstances, Management was in breach of the Law.

### **5. Irregular Supply and Delivery of Market Umbrellas**

The County Executive procured 1997 umbrellas from a supplier at a cost of Kshs.8,387,500 which was paid on 24 June, 2022 through payment voucher number 0027002. However, the expenditure was not budgeted for while the user department requisition, tender advertisement, bids, appointment letters to tender opening and evaluation committee, tender evaluation minutes or scores, professional opinion, inspection and acceptance report and distribution list were not provided for audit verification. This is contrary to Section 9 (1) (e) of the Public Audit Act, 2015 which states that the Auditor General or an officer authorized for the purpose of this Act, shall have powers of unrestricted access to all books, records, returns and reports.

In the circumstances, Management was in breach of the Law.

## **6. Supply of ENT Microscope and Accessories**

Expenditure totalling to Kshs.5,200,000 was incurred on the supply and delivery of ENT Microscope and accessories. However, the procurement was split into two, purchase of the microscopes and accessories at Kshs.3,000,000 and Kshs.2,200,000 respectively. This is contrary to Regulation 43(1) of Public Procurement and Asset Disposal Regulations, 2020 which states that a procuring entity shall not split or structure its contracts for the purpose of avoiding the use of a procurement procedure except where unbundling of categories is allowed under preference and reservation schemes.

In the circumstances, Management was in breach of the Law.

## **7. Proposed Improvement of Electrical Lighting and Repair Works Accessories**

The Nakuru Municipality entered into a contract for the proposed improvement of electrical lighting and repair works accessories at KFA, Kwa Jack Matatu Stage and Nakuru Central Business District at a contract sum of Kshs.7,940,100. However, the contract was awarded to the second lowest bidder who had not provide a tender security. Further, the award of tender did not give preference to the citizens in the County. This is contrary to Regulation 151 of Public Procurement and Asset Disposal Regulation, 2020 which gives exclusive preference and reservation to resident contractor when participating in procurement using funds from County Government except where its established that the local capacity is not available.

In the circumstances, Management was in breach of the law.

## **8. Irregular Supply and Delivery of Acaricides**

The County Executive incurred an expenditure on supply and delivery of acaricides for distribution to farmers totalling to Kshs.22,512,959 which exceeded the approved budget amount of Kshs.20,000,000 resulting to an over-expenditure of Kshs.2,512,959. However, the user requisition, tender advertisement, bids, appointment letters to tender opening and evaluation committee, tender evaluation minutes or scores, professional opinion, inspection and acceptance report and distribution list were not provided for audit verification. This is contrary to Section 9 (1) (e) of the Public Audit Act, 2015 which states that the Auditor General or an officer authorized for the purpose of this Act, shall have powers of unrestricted access to all books, records, returns and reports.

In the circumstances, Management was in breach of the Law.

## **9. Irregular Supply and Delivery of Pesticides**

A company was paid Kshs.8,735,410 for the supply and delivery of pesticides for distribution to farmers which exceeded the approved budget amount of Kshs.7,000,000 resulting to an over-expenditure of Kshs.1,735,410. However, the user requisition, tender advertisement, bids, appointment letters to tender opening and evaluation committee, tender evaluation minutes or scores, professional opinion, inspection and acceptance report and distribution list were not provided for audit verification. This is contrary to Section 9 (1) (e) of the Public Audit Act, 2015 which states that the Auditor General or an



officer authorized for the purpose of this Act, shall have powers of unrestricted access to all books, records, returns and reports.

In the circumstances, Management was in breach of the Law.

### **10. Irregular Supply and Delivery of Fertilizers**

The County Executive incurred expenditure on supply and delivery of fertilizer for distribution to farmers amounting to Kshs.34,778,000 which was not budgeted for. Further, the user requisition, inspection and acceptance report and the criteria for the identifying the beneficiaries were not provided for audit verification. In addition, the basis for distributing the fertilizer to the farmers is not provided for in law. This is contrary to Section 9 (1) (e) of the Public Audit Act, 2015 which states that the Auditor General or an officer authorized for the purpose of this Act, shall have powers of unrestricted access to all books, records, returns and reports.

In the circumstances, Management was in breach of the Law.

### **11. Establishment of Subsidiaries**

The County Executive Established Molo and Gilgil Municipalities during the year under review. However, the Boards for the two Municipalities were yet to be constituted as at the time of the audit. The applications for conferment of towns to Municipal status for Molo and Gilgil were therefore, not done by the Board. This is contrary to Section 8 (1) of the Urban Areas and Cities Act, 2011 which requires the Board of a Municipality/town to apply to the County Executive Committee for consideration for the conferment of municipality/city status. Further, charters granted by the Governor for the municipalities as provided in Section 9(1) of the Urban Areas and Cities Act, 2011 were not provided.

In the circumstances, Management was in breach of the Law

### **12. Failure to Recover Retention Money**

The County Executive entered into a contract with various contractors for drilling of boreholes at a cost of Kshs.39,343,026 which was fully paid. However, retention money totalling Kshs.3,050,446 was not recovered from the payments. This is contrary to clause 46.1 of the conditions of contracts for drilling boreholes which stipulates that 10% and or 5% of payment be retained as retention money to be paid after the defect's liability period of 180 days.

In the circumstance, Management was in breach of the law.

### **13. Non-Compliance with Deduction and Remittance of Statutory Dues**

Review of documents provided for audit revealed that the County Executive owed Kshs.305,686,362 to National Social Security Fund (NSSF) which comprise of outstanding contribution of Kshs.98,957,200 and penalties amounting to

Kshs.206,729,162. However, Management has not made any effort to clear the outstanding amount which continue to attract penalties. Further, Pension deductions and contributions amounting to Kshs.50,893,238 which have attracted interest amounting to Kshs.652,855,400 have also not been remitted. Records supporting deduction and remittance of NHIF and PAYE for employees were not provided for audit review. In addition, the IPPD system does not deduct NSSF for staff on contract and those on Lap Trust Pension Scheme.

In the circumstances, the County continues to incur nugatory expenditure in form of interest and penalties due to ineffective Management of Public Funds.

#### **14. Construction of the Treasury Building**

The County Executive entered into a contract for the construction of County Treasury building at a contract sum of Kshs.886,630,339. A total of Kshs.327,979,213 had been paid to the contractor out of which Kshs.142,006,035 relate to 2021/2022 financial year. However, the certificates of completion were not supported with joint measurements or measured work done and certified by the inspection and acceptance committee. This is contrary to Regulation 35(6) of the Public Procurement and Assets Disposal Regulations, 2020 which requires the Inspection and Acceptance Committee to prepare and issue a report, interim or completion of inspection and acceptance certificate. Further, the architectural drawings of the building had not been approved and therefore, the validity of the bills of quantities for the building could not be confirmed.

In the circumstances, Management was in breach of the Law.

#### **15. Direct Procurement of Non-Pharmaceuticals**

Nakuru County Executive Department of Health spent a total of Kshs.11,910,633.65 on the supply and delivery of medical gases. The gases were directly procured. However, no explanation was provided for failure to competitively procure the gases from the prequalified suppliers. This is contrary to Regulation 90 (1) (a) of the Public Procurement and Asset Disposal Regulations, 2020 which requires the Accounting Officer to record the reasons upon which a determination that the relevant conditions for Direct Procurement set out in section 103 of the Public Procurement and Asset Disposal Act, 2015 have been satisfied.

In the circumstance, Management was in breach of the Law.

#### **16. Domestic Public Non-Financial Enterprises**

Note 10 to the financial statements reflects an expenditure on domestic public non-financial enterprises amounting to Kshs.263,009,388. The amount included Kshs.5,743,798 paid to a contractor for certificate number 2 for construction of market shed, pit latrine, fencing and gate house at Lemurine market through contract number NCG/TITC/T/032/2018-19 at a contract sum of Kshs.11,307,634. The contract was scheduled to start on 16 April, 2019 and to be completed on 30 June,

2019. However, the project is behind schedule. Further, as at the time of issuing the second interim certificate of Kshs.5,743,798 dated 12 May, 2021, only 80% of the work had been certified while Kshs.10,959,684 or 97% of the contract sum had been paid. No explanation was given for the overpayment and the delayed completion of the project.

In the circumstances, the County Executive did not receive value for money incurred on the project.

### **17. Donation of Business Items to the Public**

The specialized materials and services expenditure amounting to Kshs.1,419,256,054 and as disclosed in Note 5 to the financial statements includes an expenditure amounting to Kshs.187,113,416 in respect of purchase and supply of tents, chairs, boda-boda umbrellas, motor bikes, shaving machines, school uniforms, hair driers, UV gel, public address system, car wash machines, water tanks, welding machines and milk coolers. The items were donated to members of the public in the county for free. However, the donations are not within the mandate of the County Government. This is contrary to the Fourth Schedule of the Constitution. Further, requisitions, criteria of identifying the beneficiaries, evidence of acknowledgement letters of receipt by the beneficiaries were not provided for audit verification.

In the circumstances, Management was in breach of the law.

### **18. Fuel, Oil and Lubricants**

The statement of receipts and payments reflects use of goods and services totalling to Kshs.3,845,940,577 and as disclosed in Note 5 to the financial statements. The amount includes an expenditure amounting to Kshs.63,294,367 for the supply of fuel, oil, and lubricants to the various County Departments and other operating expenses of Kshs.139,343,387 where some fuel expenditure was charged. However, review of documents provided for audit revealed that an expenditure amounting to Kshs.67,708,348 was incurred on fuel purchased from suppliers other than the authorized. This was contrary to Office of the President Circular referenced OP/CAP.9/108 of 30 April, 2015 which required all Government Ministries, agencies to liaise and negotiate with the National Oil Corporation for supply of fuel. Further, tender documents such as user requisition, the tender document, tender opening minutes, tender evaluation minutes, professional opinion and contract award, signed contract were not provided for audit verification.

In addition, payment for fuel was made in advance. However, the advance payments were not secured. Further, fuel register and supplier statements were not provided for audit review. It was therefore not possible to confirm whether the fuel paid for was fully utilized.

In the circumstances, the Management was in breach of the Office of the President Circular referenced OP/CAP.9/108 of 30 April, 2015.

### **19. Research, Studies, Project Preparation, Design and Supervision**

Note 10 to the financial statements reflects research, studies, project preparation, design and supervision expenditure amounting to Kshs.94,476,199. The amount includes an expenditure totalling to Kshs.31,976,730 which was incurred on the supply and delivery of non-pharmaceutical goods. Direct procurement method was used in the procurement. However, the procurement did not meet the conditions for direct procurement as prescribed by the Public Procurement and Asset Disposal Regulations, 2020. The procurement had also been split by issuing multiple local purchase orders. This is contrary to Regulation 43(1) of Public Procurement and Assets Disposal Regulations, 2020 which requires a procuring entity not to split or structure its contracts for the purpose of avoiding the use of a procurement procedures.

In the circumstances, Management was in breach of the Law.

### **20. Grounded Motor Vehicles and Machinery**

Review of records provided for audit revealed that twelve (12) County Executive motor vehicles and machinery were grounded. However, the County has not prepared an annual disposal plan of items declared as unserviceable, surplus, or obsolete, obsolescence stores, asset or equipment. This is contrary to Regulation 176(1) of the Public Procurement and Asset Disposal Regulations, 2020 which requires an Accounting Officer to ensure that an annual assets disposal plan is prepared of items declared as unserviceable, surplus or obsolete, obsolescence stores, asset or equipment. Further, ownership documents for the grounded motor vehicles and machinery were not provided for audit verification.

In the circumstances, Management was in Law.

### **21. Consultancy Services for Topographical Mapping and Preparation of Nakuru Spatial Development Plan**

The County Executive procured consultancy services for digital topographical mapping at a contract sum of Kshs.314,657,600. The contract was to take 18 months and the commencement date was 22 June, 2015. The amount paid to the consultant as at 30 June, 2022 amounted to Kshs.285,490,929. During the year under review, an amount of Kshs.21,500,316 was paid to the consultant. However, the project had not been completed as at 30 June, 2022 and no extension of the contract period had been granted. Further, the County is yet to claim for any liquidated damages from the consultant. Further, an incremental Local Service Order (LSO) number 9387 dated 21 January, 2020 of Kshs.36,500,316 was issued to the contractor and paid. Management has not provided explanation for issuing an additional LSO for the contracted project.

In the circumstances, the County Executive did not receive value for money incurred.

## **22. Integrated Revenue Collection Management System Contract**

The County Executive contracted a vendor to supply, installation, configuration and commissioning of an integrated revenue collection management system at a contract sum of Kshs.34,510,000. The contractor was to be paid 4.3% of the revenue collected in the subsequent years as service charge based on the improvement in revenue collection. During the year under review, the supplier was paid Kshs.70,710,933 being 4.3% of the total revenue collected during the year under review. However, review of revenue collections records revealed that the County has not realized any major improvement in revenue collection since the inception of the system.

Further, review of records revealed that the County Executive had not collected revenue totalling to Kshs.4,658,774,627 despite the existence of the revenue collection system.

In the circumstances, the County Executive did not receive value for money incurred on the system.

## **23. Delayed Completion of Water Projects**

The County Executive incurred expenditure amounting to Kshs.89,567,521 on water works that were to be completed within 90 days as per clause 5 of the contracts' agreement. There was however variation of the contract period that was not procedurally approved and Management did not notify the contractors of the non-performance. This is contrary to clause 6 of the contract agreement which requires the employer to give a notice of not more than 7 days to the contractor in case of non-performance or delays or any other reason.

In the circumstances, County Executive did not receive value for money incurred on the project.

## **24. Construction of Njoro Market**

The County Executive signed contract referenced NCG/ONT/TITC/184/2021-2022 for the construction of market sheds, water tanks and electrification of Njoro market at a contract sum of Kshs.9,800,000 from 3 January, 2022 to 28 February, 2022. The contractor has been fully paid. However, a field verification conducted on 19 September, 2022 revealed that the market has not been put into use since its completion and the fence around the market has fallen apart. No explanation has been provided for failure to put the market into use.

In the circumstances, the County Executive did not receive value for money incurred on the project.

## **25. Proposed Construction of Out Patient Department Block at Molo Level 4 Hospital**

Construction of buildings expenditure amounting to Kshs.640,817,888 and as disclosed in Note 10 to the financial statements includes expenditure of Kshs.100,399,458 in respect of construction of outpatient block at Molo Level 4 Hospital. The contract was awarded at a contract sum of Kshs.150,095,777. The project was planned to be completed within 40 weeks of commencement (26 April, 2021 to 26 February, 2022). A site visit in October, 2022 and review of completion certificates revealed that the project was at approximately 50% completion level. However, the interim certificates issued were not supported by inspection and acceptance committee joint measurements against the Bills of Quantities. Further, the payments to the contractor amounting to Kshs.100,399,458 represented 67% of the contract price which was 17% more than the actual work done.

In the circumstances, the County Executive did not receive value for money incurred on the project.

## **26. Proposed Construction of Maternity Wing at Elberton Hospital**

Note 10 to the financial statements reflects construction of buildings amounting to Kshs.640,817,888. The amount includes Kshs.5,691,406 paid for the construction of Maternity Wing at Elberton Hospital at a contract sum of Kshs.38,075,070. The contract was signed on 18 June, 2019 for a duration of 80 weeks with a completion date of December, 2020. The completion date was however extended to 5 April, 2021 with the contractor having been paid a total of Kshs.35,442,883. Physical verification of the project on 21 September, 2022 revealed that the project was incomplete and the contractor was not on site. Further, there were no materials on site.

In the circumstances, the County Executive did not receive value for money.

## **27. Proposed Construction of Out-Patient and In-Patient - Njoro Level 4 Hospital**

Note 8 to the financial statements reflects Kenya Devolution Support Programme expenditure amounting to Kshs.111,558,895. The amount includes an amount of Kshs.68,904,017 paid to a Contractor for proposed construction of outpatient and in-patient Njoro level 4 hospital in Njoro sub county at a contract sum of Kshs.147,538,940. The contract duration was to run for 38 weeks with a completion date of November, 2021. The contractor sought for an extension period of 13 weeks to 22 February, 2022 vide letter dated 12 November, 2021 which was not granted. So far, a total of Ksh.99,175,865 or 67% of the contract sum has been paid to the contractor. Further, the performance bond for the project which was valid for 48 weeks expired on 15 January, 2022 and was not renewed.

Further, no damages have been claimed from the contractor contrary to Clause 27.1 of the tender document which provides for liquidated damages of Kshs 100,000 per week in case of delays in execution of intended works.

In the circumstances, the County Executive did not receive value for money.

## **28. Project Implementation Status**

During the year under review, the County Executive had an approved budget of Kshs.14,340,651,975 to be spent on four thousand two hundred and thirty-seven (4,237) projects and the full amount was disbursed to the projects. Six hundred and eighty-six (686) of the projects with a budgetary allocation of Kshs.2,156,468,529 were yet to start. Another four hundred and seventy-four (474) projects with a budgetary allocation of Kshs.3,628,619,100 were incomplete, while one thousand seven hundred and eighty-one (1781) projects with a budgetary allocation of Kshs.4,957,715,506 had stalled. Only one thousand two hundred and ninety-six 1,296 projects with a budgetary allocation of Kshs.4,957,715,506 were completed as at 30 June, 2022. Further, the project implementation status report budget amount of Kshs.14,340,651,975 differs with the development vote final budget amount of Kshs.8,012,074,839 resulting to unexplained variance of Kshs.6,328,577,136.

In the circumstances, the County Executive did not receive value for money already incurred on the project.

## **29. Incomplete Boreholes**

The County Executive signed contracts for drilling and equipping of boreholes at a cost of Kshs.29,095,575 which was fully paid. However, the boreholes have neither been equipped nor electricity or solar panels installed. Further, ownership documents for the boreholes and approvals from relevant government agencies were not provided for audit verification.

In the circumstances, the County Executive did not receive value for money.

## **30. Lack of Nakuru City Integrated Development Plan**

Nakuru Municipality was upgraded to city status during the year under review. However, the city does not have an approved City Integrated Development Plan. This is contrary to Section 5(b) of the Urban Areas and Cities Act, 2011 which stipulates that one of the criteria for classification of an urban area as a city is having an integrated urban area or city development plan.

In the circumstance, Management was in breach of the Law.

## **31. Lack of Approved Risk Management and Fraud Policy**

The County Executive does not have an approved risk management and fraud policies in place. This is contrary to the provisions of Section 158(1) 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.

In the circumstances, Management was in breach of the Law.

### **32. Unpaid Court Awards**

Review of documents provided for audit revealed that the Chief Magistrates Court in Nakuru, civil suit No. 2728 of 2003 ordered the County Executive to pay Kshs.5,000,000 to the plaintiffs for their rightful, retirement benefits payable as at 31 December, 2002 and all the plaintiffs' gross salary per month commencing 1 January, 2003. However, the order was not honored and the County Executive has since accrued extra penalties on the unpaid amount of Kshs.39,614,552. No explanation has been provided for failure to pay the amount awarded by the court.

In the circumstances, the court awards continue to attract penalties and interest which are avoidable costs and does not realise value for money.

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 because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

#### **Land Rates**

The County Executive does not maintain a valuation roll for land owned within the County. No explanation has been provided for failure to maintain an updated valuation roll.

In the circumstances, the County Executive does not have legal document to enforce land rate collections.



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 controls, 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 controls 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 controls, risk management and overall governance.

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

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

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

Those charged with governance are responsible for overseeing the County Executive's financial reporting process, reviewing the effectiveness of how Management 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 controls in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls 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 controls 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Executive's ability to continue to sustain its services. If I conclude that a material

uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Executive to cease to 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 controls 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**

**14 April, 2023**