

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF KIRINYAGA 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 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 County Executive of Kirinyaga set out on pages 1 to 46, which comprise of the statement of assets and liabilities as at 30 June, 2022, statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of County Executive of Kirinyaga 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 comply with the Public Finance Management Act, 2012 and the County Governments Act, 2012.

Basis for Qualified Opinion

1.0 Non-Current Assets

1.1 Variance Between Non-Current Asset Register Balances and Supporting Schedules

Annex 6 (summary of non-current asset register) to the financial statements reflects non-current assets balance of Kshs.4,335,497,160 as at 30 June, 2022. However, variances were noted between supporting schedules balances and financial statements balances as shown below:

Component	Financial Statements Balance (Kshs.)	Supporting Schedule Balance (Kshs.)	Variance (Kshs.)
Buildings and Structures	587,367,978	587,556,720	(188,742)
Machinery and Equipment	245,620,956	8,231,486	237,389,470
Intangible Assets	67,721,956	66,521,106	1,200,850
Infrastructure Assets - Roads, Rails	1,290,479,835	1,192,311,016	98,168,819

1.2 Incomplete Non-Current Asset Register and Unsupported Assets Balances

Annex 6 (summary of non-current asset register) to the financial statements reflects non-current assets balance of Kshs.4,335,497,160 as at 30 June, 2022. However, review of the non-current asset register provided for audit revealed the following: -

1.2.1 Land

Annex 6 to the financial statements reflects non-current assets balance of Kshs.4,335,497,160 as at 30 June, 2022, which includes land valued at Kshs.29,500,000. However, this balance did not include land inherited from the defunct Local Authorities.

In addition, review of the non-current asset register revealed that forty-eight (48) parcels of land had been disclosed. However, ownership documents in respect to thirty-nine (39) parcels of land were not provided for audit. Further, the land records in the assets register did not disclose other vital information on all the parcels including historical costs and carrying values, dates acquired, nature and use.

1.2.2 Motor Vehicles

One hundred and three (103) motor vehicles and equipment were recorded in the asset register. However, ownership documents in respect to thirty-eight (38) motor vehicles were not provided for audit. Further, key information which include year of manufacture, date acquired, the value of the motor vehicle and the department assigned the vehicle were not disclosed.

In the circumstances, the ownership status, existence, accuracy and completeness of the non-current assets balance of Kshs.4,335,497,160 could not be confirmed.

2.0 Unsupported Motor Vehicle Insurance Expenditure

The statement of receipts and payments reflects use of goods and services balance of Kshs.1,019,731,932 for the year ended 30 June, 2022 and as disclosed in Note 5 to the financial statements. Included in this amount is insurance costs of Kshs.95,805,079 out of which Kshs.16,983,858 was in respect of insurance of motor vehicles. However, supporting documents, including valuation reports and insurance certificates were not provided for audit.

In the circumstances, the accuracy and regularity of insurance expenditure of Kshs.16,983,858 for the year under review could not be confirmed.

3.0 Unsupported Pending Accounts Payable

Annex 2 to the financial statements reflects pending accounts payable balance of Kshs.795,379,502 as at 30 June, 2022. Review of supporting documents provided for audit revealed that pending bills amounting to Kshs.573,920,199 were supported. The balance of Kshs.221,459,303 was not supported by contract documents, local purchase/service orders, and invoices/certificates detailing names of the contractors/suppliers, purchase/service order numbers, invoice/certificate numbers and description of goods supplied, services provided or works done.

In the circumstances, the accuracy, completeness and validity of pending bills totalling Kshs.221,459,303 could not be confirmed.

4.0 Unsupported Expenditures

The statement of receipts and payments reflects total payments of Kshs.5,998,014,575 for the year ended 30 June, 2022, which includes payments totalling Kshs.4,151,350 whose payment vouchers and supporting documents were not provided for audit review.

In the circumstances, the accuracy and propriety of the payments amounting to Kshs.4,151,350 could not be confirmed.

5.0 Non-Disclosure of Pending Staff Payables

Disclosed in Note 2 on other important disclosures is a nil pending staff payables balance. However, as previously reported records available indicate that the County Government owes Local Authorities Provident Fund (LAP Fund) a total of Kshs.36,983,665 being principal debt of Kshs.3,809,834 and accrued interest of Kshs.33,173,831 for the period April, 2013 to 15 May, 2021. The amount has not been disclosed as pending staff payables.

Failure to disclose the pending staff payables balance of Kshs.36,983,665 owed to LAP Fund under Note 2 to the financial statements understates the liabilities of the County Executive of Kirinyaga.

In the circumstances, the accuracy and completeness of nil pending staff payables 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 Kirinyaga Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

1.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.7,705,332,107 and Kshs.6,647,954,292 respectively resulting to an under-funding of Kshs.1,057,377,815 or 14% of the budget. Similarly, the County Executive expended Kshs.5,998,014,575 against an approved budget of Kshs.7,705,332,107 resulting to an under-expenditure amounting to Kshs.1,707,317,532 or 22% of the budget.

The underfunding and underutilization of approved budget affects the planned activities and may have negatively impacted service delivery to the citizens of Kirinyaga County.

2.0 Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref: No. AG.4/16/3 Vol.11(66) dated 6th July, 2022.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1.0 High Wage Bill

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects payments of Kshs.2,369,825,302 in respect of compensation of employees. However, the expenditure on compensation of employees represents 40% of the County's total revenue of Kshs.5,888,624,528 and therefore exceeds the ceiling set in Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 of 35% of the total county revenue.

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

2.0 Non-Compliance with Staff Ethnic Diversity

The County Government of Kirinyaga recruited one hundred and ninety-eight (198) members of staff in the year under review, out of whom one hundred and eighty-four (184) representing 93% were from one dominant ethnic community. Further, review of the personnel records provided for audit revealed that the County Government had 92% of its workforce from the dominant community contrary to the provisions of the Section 7(1) and 2 of the National Cohesion and Integration Act, 2008 which provides 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.

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

3.0 Uninsured Assets

Annex 6 (summary of non-current asset register) to the financial statements reflects non-current assets balance of Kshs.4,335,497,160 as at 30 June, 2022, which includes buildings and structures balance of Kshs.587,367,978. However, the buildings and structures were not insured against theft, security threats, fire and other insurable risks. This was contrary to Section 77(3) of the General Guidelines on asset and liability management which states that the accounting officer shall arrange for timely acquisition of insurance cover and renewal of all insurance policies to ensure that they are budgeted for and that the public sector entity's assets are adequately protected.

In the circumstances, the County Executive buildings and structures were not adequately protected against possible losses in case of an insurable incident.

4.0 Irregularities in Repair of Motor Vehicles

The statement of receipts and payments reflects use of goods and services balance of Kshs.1,019,731,932 for the year ended 30 June, 2022 and as disclosed under Note 5 to the financial statements, which includes routine maintenance for vehicles and other transport equipment balance of Kshs.13,598,932. However, it was observed that the County Executive had a garage, but the Management opted to use private garages whose justification was not provided for review. Field verification to various private garages revealed that eighteen (18) vehicles were being held at the private garages due to non-payment of an approximate amount of Kshs.13,412,000 whose accuracy and validity could not be confirmed due to lack of records. Further, it was observed that some vehicles had been held in the private garages since the year 2017. No framework contract agreements between the private garages and the County Government of Kirinyaga for works and services were provided for audit.

This was contrary to Section 91 of the Public Procurement and Asset Disposal Act, 2015 which provides that open tendering shall be the preferred procurement method for procurement of goods, works and services and the procuring entity may use an alternative procurement procedure only if that procedure is allowed and satisfies the conditions under this Act for use of that method.

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

5.0 Projects Verification

During the year under review, twelve (12) projects with a contract sum of Kshs.1,941,302,167 were visited for verification in the month of July, 2022. However, eleven (11) projects with a contract sum of Kshs.790,730,980 had not been satisfactorily executed and had overall completion levels ranging between 35 % and 67 %.

As a result, there is risk of significant number of works not being completed within the contract period which may result in cost escalations. Additionally, delay in projects completion continues to deny the key stakeholders including the residents of Kirinyaga County the benefits that were to arise from the projects.

6.0 Development Projects not Implemented

Review of the 2021/2022 annual budget revealed that sixty-nine (69) projects estimated to cost Kshs.799,830,737 were not implemented during the year under review.

In the circumstance, the residents of Kirinyaga County were denied the benefits associated with the projects.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1.0 Lack of Audit Committee

Review of County Public Service Board minutes dated 29 November, 2018 revealed that Audit Committee Members were appointed on a three-year term ending 27 November,

2021. There was no evidence provided for audit on appointment of the audit committee after the term of the previous committee lapsed. Therefore, Management had not established an Audit Committee as required by Regulation 167(1) of the Public Finance Management (County Governments) Regulations, 2015.

In the absence of an Audit Committee, oversight and follow up on the recommendations of the internal auditors was not effective. Further, Management was in breach of the law.

2.0 Lack of Risk Management Policy

The Management did not provide supporting documents, for audit review, as evidence of existence of a Risk Management Policy to guide its risk assessment and formulation of risk mitigation strategies in the year under review. This was contrary to Regulation 158(1)(a) and (b) of the Public Finance Management Act (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 absence of a risk management policy, it was not possible to confirm whether the internal controls built within the financial and operational systems were functioning as intended during the year under review.

3.0 Lack of Training Needs Assessment

During the year under review, the County Executive of Kirinyaga did not have training plans and training needs assessment to guide the training committees in nominating officers for training as directed by the Human Resource Manual in place. Further, the County Executive did not have departmental training committees. This was contrary to paragraph 6.6 of the Human Resource Policies and Procedures Manual on Training and Development which States that all training in Kirinyaga County Public Service will be based on comprehensive training needs assessments to be conducted every three (3) years or as need arises.

In the circumstances, Management was in breach of Human Resource Manual.

4.0 Long Outstanding Arrears of Revenue

Review of rental records revealed total rent arrears of Kshs.4,093,332, which includes Kshs.3,062,600 that has been outstanding for between one (1) and six (6) years. Further, revenue records provided for audit revealed that Kirinyaga County Executive had land rates and plot rents arrears amounting to Kshs.383,397,313 as at 30 June, 2022. However, no clear indication has been given of efforts being made by Management to recover the amounts.

In the absence of a clear actionable plan for collection of the arrears, there is a high risk that revenue arrears may never be collected.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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 controls, risk management and overall governance.

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

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

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

Those charged with governance are responsible for overseeing the County Executive's financial reporting process, reviewing the effectiveness of how the 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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in

an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and 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 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 of the County Executive to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Executive to cease to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the County Executive to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

17 January, 2023