REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF LAIKIPIA 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 Laikipia set out on pages 1 to 47, which comprise of the statement of assets and liabilities as at 30 June, 2022, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation; recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of County Executive of Laikipia 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 Government Act, 2012.

Basis for Qualified Opinion

1. Un-Explained Variances Between Financial Statements and Supporting Schedules

The statement of receipts and payments and as disclosed in Notes 4 and 5 to the financial statements reflects amounts of Kshs.990,231,902 and Kshs.59,732,900 in respect to transfer to other government entities and other grants and payments respectively. However, the balances in the financial statements and the supporting schedules had variances as summarized below:

Description	Financial Statements Balances Kshs.	Supporting Schedule Balances Kshs.	Variance-Kshs.
Current Grants to Government Agencies and other Levels of Government Note 4	396,768,641	165,882,386	230,886,255
Laikipia County Development Authority	24,410,000	14,400,000	10,010,000
Laikipia County Health Institutions	26,848,705	0	26,848,705
Laikipia County VTCs	25,084,232	25,500,000	(415,768)
Rumuruti Municipality Board	46,455,676	26,500,000	19,955,676
Laikipia County Leasing Fund	397,064,848	357,064,848	40,000,000
Emergency Relief Note 5	4,298,000	0	4,298,000
Refugee assistance Note 5	5,000,000	0	5,000,000
Total	**925,930,102**	**589,347,234**	**336,582,868**

In the circumstance, the accuracy and validity of balances attributed to transfer to other government entities and other grants and payments could not be confirmed.

2. Unsupported Pending Bills

Annex 2 to the financial statements reflects pending accounts payables amounting to Kshs.1,680,915,846 which included additions during the totalling Kshs.1,677,413,008 which were not supported by invoices, local purchase orders, local service orders and procurement documents. Further, pending bills amounting to Kshs.Kshs.23,484,545 were omitted from list of bills, therefore understating the total bills by Kshs.Kshs.23,484,545.

In the circumstance, the accuracy and completeness of pending accounts payables of Kshs.1,680,915,846 could not be confirmed.

3. Doubtful Payment of Legal Fees

The statement of receipts and payments and as disclosed under Note 3 to the financial statements reflects payment of use of goods and services totalling Kshs.1,220,827,102 which includes Kshs.125,800,557 in respect to other operating expenses out of which Kshs.23,815,918 was paid in relation to legal fees. However, there was no evidence that the payments were based on the Advocates' Remuneration Order which sets out the scale for payment of legal fees. In addition, there was no evidence of engagement between the legal department and external lawyers attempting to negotiate or review the fee.

In the circumstances, the validity and value for money of the expense of Kshs.23,815,918 included under other operating expenses 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 Laikipia 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. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis totalling to Kshs.8,340,703,410 and Kshs.5,801,910,038 respectively, resulting to an underfunding amounting to Kshs.2,538,793,372 or 30% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis totalling to Kshs.8,340,703,410 and Kshs.5,781,660,282 respectively, resulting to an underperformance amounting to Kshs.2,559,043,129 or 31% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public

2. Project Implementation Status

The statement of receipts and payments and as disclosed in Note 6 to the financial statements, reflects payments for acquisition of assets amounting to Kshs.878,860,928. However, the County Executive did not provide the project implementation status report (PIS) for audit review to confirm the status of all the budgeted and implemented projects in the year under review.

In the circumstance, it has not been possible to confirm the status of the projects that were planned, budgeted for and implemented during the year.

3. Pending Bills

The financial statement other importance disclosures under Note 1 reflects pending account payables balance of Kshs.1,680,915,846 which includes additional pending accounts payables amounts of Kshs.1,677,413,008 for the year.

Failure to settle bills during the year to which they relate distorts the financial statements for that year and adversely affects the provisions for the subsequent year to which they have to be charged.

4. 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.

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. Compensation of Employees

The statement of receipts and payments and as disclosed under Note 2 to the financial statements reflects compensation of employees' expenditure of Kshs.2,624,226,998. However, the following unsatisfactory matters were noted.

1.1 Non-Compliance with the Law on Fiscal Responsibility - Wage Bill

The statement of receipts and payments and as disclosed under Note 2 to the financial statements reflects compensation of employees' expenditure of Kshs.2,624,226,998 which represents 50% of the total receipts of Kshs.5,275,273,304. This is contrary to the provisions of Regulation 25(1) (a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which states that the county government expenditure on wages and benefits for public officers should not exceed 35% of the county total revenue.

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

1.2 Non-compliance to A-Third of Basic Salary Rule Test

During the year ended 30 June, 2022, seventy-one (71) employees earned a net salary of less than a third (1/3) of the basic salary contrary to Section 19 (3) of the Employment Act, 2007 which states that the total amount of deduction of the wages of an employee shall not exceed 2/3 of such wages. Management has not explained the failure to comply with the policy.

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

1.3 Non-compliance with Regulation and Guidelines on Acting Positions

During the year under review, the County Executive of Laikipia paid twenty-four (24) of its staff members acting allowance for a duration exceeding six (6) months contrary to the public service commission, Human Resource Policies and Procedures Manual for the Public Service of May, 2016 C.14 (1) which states that Acting allowance will not be payable to an officer for more than six (6) months.

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

1.4 Unauthorized Payment for Hardship Allowance

Included under Note 2 to the financial statements on compensation to employees amount of Kshs.2,624,226,998 is hardship allowance totalling Kshs.3,780,000 paid to seven (7) full time Board members of the County Public Service Board of Laikipia at the rate of Kshs.45,000 per member per month.

This is contrary to the Salaries and Remuneration Commission (SRC) circular No. SRC/TS/CGOVT/3/61 Vol. IV (49) of 8 December, 2017 which sets out the remuneration and benefits for Board Members of the County Public Service Board and which has not prescribed any allowance to full time board members other than the set gross monthly remuneration package.

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

2. Use of Goods and Services

The statement of receipts and payments and as disclosed in Note 3 to the financial statements reflects use of goods and services payments of Kshs.1,220,827,102. However, the following unsatisfactory matters were noted.

2.1 Irregular Award of Procurement Contract

Included in the use of goods and services expense of Kshs.1,220,827,102 under Note 3 to the financial statements reflects payment of Kshs.8,735,106 in respect to communication, supplies and services out of which expenditure of Kshs.2,281,400 was incurred in respect to installation of call software POE extension phones and configuration of PBX review. However, while, the letter of notification of award was issued on 11 May, 2021 and acceptance letter by the contractor dated 14 May, 2021, the contract agreement with the contractor was signed on 12 April, 2021 which was one month earlier than the contract award and letter of acceptance. Further, review of mandatory requirements revealed that the contractor's tax compliance certificate had expired.

In the circumstance, Management is in breach of law in the award of the contract.

2.2 Irregular Expenditure on County Assembly Members (MCA)

The statement of receipts and payments and as disclosed in Note 3 to the financial statements reflects use of goods and services payments of Kshs.1,220,827,102 which includes training expenses of Kshs.30,914,889 out of which Imprest of Kshs.820,000 was paid in form of allowances to MCAs and staff members during devolution conference on 23 and 24 November, 2021 at Makueni County. It was not clear why this amount was paid yet the County Assembly had its own budget.

Further, no documentary evidence including surrender vouchers in respect to the expenditure was provided for audit review. This is contrary to Section 42(1) (b) of the Public Finance (County Governments) Regulations ,2015 stating that an Accounting Officer shall ensure that public funds entrusted to their care are properly safeguarded and are applied for purposes for which they were intended and appropriated by the County Assembly.

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

2.3 Irregular Payments of Airtime

The statement of receipts and payments and as disclosed in Note 3 to the financial statements reflects use of goods and services payments of Kshs.1,220,827,102 which includes communication, supplies and services payments of Kshs.8,735,106 out of which an amount of Kshs.3,540,080 was paid in form of airtime allowances to Laikipia County Executive staff without any approval from the Salaries and Remuneration Commission. Further, there was no evidence of taxation of the airtime benefit to the employees. This is Contrary to the 2013 public service commission of Kenya county public service human resource manual section F.1 stating that "The Salaries and Remuneration Commission will be responsible for the review of the Civil Service salaries and allowances." and Section F.14 (1) stating that, "There are other allowances which may be paid to different categories of staff in various circumstances. Such allowances will be determined by the county government with the advice of the SRC."

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

2.4 Irregular Expenditure on Training

The statement of receipts and payments and as disclosed in Note 3 to the financial statements reflects use of goods and services payments of Kshs.1,220,827,102 which includes Kshs.30,914,889 being payment on training expenses out of Kshs.10,619,245 paid for a training on public service transformation from 20 February, 2022 to 5 March, 2022 in Israel. However, it was not clear why the training of leadership and Management Course was undertaken in Israel yet it could have taken place at the Kenya School of Government to save the high cost of conference, travel and per diem allowances paid to six (6) officers contrary to Section 6 of Treasury Circular No 20/2015 which requires that only international workshops, seminars and study tours that are justified in terms of benefit to the people of Kenya should be undertaken outside the country.

Further, copies of stamped passports to support the payment, flight boarding passes and signed attendance sheets were not provided for audit. In addition, air tickets were procured through cash payment thereby flouting procurement laws on procurement of services above the approved thresholds.

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

3. Acquisition of assets

The statement of receipts and payments and as disclosed in Note 6 to the financial statements, reflects payments for acquisition of assets amounting to Kshs.878,860,928. However, the following unsatisfactory matters were noted.

3.1 Un Approved Bond on Road Construction

The statement of receipts and payments and as disclosed in Note 6 to the financial statements, reflects payments for acquisition of assets amounting to Kshs.878,860,928 out of which Kshs.379,110,659 were payments for road construction. Review of the documents provided in the year under review revealed that the County Executive committed Kshs.976,953,817 through issuance of Local Purchase Orders for various infrastructural projects to be financed through the Laikipia County Infrastructure Bond. Despite the Bond having been approved by the County Assembly, documents provided for audit revealed that on 2 June, 2022 the Cabinet Secretary for National Treasury and Planning wrote to the Clerk of the Senate seeking the National Assembly's approval of the sessional paper to enable the National Treasury to guarantee the infrastructure Bond. However, at the time of the audit no documentation was provided as to whether the sessional paper was approved by the senate.

Further, a review of one of the projects, Improvement of roads in Karuga center, revealed that the contractor had commenced the work and had raised an interim payment certificate of Kshs.23,484,545 which at the time of the audit had not been paid for lack of funding contrary to Section 58(8) of the Public Procurement and Assets Disposal Act, 2015 which states that accounting officer shall not commence any procurement proceeding until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in its approved budget estimates

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

3.2 Incomplete Project

The statement of receipts and payments and as disclosed in Note 6 to the financial statements, reflects payments for acquisition of assets amounting to Kshs.878,860,928 which includes construction of buildings payments totalling Kshs.116,861,251 out of which an amount of Kshs.20,083,972 was paid to a contractor for various invoices in the year under review for the construction works in Laikipia County Headquarters in Rumuruti. The County Executive entered into a contract with a contractor for the construction of additional floor at a contractual sum of Kshs.44,897,926. This contract was signed on the 14 May, 2019 and the works were to be completed by 12 May, 2022. However, it was noted that, although part of the project that was completed and leased to a commercial bank with the remaining space occupied by the Sub County Administrator, the project was not complete despite the expiry of the contractual period, the contractor had left the site.

Further, it was not clear how the property was leased out to the private entity as the lease documents were not provided for audit review.

In the circumstance, the citizens of Laikipia County may not have got value for money from the project expenditure of Kshs.44,897,926

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

1. Payment of Salaries Outside the Integrated Payroll and Personnel Data Base Payroll

Information provided from manual payment vouchers and supporting schedules indicated that salaries amounting to Kshs.353,261,427 were paid outside the Integrated Payroll and Personnel Data base (IPPD). This includes salaries paid to Early Childhood Development Education (ECDE) teachers and staff without payroll number. No explanation has been provided why personal numbers have taken more than three months to be processed and why the staff members continue to be paid outside the IPPD.

In the circumstance, the control system on issuance of personal numbers was not effective.

2. Lack of Training Policy

During the year under audit, the County government incurred a total of Kshs.30,914,889 on training expenses. However, Management did not provide a training policy for audit verification and there was no evidence to indicate that training needs assessment was undertaken as the basis for training expenses incurred. It was, therefore, not possible to determine whether the training was need driven and whether value for money was realized.

In the circumstance, the control system on training was not effective.

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 such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing County Executive of Laikipia'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 money is applied in an effective way.

Those charged with governance are responsible for overseeing the County Executive's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. 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 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 with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and review 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 controls 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 County Executive's 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 going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on County Executive's ability to continue offering 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 County Executive to cease to continue offering services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate 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

23 February, 2023