



**THIRTEENTH PARLIAMENT - THIRD SESSION**

**REPORT OF THE COUNTY PUBLIC ACCOUNTS COMMITTEE ON THE CONSIDERATION OF THE REPORTS OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THARAKA NITHI, HOMA BAY, KAKAMEGA, KIRINYAGA, MAKUENI, MERU, BOMET, MURANG'A, NANDI, NYAMIRA, NYERI, SIAYA, VIHIGA, WAJIR AND SAMBURU COUNTY EXECUTIVES FOR THE FINANCIAL YEAR 2019/2020**

**Rt. Hon. Speaker**

You may approve for tabling

J. M. Nyegenye, C.B.S.,

Clerk of the senate/secretary, PSC

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## **ACRONYMS/ABBREVIATIONS**

BQs - Bill of Quantities  
CALC - County Assets and Liabilities Committee  
CARA - County Allocation of Revenue Act  
CECM - County Executive Committee Member  
CPSB - County Public Service Board  
CBS - Chief of the Order of the Burning Spear  
CRF - County Revenue Fund  
EACC - Ethics and Anti-Corruption Commission  
ECDE - Early Childhood Development Education  
EGH - Elder of the Order of the Golden Heart  
ICT - Information, Communication Technology  
IFMIS - Integrated Financial Management System  
IGTRC - Intergovernmental Relations Technical Committee  
IPPD - Integrated Payroll and Personnel Database  
KRA - Kenya Revenue Authority  
KUSP - Kenya Urban Support Project  
LPOs - Local Purchase Orders  
LSOs - Local Supply Orders  
MCAs - Members of County Assembly  
MP - Member of Parliament  
NHIF - National Hospital Insurance Fund  
OAG - Office of the Auditor General  
PAYE - Pay-As -You Earn  
PFM - Public Finance Management  
PAA- Public Audit Act  
PPADA- Public Procurement and Assets Disposal Act  
PSASB - Public Sector Accounting Standards Board  
TNA - Training Needs Assessment  
TVET - Technical and Vocational Education Training



## **DEFINITION OF TERMS**

### **Disclaimer**

A disclaimer is when the auditor is unable to fully review an entity's documentation because there is a substantial amount of information that is missing. The absence of information makes it hard and difficult for the Auditor General to make an opinion. In other words, the auditor feels unable to determine whether the situation is qualified or adverse because the paperwork is not adequate. This is a serious lapse in compliance and should be of concern to oversight bodies. A disclaimer indicates that the record keeping is so bad to the extent that the auditor cannot give an opinion.

### **Adverse Opinion**

An adverse opinion is issued when the Auditor General is able to review the entity's documentation supplied for audit purposes and the final audit reveals problems that are widespread and pervasive and will require considerable changes to remedy. Oversight institutions are concerned to recommend remedies to address such anomalies and systems.

### **Qualified Opinion**

This is as a result of the Auditor General finding some problems that are not widespread or persistent with documentation and information supplied. The auditor received all the information required for the audit. However, after review the audit reveals there are some gaps in adherence and compliance to legal procedures.

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### **Unqualified Opinion**

This arises when the Auditor General is satisfied with documentation presented for review. It implies that there are no major problems with documentation and information that were presented for assessment and the funds are managed properly.

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## **PREFACE**

**Mr. Speaker Sir,**

Committees are a creation of the Constitution through Article 124(1) of the Constitution which empowers each House of Parliament to establish Committees and make Standing Orders for the orderly conduct of its proceedings, including the proceedings of its Committee.

The County Public Accounts Committee is established by the Senate pursuant to Standing Order No. 193 and is mandated-

- a) Pursuant to Article 96(3) of the Constitution, to exercise oversight over national revenue allocated to the county governments;
- b) Pursuant to Article 229(7) and (8) of the Constitution, to examine the reports of the Auditor-General on the annual accounts of the county governments;
- c) To examine special reports, if any, of the Auditor-General on county government funds;
- d) To exercise oversight over county public accounts.

### **Committee Membership**

**Mr. Speaker Sir,**

The membership of the Committee comprises of the following Senators-

- |  |                    |
|--|--------------------|
| 1. Sen. Kajwang' Moses Otieno, CBS, MP | - Chairperson      |
| 2. Sen. Cherarkey Samson Kiprotich, MP | - Vice-Chairperson |
| 3. Sen. Adan Dullo Fatuma, CBS, MP     | - Member           |
| 4. Sen. Onyonka Richard Momoima, MP    | - Member           |
| 5. Sen. Mwenda Gataya Mo Fire, MP      | - Member           |
| 6. Sen. Methu John Muhia, MP           | - Member           |
| 7. Sen. Okoiti Andrew Omtatah, MP      | - Member           |
| 8. Sen. Omar Mariam Sheikh, MP         | - Member           |
| 9. Sen. Sifuna Edwine Watanya, MP      | - Member           |

### **Committee Secretariat**

The secretariat comprises of the following members of staff;

- |                           |   |
|---------------------------|---|
| 1) Mr Njenga Njuguna      | - Director, Governance and Accountability       |
| 2) Ms. Emmy Chepkwony     | - H.O.D, Department and Other Select Committees |
| 3) Mr. George Otieno      | - Principal Clerk Assistant II                  |
| 4) Mr. Boniface Kiambi    | - Clerk Assistant I                             |
| 5) Mr. Crispus Tima       | - Clerk Assistant I                             |
| 6) Mr. Kevin Kibet        | - Clerk Assistant III                           |
| 7) Ms. Caroline Cheruiyot | - Senior Legal Counsel                          |
| 8) Mr. Jackson Wekesa     | - Legal Counsel                                 |
| 9) Mr. Hussein Salat      | - Fiscal Analyst II                             |
| 10) Ms. Keziah Muthama    | - Fiscal Analyst III                            |
| 11) Ms. Sharon Rotino     | - Research Officer II                           |

12)Mr. Peter Katana	- Research Officer III
13)Mr. Martin Mulandi	- Research Officer III
14)Ms. Lynette Aseke	- Research Officer III
15)Mr. Osman Hire	- Research Officer III
16)Mr. Ibrahim Oruko	- Media Relations Officer
17)Mr William Zenton	- Audio Officer
18)Ms. Lorraine Nabwire	- Procurement Officer III
19)Mr. Julius Maganga	- Accountant III
20)Mr. James Ngusya	- Serjeant-at-Arms

**Mr. Speaker Sir,**

The Senate Committee on County Public Accounts is the avenue through which the Senate under the provisions of Article 96(3) of the Constitution carries out the post scrutiny of County Governments Budgets.

The Committee was constituted at the commencement of the First Session in September, 2022 pursuant to Senate Standing Order 193(4) which requires the County Public Accounts Committee to be constituted after a general election and shall serve for a period of three sessions. Therefore, the Committee commenced its business in the month of February, 2023, and held several meetings with the County Government entities from the Month of February 2023 where it considered the reports of the Auditor-General for various county entities.

The sittings were primarily investigatory and the Committee received evidence from the Governors as the Chief Executive Officers of the County pursuant to Article 179 (4) of the Constitution. The main issues for investigation and determination were the various audit queries contained in the report of the Auditor-General on the financial operations of the various counties for the financial year 2019/2020.

**Mr. Speaker Sir,**

Article 201 of the Constitution outlines the principles of public finance management to be observed at both levels of government. These include openness, accountability, public participation, prudent and responsible financial management.

This report is issued pursuant to the requirements of Articles 96 (3) and 229(8) of the Constitution of Kenya. Where any breach of law has an attendant remedy, consequence or penalty in law, recommendations of this report do not preclude any liability that may arise as a result of any legal action within the breach of the prescribed law.

**Mr. Speaker Sir,**

This report contains fifteen (15) County Executive reports for the year 2019/2020, listed as volume I that were considered and adopted by the Committee.



The Committee examined the reports of the Auditor-General on the financial statements for Tharaka Nithi, Homa Bay, Kakamega, Kirinyaga, Makueni, Meru, Bomet, Murang'a, Nandi, Nyamira, Nyeri, Siaya, Vihiga, Wajir and Samburu County Executives for the financial year 2019/2020; and identified various fiduciary risks.

During the years under review, majority of the fifteen (15) County Executives considered under this report had challenges with submission of documents to the auditors for verification during the audit exercise. The Committee noted that County Executives did not avail relevant supporting documents to the Auditor-General during the audit exercise, with only some managing to provide them at a later date. The non-provision of documents therefore, left the entities unable to support expenditures of substantial amount of funds. Further, the county assemblies had weak record management systems thus casting doubts on the suitability and qualifications of staff in the county treasury and accounts departments.

**Mr. Speaker Sir,**

The reports also revealed that County Executives were not able to apply proper accounting practices as stipulated by the Public Sector Accounting Standards Board. Financial Statements presented for audit verification exhibited various weaknesses including failure to do regular reconciliations, variances between financial statements and IFMIS balances; payment details and trial balance among other inconsistencies. This resulted in inadequate reporting and presented an inaccurate position of the financial position of the county executives.

The reports further showed that a number of counties had weaknesses in executing their budgets. The County entities did not adhere to their approved budget ceilings set for programs, votes and sub-votes. Thus, there was over-utilization or under-utilization of appropriated funds. The Committee noted that the main cause for under-utilization of budgets was delay in exchequer releases from the National Treasury thereby hampering program implementation and budget execution. In some instances, funds were re-allocated to items that were not budgeted for without prior approval by the County Assembly.

The findings of the considered audit reports revealed that the entities made payments outside the Integrated Financial Management Information System (IFMIS) platform, contrary to the Public Finance Management Act, 2012. The practice of processing transactions outside the IFMIS platform could be an avenue to bypass financial controls and can lead to misappropriation of funds.

The reports also revealed that the county entities abused the imprest process, from the request, approval, surrender and recovery. Imprests remained outstanding after their due dates of surrender, contrary to the provisions of Regulation 93 (5) of the Public Finance Management (County Governments) Regulation, 2015 which requires temporary imprest holders to account for or surrender imprests within seven days upon returning

to their duty stations. Further, Management breached Regulations 93(6) by failing to recover the outstanding imprests from the salaries of the defaulters.

**Mr. Speaker Sir,**

During the years under review, the Committee noted that majority of the entities interrogated had not properly updated their assets registers despite the Inter-Governmental Technical Relations Committee (IGTRC) having handed over their report, hence exposing county assets to risk of loss, waste and misuse. Further, a number of county executives had not updated their valuation Roll as required under Section 3 of the Valuation for Rating Act CAP 266. Thus, counties were not collecting optimal revenue based on the prevailing land market values.

The Committee further noted that the reports revealed that a number of counties had weak internal control systems on own source revenue collection and accounting. This was evidenced by utilization of revenue at source, failure to bank revenue collected on time and failure to maintain separate financial statements for funds established by the counties. This exposed the county executives to revenue leakages and contributed to failure of most counties to meet own source revenue collection targets.

Regarding human resource issues, the Audit reports revealed the following:

- i. that some County staff were earning less than a third of their basic pay;
- ii. Some County Executives were still processing salaries and other benefits outside the Integrated Payroll and Personnel Database (IPPD); and
- iii. A number of County Executives did not meet the threshold on ethnic inclusivity stipulated under Section 65(1)(e) of the County Governments Act, 2012.

The Committee further observed that County Executives did not take action on the issues raised in the report of the Auditor General for previous financial years. This therefore implied that a number of recommendations proposed by the OAG were not implemented thus some audit queries had recurred for several financial years and remained outstanding.

**Mr. Speaker Sir,**

On internal controls, risk management and governance, the Committee noted that a number of county entities had not established Audit Committees contrary to Paragraph 167 of the PFM (County Government) Regulations, 2015. Further, the entities did not have Risk Management policies, Disaster Recovery Plan, ICT Policy and Business Continuity Plan to help prevent and mitigate against risks. This is contrary to Section 158(1) of the Public Finance Management (County Government) Regulation 2015 which requires the County Government entities to develop risk management strategies which include fraud prevention mechanisms and a system of risk management and internal control that builds robust business operations.



In addition to the general observations and recommendations on cross cutting issues across the counties interrogated and captured in the report, this report details further observations and recommendations for specific audit queries for the respective county Executives.

## **GENERAL OBSERVATIONS AND RECOMMENDATIONS**

The Committee observed that the reports of the Auditor General considered had recurring audit issues across a number of county entities. Consequently, the Committee identified the following general observations and recommendations -

### ***1. Lack of an updated Fixed Assets Register***

#### **Committee Observations**

The Committee observed that a number of the county entities:-

- a) had not updated their Fixed Assets Register;
- b) had not adopted the report of the Inter-Governmental Relations Technical Committee on assets and liabilities inherited from the defunct local authorities. This has affected the correct statement of the assets and liabilities of the entities.

#### **Committee Recommendations**

The Committee recommends that the-

- a) County entities should update and present their Fixed Assets Register in the format prescribed by the Public Sector Accounting Standards Board;
- b) County entities should adopt and implement the report of the Inter-Governmental Technical Relations Committee (IGTRC) on assets and liabilities from defunct Local Authorities and provide a status update to the Office of the Auditor General within 90 days of adoption of this Report; and
- c) Office of the Auditor General should progressively review and report on the matter in the subsequent Financial Years.

### ***2. Delays in updating Property Valuation Roll***

#### **Committee Observation**

The Committee noted that a number of County Executives had not updated their valuation roll as required under Section 3 of the Valuation for Rating Act CAP 266 thus leading to under-collection of rent and rates.

#### **Committee Recommendation**

The Committee recommends that the County executives should expedite updating of valuation roll in accordance with Section 3 of the Valuation for Rating Act CAP 266 so as to reflect current market values for optimal revenue collection and comply with the guidelines of the Public Sector Accounting Sector Boards of reporting in the FY 2023/2024.

### ***3. Payment to the Council of Governors(COG)***

#### **Committee Observation**

The Committee noted that payments made to the Council of Governors from County Revenue Funds were irregular and unlawful since the Intergovernmental Relations Act specifies that funding for the COG shall be drawn from the Consolidated Fund.

#### **Committee Recommendation**

The Committee recommends that the irregular payments to the Council of Governors (COG) be stopped and further recommends the surcharge of any Governor, in their capacity as Chief Executive Officer, who continues to make the irregular contribution.

The EACC should oversee the recovery of all the public funds irregularly transferred to the Council of Governors (COG) by the Governor. This is in line with the Resolution of the Senate.

### ***4. Delay and non-submission of documents***

#### **Committee Observation**

The Committee noted that the County entities did not submit or made late submissions of the relevant documents to the Auditor General during the audit exercise contrary to section 62 of the Public Audit Act, 2015.

#### **Committee Recommendation**

The Committee recommends that the County Chief Executive Officer (CEO) undertakes administrative action(s) against the responsible officer(s) who fails to provide documents to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provide a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report. Where such failure has led to a Disclaimer opinion, the Committee recommends the sanctions outline in Section 62(2) of the Public Audit Act, 2015.

### ***5. Pending bills***

#### **Committee Observations**

The Committee observed that the county entities had pending bills that had been outstanding for several years. Further, the entities continued to incur further bills without prioritizing payment of verified pending bills as a first charge in the subsequent financial year as required by law.

#### **Committee Recommendations**

The Committee therefore recommends that:

- a) the County entities should prioritize payment of all verified pending bills as a first charge in the subsequent financial year;
- b) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time;



- c) the county executives puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills;
- d) Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) to investigate proper legal action taken against those filing false claims;
- e) County Executive to make a provision in its budget for contingency liability in respect of legal fees pursuant to regulation 25(2)(e) of the Public Finance Management (County Government) Regulations, 2015;
- f) the National Treasury takes lead in a multi-agency approach to come up with legislative and procedural measures to deal with accumulation of pending bills in counties within 90 days of adoption of this Report;
- g) County Governments to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending bills verification committees unconstitutional and engage Office of the OAG and strengthen the internal audit functions;
- h) All valid pending bills that have been reviewed by the OAG be paid and a payment plan be submitted to the county assemblies for approval and progress report on implementation sent to the Senate and the Office of the Controller of Budget; and
- i) The Committee will seek to reintroduce the Prompt Payment Bill with amendments aimed at ring-fencing a certain percentage of the equitable shareable revenue for pending bills and retain money at source to pay pending bills.

#### **6. *Non-Compliance with the Law on Fiscal Responsibility - Wage Bill***

##### **Committee Observation**

The Committee observed that the wage bill for a number of County entities was above the threshold of 35% of total receipts contrary to Regulation 25 (1) (b) of the Public Finance Management (County Governments) Regulations, 2015.

The Committee further noted that high wage bill is a threat to the objects of devolution as provided for under Article 174(f) of the Constitution.

##### **Committee Recommendations**

The Committee recommends that-

- a) the management should strictly adhere to the provision of paragraph 25(1)(b) of the PFM (county government) regulations, 2015 which stipulates that the county wage bill shall not exceed 35 per cent of the county total revenue;
- b) the county executive puts in place measures to enhance own source revenue collection in order to address high wage bill gap; and
- c) the management of the concerned entities should provide to the Auditor General a status report of measures put in place to contain the high wage bill within sixty (60) days of the adoption of this report.

- d) Senate should consider reintroducing the fiscal responsibility index in revenue allocation to act as an incentive for counties that meet the PFM fiscal responsibility targets.

#### **7. *Outstanding imprests***

##### **Committee Observations**

The Committee noted that the County entities had substantial amounts of outstanding imprest by the close of financial year contrary to Regulations 93(5) of the Public Finance Management (County Government) Regulations, 2015 which requires a holder of a temporary imprest to account for the imprest within seven days after returning to duty station.

##### **Committee Recommendation**

The Committee recommends that the Accounting Officer(s) recover the outstanding imprests with interest as per provisions Regulation 93 (6) of the Public Finance Management (County Governments) Regulations, 2015.

The Committee further recommends sanction and surcharge of Accounting Officers who fail to recover outstanding imprests in line with Regulation 93(7) of the PFM (County Government) Regulations, 2015.

#### **8. *Budget Control and performance***

##### **Committee Observation**

The Committee observed that-

- 1) the county entities did not receive exchequer releases from the National Treasury on time.
- 2) the Committee noted that the county executives did not meet their own source revenue collection targets. This challenge hampered budget implementation in the affected county entities.
- 3) Most Counties fail to undertake public participation on supplementary budgets that exceed 10% of the budget contrary to Section 135 (7) of the PFM Act, 2012 and Regulation 39(9) of the PFM (County Government) Regulations, 2015.

##### **Committee Recommendations**

The Committee recommends that -

- a) The National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate.
- b) the County Executive puts in place measures to enhance its own generated revenue in order to meet its revenue target and address revenue shortfalls.
- c) County Assemblies to exercise their powers as outlined in Article 201 of the Constitution to ensure budgets are realistic and espouse people's aspirations.

#### **9. *Lack of ethnic diversity in staff establishment***

##### **Committee Observations**



The Committee observed that -

- a) there was no ethnic diversity among employees of county executives as employees were mainly drawn from the dominant community in the county; and,
- b) due to the homogeneous ethnographic population in most counties, it may not be feasible for them to attain the threshold provided under Section 7(2) of the National Cohesion and Integration Act, 2008 which states that *no public establishment shall have more than one third of the staff from the same ethnic community.*

#### **Committee Recommendations**

The Committee recommends that-

- a) the County Executives should work progressively towards attaining the requirement of the provisions of Section 65(1)(e) of County Government Act on ethnic inclusivity.
- b) The Standing Committee on NCEORI to explore legal amendments to ensure progressive compliance with section 65(1)(e) of County Government Act, 2012.

### ***10. Non-compliance with the One Third Basic Salary Rule***

#### **Committee Observations**

The Committee observed that some of the county staff were earning less than a third of their basic pay contrary to Section 19 (3) of the Employment Act 2007.

#### **Committee Recommendations**

The Committee therefore recommends that -

- a) The county entities should configure their IPPD system such that it is able to lock out commitments beyond the accepted thresholds; and
- b) The Auditor General should continue monitoring the issue in subsequent audit cycles.

### ***11. Prior Year Issues***

#### **Committee Observation**

The Committee observed that most County entities did not take action on issues raised in the Report of the Auditor General for previous financial years even where the reports has been considered by the Committee and a report tabled and adopted by the Senate.

#### **Committee Recommendation**

The Committee recommends that-

1. the County entities should strictly comply with Section 53 of the Public Audit Act, 2015 by taking action on the issues raised by the Auditor General.
2. The Institute of Certified Public Accountants of Kenya (ICPAK) takes action(s) against professional accountants who prepare financial reports which do not

comply with the Public Sector Accounting Standards as it amounts to gross negligence in the conduct of professional duties which constitutes a professional misconduct pursuant to Section 8 (a) and 30 of the Accountants Act CAP 531.

## ***12. Failure to establish an Audit Committee***

### **Committee Observations**

The Committee observed that in a number of the entities considered, management had not established audit committees to provide oversight on the financial and other operations of their financial affairs as required under Section 167(1) of Public Finance Management (County Governments) Regulation, 2015.

### **Committee Recommendation**

The Committee recommends that-

1. the county entities should expedite establishment of audit committees to enhance oversight over public resources and provide a status report to the Auditor General within sixty (60) days from the adoption of this report.
2. The Committee further recommends that the SRC should review the compensation framework for Audit Committee members since the low sitting allowances may not attract seasoned professionals to the county Audit Committees.

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## ***13. Lack of a Risk Management Policy Framework***

### **Committee Observations**

The committee noted that a number of county entities did not have a risk management policy framework in place. The committee further observed that lack of risk prevention mechanism may expose the entities to various form of risks.

### **Committee Recommendations**

The Committee recommends that the Accounting Officer for all county entities should put in place a risk management policy and disaster recovery plan within sixty (60) days from the adoption of this report and submit the same to the Auditor General. The committee further recommends that the Auditor General to closely monitor the development, documentation and communication of these policies within the county entities in the subsequent audit cycles.

## ***14. Payment of Salaries outside the IPPD***

### **Committee Observation**

The Committee noted that some Counties Executive were making payments of salaries for some of its employees outside the Integrated Personnel and Payroll Database (IPPD) System.

### **Committee Recommendations**

The Committee recommends that;

- 1) County Entities should engage the State Department of Public Service to fast-track the issuance of personal numbers to enable Counties onboard all employees on the Integrated Personnel and Payroll Database (IPPD) System; and
- 2) the Auditor General to monitor the matter in subsequent audit cycle.





## ACKNOWLEDGEMENTS

The Committee appreciates the Office of the Auditor General, The National Treasury and the Ethics and Anti-Corruption Commission for the support they offered to the Committee especially in providing references on various issues under consideration.

The Committee wishes to acknowledge the support it received from the Office of the Speaker and the Clerk of the Senate during the consideration of the Auditor-General's Reports for county governments. The Committee further appreciates the cooperation it received from the CEOs of the County Government entities who appeared before the Committee.

Final appreciation goes to the distinguished and dedicated members of the Committee and secretariat who actively participated and facilitated the proceedings.

Further, the Committee thanks the Offices of the Speaker and Clerk of the Senate for the support extended to the Committee in execution of its mandate.

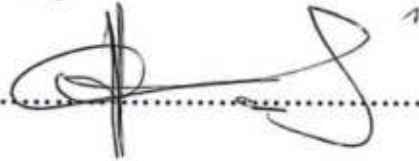
**Mr. Speaker Sir,**

I wish to confirm that the resolutions of the Committee in this report were unanimous.

**Mr. Speaker Sir,**

It is therefore my pleasant duty and privilege, on behalf of the Senate Committee on County Public Accounts to table this report and commend it to the House for debate and adoption pursuant to the provisions of the Senate Standing Order 223(6).

SIGNATURE.....



(CHAIRPERSON: SEN. KAJWANG' MOSES OTIENO, MP)

DATE.....

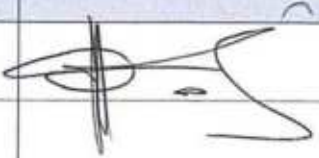





7th July 2023





**THE SENATE**  
**THIRTEENTH PARLIAMENT - SECOND SESSION**

**ADOPTED BY:**

NO	NAME	DESIGNATION	SIGNATURE
1.	Sen. Kajwang' Moses Otieno, MP	Chairperson	
2.	Sen. Cherarkey Samson Kiprotich, MP	Vice-Chairperson	
3.	Sen. Adan Dullo Fatuma, CBS, MP	Member	
4.	Sen. Onyonka Richard Momoima, MP	Member	
5.	Sen. Mwenda Gataya Mo Fire, MP	Member	
6.	Sen. Methu John Muhia, MP	Member	
7.	Sen. Okoiti Andrew Omtatah, MP	Member	
8.	Sen. Omar Mariam Sheikh, MP	Member	
9.	Sen. Sifuna Edwine Watenya, MP	Member	

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## CHAPTER ONE

### REPORT OF THE SENATE COUNTY PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THARAKA NITHI COUNTY EXECUTIVE FOR THE FINANCIAL YEAR 2019/2020

The Governor of Tharaka Nithi County, Hon. Muthomi Njuki, EGH, appeared before the Committee on Tuesday, 7<sup>th</sup> March, 2023 to respond (under oath) to audit queries raised in the Report of the Auditor General on Financial Statements for Tharaka Nithi County Executive for the Financial Year 2019/2020.

#### Qualified Opinion

EXECUTIVE SUMMARY OF UN-RESOLVED AUDIT QUERIES				
S/NO	AUDIT QUERY	COMMITTEE RECOMMENDATIONS	ACTORS	TIMELINE
1.	<b>1. Own Generated Revenue</b> <b>1.1 Mismanagement of Revenue from Veterinary Services.</b> Daily, weekly and monthly revenue reports, revenue control sheets and records showing number of animals inspected were not provided for audit review.	The County CEO undertakes administrative action against the responsible officer(s) who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report.	The County Chief Executive Officer	60 Days from the date of adoption of this report
2	<b>1.2 Unauthorised Collection of Revenue</b> Meat inspection fees collected from the forty-three (43) slaughter houses across the County and revenue from artificial insemination services were not	The Committee therefore recommends that;- 1. The County CEO undertakes administrative action against responsible officer(s), for- a) failure to declare revenue from veterinary services and who did not give approval of the	The County CEO	Within 60 Days from the date of adoption of this report

	<p>supported with banking slips showing revenue banked in County Revenue Fund (CRF).</p> <p>It was also noted that meat inspection fees was collected by meat inspectors without any authority from the receiver of revenue. Review of the budget revealed that revenue from veterinary services was not included in the approved budget for the year 2019/2020 which could lead to concealment of revenue.</p>	<p>revenue receiver to collect revenue from meat inspection</p> <p>b) Undermining established financial procedures and controls contrary to Section 156(4) of the Public Finance Management Act, 2012.</p> <p>2. The County CEO provides a status report to the Auditor-General within sixty (60) days from the adoption of this report.</p>	The Auditor General	
2.	<p><b>1.4 Unrealistic Receipts Budget - Liquor Licenses</b></p> <p>The balance includes a balance of Kshs.6,448,500 in respect of revenue from liquor licenses. However, the 2018/2019 financial statements reflect Kshs.15,704,110 in respect of the same item resulting to Kshs.9,255,610 or 59% decline which has not been explained</p>	<p>The Committee recommends that;</p> <p>a. the County Executive puts in place measures to enhance its own generated revenue in order to meet its budgeted target and address revenue shortfalls such as setting up a liquor licensing fund;</p> <p>b. the County CEO undertakes administrative action against the responsible officer(s) who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office</p>	The County Chief Executive Officer	Within 60 days from the date of adoption of this report

		<p>of the Auditor General within sixty (60) days from the adoption of this report.;</p> <p>c. provide a status report on measures taken to enhance revenue collection to the Auditor-General within sixty (60) days after the adoption of this report.</p>		
3.	<p><b>1.5 Administrative Fees and Charges</b></p> <p>The balance also includes an amount of Kshs.32,490,951 in respect of administrative fees and charges against an approved budget of Kshs.5,600,000 resulting to revenue over collection of Kshs.26,850,951 or 480%.</p> <p>The revenue summary reports and Integrated Financial Management Information Services (IFMIS) revenue report reflects a balance of Kshs.44,714,511 and Kshs.32,882,177 respectively.</p> <p>No explanation or reconciliation was provided for the variance between the three sets of records.</p>	<p>The Committee recommends that-</p> <p>1. The County CEO undertakes administrative action against the responsible officer(s) for failure to undertake revenue reconciliation within the stipulated timelines in accordance with section 156 of the Public Finance Management Act, 2012 and submit a report to the Office of the Auditor General within 60 days of adoption of this report;</p> <p>2. The County Executive to identify training needs of its staff serving in the Finance Department and initiate capacity building and training in conjunction with the National Treasury within 60 days of adoption of this report.</p>	<p>1. The County Chief Executive Officer</p> <p>2. The National Treasury</p>	<p>60 days from the date of adoption of this report</p>



4.	<b>2.1. Domestic Travel and Subsistence</b> Work tickets/bus tickets, approved requests, program of activities and back to office reports were not provided for audit review.	The Committee recommends that the Accounting Officer recovers the outstanding imprest with interest at the prevailing Central bank rates from the officers who failed to surrender the safari imprest within 7 days of returning to duty station, pursuant to Regulation 93(6) of the PFM Act (County Governments) Regulations, 2015. The Committee further recommends sanctions and surcharge of Accounting Officers who fail to recover outstanding imprests in line with Regulation 93(7) of the PFM (County Government) Regulations, 2015.	The County Executive Committee Member (CECM), Finance.	Within 60 days from the date of adoption of this report
5.	<b>2.2 Other Operating Expenses</b> Documents showing how the imprest was surrendered and accounted for were not provided for audit review	The Committee recommends that the Accounting Officer recovers the outstanding imprest with interest at the prevailing Central bank rates from the officers who failed to surrender the safari imprest within 7 days of returning to duty station, pursuant to Regulation 93(6) of the PFM Act (County Governments) Regulations, 2015. The Committee further recommends sanction and surcharge of Accounting Officers who fail to recover outstanding imprests in line with Regulation 93(7) of the PFM (County Government) Regulations, 2015.	1. The County Executive Committee Member (CECM), Finance and Economic Planning 1.	60 days from the date of adoption of this report
6.	<b>Printing, Advertising and Information</b>	The Committee recommends that- 1. The County CEO undertakes	1. The County Chief Executive Officer	60 days from the date of

	<p><b>Supplies and Services</b></p> <ul style="list-style-type: none"> <li>- Approved requisitions and Local Service Orders (LSOs) were not provided for audit review.</li> <li>- Balance of Kshs.2,100,000 was an amount of Kshs.1,114,760 which is indicated as relating to expenditures incurred during 2017/2018 financial year.</li> <li>- Review of documents revealed that the same was not included as pending bills in the financial statements for the years 2017/2018 and 2018/2019.</li> <li>- The propriety and accuracy of expenditure amounting to Kshs.4,004,340 included under use of goods and services in the statement of receipts and payments for the year ended 30 June, 2020 could</li> </ul>	<p>administrative action against the responsible officers for failure to undertake revenue reconciliation within the stipulated timelines in accordance with Section 156 of the Public Finance Management Act, 2012 and submit a report to the Office of the Auditor General within 60 days of adoption of this report.</p> <p>2. The County Executive to identify training needs of its staff serving in the Finance Department and initiate capacity building and training in conjunction with the National Treasury within 60 days of adoption of this report.</p>	<p>2. The National Treasury</p>	<p>adoption of this report</p>
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	not be ascertained			
7.	<p><b>Emphasis of Matter</b></p> <p><b>Discharge of Pending Bills</b></p> <p>Management paid bills amounting to Kshs.19,494,698 in respect of construction and civil works. Examination of records revealed that the bills comprised of bills which were incurred in the last four years but were not included as a pending bills in the financial statements of the respective years. Review of the budget for the financial year 2019/2020 revealed that the pending bills had not been included in the list of pending bills in the approved budget for 2019/2020. Failure to settle bills in the year to which they relate will adversely affect the implementation of the subsequent year's budgeted programs as the</p>	<p>The Committee therefore recommends that:</p> <ol style="list-style-type: none"> <li>1. the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time; and</li> <li>2. the county executive puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.</li> <li>3. Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) for investigation</li> </ol>	<p>1. The County Chief Executive Officer</p>	Continuous



	pending bills form a first charge	<p>and proper legal action taken against those filing false claims.</p> <p>4. County Government to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending bills verification committees unconstitutional and engage Office of the OAG and strengthen the internal audit functions.; and</p> <p>5. All valid pending bills that have been reviewed by the Office of the Auditor General be paid and a payment plan be submitted to the county assembly for approval and progress report on implementation sent to the Senate and the Office of the</p>		
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		Controller of Budget.		
8.	<b>Other Matter</b> <b>1.6 Budgetary Control and Performance</b> The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.5,119,073,806 and Kshs.4,479,989,745 respectively, resulting to an under-funding of Kshs.639,084,061 or 12% of the budget. Similarly, the County Executive expended an amount of Kshs.4,247,239,658 against an approved budget of Kshs.5,119,073,806 resulting to an under-expenditure of Kshs.871,834,148 or 17% of the budget.	The Committee therefore recommends that: 1. The National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate and comply with Article 219 of the Constitution and Section 17(6) of the Public Finance Management Act, 2012. 2. the County executive puts in place measures to enhance its own generated revenue in order to meet its revenue target and address revenue shortfalls.	1. The National Treasury 2. The County Chief Executive Officer	
9.	<b>2.0 Unresolved Prior Year Issues</b> Several issues were raised under the Report on Financial Statements, Report on Lawfulness and	The Committee recommends that 1) the County executive complies with section 53 of the Public Audit Act, 2015 by taking action on the issues raised by the Auditor General	The County Chief Executive Officer  The Auditor General	60 days from the date of adoption of this report.

	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 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.1(9) dated 24 June, 2020.	and submits a report to the Auditor General within 60 days of the adoption of this report.		
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**REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

10.	<p><b>1. Non-Compliance with the Law on Fiscal Responsibility-Wage Bill</b></p> <p>The statements of receipts and payments reflects an expenditure of Kshs.2,015,104,735 on compensation of employees representing 46% of the total receipts of Kshs.4,388,338,643 which is contrary to the provisions of Regulation 25(1) (a) and (b) of the Public Finance</p>	<p>The Committee recommends that-</p> <p>1. the management should provide to the Auditor General and the Senate the measures it will put in place to contain the high wage bill within sixty (60) days of the adoption of this report;</p> <p>2. the management should strictly adhere to the provision of paragraph 25(1)(b) of the PFM Act (county government) regulations, 2015 which stipulate that the county wage bill should not exceed 35 per cent of the county total revenue; and</p>	<p>1. The County Chief Executive Officer</p> <p>2. The Auditor General.</p>	<p>60 days from the date of adoption of this report</p>
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	Management (County Governments) Regulations, 2015	3. the county executive puts in place measures to enhance own source revenue collection in order to address wage bill gap.		
11.	<p><b>2. Non-Compliance with Human Resource Policies and Procedures Manual for Public Service, 2016</b></p> <p>Ten (10) employees were employed on five (5) year contract contrary to Section B. 20(4) of the Human Resource Policies and Procedures Manual for Public Service, 2016 which stipulates that contract appointments will be limited to a maximum period of three (3) years, renewable subject to demonstrable performance and other terms of the contract.</p> <p>A teacher who was on a two-year contract from 1 March, 2018 to 28 February, 2020 had already attained the age of 60 years at the time of expiry of the contract. No explanation was provided why the</p>	<p>The Committee Recommends that;</p> <p>1. the County Executive strictly adheres to the Human Resource Policies and Procedures Manual and submit a status report of the adherence.</p> <p>2. the County Executive should not employ, on permanent and pensionable terms, persons who are above sixty (60) years and that the County Executive submits a status report to the Auditor-General on implementation of this recommendation within sixty (60) days of adoption of this report.</p>	<p>The County Chief Executive Officer</p> <p>The County Public Service Board (CPSB)</p> <p>The Auditor General.</p>	60 days from the date of adoption of this report

	County Public Service Board renewed the contract contrary to Section D.21 of the Human Resource Policies and Procedures Manual for Public Service, 2016			
12.	<p><b>3. Non-Compliance with the Public Procurement and Assets Disposal Act, 2015</b></p> <p><b>3.1 Splitting of Tenders</b></p> <p>During the year under review, Management paid an amount of Kshs.5,278,000 for branding of assorted items. However, the supply was split into three (3) and awarded to three (3) different suppliers at Kshs.1,972,000, Kshs.1,821,200 and Ksh.1,484,800 using request for quotation method of procurement contrary to Section 54. (1) of the Public Procurement and Asset Disposal Act, 2015</p>	<p>The Committee recommends that;</p> <p>1) The County CEO undertakes administrative action against the responsible officers who failed to provide explanation for unbundling of the tender to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report; and</p> <p>2)the management should strictly adhere to the provisions of the Public Procurement and Asset Disposal Act, 2015 and Public Procurement and Disposal (Regulations) 2020.</p>	The County Executive Officer	

13.	<p><b>4. Non-Compliance with the Public Finance Management (County Governments) Regulations, 2015</b></p> <p><b>i) Receipts of good after LPO Validity Period</b></p> <p>Kshs.553,000 paid to a supplier for supply of stationeries.</p> <p>Review of documents provided for audit revealed that, the Local Purchase Orders (LPO) were issued on 6 March, 2020. However, the stationeries were delivered on 11 July, 2020 approximately three (3) months after the LPO was issued contrary to Section 52. (1)(2) of the Public Finance Management (County Governments) Regulations, 2015.</p>	<p>The County CEO undertakes administrative action against the responsible officer(s) who received goods beyond the stipulated period of thirty (30) days in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report.</p>	<p>The County Chief Executive Officer</p>	<p>60 days from the date of adoption of this report</p>
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	<p><b>ii) Delayed Construction of Githioroka Bridge</b>  A contractor was awarded the tender for the construction of Githioroka Bridge at a contract sum of Kshs.12,501,320. An amount of Kshs.8,334,832 was paid but only Kshs.7,000,000 was approved out of a contract sum of Kshs.12,501,320 resulting to over expenditure of Kshs.1,334,832 in the year under review without approval.</p>	<p>The Committee recommends that-</p> <ol style="list-style-type: none"> <li>1. The County CEO undertakes administrative action against responsible officer(s) for incurring additional expenditure without approval and no budget line in the subsequent year which is contrary to Section 116(2) of the Public Financial Management (County Government) Regulations, 2015 and provides a status report to the Auditor General within 60 days of adoption of this report;</li> <li>2. The county executive expedites the completion of the project to ensure that citizens get value for money; and</li> <li>3. the Auditor-General to verify the implementation of the above recommendations.</li> </ol>	<ol style="list-style-type: none"> <li>1. The County Chief Executive Officer</li> <li>2. The Auditor General</li> </ol>	<p>60 days from the date of adoption of this report</p>
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14.	<p><b>iii) Incomplete Levelling and Improvement of Kairuni Playground</b></p> <p>Physical verification carried out in September, 2020 revealed that the contractor was not on site and work appeared to have stalled.</p> <p>No explanation was provided on how the County Executive intended to complete the project.</p> <p>Further, although the works had not been completed, no budgetary allocation had been provided for the completion of the project in 2019/2020 and 2020/2021 financial years budgets.</p>	<p>The Committee recommends that-</p> <ol style="list-style-type: none"> <li>1. The County CEO undertakes administrative action against responsible officer(s) for incurring additional expenditure without approval and no budget line in the subsequent year which is contrary to Section 116(2) of the Public Financial Management (County Government) Regulations, 2015 and provides a status report to the Auditor General</li> <li>2. The county executive expedites the completion of the project to ensure that citizens get value for money; and</li> <li>3. the Auditor-General to verify the implementation of the above recommendations</li> </ol>	<ol style="list-style-type: none"> <li>1. The County Chief Executive Officer</li> <li>2. The Auditor General</li> </ol>	<p>60 days from the date of adoption of this report</p>
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15.	<p><b>iv) Construction of Chiakariga Water Project</b></p> <p>Physical verification carried out in September, 2020 revealed that the pump house and water tank were constructed but were not in use since the same were not connected to the main water supply. seven (7) items in the Bill of Quantities valued at Kshs.303,850 had been paid for but were not supported by relevant documents including approved measurements of work done</p>	<p>1) The County CEO undertakes administrative action against the responsible officers who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within 60 days of adoption of this report.</p> <p>2) the County Government takes immediate action to operationalise the project and provides a report to Auditor-General on project status.</p>	<p>1)The County Chief Executive Officer</p> <p>2)The Auditor General</p>	60 days from the date of adoption of this report
16.	<p><b>v) Failure to adhere to the approved budget.</b></p> <p>Kshs.17,580,000 spent by Health Department on purchase of three (3) double cab pickup. However, review of approved Health Department procurement plan revealed that the purchase of the three (3) motor vehicles was not included in the Health Department approved procurement plan.</p>	<p>1. The County CEO undertakes administrative action against responsible officer(s) for failing to adhere to the procurement plans and budgeted programs in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report; and</p>	The County Chief Executive Officer	60 days from the date of adoption of this report.



	<p>Review of the Health Departments approved procurement plan revealed that Kshs.5,860,000 was budgeted for purchase of an ambulance but the same was spent on purchase of Toyota Double Cab. No explanation was provided why the departments deviated from their approved procurement plan contrary to Section 50(2)(3) of Public Finance Management (County Governments) Regulations, 2015</p>	<p>2. the County Executive strictly adheres to the procurement plans and budget programs and if reallocations are required, they should undertake due process to ensure compliance with the provisions of the Public Finance Management Act, 2012.</p>		
17.	<p><b>5. Non-Compliance with the Public Finance Management Act, 2015</b></p> <p>Management made payment of Kshs.4,634,100 spent on shipping cost and associated fire kits for two (2) fire engines that were donated to the County Executive by a donor from United Kingdom. However, review of documents</p>	<p>The Committee recommends that;</p> <p>1. the County CEO undertakes administrative action against responsible officer(s) for incurring unbudgeted expenditure without approval and for failure to give a written authorization to pay for the shipping and associated fire kits costs in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within 60 days of adoption of this report;</p>	<p>1. The County Chief Executive Officer</p> <p>2. The Auditor General.</p>	<p>60 days from the date of adoption of this report</p>

<p>provided for audit review indicated that County Executive Committee Member (CECM) for finance's authority to pay for the shipping and associated fire kits costs was not given contrary to Section 138(6)(b) of the Public Finance Management Act, 2012 which stipulates that if a project that is being financed by a grant or donation from a development partner requires county government funding, the project may only be started when the County Executive Committee Member for Finance has given a written authorization for the project to begin.</p>	<p>2. the County Executive should strictly adhere to Section 138 (6) (b) of the Public Finance Management Act, 2012 and the budget process.</p>		
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18.	<b>6. Other Accounts Receivables (Debtor)</b> Outstanding plot rents totalling Kshs.43,208,302 which has been outstanding for over one (1) year	The Committee recommends that the County CEO undertakes administrative action against responsible officer(s) for failing to put in place measures to obtain payment of any outstanding amounts including taking legal action where appropriate in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within 60 days of adoption of this report.	The Chief Executive Officer	60 days from the date of adoption of this report
19.	<b>7. Management of Retention Money</b> Review of the bank statements revealed that Kshs.36,945,209 was transferred from the deposits account on 29 July, 2019 to recurrent account contrary to Section 47(1) (e) of the Public Finance Management (County Government) Regulations, 2015. No explanation was provided on how the management intended to replenish the account and pay retention money to suppliers when due.	The Committee recommends that;- a) the County CEO undertakes administrative action against the responsible officer(s) for illegal transfer of retention money in contravention of Section 47(1)(e) and 63 (4) of the Public Finance Management (County Government) Regulations, 2015 and provides a status report to the Office of the Auditor General within 60 days of adoption of this report; and b) The EACC to investigate the transfer of Kshs.36,945,209 from the deposits account on 29 July, 2019 to recurrent account contrary to Section 47(1) (e) of the Public Finance Management (County Government) Regulations, 2015 and	The County Chief Executive Officer  EACC	60 days from the date of adoption of this report



		recommend for the prosecution of culpable officer(s) if the diversion of the funds resulted in loss of public funds and provide a status update to the OAG and the Senate within 90 days of adoption of this report.		
20.	<b>8.Account Receivables (Outstanding Imprests)</b> The imprest had not been surrendered or accounted for at the time of this audit in September, 2020 which is between five (5) and thirty-four (34) months since the imprests were issued. Explanation on measures taken to recover the long outstanding imprests was not provided for audit review	The Committee recommends that the Accounting Officer(s) recover the outstanding imprests with interest as per provisions Regulation 93 (6) of the Public Finance Management (County Governments) Regulations, 2015. The Committee further recommends sanction and surcharge of Accounting Officers who fail to recover outstanding imprests in line with Regulation 93(7) of the PFM (County Government) Regulations, 2015.	The County Chief Executive Officer	60 days from the date of adoption of this report
<b>REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE</b>				

21.	<p><b>2.0 Ineffective Management of Fixed Asset</b></p> <p>Fixed assets register provided for audit review reflects a list of assets acquired during the financial year ended 30 June, 2020 without reflecting their respective costs or historical value. Further, the register did not include assets acquired in the previous financial years. The above historical cost includes a balance of Kshs.4,386,080 in respect of purchase of a parcel of land respectively. However, details of the land including ownership documents were not provided for audit review</p>	<p>The Committee recommends that the-</p> <p>c) County Executive should update and present their Fixed Assets Register in the format prescribed by the Public Sector Accounting Standards Board;</p> <p>d) County Executive should adopt and implement the report of the Inter-Governmental Technical Relations Committee (IGTRC) on assets and liabilities from defunct Local Authorities and provide a status update to the Office of the Auditor General within 90 days of adoption of this Report; and</p> <p>e) Office of the Auditor General should progressively review and report on the matter in the subsequent Financial Years.</p>	<p>1. The County Chief Executive Officer</p> <p>2. Inter-Governmental Relations Technical Committee (IGTRC)</p> <p>3. The Auditor General.</p>	Continuous
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## Qualified Opinion

### 1. Own Generated Revenue

As disclosed in Note 3 to the financial statements, the statement of receipts and payments reflect an amount of Kshs.271,605,362 in respect of county own generated revenue. However, review of records indicates the following unsatisfactory matters: -

#### 1.1. Mismanagement of Revenue from Veterinary Services

The balance includes Kshs.24,250 (2019 Kshs.298,100) in respect of revenue from veterinary services which relates to meat inspection fees and artificial insemination services. However, daily, weekly and monthly revenue reports, revenue control sheets

and records showing number of animals inspected were not provided for audit review.

#### **Management Response**

The Management confirmed collection of Kshs. 24,250 from livestock meat inspection and insemination during the year under review, a decline from Ksh. 298,100 in previous financial year. The necessary record for revenue receipt was availed for audit review.

#### **Committee Observations**

The Committee noted that the County Executive did not submit relevant documents to the Auditor General at the time of audit exercise contrary to the Section 62 of the Public Audit Act, 2015.

#### **Committee Recommendations**

**The County CEO undertakes administrative action against the responsible officer(s) who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report.**

### **1.2. Unauthorised Collection of Revenue**

Examination of records revealed that meat inspection fees collected from the forty-three (43) slaughter houses across the County and revenue from artificial insemination services were not supported with banking slips showing revenue banked in County Revenue Fund (CRF). It was also noted that meat inspection fees was collected by meat inspectors without any authority from the receiver of revenue. Review of the budget revealed that revenue from veterinary services was not included in the approved budget for the year 2019/2020 which could lead to concealment of revenue.

#### **Management Response**

The Management confirmed engaging meat inspectors and veterinary officers to charge and collect fees levied. This was done to create efficiency in process of revenue collection by having one officer offer services and collect revenue.

Meat Inspectors and veterinary officers were issued with revenue collection books to enable levy charges on meat inspection and A.I services respectively. The authority to collect revenue has since been issued in accordance to PFM Act, 2012, Section 158. The authority availed for audit review.

The omission of veterinary services fees on the budget was not in any way intended to conceal revenue collection. The Management had in the subsequent years, ensured the revenue stream was included in the budget.

#### **Committee Observations**

The Committee noted that;

1. Meat inspection fees were collected by meat inspectors without any authority from the receiver of revenue.



2. The revenue from veterinary services was not included in the approved budget for the year 2019/2020 which could indicate concealment of revenue.
3. The matter was resolved in subsequent years as relevant supporting documents had since been provided.

**Committee Recommendations:**

1. The County CEO undertakes administrative action against the responsible officer(s) for- failure to declare revenue from veterinary services and who did not give approval of the revenue receiver to collect revenue from meat inspection Undermining established financial procedures and controls contrary to Section 156(4) of the Public Finance Management Act, 2012.
2. provide a status report to the Auditor-General within sixty (60) days from the adoption of this report.

**1.3. Unreconciled receipts - Technical Services (Building Plans Approval)**

The county own generated revenue includes a balance of Kshs.6,342,768 in respect of technical services (building plans approval). However, the revenue summary and revenue performance reports provided reflect a balance of Kshs.3,639,412 and Kshs.5,690,749 respectively, in respect of the same item. No explanation or reconciliation was provided for the discrepancies between the three sets of records.

**Management Response**

During the year under review, the county generated Kshs.6,342,768 in respect of technical services fees. The revenue class comprised of two revenue streams namely Building plan approval and physical planning fees;

Item	Revenue Stream	Amount Ksh.
1	Building plans approval	3,639,412
2	Physical Planning fees	2,703,356
	<b>Total</b>	<b>6,342,768</b>

The amount of Ksh. 3,639,412 related to receipts from building plans approval only as stream of revenue and shown on revenue summary on one column while the physical planning fees amounting to Ksh. 2,703,356 analysed the different column.

The reported amount of Ksh. 5,690,749 as reflected on unreconciled performance reports was inaccurate. The actual and final figure was as reflected on IFMIS generated report and hereby availed for audit review.

**Committee Observations**

The Committee noted that;

1. the County Executive did not submit relevant documents to the Auditor General at the time of audit exercise contrary to the Section 62 of the Public Audit Act of 2015.
2. the matter has since been addressed.

**Committee Recommendation**

The Committee recommends that the matter be marked as resolved.

#### **1.4. Unrealistic Receipts Budget - Liquor Licenses**

The balance includes a balance of Kshs.6,448,500 in respect of revenue from liquor licenses. However, the 2018/2019 financial statements reflect Kshs.15,704,110 in respect of the same item resulting to Kshs.9,255,610 or 59% decline which has not been explained. This may be a pointer to unaccounted revenue, revenue leakage or very low set target by the management. In addition, daily, weekly and monthly revenue reports and revenue control sheets were not provided for audit review.

#### **Management Response**

The County realised an amount of Ksh.6,448,500 in respect of revenue from liquor licenses (Ksh.15,704,110 FY 2018/2019) reporting a decline by 59%. The shortfall is attributed to impact of Covid-19 that led to closure of business from month of February to May 2020, period which coincided with peak season for renewal of liquor licenses. The collections from liquor licenses have since recorded significant recovery with Ksh.10,995,586 and Ksh.13,374,511 realised in FY 2020/2021 and FY 2021/2022 respectively.

#### **Committee Observations**

The Committee noted;

1. the county has not setup a liquor licensing fund and thus the 59% decline in revenue from liquor licences during the financial year under audit.
3. The management did not provide the relevant primary records of revenue and any other information or explanations at the time of audit contrary to the Section 62 of the Public Audit Act, 2015.

#### **Committee Recommendations**

The Committee recommends that;

1. the County Executive puts in place measures to enhance its own generated revenue in order to meet its budgeted target and address revenue shortfalls such as setting up a liquor licensing fund;
2. The County CEO undertakes administrative action against the responsible officer(s) who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report.
3. provide a status report on measures taken to enhance revenue collection to the Auditor-General within sixty (60) days after the adoption of this report.

#### **1.5. Administrative Fees and Charges**

The balance also includes an amount of Kshs.32,490,951 in respect of administrative fees and charges against an approved budget of Kshs.5,600,000 resulting to revenue over collection of Kshs.26,850,951 or 480%. This is an indicator of very low set targets or poor budget making process. However, the revenue summary reports and Integrated Financial Management Information Services (IFMIS) revenue report reflects a balance



of Kshs.44,714,511 and Kshs.32,882,177 respectively. No explanation or reconciliation was provided for the variance between the three sets of records.

In the circumstances, the completeness and accuracy of the Kshs.271,605,362 in respect of county own generated revenue for the year ended 30 June, 2020 could not be confirmed.

#### **Management Response**

The amount of revenue realised from Administrative Fees and Charges during the year under review amount to Ksh. 32,490,951 (Ksh. 37,699,762 FY 2018/19).

The revenue stream records any revenue realised that was not under ordinary revenue sources or receipts that were not expressly identified to specific revenue stream.

To enhance clear reporting, the County had ensured that, revenue was recognised under specific revenue stream and hence no substantial amount was estimated for when setting the target and hence the reported over collection.

#### **Committee Observations**

The Committee observed that the executive is experiencing revenue reconciliation challenges due to late and inaccurate reconciliation as they did not provide the revenue summary reports.

#### **Committee Recommendations**

The Committee recommends that-

1. The County CEO undertakes administrative action against the responsible officer(s) for failure to undertake revenue reconciliation within the stipulated timelines and submit a report to the Office of the Auditor General within 60 days of adoption of this report;
2. The County Executive in liaison with the National Treasury undertakes capacity building for the responsible officer(s).

#### **2. Unsupported Expenditure - Use of Goods and Services**

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflect an amount of Kshs.560,753,619 in respect of use of goods and services. However, review of records indicates that several balances have not been supported with adequate verifiable documents as indicated below: -

##### **2.1. Domestic Travel and Subsistence**

The balance constitutes an amount of Kshs.65,907,613 in respect of domestic travel and subsistence which further includes Kshs.240,000 was paid as allowances to County executive officers. However, work tickets/bus tickets, approved requests, program of activities and back to office reports were not provided for audit review.

#### **Management Response**

The Management took note of the Audit finding and the necessary support documents relating to; Domestic Travel expenditure during the year under review and which weren't provided for audit purpose were availed for audit review.



Voucher No	Imprest holder	Date Paid	Amount (Ksh)
24536	John Kariuki Kithaka	26/03/2020	200,000
24761	Nicholas Kimathi Thiora	09/04/2020	40,000
Total			240,000

#### **Committee observations**

The Committee noted;

1. The failure of the County Executive to submit relevant documents on time to the Auditor General during the audit exercise contrary to Section 62 of the Public Audit Act, 2015;
2. The County Executive misled the Committee by filing the wrong documents to support the expenditure. The County Executive was therefore unable to support the expenditure.

#### **Committee Recommendations**

The Committee recommends that the Accounting Officer recovers the outstanding imprest with interest at the prevailing Central bank rates from the officers who failed to surrender the safari imprest within 7 days of returning to duty station, pursuant to Regulation 93(6) of the PFM Act (County Governments) Regulations, 2015.

#### **2.2. Other Operating Expenses**

Further, the balance includes a balance of Kshs.82,503,786 in respect of other operating expenses out of which an amount of Kshs.1,236,300 paid as imprest to County Executive officers. However, documents showing how the imprest was surrendered and accounted for were not provided for audit review.

#### **Management Response**

The Management took note of the Audit finding and the necessary supporting documents relating to; Other Operating Expenses expenditure during the year under review, and which were not provided for audit purpose were availed for audit review.

Voucher No	Imprest holder	Date Paid	Amount (Ksh)
26266	Elijah Kiarie Nduati	29/06/2020	489,000
24997	James Mwiti Kiria	12/03/2020	485,100
22491	George M Chege	19/12/2019	152,200
22383	Anjelina Karema	19/12/2019	110,000
			1,236,300

#### **Committee Observations**

The Committee noted that;

1. the failure of the County Executive to submit relevant documents on time to the Auditor General during the audit exercise contrary to Section 62 of the Public Audit Act, 2015.
2. the safari imprest was not surrendered within 7 days of returning to duty station in violation of Section 93(5) of the PFM Act (County Governments) Regulations, 2015 and stated that the responsible officers should be surcharged with an interest at the prevailing Central bank rates.

### **Committee Recommendations**

**The Committee recommends that the Accounting Officer recovers the outstanding imprest with interest at the prevailing Central bank rates from the officers who failed to surrender the safari imprest within 7 days of returning to duty station, pursuant to Regulation 93(6) of the PFM Act (County Governments) Regulations, 2015.**

### **2.3. Printing, Advertising and Information Supplies and Services**

In addition, the balance also includes payments amounting to Kshs.24,668,150 in respect of printing, advertising and information supplies and services which constitutes an amount of Kshs.2,100,000 and Kshs.428,040 paid to a firm for advertising. However, approved requisitions and Local Service Orders (LSOs) were not provided for audit review. Further, included in the above balance of Kshs.2,100,000 was an amount of Kshs.1,114,760 which is indicated as relating to expenditures incurred during 2017/2018 financial year. Review of documents revealed that the same was not included as pending bills in the financial statements for the years 2017/2018 and 2018/2019.

In the circumstances, the propriety and accuracy of expenditure amounting to Kshs.4,004,340 included under use of goods and services in the statement of receipts and payments for the year ended 30 June, 2020 could not be ascertained.

### **Management Response**

The Management took note of the Audit finding and the necessary supporting documents relating to, Printing, Advertising and Information Supplies and Services expenditure during the year under review, that were not provided for audit purpose were now availed for audit review.

Voucher	Sub item Description	Payee	Payment Date	Amount	Date Paid
26648	Advertising, Awareness and Publicity Campaigns	NATION MEDIA GROUP LIMITED	24-Jun-20	2,100,000	08/07/2020
21779	Advertising, Awareness and Publicity Campaigns	NATION MEDIA GROUP LIMITED	07-Oct-19	142,680	17/10/2019



21780	Advertising, Awareness and Publicity Campaigns	NATION MEDIA GROUP LIMITED	07-Oct-19	142,680	17/10/2019
24853	Advertising, Awareness and Publicity Campaigns	NATION MEDIA GROUP LIMITED	03-Mar-20	142,680	19/03/2020

### **Committee Observations**

The Committee noted the failure of the County Executive to submit relevant documents such as Local Service Orders (LSOs) and approved requisition on time to the Auditor General during the audit exercise contrary to Section 62 of the Public Audit Act, 2015.

### **Committee Recommendations**

**The Committee recommends that-**

1. The County CEO undertakes administrative action against the responsible officers for failure to undertake revenue reconciliation within the stipulated timelines and submit a report to the Office of the Auditor General within 60 days of adoption of this report; and
2. The County Executive in liaison with the National Treasury undertakes capacity building for the responsible officer(s).

### **Emphasis of Matter**

#### **Discharge of Pending Bills**

I draw your attention to Disclosure 1 - Other important disclosures to the financial statements which reflects an amount of Ksh.439,321,218 (2019: Ksh.493,228,840) in respect of outstanding pending bills as at 30 June, 2020. Examination of records revealed that bills amounting to Ksh.18,238,781 were not supported while the creditors' ledgers were not provided to ascertain the creditors' movement during the year.

Further, during the year under review, Management paid bills amounting to Ksh.19,494,698 in respect of construction and civil works. Examination of records revealed that the bills comprised of bills which were incurred in the last four years but were not included as a pending bills in the financial statements of the respective years. Review of the budget for the financial year 2019/2020 revealed that the pending bills had not been included in the list of pending bills in the approved budget for 2019/2020. Failure to settle bills in the year to which they relate will adversely affect the implementation of the subsequent year's budgeted programs as the pending bills form a first charge.

My opinion is however not qualified in respect of the above matter

### **Management Response**



The Management confirmed holding outstanding pending bills amounting to Kshs. 439,321,218 as at 30 June, 2020. The Creditors Ledger for the Pending Bills was availed for audit review.

Further, all the necessary support documents relating to, Outstanding Pending Bills for the year under review amounting to Kshs. 18,238,781 and which the supporting documents had not been provided for audit purpose were later availed for audit review.

	Supplier Name	Invoice Date	Description of Works	Amount Ksh.
1	Cray Enterprises Limited	26/06/2020	Rehabilitation of tea buying centres - Maara sub- county	3,472,565
2	Sykam Kenya Traders	19/06/2020	Supply and delivery of UPVC pipes to Ndagani KK irrigation project.	1,999,500
3	Jomvick enterprises Ltd	31/05/2019	Construction works for Improvement of Mwonge water project	3,600,000
4	Jaytton Enterprise Limited	02/04/2020	Construction of Mokoithima Bridge	4,881,700
5	Supp Merchant Ltd	26/06/2020	Rehabilitation of Turima Tweru Irrigation Project	2,183,000
6	Locque Consolidated Co Ltd	08/09/2017	Rehabilitation works for Kamutiria water intake	1,614,500
7	Ecosard Group Ltd	05/06/2020	Installation of Solar panels at Kiamurukima and connection at nkodi water project	487,300

The pending bills amounting to Ksh. 19,494,698 were honoured following a thorough verification process and its legibility ascertained. The omission from previous years' financial statements was due to pending verification process.

In accordance to PFM Regulations 2015, Section 41 (2) which states the county debt shall form first charge to County Revenue Fund, hence the pending bills were paid from the approved budget analysed as follows;

The County had set aside Ksh. 17,750,000 under department of Water and Irrigation for payment of pending bills from which Ksh. 7,765,210 was paid.

Name of Supplier	Description of Works	Approved Budget Ksh	Actual Amount Ksh
Gikingo Civil Engineering & Contractors ltd	Construction of water tank, pumping house and main line at Chiakariga market-2016/17	17,750,000	3,771,630
Auto Garage concepts ltd	Supply of pipes for Gantaraki water project- 2017/18		3,993,580
Total		17,750,000	7,765,210

The County allocated Ksh. 4,000,000 for construction of terraces and ablution block for Nyangumi Stadium (Marimanti Stadium) with Ksh. 3,807,468 spent on settling the pending bills. Further, an amount of Ksh. 6,000,000 was budgeted for Kairuni Stadium which Ksh. 4,597,451 was also utilised to pay the pending bills.

Name of Supplier	Description of Works	Approved Budget Ksh	Actual Amount Ksh
Janton Investments ltd	Provision of watering system & landscaping at Nyangumi stadium -2018/2019	4,000,000	3,807,468
Janton Investments ltd	Proposed leveling & Improvement works at Kairuni playground-2018/2019	6,000,000	4,597,451
	Total	10,000,000	8,404,919

With regard to payment for pending bill relating to improvement of access roads, the County had set aside an amount of Ksh. 50,000,000 during the financial year 2019/2020, from which the amount was partly utilised to settle the amount owed from previous financial years of Ksh. 3,324,560.

Name of Supplier	Description of Works	Approved Budget Ksh	Actual Amount Ksh
Recksars General suppliers	Grading & spot Improvement of Igambangombe ward roads-2015/2016	50,000,000	3,324,560

The County had been settling the pending bills gradually over the years with 90% of pending bills outstanding as at 30 June, 2020 paid as at time of County Executive appearance. The remaining balance was budgeted for payment this current financial year.

#### **Committee Observations**

The Committee observed that;

1. the County Executive had not settled all its pending bills at the time of the audit;
2. the County Executive did not provide a status report of all its pending bills as prescribed by the Public Sector Accounting Standards Board. This could lead to inadequate disclosures of the pending bills; and
3. there was poor record keeping of pending bills that could lead to ineligible bills and litigations.

#### **Committee Recommendations**

The Committee therefore recommends that:

- 1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time; and



- 2) the county executive puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.
- 3) Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) for investigation proper legal action taken against those filing false claims.
- 4) County Government to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending bills verification committees unconstitutional and engage Office of the OAG and strengthen the internal audit functions.; and
- 5) All valid pending bills that have been reviewed by the Office of the Auditor General be paid and a payment plan be submitted to the county assembly for approval and progress report on implementation sent to the Senate and the Office of the Controller of Budget.

## **Other Matter**

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

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.5,119,073,806 and Kshs.4,479,989,745 respectively, resulting to an under-funding of Kshs.639,084,061 or 12% of the budget. Similarly, the County Executive expended an amount of Kshs.4,247,239,658 against an approved budget of Kshs.5,119,073,806 resulting to an under-expenditure of Kshs.871,834,148 or 17% of the budget.

Management has attributed the low performance to late disbursement of the Exchequer from the National Treasury where out of the Kshs.4,116,647,949 in respect of actual exchequer releases, Kshs.765,297,000 or 19% was received by the County Government between 4 June 2020 and 24 June 2020 giving little time to execute the budget.

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

### **Management Response**

The Management noted the Audit finding in respect to under realization of budgeted receipt by an amount of Ksh. 639,084,061. The revenue short fall was attributed to the following matters;

- Under disbursement of Equitable Share of Revenue amounting to Ksh. 337,515,600 or 9% of budget amount. The amount was however disbursed in August 2020.

In addition, several Grants as provided through CARA were not disbursed or were partly released, such as KSCAP Grant deficit of Ksh. 23,202,049, KUSP – UDG with deficit of Ksh. 32,287,906 while County allocation for Construction of County headquarter and Lease of Medical Equipment of Ksh. 1,152,184 and Ksh. 131,914,894 respectively was utilized by National Government Ministries.

The County Own Sources of Revenue realized Ksh. 271 Million against budgeted amount of Ksh. 350M. The shortfall was attributed to harsh economic condition as result of Covid 19 pandemic that led to lock down for over four months



The under absorption of the expenditure budget was attributed to revenue short fall as analysed above as well as late disbursement of exchequer funds with Ksh. 1,058,708,149 representing 21% of the approved budget received in June 2020.

#### **Committee Observations**

The Committee observed that;

1. there was under-utilization of appropriated funds by the county executive as a result of delay in exchequer releases by the National Treasury; and
2. the county did not meet its own-source revenue targets.

#### **Committee Recommendation**

The Committee therefore recommends that:

1. the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate and comply with Article 219 of the Constitution and Section 17(6) of the Public Finance Management Act, 2012.
2. The County executive puts in place measures to enhance its own generated revenue in order to meet its revenue target and address revenue shortfalls.

#### **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 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.1(9) dated 24 June, 2020.

#### **Management Response**

The Management had addressed the issues as contained in the Auditor General report for the year ended 30 June 2019 with matters satisfactorily responded to and discussed with Senate Public Accounts Committee.

#### **Committee Observation**

The Committee observed that the report of the Auditor-General for the financial year 2018/2019 for the County Executive of Tharaka Nithi was adopted by the Senate.

#### **Committee Recommendations**

The Committee recommends that;

1. the County Executive should implement the Senate recommendations in the report on the Auditor General's report for the Financial Year 2018/2019 adopted by the Senate.

2. the County executive complies with section 53 of the Public Audit Act, 2015 by taking action on the issues raised by the Auditor General and submits a report to the Auditor General within 60 days of the adoption of this report.
3. the County Executive engages with the Auditor General to resolve any outstanding matters.

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

### **Basis for Conclusion**

#### **1. Non-Compliance with the Law on Fiscal Responsibility - Wage Bill**

The statements of receipts and payments reflects an expenditure of Kshs.2,015,104,735 on compensation of employees representing 46% of the total receipts of Kshs.4,388,338,643. This is contrary to the provisions of Regulation 25(1) (a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which stipulates that county government's expenditure on wages and benefits for its public officers, shall not exceed thirty-five (35) percent of the county government's total revenue for the year.

Consequently, Management is in breach of the law.

#### **Management Response**

The Management took note of the Audit finding with regard to non-compliance with Fiscal Responsibility Principles on personnel expenditure, with reported personnel expenditure during the year under review reported at 46% of county revenue exceeding the 35% as set on PFM Regulations, 2015.

The high reported ratio on personnel expenditure at 46% was as result of revenue under realization in particular the unreleased equitable share of national revenue and short fall on own sources of revenue.

Further, the County was still burdened by huge wage bill from employees that were absorbed by the County from defunct local authorities and employees devolved from central government.

The process of harmonization of employees to required capacity was not realised in the short run, but its gradual process till the county had optimal work force.

#### **Committee Observations**

The Committee observed that;

1. the County Executive's wage bill during the FY 2019/2020 stood at 46% of its total receipts which was above the threshold of 35%;
2. the county inherited employees from the defunct local governments and there is a need to engage relevant bodies to develop policies to address wage bill issues in counties which is a threat to the objects of devolution as provided for under Article 174(f) of the Constitution.

#### **Committee Recommendations**



**The Committee recommends that; -**

- 1. the management should provide to the Auditor General and the Senate the measures it will put in place to contain the high wage bill within sixty (60) days of the adoption of this report;**
- 2. the management should strictly adhere to the provision of paragraph 25(1)(b) of the PFM Act (county government) regulations, 2015 which stipulate that the county wage bill should not exceed 35 per cent of the county total revenue; and**
- 3. the county executive puts in place measures to enhance own source revenue collection in order to address wage bill gap.**

## **2. Non-Compliance with Human Resource Policies and Procedures Manual for Public Service, 2016**

Note 6 to the financial statements reflects Kshs.2,015,104,735 in respect of compensation of employees. However, review of the personal files provided for audit revealed that ten (10) employees were employed on five (5) year contract contrary to Section B.20(4) of the Human Resource Policies and Procedures Manual for Public Service, 2016 which stipulates that contract appointments will be limited to a maximum period of three (3) years, renewable subject to demonstrable performance and other terms of the contract.

Further, the County Public Service Board renewed a contract for an Early Childhood Development Education (ECDE) teacher for a period of one year from 1 March, 2020 to 28 February, 2021. However, a review of documents and payroll revealed that, the teacher who was on a two-year contract from 1 March, 2018 to 28 February, 2020 had already attained the age of 60 years at the time of expiry of the contract. No explanation was provided why the County Public Service Board renewed the contract contrary to Section D.21 of the Human Resource Policies and Procedures Manual for Public Service, 2016 which stipulates that all officers shall retire from the service on attaining the mandatory retirement age of 60 years.

In the circumstances, Management is in breach of the manual.

### **Management Response**

The Management confirmed having hired a number of employees on five-year contract. The category included the CECMs, Chief Officers and Governor Advisors. The contract was made in tandem with the constitutional term of office of the Governor.

The ECDE care givers offers specialized services to the children which required well trained and experienced personnel. This was in addition to the proper attachment with the children especially those with special needs.

The two ECDE care givers aged 62 and 61 years respectively fell in the above category having trained children with special needs for a long period at Ikuu School for the Special Children were awarded 1 year contract for a smooth transition. They were



allocated other ECDE teachers to work under them in that period as a succession management for mentorship. This was why they were awarded only 1 year contract to facilitate the transition.

### **Committee Observations**

The Committee noted that;

1. The County Executive employed ten (10) employees on a five (5) years contract basis contrary to the Section B. 20(4) of the Human Resource Policies and Procedures Manual for Public Service, 2016.
2. The County Executive had in their employment, recruited persons who were beyond 60 years old which is set at the maximum retirement age.

### **Committee Recommendations**

The Committee Recommends that;

1. the County Executive strictly adheres to the Human Resource Policies and Procedures Manual and submit a status report of the adherence within sixty (60) days from the adoption of this report; and
2. the County Executive should not employ, on permanent and pensionable terms, persons who are above sixty (60) years and that the County Executive submits a status report to the Auditor-General on implementation of this recommendation within sixty (60) days of adoption of this report.

## **3. Non-Compliance with the Public Procurement and Assets Disposal Act, 2015**

### **3.1 Splitting of Tenders**

During the year under review, Management paid an amount of Kshs.5,278,000 for branding of assorted items. However, the supply was split into three (3) and awarded to three (3) different suppliers at Kshs.1,972,000, Kshs.1,821,200 and Ksh.1,484,800 using request for quotation method of procurement contrary to Section 54. (1) of the Public Procurement and Asset Disposal Act, 2015 and first schedule to legal notice number 106 of the Public Procurement and Disposal (Amendment) Regulations, 2013 which stipulates that no procuring entity may structure procurement as two or more procurements for the purpose of avoiding the use of a procurement procedure. The maximum level of expenditure on use of request for quotation of goods is Kshs.2,000,000.

### **Management Response**

The Management confirmed having procured various items during the year as follows; branded umbrellas and T-shirts from Kendee Enterprises at cost of Ksh. 1,972,000, Wall calendar, notebooks and desk calendar from Flexnet Networks at cost of Ksh. 1,821,200 and branded thermos, bottles, pens carrier bags from Confiance Communication at cost of Ksh. 1,484,800.

The County in line with access to government procurement opportunities unbundled the tender to make it favourable to targeted category, reserved for youth, women and people with disabilities in accordance to Public Procurement and Disposal Regulations 2020,

Section 154 (1). The registration under AGPO for awarded suppliers was provided for audit review.

### **Committee Observations**

The Committee observed that;

1. the County Executive unbundled the tender to aid access to government procurement opportunities so as to make it favourable to targeted category, reserved for youth, women and people with disabilities in accordance to Public Procurement and Disposal (Regulations) 2020, Section 154 (1).
2. the County Executive failed to give the explanation for unbundling of the tender at the time of audit.
3. that the county executive unbundled the tender in a bid to defeat competition.
4. the head of procurement should have offered professional opinion on unbundling of the procurement of the branding services.

### **Committee Recommendations**

The Committee recommends that;

1. The County CEO undertakes administrative action against the responsible officers who failed to provide explanation for unbundling of the tender to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report; and
2. the management should strictly adhere to the provisions of the Public Procurement and Asset Disposal Act, 2015 and Public Procurement and Disposal (Regulations) 2020.

### **3.2 Use of Suppliers not prequalified**

Further, Management paid an amount of Kshs.160,000 to a supplier for provision of air ticket. However, the supplier was not in the updated list of registered suppliers provided for audit review contrary Section 95(3) of Public Procurement and Asset Disposal Act, 2015 which stipulates that a procuring entity shall invite tenders from only the approved persons who have been pre-qualified.

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

### **Management Response**

The Management acknowledged incurring expenditure amounting to Ksh. 160,000 towards cost of flight by one of county staff. However, the services were not procured by the County but were incurred by the officer and made claim for refund upon return from foreign trip. The claim for refund voucher was provided.

### **Committee Observations**

The Committee was informed by the Auditor General that the matter had since been addressed.



#### **Committee Recommendations**

**The Committee recommends that the matter be marked as resolved.**

#### **4. Non-Compliance with the Public Finance Management (County Governments) Regulations, 2015**

During the year under review, Management paid for various projects and procured goods and services for the County. However, review of the records revealed several instances of non-compliance with the law of outlined below:

##### **i) Receipts of good after LPO Validity Period**

Management paid an amount of Kshs.24,668,150 in respect of printing, advertising and information supplies and services which further includes Kshs.553,000 paid to a supplier for supply of stationeries.

Review of documents provided for audit revealed that, the Local Purchase Orders (LPO) were issued on 6 March, 2020. However, the stationeries were delivered on 11 July, 2020 approximately three (3) months after the LPO was issued contrary to Section 52. (1)(2) of the Public Finance Management (County Governments) Regulations, 2015 which stipulates that local purchase order or local service order shall be valid for a period of thirty days from the date of issue and any public officer who receives goods or services beyond the stipulated period specified commits an offence.

##### **Management Response**

The Management confirmed procuring printing services during the year under review at cost of Ksh.553,000. The items ordered involved printing of hospital accountable records. The supplier Nechal Enterprises delivered first batch and requested for extension of time to deliver the remaining quantities.

Considering the documents were to be used over a period of time, the request was granted for further 60 days within which the full order was supplied.

##### **Committee Observation**

The Committee observed that there was violation of Paragraph 52 (1) and (2) of the Public Finance Management (County Governments) Regulations, 2015.

##### **Committee Recommendations**

**The County CEO undertakes administrative action against the responsible officer(s) who received goods beyond the stipulated period of thirty (30) days in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report.**

##### **ii) Delayed Construction of Githioroka Bridge**

During the year under review, a contractor was awarded the tender for the construction of Githioroka Bridge at a contract sum of Kshs.12,501,320. An amount of Kshs.8,334,832 was paid but only Kshs.7,000,000 was approved out of a contract sum of Kshs.12,501,320 resulting to over expenditure of Kshs.1,334,832 in the year under review without approval. However, the funds required for completion of the project



Kshs.4,166,488 was not included in the County Executive budget for 2020/2021 contrary to Section 116(2) of the Public Financial Management (County Government) Regulations, 2015 which stipulates that an accounting officer shall ensure that the funds are re-voted for the project in the following financial year in order to continue the implementation of the project. No explanation was provided for the anomaly and it was not clear how the project will be completed.

In addition, physical verification carried out in September, 2020 revealed that construction of the bridge is not completed and the contractor was not on site as the project appeared to have stalled.

### **Management Response**

The Management confirmed procuring for construction of Kithioroka at a contract sum of Ksh.12,501,320 being a multi-year project. During the year under review an amount of Ksh.8,334,832 was paid under interim certificate number one.

Although the amount provided in the approved budget FY 2021/2022 was Ksh. 7,000,000. The County however, from savings from other budgeted projects during the year, was able to pay additional amount of Ksh.1,334,832.

The County did allocate more funds in the current financial year 2022/2023 after the contractor successfully completed the project with second and final certificate of Ksh. 4,166,372 paid in October 2022. The completion certificate, inspections report, payment voucher and site images were availed for audit review.

### **Committee Observations**

The Committee noted that;

1. The County Executive incurred additional expenditure on the project which had not been planned for in the budget for the period under review and without prior approval of the County Assembly or a subsequent approval pursuant to Section 135 of Public Finance Management Act, 2012;
2. There was an overpayment of Kshs. 1,334,832 against works done by the contractor without any approval; and
3. The Contractor was not on site and the project appeared to have stalled.

### **Committee Recommendations**

The Committee recommends that-

1. The County CEO undertakes administrative action against responsible officer(s) for incurring additional expenditure without approval and no budget line in the subsequent year which is contrary to Section 116(2) of the Public Financial Management (County Government) Regulations, 2015 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report.
2. The county executive expedites the completion of the project to ensure that citizens get value for money; and
3. the Auditor-General to verify the completion of the construction of the Kithioroka bridge in the next audit cycle.

### **iii) Incomplete Levelling and Improvement of Kairuni Playground**

On 22 February, 2019, Management paid an amount of Kshs.4,597,451 for levelling and improvement at Kairuni playground as part payment for a contract cost of Kshs.12,993,654. Review of Bills of Quantities revealed that the contractor was supposed to construct a project manager's office, store, install water and electricity at cost of Kshs.305,000 which has already been paid for. However, physical verification carried out in September, 2020 revealed that the contractor was not on site and work appeared to have stalled.

No explanation was provided on how the County Executive intended to complete the project. Further, although the works had not been completed, no budgetary allocation had been provided for the completion of the project in 2019/2020 and 2020/2021 financial years budgets contrary to Section 116 (2) of the Public Financial Management (County Government) Regulations, 2015 which stipulates that an accounting officer shall ensure that the funds are re-voted for the project in the following financial year in order to continue the implementation of the project.

### **Management Response**

The Management confirmed paying an amount of Ksh.4,597,451 towards levelling and improvement at Kairuni playground during the year under review.

Included in the bills of quantities general preliminaries as follows:

Item	Description	Amount Ksh
1	Storage of materials	100,000
2	Project Manager Office	100,000
3	Electricity Cost	50,000
4	Provision of Water and Sanitation	55,000
	<b>Total</b>	<b>305,000</b>

The Management confirmed the contractor did install the water and electricity. The project manager office and storage facility was constructed, but had since been demolished upon completion of the project. The payment voucher, certificate of works done and measurement for works provided for audit review.

### **Committee Observations**

The Committee noted that;

1. The County Executive incurred additional expenditure on the project which had not been planned for in the budget for the period under review and without prior approval of the County Assembly or a subsequent approval pursuant to Section 135 of Public Finance Management Act, 2012; and
2. The Contractor was not on site and the project appeared to have stalled as at September, 2020.

### **Committee Recommendations**

The Committee recommends that-

1. The County CEO undertakes administrative action against the responsible officer(s) for incurring additional expenditure without approval and no



budget line in the subsequent year which is contrary to Section 116(2) of the Public Financial Management (County Government) Regulations, 2015 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report.

2. The county executive expedites the completion of the project to ensure that citizens get value for money; and
3. the Auditor-General to verify the implementation of the above recommendations within sixty (60) days after adoption of this report.

#### **iv) Construction of Chiakariga Water Project**

During the year, Management paid an amount of Kshs.3,771,630 on construction and civil works to a contractor for construction of a water tank, pump house and connection of main water supply pipes at Chiakariga Market. However, physical verification carried out in September, 2020 revealed that the pump house and water tank were constructed but were not in use since the same were not connected to the main water supply. Further, seven (7) items in the Bill of Quantities valued at Kshs.303,850 had been paid for but were not supported by relevant documents including approved measurements of work done contrary to Section 104. (1) of the Public Financial Management (County Government) Regulations, 2015 which stipulates that all payments shall be properly supported by payment vouchers, appropriate authority and documentation.

#### **Management Response**

The Management confirmed payment of Ksh. 3,771,630 towards construction of Chiakariga Water Project during the year under review. The County awarded the tender in August 2016 at contract sum of Ksh. 6,381,410 however the contractor did not finish the work and was terminated on expiry of contract period. Different contractor was engaged to finish the works.

The amount paid was based on actual work done as per the support documents annexed to the payment voucher which includes measurements for works. The items indicated as not done were not valued in the interim certificate and hence not paid for. The Management availed the payment voucher for audit review.

Items in the Bills of Quantities	Ksh
Roofing	234,700
Painting	4,750
Gutters inclusive of all fittings	18,200
Downpipes inclusive of all fittings	11,200
1 HD 2FS window	5,000
Flush door (2 in number)	10,000
3000 mm long and 800 mm wide steel ladder internally anchored to the water tank	20,000
<b>Total</b>	<b>303,850</b>



### **Committee Observations**

The Committee noted that

1. the County Executive did not submit relevant documents to the Auditor General during the audit exercise contrary to the Section 62 of the Public Audit Act of 2015; and
2. the project was complete but not operational thus there was no value for money from the expenditure incurred, in violation of Section 153 (1)(b) of the Public Finance Management Act, 2012.

### **Committee Recommendations**

The Committee recommends that-

- 1) **The County CEO undertakes administrative action against the responsible officers who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report; and**
- 2) **the County Government takes immediate action to operationalise the project and provides a report to Auditor-General on project status within sixty (60) days of adoption of this report.**

#### **v) Failure to adhere to the Approved Budget**

Further Management made payment amounting to Kshs.55,980,000 in respect of purchase of vehicles and other transport equipment. The balance includes a balance of Kshs.38,400,000 paid to a supplier for purchase of thirteen (13) motor vehicles.

Review of approved procurement plan, revealed that the Department of Finance and Economic Planning had budgeted to purchase eleven (11) double cabin pickups at a cost of Kshs.66,000,000. However, the department purchased ten pickups and three (3) Sports Utility Vehicles (SUVs) at a cost of Kshs.38,400,000.

Further, included in Kshs.55,980,000 was Kshs.17,580,000 spent by Health Department on purchase of three (3) double cab pickup. However, review of approved Health Department procurement plan revealed that the purchase of the three (3) motor vehicles was not included in the Health Department approved procurement plan.

In addition, review of the Health Departments approved procurement plan revealed that Kshs.5,860,000 was budgeted for purchase of an ambulance but the same was spent on purchase of Toyota Double Cab. No explanation was provided why the departments deviated from their approved procurement plan contrary to Section 50(2)(3) of Public Finance Management (County Governments) Regulations, 2015 which stipulates that expenditure commitments for goods and services shall be controlled against spending and procurement plans approved by the responsible accounting officer in accordance with the Public Procurement and Disposal Act, 2015 and Regulations made thereunder, based on allocations and allotments from approved budgets.

In the circumstances, Management is in breach of the law and the value for money for the expenditure for the year ended 30 June, 2020 could not be ascertained.

### **Management Response**

The Management confirmed procuring 10 pick-ups and 3 SUVs at cost of Ksh. 65,400,000 (and not Ksh. 38,400,000 as indicated in the report). The amount paid was part payment for the purchase of the 13 vehicles fleet.

The purchase of the 13 vehicles was contained on the revised procurement plan for the department of Finance and now availed for audit review.

With regard to purchasing of three (3) double cabs for Health Department was provided for on the approved budget and revised Procurement Plan. The same was availed for audit review.

Regarding the purchase of Double Cab for Health Department, the vehicle was for supervision of World Bank funded Transforming Health Services for Universal Care project (THSUCP). However, the budget and procurement plan were erroneously indicated as Purchase of Ambulance. The approved THSUC Project annual Work Plan for the year under review was now provided for audit verification.

### **Committee Observation**

The Committee noted that the County Executive deviated from their approved procurement plan contrary to Section 50(2)(3) of Public Finance Management (County Governments) Regulations, 2015 without any approval.

### **Committee Recommendations**

**The Committee recommends that;**

- 1. The County CEO undertakes administrative action against responsible officers for failing to adhere to the procurement plans and budgeted programs in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report; and**
- 2. the County Executive strictly adheres to the procurement plans and budget programs and if reallocations are required, they should undertake due process to ensure compliance with the provisions of the Public Finance Management Act, 2012.**

### **5. Non-Compliance with the Public Finance Management Act, 2015**

During the year under review, Management made payment of Kshs.4,634,100 spent on shipping cost and associated fire kits for two (2) fire engines that were donated to the County Executive by a donor from United Kingdom. However, review of documents provided for audit review indicated that County Executive Committee Member (CECM) for finance's authority to pay for the shipping and associated fire kits costs was not given contrary to Section 138(6)(b) of the Public Finance Management Act, 2012 which stipulates that if a project that is being financed by a grant or donation from a development partner requires county government funding, the project may only be started when the County Executive Committee Member for Finance has given a written authorization for the project to begin.



Further, review of approved budget for the financial year 2019/2020 revealed that the expenditure had not been budgeted for contrary to Section 138(6)(a) of the Public Finance Management Act, 2012 which stipulates that grant or donation from a development partner may be started when funding has been appropriated in accordance with this Act or is otherwise authorized by legislation. The documents showing the name and quantity of fire kits delivered were not provided for audit review. In the circumstances, the County Executive is in breach of the law and value for money for the expenditure could not be ascertained.

### **Management Response**

The Management state that a payment of Ksh.4,634,100 was made for the shipping and clearance charges for two fire engines donated from United Kingdom. The amount incurred was purely incidental costs as the county was only required to facilitate shipping and port clearance.

Though the expenditure was not expressly provided in the budget under acquisition of Specialised equipment, the expenditure was incurred against general budget allocation for Hire of Transport.

### **Committee Observations**

The Committee noted that –

1. the County Executive incurred expenditure to transport donated fire engines from the United Kingdom without a budget, supplementary budget from the County Assembly or authority from the CECM Finance;
2. the expenditure had not been specifically budgeted for, the same was charged under the general budget allocation for hire of transport; and
3. there was no prior approval by CECM Finance to incur transportation costs contrary to Section 138 (6) (b) of the Public Finance Management Act, 2012.

### **Committee Recommendations**

The Committee recommends that;

1. the County CEO undertakes administrative action against the responsible officer(s) for incurring unbudgeted expenditure without approval and for failure to give a written authorization to pay for the shipping and associated fire kits costs in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report;
2. the County Executive should strictly adhere to Section 138 (6) (b) of the Public Finance Management Act, 2012 and the budget process.

### **6. Other Accounts Receivables (Debtors)**

Annex V to the financial statements reflects Kshs.52,693,052 in respect of other accounts receivables (debtors) as at 30 June, 2020 which relates to outstanding plot rents which includes Kshs.43,208,302 which has been outstanding for over one (1) year. However, measures taken by Management to ensure collection of the long outstanding



rents were not explained contrary to Section 63(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 which stipulates that an accounting officer shall take adequate measures to obtain payment of any outstanding amounts including legal action where appropriate.

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

#### **Management Response**

The Management confirmed holding outstanding account receivable from plot rent debtors amounting to Ksh. 52,693,052 as at 30 June, 2020.

The County Government had made effort to collect the revenue through public sensitization and other enforcement mechanism such as denial of business permit. In addition, the government had offered waiver of penalties and interest to encourage voluntary payments of the amount due.

#### **Committee Observation**

The Committee noted that the County Executive had outstanding arrears from rent which contributed to decline in own source revenue.

#### **Committee Recommendations**

**The Committee recommends that the County CEO undertakes administrative action against responsible officers for failing to put in place measures to obtain payment of any outstanding amounts including taking legal action where appropriate in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report.**

### **7. Management of Retention Money**

Review of the bank statements revealed that Kshs.36,945,209 was transferred from the deposits account on 29 July, 2019 to recurrent account contrary to Section 47(1) (e) of the Public Finance Management (County Government) Regulations, 2015 which stipulates that allocations earmarked by the County Treasury for a specific purpose may not be used for other purposes, except with Treasury's approval. No explanation was provided on how the management intended to replenish the account and pay retention money to suppliers when due.

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

#### **Management Response**

The Management confirmed transfer of unspent balance on Retention Deposit Account to County Revenue Fund (CRF) Account amounting to Ksh. 36,945,209.

The amount was still held up at CRF and had not been in any way utilised for other purposes as the amount belonged to the contractors. The CRF bank Statement was provided for perusal.

#### **Committee Observations**

The Committee observed that-

1. the annexures provided by the Management during interrogation with the Committee did not address the audit query; and

2. the transfer of retention money was done contrary to paragraph 47(1)(e) of the Public Finance Management (County Government) Regulations, 2015.

#### **Committee Recommendations**

**The Committee recommends that;-**

- 1) the County CEO undertakes administrative action against the responsible officer(s) for illegal transfer of retention money in contravention of Section 47(1)(e) and 63 (4) of the Public Finance Management (County Government) Regulations, 2015 and provides a status report to the Office of the Auditor General within 60 days of adoption of this report; and
- 2) The EACC to investigate the transfer of Kshs.36,945,209 from the deposits account on 29 July, 2019 to recurrent account contrary to Section 47(1) (e) of the Public Finance Management (County Government) Regulations, 2015 and recommend for the prosecution of culpable officer(s) if the diversion of the funds resulted in loss of public funds and provide a status update to the OAG and the Senate within 90 days of adoption of this report.

#### **8. Account Receivables (Outstanding Imprests)**

Annex IV to the financial statements reflects Kshs.1,907,330 in respect of account receivables (outstanding imprests) as at 30 June, 2020 which were issued between 11 November, 2017 and 20 April, 2020. However, the imprest had not been surrendered or accounted for at the time of this audit in September, 2020 which is between five (5) and thirty-four (34) months since the imprests were issued contrary to Section 93(5) of the Public Finance Management (County Government) Regulations, 2015 which stipulates that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station. Further, explanation on measures taken to recover the long outstanding imprests was not provided for audit review.

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

#### **Management Response**

The Management confirmed holding outstanding imprest amounting to Ksh.1,907,330 as at 30 June, 2020.

The outstanding amount included Ksh.1,802,330 for officers whose term of employment had expired but had not been cleared to access their gratuity. Any outstanding imprest would be recovered from their dues.

The only outstanding imprest issued during the year under review was occasioned by suspension of workshop the officer was attending after the Covid-19 pandemic public gathering cancellation. The officer had since completed the meeting and imprest surrendered accordingly.

#### **Committee Observations**

The Committee noted that;



1. the County Executive had failed to submit relevant documents on time to the Auditor General during the audit exercise contrary to Section 62 of the Public Audit Act, 2015.
2. the executive had several outstanding safari/temporary imprests not surrendered within 7 days of returning to duty station in violation of Section 93(5) of the PFM Act (County Governments) Regulations, 2015 and stated that the responsible officers should be surcharged with an interest at the prevailing Central bank rates.

### **Committee Recommendations**

#### **The Committee recommends that:-**

- 1) the Accounting Officer(s) recover the outstanding imprests with interest as per provisions Regulation 93 (6) of the Public Finance Management (County Governments) Regulations, 2015; and
- 2) sanction and surcharge of Accounting Officers who fail to recover outstanding imprests in line with Regulation 93(7) of the PFM (County Government) Regulations, 2015.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **1.0 Project Implementation Status**

The summary statement of appropriation: development for the year under review reflected an approved budget of Kshs.1,670,370,681 earmarked for project implementation during the year under review. Review of the County's project implementation status report provided for audit review revealed that two hundred and sixty - one (261) projects worth Kshs.1,670,370,681 were budgeted to be implemented during the year under review. However, one hundred and seventy - five (175) projects worth Kshs.826,331,702 had been completed at a cost of Kshs.718,695,319 and in use while sixty-three (63) projects worth Kshs.638,402,596 were ongoing, twenty-two (22) projects worth Kshs.202,636,383 had not started and one (1) project worth Kshs.3,000,000 had stalled as at 30 June, 2020.

Therefore, there is need for the County Executive's management to review its project management mechanism with a view to prioritizing those projects which will be implemented during the financial year resulting to higher impact of improving service delivery to the residents of Tharaka Nithi County.

In view of the above, the residents of Tharaka Nithi County did not get services as budgeted from the sixty-three (63) projects worth Kshs.638,402,596 which were ongoing, twenty-two (22) projects worth Kshs.202,636,383 which had not started and one (1) project worth Kshs.3,000,000 which had stalled as at 30 June, 2020 due to poor project management and governance.

#### **Management Response**

The Management confirmed, all the project that were either ongoing or stalled had since been successfully completed and put into intended use.



The County had conducted monitoring and evaluation and submitted the report for audit review.

#### **Committee Observation**

The Committee was informed by the Office of Auditor General that the matter has since been addressed.

#### **Committee Recommendation**

**The committee recommends that the matter be marked as resolved.**

### **2.0 Ineffective Management of Fixed Asset**

Annex VI - summary of non-current assets to the financial statements reflects assets with cumulative historical cost of Kshs.4,056,909,966 as at 30 June, 2020. However, fixed assets register provided for audit review reflects a list of assets acquired during the financial year ended 30 June, 2020 without reflecting their respective costs or historical value. Further, the register did not include assets acquired in the previous financial years.

Further, the above historical cost includes a balance of Kshs.4,386,080 in respect of purchase of a parcel of land respectively. However, details of the land including ownership documents were not provided for audit review. Whereas the County Government owned one hundred and seventy-eight (178) vehicles but Management provided ownership documents for audit review thirty (30) vehicles leaving one hundred and forty-eight (148) motor vehicles. In addition, specific motor vehicles cost and date of purchase were not provided for audit review.

In addition, the above historical costs include a balance of Kshs.187,064,472 in respect of purchase of Information Communication Technology (ICT) equipment, software and other ICT assets which constitutes amounts of Kshs.745,218 and Kshs.280,000 paid to two suppliers for the supply of seven (7) laptops which have not included in the assets register. Review of fixed assets registers and physical verification of the assets revealed that the assets were not tagged for ease of identification and movement.

In the circumstances, the existence of an effective mechanism to safeguard and secure the County's assets cannot be established.

#### **Management Response**

The Management confirmed holding Non-Current Assets at Historical cost of Ksh. 4,056,909,966 as at 30 June, 2020.

The process of updating Asset Register had been undertaken to ensure all the assets acquired by the County were properly recorded as way of ensuring the safety and traceability.

The management confirmed acquiring a parcel of the land during the financial year 2014/2015 in Chuka at cost of Ksh.4,386,080 for use as dumpsite. The ownership documents were not handed over from previous administration.

The County Government further confirmed that it had been in possession of One hundred and seventy-eight (178) vehicles that included those inherited from defunct

local and devolved ministries. The status of the ownership documents was as follows authorities;

Item	Status	Units	Annex
1	Availed logbooks during Audit 30 June, 2020	30	-
2	Additional original / duplicate logbooks processed	86	XXVI
3	Vehicles currently Undergoing process of tape-lifting	5	XXVII
4	GK Vehicles Logbooks held by National Ministries	57	-
	<b>Total</b>	<b>178</b>	

The GK motor vehicles with logbooks held by Ministries related to donor funded projects under national government ministries. Although the vehicles were domiciled at the county, the ownership was held by the national ministries such as Ministry of Agriculture, Kenya Climate Smart Agriculture Project (KCSAP), Agriculture Sector Development Programme (ASDP), Ministry of Fisheries (Aquaculture Business Development Project (ABDP), Ministry of Health, Transforming Health Services for Universal Care (THSUC)

The ownership documents were transferable after the end of the project term at the discretion of the funding Ministry.

Further, most of the motor vehicles under registration of GK were grounded and unserviceable. The County was in process of disposing them off through scrapping off while others would be donated to County polytechnics for learning purpose.

#### **Committee Observations**

The Committee observed that;

1. the County Executive lacked an updated Fixed Asset Register; and
2. the county government lacked ownership documents for some of its assets and properties.

#### **Committee Recommendations**

The Committee recommends that the-

- a) County Executive should update and present their Fixed Assets Register in the format prescribed by the Public Sector Accounting Standards Board;
- b) County Executive should adopt and implement the report of the Inter-Governmental Technical Relations Committee (IGTRC) on assets and liabilities from defunct Local Authorities and provide a status update to the Office of the Auditor General within 90 days of adoption of this Report; and
- c) Office of the Auditor General should progressively review and report on the matter in the subsequent Financial Years.

### **3.0 Information Communication Technology (ICT) Environment**

Review of the County Executive's ICT environment revealed that there was no formal approved ICT policy in place as at 30 June, 2020. The policy would have included data security, data integrity and disaster recovery plans.

In the circumstances, the security and reliability of the County Executive's data including the management information system could not be ascertained.

**Management Response**

The management confirmed to have developed ICT Policy and had since been implemented accordingly.

**Committee Observation**

The Committee was informed by the Office of the Auditor General that the matter has since been addressed.

**Committee Recommendation**

The committee recommends that the matter be marked as resolved.



## CHAPTER TWO

### REPORT OF THE SENATE COUNTY PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF HOMA BAY COUNTY EXECUTIVE FOR THE FINANCIAL YEAR 2019/2020

The Governor of Homa Bay County, Hon. Gladys Wanga, appeared before the Committee on Tuesday 28<sup>th</sup> February 2023 to respond (under oath) to audit queries raised in the Report of the Auditor General on Financial Statements for Homa Bay County Executive for the Financial Year 2019/2020.

#### Qualified Opinion

EXECUTIVE SUMMARY OF UN-RESOLVED QUERIES				
No.	Query	Recommendations	Actor	Timeline
1	<p><b>1.0 Presentation of the Financial Statements</b></p> <p><b>1.1 Inadequate Disclosure on Prior Year Audit Issues</b></p> <p>Note 22 to the financial statements - other important disclosures - provides two disclosures on progress made in resolving the issues raised in the audit report for the previous (2018/2019) financial year whereas the report of the Auditor-General for the year had highlighted seventeen (17) issues.</p> <p>As a result, the financial statements do not comply with the reporting format prescribed by the PSASB</p>	<p>The Committee recommends that:-</p> <ol style="list-style-type: none"> <li>1. County Executive should present their Financial statements in the format prescribed by the Public Sector Accounting Standards Board;</li> <li>2. The County CEO undertakes administrative action against the accounting officer, the Chief Officer Finance, the Head of County Treasury and any other officer(s) responsible for failure to undertake reconciliation of financial statements within the stipulated timelines and submit a report to the Office of the Auditor General within 60 days of adoption of this report;</li> <li>3. The Institute of Certified Public Accountants (ICPAK) takes action(s) against the Head of Treasury for misrepresentation of financial statements which constitutes professional</li> </ol>	<p>The County Chief Executive Officer</p> <p>The Auditor General</p> <p>ICPAK</p>	60 days from the date of adoption of this report.

		<p>misconduct pursuant to Section 8 (a) and 30 of the Accountants Act CAP 531 and reports to the Office of the Auditor General within 60 days of adoption of this report;</p> <p>4. County CEO must ensure strict adherence to the Public Audit Act, 2015 by providing accurate and reliable reconciliations of the financial statements, payment details and the vote books during the audit cycle; and</p> <p>5. the County Executive complies with section 53 of the Public Audit Act 2015 by taking action on the issues raised by the Auditor General and submit a report to the Auditor General for review within sixty (60) days of adoption of this report.</p>		
2	<p><b>2.1 County Own-Generated Revenue</b></p> <p><b>2.1.1 Housing Fees</b></p> <p>i) Management had estimated the year's receipts at Kshs. 2,124,000 based on the inventory of the houses. Therefore, the receipts totaling Kshs.23,000 fell short by Kshs.2,101,000.</p> <p>ii) Rental income records indicated that arrears owed by employees of the County Executive as</p>	<p>The Committee recommends that;-</p> <p>a) the County executive should expedite updating of valuation roll in accordance with Section 3 of the Valuation for Rating Act CAP 266 so as to reflect current market values for optimal revenue collection and comply with the guidelines of the Public Sector Accounting Sector Boards of reporting in the FY 2023/2024.</p> <p>b) County Executive should adopt and implement the report of the Inter-Governmental Relations</p>	<p>1)The County CEO</p> <p>2)The Auditor General</p>	60 days from the adoption of this report.

	<p>at 30 June, 2020 totaled Kshs.2,201,000, with some of the debts having arisen in the 2013/2014 financial year. However, they have not been disclosed in the Notes to the financial statements.</p>	<p>Technical Committee on Management of Assets and Liabilities from defunct local authorities; and</p> <p>c) Auditor General to follow up on the matter in subsequent audits.</p>		
3	<p><b>2.1.2 Liquor Fees</b></p> <p>Revenue records examined reflected nil collection on liquor licensing fees against Kshs.1,467,324 budgeted for the year.</p> <p>Management did not prepare or submit for audit the financial statements of the Alcoholic Drinks Control Fund.</p> <p>In addition, records on bank statements, liquor outlets and licences issued were not provided for audit review.</p>	<p>The Committee recommends that the Ethics and Anti-Corruption Commission investigate the operationalization of the fund since its inception to date with the view of establishing if there has been impropriety in the management and utilization of the fund.</p>	Ethics and Anti-Corruption Commission	Immediate
4	<p><b>2.2 Compensation of employees</b></p> <p>Management did not Provide a satisfactory explanation for not</p>	<p>The Committee recommends that;</p> <p>1) County Executive should engage the State Department of Public Service to fast-track the</p>	1)The County CEO	Immediate





	returns on the transfers made to the Project.			
6.	<p><b>2.5 Capital Grants and Transfers</b></p> <p>Note 11 to the financial statements indicates that transfers totalling Kshs.85,371,975 were made to the Homa Bay Municipal Board and the remainder Kshs.35,163,298 to village youth polytechnics. However, Management did not submit for audit the financial statements or expenditure returns on use of the grants.</p>	The County CEO undertakes administrative actions against the responsible officer(s) who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act and submit a status report 60 days from the adoption of this report	The County CEO	60 days from the adoption of this report
7	<p><b>2.6.2 Undelivered Animal-Feeds Milling Equipment</b></p> <p>Equipment had not been installed in spite of payments totalling Kshs.16,000,000 having been made to the contractor.</p>	The Committee recommends that the Auditor General carries out an Audit and submit a status report 60 days from the adoption of this report.	The Auditor General	60 days from the adoption of this report.

8	<p><b>2.7 Fixed Assets</b></p> <p>The summary register does not include the additions and disposals of assets made during the year and assets valued at Kshs. 56,165,738 brought forward from the previous year.</p> <p>the County Government had as at 30 June, 2020 not acquired the log-books</p> <p>for the three specialized motor vehicles.</p>	<p>The Committee recommends that;-</p> <ol style="list-style-type: none"> <li>1) the County executive should fast-track acquisition of the logbooks for the three specialized motor vehicles;</li> <li>2) County executive should update and present their Fixed Assets Register in the format prescribed by the Public Sector Accounting Standards Board;</li> <li>a) County executive should adopt and implement the report of the Inter-Governmental Technical Relations Committee (IGTRC) on assets and liabilities from defunct Local Authorities and provide a status update to the Office of the Auditor General within 90 days of adoption of this Report; and</li> <li>b) Office of the Auditor General should progressively review and report on the matter in the subsequent Financial Years.</li> </ol>	<p>The County CEO</p> <p>The Auditor General</p>	<p>90 days from the adoption of this report</p>
9.	<p><b>2.8 Payments Made Outside the Integrated Financial Management Information System</b></p> <p>Bank statements for development and</p>	<p>The Committee recommends that the County CEO should ensure that all payments are made on the Integrated Financial Management System (IFMIS).</p>	<p>The County CEO</p>	<p>Continuous</p>



	<p>recurrent accounts operated at the Central Bank</p> <p>of Kenya reflected transfers of cash to departmental operations accounts totalling Kshs.43,760,651. However, the transactions were not effected through the Integrated Financial Management Information System (IFMIS).</p>			
10	<p><b>2.9 Pending Accounts Payables</b></p> <p>the closing pending bills balance rose sharply relative to the previous year, suggesting that Management did not pay eligible old and new bills as advised by The National Treasury.</p>	<p>The Committee therefore recommends that:</p> <ol style="list-style-type: none"> <li>1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time; and</li> <li>2) the county executive puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.</li> <li>3) Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) for</li> </ol>	<ol style="list-style-type: none"> <li>a) The National Treasury</li> <li>b) The County CEO</li> <li>c) The DCI</li> <li>d) The OAG</li> </ol>	Continuous

		<p>investigation proper legal action taken against those filing false claims.</p> <p>4) County Government to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending bills verification committees unconstitutional and engage Office of the OAG and strengthen the internal audit functions.; and</p> <p>5) All valid pending bills that have been reviewed by the Office of the Auditor General be paid and a payment plan be submitted to the county assembly for approval and progress report on implementation sent to the Senate and the Office of the Controller of Budget.</p>		
11	<p><b>Other Matter</b></p> <p><b>1.0 Budgetary Control and Performance</b></p> <p><b>1.1 Receipts</b></p> <p>Revenue records indicated that the County Executive realized receipts totaling</p> <p>Kshs.9,170,732,26 in the year under review, against</p>	<p>The Committee recommends that:</p> <p>1) The National Treasury should ensure timely release of funds to county Governments in line with the cash disbursement schedules approved by the Senate; and</p> <p>2) The County executive puts in place measures to enhance its own generated Revenue in order to meet its revenue target and address revenue shortfalls</p>	<p>1)The National Treasury</p> <p>2)The County CEO</p>	Continuous

	<p>Kshs.8,969,578,696 budgeted for, resulting to a surplus of Kshs.201,153.</p> <p><b>1.2 Expenditure</b></p> <p>net under-expenditure of Kshs.690,840,145 or 8% of the budget.</p>			
12	<p><b>1.3 County Own-Generated Receipts</b></p> <p>County-own generated revenues totalling Kshs.177,591,524 were budgeted for but actual collections were Kshs.274,595,613 resulting to a surplus of Kshs.97,004,089.</p>	The Committee recommends that the County should map out all potential revenue streams and set realistic revenue targets and submit a status report on the measures put in place.	The County CEO	60 days from the adoption of this report
13	<p><b>1.4 Nil Revenue Collection on Eleven Items</b></p> <p>Examination of revenue records indicated that eleven (11) revenue streams through which Management had budgeted for receipts totalling Kshs.3,046,816 in</p>	<p>The Committee recommends that the County Executive should:</p> <ul style="list-style-type: none"> <li>a) disclose all their revenue sources and total amounts collected;</li> <li>b) put in place measures to enhance collection of their own source revenue to meet their target;</li> <li>c) the County executive should expedite updating of valuation roll in accordance with Section 3 of the Valuation for Rating Act</li> </ul>	The County CEO	Continuous



	the year under review recorded nil balances.	CAP 266 so as to reflect current market values for optimal revenue collection and comply with the guidelines of the Public Sector Accounting Sector Boards of reporting in the FY 2023/2024; d) automate and map out all potential revenue streams and set realistic revenue targets.		
14	<b>2.0 Delayed Exchequer Receipts</b>  The late receipt of budgeted funds resulted in delay in implementation of planned programmes and activities and denied the County residents access to goods and services expected in the year under review.	The Committee recommends that the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate.	The National Treasury	Continuous
15	<b>1.0 Unsatisfactory Implementation of Projects</b>  <b>1.1 Failure to implement Budgeted Projects</b>  The Projects Implementation Status Report as at 30 June, 2020 indicated that forty-six	The Committee recommends that: 1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate; 2) the County executive puts in place measures to enhance its own generated revenue in order to meet its revenue target and address revenue shortfalls; 3) the County Executive to establish a project implementation, monitoring and	1)The National Treasury  2)The County CEO	Continuous

	(46) projects valued at Kshs.186,249,288 contracted out for implementation in the year under review had not started as at 30 June, 2020,	evaluation team provide periodic project status; and 4) the county executive should undertake proper project conceptualization, planning and execution to ensure timely completion of projects as well as realization of value for money.		
16	<b>1.2 Uncompleted Projects</b> (57) projects with an aggregate budget of Kshs.225,810,131 scheduled for completion by 30 June, 2020 were not completed.	The Committee recommends that; 1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate; 2) the County executive puts in place measures to enhance its own generated revenue in order to meet its revenue target and address revenue shortfalls; 3) the County Executive to establish a project implementation, monitoring and evaluation team to provide periodic project status; 4) the county executive should give priority to ongoing projects before commencing new projects to ensure there is value for money already expended; and 5) the county executive should undertake proper project conceptualization, planning and execution to ensure timely completion of projects as well as realisation of value for money.	1)The National Treasury  2) The County CEO	Continuous
17	<b>1.3.1 Construction of Animal Feeds Factory at Arujo</b>	The Committee recommends that;- 1) the County Executive to put in place measures to ensure the project is	1The County CEO	60 days from the adoption of this report

	<p>(i) The works had not been completed even though the contract period had expired more than five years earlier. Only the substructure and superstructure works had been done.</p> <p>(ii) The contractor was not at the project site, which appeared to have long been abandoned.</p> <p>(iii) Further, the project's budgetary allocation totalling Kshs.27,300,000 in the year under review was not utilized.</p>	<p>completed and submit a status report 60 days from the adoption of this report.</p> <p>2) the county executive should undertake proper project conceptualization, planning and execution to ensure timely completion of projects as well as realization of value for money;</p> <p>3) The Auditor General to monitor the project in the subsequent audit cycle; and</p> <p>4) The EACC to investigate the Construction of Animal Feeds Factory at Arujo from inception to establish if there was loss of public funds.</p>	<p>2The Auditor General</p> <p>EACC</p>	
18	<p><b>1.3.2 Construction of Kenya Medical Training College at Sindo</b></p> <p>Physical verification of the project site in October, 2020 revealed that the works were abandoned at 45% level of completion.</p>	<p>The Committee recommends that the County Executive:</p> <p>1) ensures that it only undertakes functions assigned to county governments under the Constitution; and</p> <p>2) engages the National Government with a view to having the project completed by the National Government and submit a status report 60 days from the adoption of this report.</p>	The County CEO	60 days from the adoption of this report.
19	<p><b>1.4.1 Conversion of Blood Bank into an Intensive Care</b></p>	<p>The Committee recommends that:</p>	The County CEO	60 days from the



	<p><b>Unit at Homa Bay County Referral Hospital</b></p> <p>The contract was awarded through Request for Quotations procedure contrary to</p> <p>Section 91(1) of Public Procurement and Asset Disposal Act, 2015 which prescribes open tendering as the preferred procurement method for procurement of goods, works and services. Therefore, Management may have breached the law</p>	<p>1) The County CEO takes administrative action be taken against responsible officer(s) for breach of Section 91(1) of Public Procurement and Asset Disposal Act, 2015 and provide a status report 60 days from the adoption of this report;</p> <p>2) the county executive takes measures to operationalize the facility; and</p> <p>3) the County Executive to establish a project implementation, monitoring and evaluation team to provide periodic project status.</p>		adoption of this report.
20	<p><b>1.4.3 Lingerin Delay in Construction of Maize Processing Plant</b></p> <p>No records were provided to confirm the level of project completion attained. Management did not provide a satisfactory explanation for the</p>	<p>The Committee recommends that—</p> <p>1) The payment of project works should only be done for certified works so that the County does not incur wasteful expenditure due to incomplete works;</p> <p>2) the County Executive should put in place proper project monitoring systems to ensure projects are implemented as per specifications and within the contract period; and</p> <p>3) the Auditor General reviews the matter to ascertain project completion and</p>	<p>The County CEO</p> <p>The Auditor General</p>	<p>Continuous</p> <p>Next Audit Cycle</p>

	delay in completion of the project.	utilization in the subsequent financial year.		
21	<p><b>1.4.4 Slow Pace of Work in Construction of Homa Bay Stadium</b></p> <p>(i) A cost variation was made to include construction of an underground water tank .</p> <p>However, the variation was not quantified.</p> <p>(ii) Supervision of the project was shortly after commencement handed over to the National Government. However, the terms and conditions of the handover were not provided for audit review.</p> <p>(iii) The project's Bills of Quantities were not provided for audit review.</p> <p>(iv) Payments totalling Kshs.123,537,869 were made to the contractor in the year under</p>	<p>The Committee recommends that:</p> <p>1) the County Executive should prioritize completion of the project by providing adequate budget;</p> <p>2) the County CEO to take administrative action against the responsible officer(s) who failed to provide documents to the Auditor General during time of audit in accordance to section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within sixty(60) days from the adoption of this report;</p> <p>3) the County Executive should put in place proper project implementation, monitoring and evaluation teams to give periodic status report on projects;</p> <p>4) the Auditor General reviews the matter to ascertain project completion and utilization in the subsequent financial year; and</p> <p>5) The EACC to carry out an investigation to ascertain whether the variation was lawful and whether all the project components were delivered as per contract.</p>	<p>1.The County CEO</p> <p>2.The Auditor General</p> <p>EACC</p>	60 days from the adoption of this report

	<p>review and as a result, the approved budget allocation totalling Kshs.120,329,509</p> <p>was irregularly exceeded by Kshs.3,208,360</p>			
22	<p><b>1.4.7.1 Renovated Kisegi Health Centre Not Put to Use</b></p> <p>Center was not put in use.</p>	The Committee recommends that the Auditor General reviews the matter to ascertain project completion and utilization in the subsequent financial year.	The Auditor General	Next Audit Cycle
23	<p><b>3.0 High Wage Bill</b></p> <p>The spending was equivalent to 38% of the County revenue for the year totalling Kshs.8,213,774,541 and was therefore above the threshold of 35% prescribed for the item in Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015.</p>	<p>The Committee recommends that-</p> <ol style="list-style-type: none"> <li>1. the management should provide to the Auditor General and the Senate the measures it will put in place to contain the high wage bill within sixty (60) days of the adoption of this report;</li> <li>2. the management should strictly adhere to the provision of paragraph 25(1)(b) of the PFM Act (county government) regulations, 2015 which stipulate that the county wage bill shall not exceed 35 per cent of the county total revenue; and</li> <li>3. the county executive puts in place measures to enhance own source revenue collection in order to address wage bill gap.</li> </ol>	<ol style="list-style-type: none"> <li>1.The County Chief Executive Officer</li> <li>2.The Auditor General.</li> </ol>	60 days from the date of adoption of this report



24	<p><b>5.0 Lack of Diversity in Staffing</b></p> <p>94% were members of the ethnic community dominant in the County. The high level of dominance by one community was contrary to the provisions of Section 7(1) of the National Cohesion and Integrity Act, No 12 of 2008 which requires representation of the diversity of the people of Kenya in staff establishments of public entities.</p>	<p>The Committee recommends that-</p> <p>1) The County Executive should work progressively towards attaining the requirement of the provisions of Section 65(1)(e) of County Government Act on ethnic inclusivity.</p>	The County CEO	60 days from the adoption of this report
25	<p><b>1.0 Lack of Staff Establishment</b></p> <p>the County Executive did not have an approved staff establishment.</p>	<p>The Committee recommends that the County Executive should expedite development and approval of its staff establishment and a status report should be submitted to the Auditor General for verification within sixty (60) days of the adoption of this report.</p>	The County CEO	60 days from the adoption of this report.
26	<p><b>2.0 Lack of Information Technology and Risk Management Polices</b></p> <p>Audit review of the County Executive's use of Information Communication Technology</p>	<p>The Committee recommends that the County Executive should expedite development of a Risk Management Policy and ICT Policy and should submit to the Auditor General for verification within sixty (60) days of the adoption of this report.</p>	The County CEO	60 days from the adoption of this report.

	(ICT) revealed that Management had not formulated a policy to guide investment in and use of the technology.			
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### **Basis for Qualified Opinion**

#### **Presentation of the Financial Statements**

##### **1.0 Inadequate Disclosure on Prior Year Audit Issues**

The financial reporting format set by Public Sector Accounting Standard Board (PSASB) requires Management to disclose the progress made in following up on issues raised by the Auditor and indicate the expected timeframe for their resolution. However, note 22 to the financial statements - other important disclosures - provides two disclosures on progress made in resolving the issues raised in the audit report for the previous (2018/2019) financial year whereas the report of the Auditor-General for the year had highlighted seventeen (17) issues.

As a result, the financial statements do not comply with the reporting format prescribed by the PSASB.

#### **Management Response**

The management wishes to state that prior year audit issues raised in the audit report for financial year 2018-2019 had already been discussed at the Public Accounts and Investments Committee at the Senate and several issues were resolved. However, the management was waiting for the Senate report on recommendations.

Further, the management shall endeavor to include all prior year issues in the subsequent financial Years to conform with the prescribed Public Sector Accounts Standards Board (PSASB) financial reporting format requirement.

#### **Committee Observation**

The Committee observed that

1. the financial statements presented by the County Executive do not comply with the reporting format prescribed by the Public Sector Accounts Standards Board (PSASB).
2. the County Executive did not act on the issues raised in the report of the Auditor General for the financial year 2018/2019.

#### **Committee Recommendation**

The Committee recommends that:-

1. County Executive should present their Financial statements in the format prescribed by the Public Sector Accounting Standards Board;
2. The County CEO undertakes administrative action against the accounting officer, the Chief Officer Finance, the Head of County Treasury and any



other officer(s) responsible for failure to undertake reconciliation of financial statements within the stipulated timelines and submit a report to the Office of the Auditor General within 60 days of adoption of this report;

3. The Institute of Certified Public Accountants (ICPAK) takes action(s) against the Head of Treasury for misrepresentation of financial statements which constitutes professional misconduct pursuant to Section 8 (a) and 30 of the Accountants Act CAP 531 and reports to the Office of the Auditor General within 60 days of adoption of this report;
4. County CEO must ensure strict adherence to the Public Audit Act, 2015 by providing accurate and reliable reconciliations of the financial statements, payment details and the vote books during the audit cycle; and
5. the County Executive complies with section 53 of the Public Audit Act 2015 by taking action on the issues raised by the Auditor General and submit a report to the Auditor General for review within sixty (60) days of adoption of this report

## **2.0 Unconfirmed Balances**

### **2.1 County Own-Generated Revenue**

#### **2.1.1 Housing Fees**

The statement of receipts and payments reflects County-own generated revenue totaling Kshs. 274,595,613 which, as indicated in Note 4 to the financial statements, includes housing fees totaling Kshs. 23,000 paid by tenants in houses owned by the County Government. However, Management had estimated the year's receipts at Kshs. 2,124,000 based on the inventory of the houses. Therefore, the receipts totaling Kshs.23,000 fell short by Kshs.2,101,000.

In addition, review of rental income records indicated that arrears owed by employees of the County Executive as at 30 June, 2020 totaled Kshs.2,201,000, with some of the debts having arisen in the 2013/2014 financial year. However, they have not been disclosed in the Notes to the financial statements. Further, no explanation has been provided why the debts were not deducted from the debtors' monthly salaries.

In view of the omitted income, the disclosures provided in the financial statements in respect to housing fees are insufficient and as a result, the reported fees totaling Kshs.23,000 may not be fairly stated.

#### **Management Response**

The management stated that in the FY 2019/2020, the collections from housing for which was reported at Ksh.23,000 was an understatement as the bulk of the housing fees was classified under miscellaneous income. From the County records, a total of Kshs.2,605,428 was realized from housing fees of which Kshs. 2,096,628 was received by the National Government through P.S Lands, Housing and Urban Development (Nairobi) because the National Government had not handed over the housing units to the County Government. Only Kshs.508,800 was received by the County Government, the bulk of which was reported as miscellaneous income in note 4; Locally Generated Revenues of the Financial Statements for FY 2019-2020.

Further, it was important to note that some collections could not be realized due to the reasons analyzed below;



### Converted to Offices

Two of the residential houses were converted to offices as below:

- i. County Public Service Board offices which ought to have collected Kshs. 8,000 x 12 months= Kshs. 96,000
- ii. Office of the First Lady ought to have collected Kshs. 6,000 x 12 months= Kshs. 72,000

These totals to Kshs. 168,000. Since these houses were converted to county offices they were not subjected to rent amounting to Kshs. 168,000 House Destroyed

House no. HOMA/HOU/CH/HG4 was razed down by fire and it ought to have been collecting Kshs. 4,000 x 12 months= Kshs. 48,000

Since the house was destroyed, the county could not collect rent amounting to Kshs. 48,000.

The management had prioritized the renovation of this house in the budget for financial year 2023-2024.

### Check-off through County Assembly

The houses detailed in the table below were occupied by County Assembly staff and the occupants paid rent through County Assembly check-off system to the National Government through the P.S Lands, Housing and Urban Development (Nairobi). The management was following up with the County Assembly to submit the collections accordingly.

House Type	Monthly collection	Number of units	Annual Rent
Class E	4,000	1	48,000
Class G	1,500	1	18,000
Class H	1,000	10	120,000
Total			186,000

Further, the management through a cabinet resolution had done reorganization of the housing units by advertising for valuations rolls and the Finance Bill 2022 which aligns housing fees with the current market rates has been tabled at the County Assembly of Homa Bay. In addition, the management had established a Revenue Board that would oversee the revenue administration process.

### Committee Observation

The Committee noted that the County Entity did not have an updated valuation roll, hence failed to realize optimal revenue.

### Committee Recommendations

The Committee recommends that:

1. The Committee recommends that the County executives should expedite updating of valuation roll in accordance with Section 3 of the Valuation for Rating Act CAP 266 so as to reflect current market values for optimal revenue collection and comply with the guidelines of the Public Sector Accounting Sector Boards of reporting in the FY 2023/2024;
2. the County Executive should adopt and implement the report of the Inter-

**Governmental Relations Technical Committee on Management of Assets and Liabilities from defunct local authorities; and**

**3. The Auditor General to follow up on the matter in subsequent audits.**

**2.1.2 Liquor Fees**

The statement of receipts and payments reflects own-generated revenue totaling Kshs. 274,595,614. Revenue records examined reflected nil collection on liquor licensing fees against Kshs. 1,467,324 budgeted for the year. However, Management did not prepare or submit for audit the financial statements of the Alcoholic Drinks Control Fund. In addition, records on bank statements, liquor outlets and licenses issued were not provided for audit review.

As a result, the accuracy, completeness and validity of the nil liquor licensing fees reported in the year under review could not be confirmed.

**Management response**

The management agreed with the auditor's observation that as per the Executive financial statements, liquor licensing fees were reported as nil under own-generated revenue against a budget of kshs.1,467,324. This was because the Homa Bay County Government established liquor fees under the Homa Bay County Alcoholic Drinks Control Fund Act 2015 which is a revolving fund and hence accounted for separately in the financial statements.

Further, the management regrets that, during the audit exercise, financial statements, bank statements, and list of liquor outlets were not provided to the audit team.

However, financial statements, bank statements, and list of liquor outlets have now been provided to the auditor for verification.

Currently, the management has restructured the collection and banking of liquor licensing fees by mapping of liquor stores and outlets, introducing cashless mode of collection, centralization of licenses production with enhanced security features to ensure accountability, creating an inspectorate unit to ensure that all traders comply and beefed up the enforcement unit to act on non-compliance. These changes have streamlined the collection and accountability of liquor license fees.

**Committee Observation**

The Committee observed that the Homa Bay County Alcoholic Drinks Control Fund was established in 2015 by the Homa Bay County Alcoholic Drinks Control Fund Act 2015. However, since its establishment, the fund had not prepared its financial statements, cashbook or bank account contrary to the regulations establishing the fund up to financial year 2021/2022. This could have exposed the fund to losses of up to Ksh 18 million per year.

**Committee Recommendation**

**The Committee recommends that the Ethics and Anti-Corruption Commission investigates the operationalization of the fund since its inception to date with the view of establishing if there has been impropriety in the management and utilization of the fund.**



## **2.2 Compensation of Employees**

The statement of receipts and payments reflects compensation of employees' payments totaling Kshs. 3,145,409,833 as further disclosed in Note 5 to the financial statements. The balance is comprised of Kshs. 2,954,391,336 paid through the electronic Integrated Personnel and Payroll Database (IPPD) System and Kshs. 191,018,497 paid through a manual payroll.

The manual system requires monthly and annual updates and calculation of deductions by hand and is therefore prone to human error and misstatement. Management did not provide a satisfactory explanation for not processing all its workers' salaries through the IPPD system prescribed by the National Treasury.

Further, the three hundred (300) employees in the manual payroll did not have payroll and Kenya Revenue Authority tax (PIN) numbers. As a result, it was not clear how their taxes were deducted and remitted to the Authority. Also, fifty (50) employees in the manual payroll were not assigned job groups and consequently, salaries and other benefits paid to them could not be verified.

In view of these issues, the accuracy and validity of the compensation of employee's payments totaling Kshs. 191,018,497 that were processed manually in the year under review could not be confirmed.

### **Management Response**

The management submitted that as at the time of Audit there were officers with no KRA PINs in the manual payroll. However, the management deducted and remitted their Pay as You Earn to the Commissioner of domestic Taxes. This has since been rectified to ensure that all employees on the manual payroll have valid KRA PINs and their returns reconciled on the *Itax* system.

Further, the management has written to the Public Service Commission to regularize the integration of the 2,193 employees on the manual payroll to the Integrated Personnel payroll system (IPPD).

Moreover, the Management confirms that the job specifications/titles are in all the officers' appointment letters and their respective schemes of service.

The audit report indicated that a total of fifty (50) officers have no job groups attached to them according to June, 2020 Payroll. However, on scrutiny of the officers' appointment letters and their respective schemes of service, they are categorized as below;

- a) Officers on Local Contract
- b) Officers with Specific Job Groups
- c) Early Childhood Education and Development Teachers
- d) Officers on Salary Scale

#### **Officers on Local Contract**

The following under listed officers were under Local contracts without specific Job Groups. However, terms of engagement were reevaluated to place them in the correct job groups.



S/N O	NAME	ID NO.	DESIGNATION	CURRENT JOB GROUP
1	Mollyne Akinyi Odida	32533242	Clerical Officer	H
2	Mariam Barones Charker	30045260	Support Staff	G
3	Mary Akinyi Olale	29773475	Fisheries Officer	J
4	Omind Harrison Ouma	28348861	Clerical Officer	G
5	Erick Otieno Awino	28209933	Clerical Officer	G
6	Nancy Adhiambo O	28148133	Clerical Officer	G
7	Hesbon Omondi Abonyo	27815531	Driver	H
8	Lilian Amondi Okumu	27724386	Cleaning Supervisor	G
9	Imelda Ariso Okanga	27149851	Accountant Ii	K
10	Susan Akinyi Were	25281929	Cleaning Supervisor I	G
11	Joab Ogola	23626899	Clerical Officer	G
12	Kennedy Ouma Onyango	21702495	Support Staff	G
13	Apollo Onyango Nyakado	13605312	Clerical Officer	G
14	Nelson Otieno Opiyo	13602346	Instructor	H

#### Officers with Specific Job Groups

The following Officers had specific job groups attached to them but were not included in the Payroll. The job groups have since now been incorporated in the payroll.

S/ N O	NAME	ID/NO.	DESIGNATION	JOB GRO UP
1	Julius O. Polo	1572237	County Internal Auditor	R
2	Omune Benjamin Modi	1040401 1	Sub County Admin	Q
3	Eliud Wasonga Onyango	5899985	Disaster Management And Special Programs	Q
4	Opapo Zilper Atieno	2005090 3	Ass. Director Of Youth And Gender	Q
5	Mr. Mathews Agalo Ajwala	8373494	Chief Public Health Officer	M
6	Elisha Midembi	5856603	Sr Medical Lab Officer	L

7	Monica Lubale	2972853 7	CHDO	J
8	Brighton Onyango	2470223 4	Accountant II	J
9	Quintor Atieno	2458325 7	PHO	J
10	Kennedy Ochieng	2233177 1	Accountant II	J
11	Sospeter Japheth Orok	3275062 5	Clinical Officer	H
12	Carolyne Awuor Ouma	3139040 7	Youth Instructor	H
13	Mackline Atieno Ouma	2880353 6	Senior Clerical Off	H
14	Quinter Awuor	2866488 3	Senior Clerical	H
15	Lydia Aoko	2745358 2	Senior Clerical Officer	H
16	Quinto Oluoch Oswago	2692177 4	Nurse	H
17	Fredrick Okello Mambe	2526038 9	ICT Youth Instructor	H
18	James Owuor Okuku	2466041 2	Physiotherapist	H
19	Nelly Ngesa Odinga	2429354 9	Ass Community Health Officer	H
20	Julius Omondi Obinga	2301527 6	Reg Clinical Officer	H

#### Early Childhood Education and Development Teachers

As at the time, the Early Childhood Education and Development Teachers had no specific Job Groups attached to them since their scheme of service was yet to be finalized. The management is awaiting the finalization of the scheme of service.

S/N O	NAME	ID/NO.	DESIGNATION	JOB GROUP
1	Nyaura Lilian	3376932 5	Diploma	H
2	Jedida Atieno Othira	3139991 5	Certificate	G
3	Ouko Triza Atieno	2994150 5	Diploma	H
4	Victor Okoth	2842249 5	Diploma	H

5	Mercy Adhiambo Maurine	2833725 9	Certificate	G
6	Wyclife Onyango	2813376 9	Diploma	H
7	Anditi Paul Origa	2726146 2	Diploma	H
8	Emma Anyango Odhiambo	2725058 2	Diploma	H
9	Mike Okoth Shaya	2637810 2	Certificate	G
10	Elizabeth Achieng Ongoma	25641471	Certificate	G
11	Eunice Atieno	25343498	Diploma	H

#### Officers on Salary Scale

The following Officers fall under the state officers' category and their salaries/remuneration are determined by the Salaries and Remuneration Commission as gazetted in gazette Notice No. 6518 of 7<sup>th</sup> July, 2017. Have specific Job Scale attached to them.

S/N O	NAME	ID/NUMBE R	DESIGNATION	SCAL E
1	Collins Odhiambo Agutu	20729508	PSB Member	8
2	Aguko Juma	5959113	CEC Agriculture	8
3	Roseline Anyango	06026613	CEC Tourism	8
4	Beatrice Atieno Asiago	0643295	CEC Education	8
5	Prof. Richard Otieno Muga		CEC Health	8

To improve on quality of the Human Resource, the Management has procured the services of an independent reputable firm (Price Waterhouse Coopers) in November, 2022 to conduct Payroll and Personnel Census Audit with an aim of identifying irregularities in the payroll, officers responsible for the irregularities and ultimately reducing the wage bill significantly. The exercise was officially launched on 6<sup>th</sup> December and a two weeks' pilot exercise conducted in three (3) departments and all the eight (8) Sub-Counties. The entire exercise is divided into three phases and is expected to last for a duration of twelve (12) weeks.

After conclusion of this exercise, the management will explore the Public Service Commission to issue all Homa Bay County Government employees with personal numbers to enable their integration into the Integrated Personnel Payroll Database (IPPD).

#### Committee Observation

The Committee noted that the County Executive did not have all the employees on the Integrated Personnel and Payroll Database (IPPD) System.



### **Committee Recommendations**

**The Committee recommends that;**

- 1) The County Executive should engage the State Department of Public Service to fast-track the issuance of personal numbers to enable them onboard all employees on the Integrated Personnel and Payroll Database (IPPD) System; and**
- 2) the Auditor General to monitor the matter in subsequent audit cycle.**

### **2.3 Use of Goods and Services**

The statement of receipts and payments reflects use of goods and services payments totaling Kshs.1,103,968,018. The balance includes purchases of specialized materials and services totalling Kshs.324,647,785 which in turn includes Kshs.4,610,600 spent on purchase of emergency livestock vaccines. The vaccines were bought through cash payments even though the respective transaction values were higher than the low-value purchases threshold prescribed in the First Schedule of the Public Procurement and Asset Disposal Act, 2015. Further, the items were not entered in stock control cards. In the circumstance, the regularity of the procurement and the use of the livestock vaccines valued Kshs. 4,610,600 could not be confirmed.

### **Management Response**

The management stated that from the documents available, there was an emergency outbreak of livestock diseases necessitating a prompt and urgent response. Approval for the purchase was sought and given by both the CECMs in charge of Finance and Agriculture respectively. All the purchased vaccines were received by S13 and issued to all affected wards vide S11. Documents detailing the transactions including payment vouchers and distribution were submitted for verification.

Going forward, the management had put in place internal controls to ensure compliance with Public Procurement and Asset Disposal Act by issuing an executive order to all departments that all procurements must be approved by the County Executive Committee members meeting. Further, the CEC-M Finance had issued a memo stopping all cash purchases.

### **Committee Observation**

The Committee noted that the matter has since been addressed.

### **Committee Recommendation**

**The committee recommends that the matter be marked as resolved.**

### **2.4 Other Grants and transfers**

The statement of receipts and payments reflects other grants and transfers totaling Kshs. 257,605,986. However, the analysis provided for the balance in Note 12 to the financial statements reflects transfers totaling Kshs. 248,805,986 only made to National Agricultural and Rural Inclusive Growth Project (NARIGP). As a result, the nature and destination of the unanalyzed transfers totaling Kshs. 8,800,000 could not be confirmed.

In addition, Management did not submit for audit financial statements or expenditure returns on the transfers made to the Project.

In view of these issues, the accuracy, validity, completeness and propriety of the other transfers balance totaling Kshs. 257,605,986 reflected in the statement of receipts and payments could not be confirmed.

#### **Management Response**

The management submitted that as indicated in Note 12 of the financial statements, a transfer of capital grants of Kshs. 257,605,986 was made. This included Kshs. 248,805,986 to NARIGP and Kshs. 8,800,000 to Kenya Urban Support Programme (KUSP-UIG). Bank statements supporting transfer of kshs. 8,800,000 to KUSP-UIG was submitted for audit verification.

#### **Committee Observations**

The Committee noted that:

- 1) the County Executive did not submit documents on time to the Auditor General during the audit exercise;
- 2) that the Kshs. 8,800,000 grants to Kenya Urban Support Programme (KUSP-UIG) were adequately responded to and therefore resolved; and
- 3) the National Agricultural and Rural Inclusive Growth Project (NARIGP) will lapse by March 2023 and it will be succeeded by the National Value Chain Programme.

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#### **Committee Recommendations**

The Committee recommends that:

- 1) the accounting officer undertakes administrative actions against the officers who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act and provide a status update to the Office of the Auditor General within 60 days of adoption of this report; and
- 2) the Auditor General to carry out a special audit of the National Agricultural and Rural Inclusive Growth Project (NARIGP) programme in all Counties.

#### **2.5 Capital Grants and transfers**

The statement of receipts and payments reflects capital grants and transfers totaling Kshs.120,535,273 made in the year under review. Note 11 to the financial statements indicates that transfers totaling Kshs.85,371,975 were made to the Homa Bay Municipal Board and the remainder Kshs.35,163,298 to village youth polytechnics. However, Management did not submit for audit the financial statements or expenditure returns on use of the grants.

As a result, the accuracy, completeness and propriety of the grant transfers could not be confirmed.

#### **Management Response**



The management stated that the Village Youth Polytechnic grant was disbursed to various village polytechnics for the purpose of capitation and purchase of equipment for use in the institutions. The expenditure on how the grant was disbursed and used was submitted for verification.

Further, the statement of receipts and payments reflected capital grants and transfers totaling to Kshs. 85,371,975 made in the year under review as in note II to financial statement on transfers to Homa-Bay Municipal. The Municipal board had prepared and submitted a separate financial statement to the Auditor General.

#### **Committee Observation**

The Committee noted that the management did not submit the relevant documents and information to the Auditor General at the time of audit .

#### **Committee Recommendation**

**The County CEO undertakes administrative actions against the responsible officer(s) who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act and submit a status report to the Office of the Auditor General within 60 days from the adoption of this report.**

### **2.6 Acquisition of Assets**

#### **2.6.1 Fencing at Kigoto Maize Processing Plant**

The statement of receipts and payments reflects acquisition of assets expenditure totaling Kshs. 2,769,144,159 as further disclosed in Note 10 to the financial statements. The balance includes payments for other infrastructure and civil works totaling Kshs. 1,543,228,854 out of which Kshs. 1,833,949 was paid to a contractor to fence Kigoto Maize Processing Plant in Suba South Sub-County. However, audit inspection of the project site in October, 2020 indicated that although the fencing posts were erected, the chain-link was not installed. In addition, the contractor was not on site. Further, the respective procurement and payment documents for the expenditure and the Bills of Quantities were not presented for audit review.

In view of the failure to complete the works as contracted, value for money was not attained on the expenditure totaling Kshs. 1,833,949 spent on the fencing contract. In addition, in the absence of sufficient records, the accuracy and validity of the expenditure could not be confirmed.

#### **Management Response**

At the Initial stages of the construction of the Maize processing plant at Kigoto, there was a land ownership dispute between the county government of Homa Bay and the locals which made it impossible for the contractor to complete the works within the stipulated timelines.

Due to this conflict, the contractor only managed to perform the works up to the point of erecting posts before being stopped by a section of the community. The incidence was reported to the police station as stated herein: Kigoto land dispute destruction of



poles erected by the contractor, OB: 08/24/06/19, Investigator: Major Boker. Later, the matter was settled out of court and the contractor was paid an amount commensurate with the works done and materials on site of Ksh. 1,833,949 out of the total contract sum of Ksh. 2,983,949.

After settlement of the land dispute, the works were retendered and awarded to a different contractor who had since completed the works. The management was waiting for the defect liability period to elapse in order to issue a completion certificate.

#### **Committee Observation**

The Committee observed that:

- 1) the County Executive had completed the fencing of the plant.
- 2) absence of proper governance structure for Kigoto Maize Mill will hinder its optimal performance.
- 3) there were delays in submission of relevant documents to the Auditor General for verification.

#### **Committee Recommendation**

The Committee recommends that:

- 1) The County Executive to put in place a governance structure for Kigoto Maize Mill and submit a status report 60 days from the adoption of this report.
- 2) The Matter be marked as resolved.

#### **2.6.2 Undelivered Animal-Feeds Milling Equipment**

The statement of receipts and payments for the year ended 30 June, 2020 reflects acquisition of assets payments totaling Kshs. 2,769,144,159, as further disclosed in Note 10 to the financial statements. Included in the balance are payments for purchase of specialized plant equipment and machinery amounting to Kshs. 116,328,542 out of which Kshs.16,000,000 was paid to a firm to import animal-feeds milling equipment from India.

As reported in the audit report for the previous year, the Department of Trade and Industrialization had in June, 2014 contracted the firm to supply and install a nine (9) ton- per-hour animal feed processing mill for the Homa Bay Feeds Industries Limited at a cost of Kshs.42, 245,280.

However, an audit inspection conducted in October, 2020 established that the equipment had not been installed in spite of payments totalling Kshs. 16,000,000 having been made to the contractor. As a result, the propriety and validity of the payments could not be confirmed.

#### **Management Response**

The management awarded the contract to Manpro- Eng services to supply, install and commission an animal feeds processing plant in 2014. The plant was not delivered on record time as there were challenges in prompt payments as per the contract agreement. At the time of inspection, the plant had not been delivered. However, the animal feeds processing plant had since been delivered to Homa Bay awaiting installation once the factory house is completed.

### **Committee Observation**

The Committee noted that the total cost for the machine was Ksh 42 million while the County Executive had made an advance payment of Ksh 16 million.

### **Committee recommendation**

**The Committee recommends that the Auditor General carries out an Audit and submit a status report within 60 days from the adoption of this report.**

## **2.7 Fixed Assets**

Disclosed in Annex 3 to the financial statements is a summary of the County Executive's fixed assets register which reflects assets valued at Kshs.1,769,315,881 as at 30 June, 2020. However, the summary register does not include the additions and disposals of assets made during the year and assets valued at Kshs. 56,165,738 brought forward from the previous year.

In the circumstance, ownership and valuation of the fixed assets totalling Kshs. 1,769,315,881 reflected in the financial statements was not confirmed.

In addition, expenditure records indicated that Kshs. 3,834,230 was paid to a freight company to process the importation of one (Renault) ambulance and two units of (Volvo FL6) firefighting trucks reportedly donated by the County Council of Cumbria in England. However, the County Government had as at 30 June, 2020 not acquired the log-books for the three specialized motor vehicles. As a result, ownership of the equipment by the County Government could not be confirmed.

### **Management Response**

The Management concurred with the auditor's observation that the assets register had not been updated by the time of audit.

The management was updating the fixed asset register to incorporate all assets which were acquired after the inception of the County Government. Also, the management was awaiting the compilation of the defunct Local Authorities Assets and Liabilities, an exercise conducted nationally. The exercise was finalized and submitted to the Intergovernmental Relations Technical Committee (IGTRC). Further, the management had setup a Pending Bills and Assets Verification taskforce with detailed Terms of Reference.

### **Committee Observation**

The Committee noted that the County Government had not yet obtained the logbooks for the three specialized motor vehicles received from England. Further, the Committee noted that the fixed assets register was not updated.

### **Committee Recommendation**

**The Committee recommends that; -**

- 1) the County executive should fast-track acquisition of the logbooks for the three specialized motor vehicles;**
- 2) County entities should update and present their Fixed Assets Register in the format prescribed by the Public Sector Accounting Standards Board;**



- 3) County entities should adopt and implement the report of the Inter-Governmental Technical Relations Committee (IGTRC) on assets and liabilities from defunct Local Authorities and provide a status update to the Office of the Auditor General within 90 days of adoption of this Report; and
- 4) Office of the Auditor General should progressively review and report on the matter in the subsequent Financial Years.

## **2.8 Payments Made Outside the Integrated Financial Management Information System**

Bank statements for development and recurrent accounts operated at the Central Bank of Kenya reflected transfers of cash to departmental operations accounts totaling Kshs. 43,760,651. However, the transactions were not affected through the Integrated Financial Management Information System (IFMIS).

Consequently, the validity, accuracy and completeness of the payments made outside IFMIS totaling Kshs. 43,760,651 in the year under review could not be confirmed.

### **Management Response**

The Management submitted that that the payments totaling to Kshs. 43,760,651 made outside the IFMIS were grants, operations and maintenance funds to departments as detailed below:

- i. Homabay County Vocational Support Grant Account Kenya Commercial Bank Homabay Branch A/c No. 1233231693 – Kshs. 17,581,649
- ii. Homabay County ASDSP II Account Kenya Commercial Bank Homabay Branch A/C No. 12339144715- Kshs. 13,179,002
- iii. Homabay County, UIG Account Kenya Commercial Bank Homabay Branch A/c No. 12599560562- Kshs. 13,000,000

It was a requirement by donors and development partners, that the projects funded by these funds should open and operate local special purpose bank accounts for the purpose of disbursement and accounting for the projects' funds. The donor funds and grants are normally credited to County Revenue Funds accounts at the Central Bank of Kenya. Subsequently, the County Treasury seeks for approval of transfer of these funds from the Office of Controller of Budget in order to transfer the funds to respective special purpose Accounts held at the CBK according to budget and approved work plans.

The respective departments make requisitions for funds upon approval from the departments. The requisitions are processed using vote books in the IFMIS system.

Afterwards, the requisitions are transmitted to the Internet Banking (IB) platform from where the funds are transferred from Central bank special purpose account to the projects' Special purpose local bank accounts. Thereafter, the payments are done with supported payments vouchers and other related documented evidence.

### **Committee Observations**

The Committee noted that the county entity had made payments outside the IFMIS system contrary to Section 12 of the Public Finance Management Act, 2012. However, the conditions of the grants required the County to open accounts with commercial banks.



### **Committee Recommendations**

**The Committee recommends that the County CEO should ensure that all payments are made on the Integrated Financial Management System (IFMIS).**

### **2.9 Pending Accounts payables**

Note 18 to the financial statements reflects Kshs. 314,867,512 in respect to opening account payables and a closing balance as at 30 June, 2020 totaling Kshs. 646,637,491. However, the opening balance excludes Kshs. 136,000,000 owed as at 30<sup>th</sup> June, 2019 under the contract for improvement of Kadongo-Gendia Road to bitumen standards. As a result of the omission, the closing pending bills balance totaling Kshs. 646,637,491 as at 30 June, 2020 may not be fairly stated.

Further, the closing pending bills balance rose sharply relative to the previous year, suggesting that Management did not pay eligible old and new bills as advised by The National Treasury.

### **Management Response**

The management acknowledged the auditor's observation that no works were done in the FY 2019-2020 on Kadongo-Gendia road. However, the pending bill of Kshs. 136,000,000 related to works done before 30<sup>th</sup> June 2018. A taskforce was formed and gazetted on 12<sup>th</sup> July 2019 vide gazette no. 6413 on the directive of the Senate and the National Treasury to audit the pending bills between the period of 2013 to 30<sup>th</sup> June 2018. The Kshs. 136,000,000 was approved by the taskforce on pending bills.

These pending bills were part of the pending bills approved by the taskforce committee in their report dated 30<sup>th</sup> September, 2019 on pages 39, 46, and 47.

The new administration was in receipt of various reports from different Government agencies on the status of Homa Bay County pending bills. The administration had received conflicting reports from the Office of the Auditor General (405m), office of the Controller of Budget (246m), pending bills handed over from the previous administration (848m), and pending bills reports from different departments (1.8 billion). To achieve clarity, through a cabinet resolution, a Pending Bills and Asset Verification Taskforce was constituted to reconcile these reports and work on a payment plan of the genuine pending bills.

### **Committee Observations**

The Committee observed that;

1. the non-disclosure of the pending bill of Ksh. 136,000,000 for Kadongo-Gendia Road project resulted to an understatement of the pending bills of the County for Financial year under review.
2. the County Executive did not provide a status report on all its pending bills as prescribed by the Public Sector Accounting Standards Board. This could lead to inadequate disclosures of the pending bills;

### **Committee Recommendations**

**The Committee therefore recommends that:**

- 1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time; and
- 2) the county executive puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.
- 3) Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) for investigation proper legal action taken against those filing false claims.
- 4) County Government to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending bills verification committees unconstitutional and engage Office of the OAG and strengthen the internal audit functions.; and
- 5) All valid pending bills that have been reviewed by the Office of the Auditor General be paid and a payment plan be submitted to the county assembly for approval and progress report on implementation sent to the Senate and the Office of the Controller of Budget.

## **Other Matter**

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

#### **1.1 Receipts**

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Revenue records indicated that the County Executive realized receipts totaling Kshs.9,170,732,26 in the year under review, against Kshs.8,969,578,696 budgeted for, resulting to a surplus of Kshs.201,153.

#### **Management Response**

The Management submitted that financial statements were prepared on a cash basis and the surplus receipt of Kshs. 201,153 was attributable to the late disbursement of funds from the National Treasury in the previous financial year 2018/2019 and had to be accounted for in the financial year under review.

#### **Committee Observation**

The Committee noted that delays in receiving exchequer releases from the National Treasury and under-collection of own source revenue hindered optimal Program implementation and budget execution.

#### **Committee Recommendations**

**The Committee recommends that:**

- 1) The National Treasury should ensure timely release of funds to county Governments in line with the cash disbursement schedules approved by the



**Senate; and**

**2) The County executive puts in place measures to enhance its own generated Revenue in order to meet its revenue target and address revenue shortfalls.**

### **1.2 Expenditure**

The budgeted expenditure totaled Kshs.8,969,578,696 and actual expenditure Kshs.8,278,738,551 resulting to net under-expenditure of Kshs.690,840,145 or 8% of the budget.

The under-expenditure constrained the ability of the County Executive to implement planned projects and deliver services to the residents of Homa Bay County.

#### **Management Response**

The Management submitted that the under-expenditure was as a result of late disbursement of funds from the National Treasury.

#### **Committee Observation**

The Committee noted that the county entity experienced delay in exchequer releases from the National Treasury thereby hampering program implementation and budget execution.

#### **Committee Recommendations**

**The Committee recommends that-**

- 1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate; and**
- 2) the County executive puts in place measures to enhance its own generated revenue in order to meet its revenue target and address revenue shortfalls.**

### **1.3 County Own-Generated Receipts**

County-own generated revenues totaling Kshs.177,591,524 were budgeted for but actual collections were Kshs.274,595,613 resulting to a surplus of Kshs.97,004,089.

#### **Management Response**

The management stated that the increase in revenue was attributed to equipping of Homa Bay County Teaching and Referral Hospital with working MRI Unit. Also, a surgical unit was opened at Rachuonyo North Sub-County Hospital. Further, the County Government increased the budget for medical drugs which consequently led to increase in revenue.

#### **Committee Observations**

The Committee observed that the County executive realized an increase in own source revenue collection.

#### **Committee Recommendation**



**The Committee recommends that the County should map out all potential revenue streams and set realistic revenue targets.**

#### **1.4 Nil Revenue Collection on Eleven Items**

Examination of revenue records indicated that eleven (11) revenue streams through which Management had budgeted for receipts totaling Kshs.3,046,816 in the year under review recorded nil balances. These included lease charges, nursery school fees, sale of tender documents, inspection fees, liquor licensing and conservancy fees, among others. The underperformance suggested that Management may not have established effective means to collect revenue under these items.

#### **Management Response**

The management submitted that there was an anomaly at the point of budgeting and this was corrected in the supplementary budget and the following revenue streams were adjusted due to the reasons tabulated below;

<b>Revenue Stream</b>	<b>Reason for adjustment</b>
Liquor license	Liquor licensing fund was established under the Homabay County Alcoholic Drinks Control Act, 2015 and a separate financial statement prepared
Forestry permit fees (Certificate of original & movement of forest products)	Under national government hence not collectable by the County Government.
Sewerage bill	Under HOMA WASCO which is semi-autonomous agency
Conservancy Fees/Wildlife Grants	Under national government hence not collectable by the County Government.
Survey/sub-division Fees	Under national government hence not collectable by the County Government.
Nursery School Fees	The County Government does not charge Nursery School Fees.
Registration of Groups/ Schools/ Renewals	Under national government.

#### **Sale of Tender Document**

The procurement department had digitalized the tendering process where all tender documents were downloaded online hence no revenue collection realized since the documents can be downloaded online at no fee.

#### **Fire inspection Fees and Hire of Open Spaces/ Social Facilities**

The county government did not realize collection from the above two revenue streams due to the inadequate collection structures that were in place but moving forward plans were underway to effectively and efficiently streamline their collections.

However, the Management had enhanced management of revenue by the following measures;

- i. Valuation of revenue streams to charge the right rates- the management had begun the process of procuring valuation roll to map all the revenue streams and establish the right revenue rates.
- ii. Digitization of Revenue Collection where the County Government has gone cashless for all revenue streams collection.
- iii. Establishment of the Homa Bay County Revenue Board to administer the revenue collection.
- iv. Institution of a monthly Revenue Round table for key stakeholders to review and plan revenue administration.
- v. Procuring new automated revenue collection and management system to provide automated support in revenue collection and management.

The above measures had begun to bear fruits as evidenced in the recent revenue collection reports.

#### **Committee Observations**

The Committee noted that the County executive:

1. did not fully disclose its own source revenue receipts during the financial year; and
2. had not updated its valuation roll.

#### **Committee Recommendations**

The Committee recommends that:-

1. the County Executive should disclose all their revenue sources and total amounts collected;
2. put in place measures to enhance collection of their own source revenue to meet their target;
3. the County executive should expedite updating of valuation roll in accordance with Section 3 of the Valuation for Rating Act CAP 266 so as to reflect current market values for optimal revenue collection and comply with the guidelines of the Public Sector Accounting Sector Boards of reporting in the FY 2023/2024; and
4. automate and map out all potential revenue streams and set realistic revenue targets.

### **2.0 Delayed Exchequer Receipts**

Note 1 to the financial statements reflects exchequer releases totalling Kshs.7,231,797,300 out of which Kshs.1,676,842, 500 were for the previous (2018/2019) financial year received in the year under review. The balance includes Kshs.1,070,112,000 received in the last week of June, 2020, as indicated in the table below:



<b>Received Date</b>	<b>Reference Number</b>	<b>Details</b>	<b>Amount (Kshs.)</b>
05 July, 2019	FT191186349T8	Exchequer issue	535,056,000
05 July, 2019	FT191186M42JC	Exchequer issue	535,056,000
	<b>Total</b>		<b>1,070,112,000</b>
24 June, 2020	FT20176BZHJ5	Exchequer issue	606,730,500
	<b>Total</b>		<b>1,676,842,500</b>

Other records indicated that Kshs.579,764,700 of the year's budgeted funds were released by The National Treasury on 5 August, 2020.

The late receipt of budgeted funds resulted in delay in implementation of planned programmes and activities and denied the County residents access to goods and services expected in the year under review.

#### **Management Response**

The management concurred with the auditor's observation that delay in release of funds from the National Treasury denied County residents access to goods and services as budgeted.

#### **Committee Observation**

The Committee observed that there was non-implementation of budgeted projects by the County Executive during the year due to late exchequer releases by the National Treasury. The delay in projects implementation will deny the county residents the required service delivery accruing from those projects.

#### **Committee Recommendation**

The Committee recommends that the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate.

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

#### **1.0 Unsatisfactory Implementation of Projects**

##### **1.1 Failure to implement Budgeted Projects**

The Projects Implementation Status Report as at 30 June, 2020 indicated that forty- six (46) projects valued at Kshs. 186,249,288 contracted out for implementation in the year under review had not started as at 30 June, 2020, as indicated in Appendix 1 to this report.



As a result, the residents of Homa Bay County did not obtain the benefits they had been promised the projects would provide to them.

### Management Response

The management stated that the projects were not implemented due to delay in release of funds from the National Treasury. However, the projects were re- budgeted for in the subsequent financial years and some are now complete and operational as tabulated;

### Completed Projects

Project Activity		Budget	Management Response
1.	Installation of Solar Lights in the County	20,000,000	In the financial year under review, the project was not implemented due to delay in release of funds from the National Treasury. However, in the subsequent financial years, this project was prioritized, done and completed in 8 sub-counties. However, the management faces the challenge of vandalism. To mitigate against vandalism, the management has resolved to procure solar lights that have inbuilt batteries, and to erect razor wires around the poles. Also, the management intends to provide for maintenance budget in the subsequent financial years.
2.	Delineation of Urban Areas	13,000,000	In the financial year under review, the project was not implemented due to delay in release of funds from the National Treasury. However, the project was re-budgeted in the subsequent financial Years and five urban areas (Ndhiwa, Oyugis, Mbita, Kendu bay, and Homa Bay) have since been delineated and further been classified and gazette at a cost of kshs. 2,500,000.
3.	Drilling of Angiya Borehole	2,972,475	The project was implemented under ward-based projects, FY 2019/2020. The contractor was to drill and equip the borehole with a solar system and construct a water kiosk at a cost of kshs. 2,972,475. The works were done; however, the borehole is dry.

4.	Drilling of Apuoc he Borehole	2,972,475	Implemented under wards-based projects FY 2019/2020. The contract was awarded to Liab Business Solution Ltd. The contractor was to drill and equip the borehole with a solar system and construct a water kiosk at a cost of kshs. 2,972,475. The contractor drilled and capped the borehole.
5.	Distribution of water from Mit meda Borehole	2,200,000	The project was implemented under ward-based projects in FY 2019-2020. The contractor was to construct two water kiosks at Kokwanyo Health centre and Kokwanyo secondary school and connect them with pipeline from borehole drilled and fitted with solar pumping system by Kabondo Kasipul CDF. The contractor constructed the two water kiosks.
6.	Drilling of Kital Borehole	2,975,897	The project was also implemented under ward-based projects FY 2019/2020. The contractor was to do test pumping, installation of solar pump and pipeline extension at a contract sum 2,975,897. The contractor equipped the borehole with solar pumping unit, a pipeline and water kiosk.
7.	Drilling of Kigen ya Borehole	2,973,836	The project was implemented under ward-based FY 2019/2020. The contractor was to drill and equip the borehole with solar at a cost of Ksh. 2,973,836. The contractor drilled and capped the borehole in front of the old water tank.
8.	Drilling of Raped hi Borehole	3,365,267	The project was also implemented under ward-based projects FY 2019/2020. The contractor was to drill and equip the borehole with solar pumping unit at a cost of Ksh. 2,972,475. All the works were done as per the contract and the project is in use.
9.	Construction of Shooting Range Box Culvert	3,764,670	In the financial year under review, the project was not implemented due to delay in release of funds from the National Treasury. However, the Project was completed satisfactorily.



10.	Grading and gravelling of Wiraku om-Ochuog a-Kanyan gasi	1,390,956	In the financial year under review, the project was not implemented due to delay in release of funds from the National Treasury. However, this project has since been awarded to Branrich Ltd who has since completed the works as supported award letters and other evidences. The road is in use.
11.	Grading and gravelling of Yago-Kiseke Rd	2,020,000	In the financial year under review, the project was not implemented due to delay in release of funds from the National Treasury. However, the project was awarded to Raynmaya Ltd who has since completed the works.
12.	Grading and gravelling of Simbi-Paul Mboya School Road	2,377,597	In the financial year under review, the project was not implemented due to delay in release of funds from the National Treasury. However, the Project was completed satisfactorily and currently under routine maintenance.
13.	Construction of Kilusi Dispensary	4,950,760	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project was prioritized in the subsequent financial years. The project was completed and in use.
14.	Construction of Sena Level 4 hospital	3,712,809	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project was prioritized in the subsequent financial years and was complete and in use.
15.	Construction of a new ECDE	1,543,425	In the financial year under review, the project was not implemented due to delay in release of funds from the National Treasury and was not prioritized in the subsequent financial years. However, the projects will be prioritized in the subsequent financial years.



	Classroom at Waringa		
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### 1. Ongoing Projects

Project Activity		Budget	Management Response
1.	Construction Works at Akuba Fish Market	5,970,824	In the financial year under review, the project was not implemented due to delay in release of funds from the National Treasury. However, the project was re-budgeted in the subsequent financial years and works are ongoing awaiting installation of three-phase transformer by the KPLC to ensure the market is put in use.
2.	Kenya Informal Settlements Improvement Programme	5,000,000	Mapping of the target urban areas ongoing in Kendu Bay and Ndhiwa towns

### 2. Projects to be Prioritized in the Subsequent Financial Years

Project Activity		Budget	Management Response
1.	Drilling of Olweya Ratanga Borehole	2,972,475	Project Implemented under ward-based projects FY 2019/2020. Hydrogeological survey was done and the site for drilling pegged. However, the project stalled at that point.
2	Construction of a new ECDE Classroom at Kijawa	1,790,400	In the financial year under review, the project was not implemented due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project is stalled and will be reevaluated for prioritization in the subsequent financial years.

3.	Construction of Ward Administrator's Office at Sori-Kabondo	4,620,003	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.
4.	Construction of Ward Administrator's Office at Dol Koderia	4,620,003	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.
5.	Construction of Ward Administrator's Office at Imbo	4,620,003	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.
6.	Construction of ward administrator's Office at Mariwa-Kanyadoto	4,620,003	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.
7.	Construction of ward administrator's Office at Kitare-Gembe	4,620,003	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.
8.	Construction of Ward administrator's Office at Kitawa Market	4,620,003	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.
9.	Construction of Ward Administrator's Office at Ndiru	4,620,003	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.
10.	Construction of Amoyo Dispensary	4,289,645	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled at the lintel level. However, the



			project will be prioritized in the subsequent financial years.
11.	Construction of Minyere Dispensary	4,19 5,36 1	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled at the walling level with no fence, gate, and toilets. However, the project will be prioritized in the subsequent financial years.
12.	Construction of Nyawawa Dispensary	2,48 4,27 5	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.
13.	Construction of Masogo Dispensary	1,95 4,19 4	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.
14.	Construction of Ponge Structure	3,68 1,26 0	The contract was awarded but the contractor failed to go to site. It has since been re-awarded to Kabadere Ventures and works are stalled. No expenditure had been made by the time of appearance before the Committee.
15.	Construction of Anyuongi Health Centre	4,02 5,09 5	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury. However, the project will be prioritized in the subsequent financial years.
16.	Construction of Selemia Ochieng Dispensary	4,26 2,20 0	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury. However, the project will be prioritized in the subsequent financial years.
17	Construction of a new ECDE Classroom at Waregi	1,46 2,48 2	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was not prioritized in the subsequent financial years. The works stalled at 60% awaiting roofing and finishes. However, the project will be prioritized in the subsequent financial years.



18	Construction of a new ECDE Classroom at Oriwo	1,78 0,30 7	In the financial year under review, the project was not implemented due to delay in release of funds from the National Treasury and was not prioritized in the subsequent financial years. The project stalled at 20% at the foundation level with no slab. However, this project will be prioritized in the subsequent financial years.
20	Construction of a new ECDE Classroom at Kibuogi in Kaksingri	1,79 6,56 2	In the financial year under review, the project was not implemented due to delay in release of funds from the National Treasury and the contractor left materials on site. However, the projects will be prioritized in the subsequent financial years.
21	Construction of a new ECDE Classroom at Nyadenda	1,79 6,56 2	In the financial year under review, the project was not implemented due to delay in release of funds from the National Treasury and the contractor left materials on site. However, the projects will be prioritized in the subsequent financial years.
22	Construction of a new ECDE Classroom at Kogela Kalanya	2,18 2,36 6	In the financial year under review, the project was not implemented due to delay in release of funds from the National Treasury and the contractor left materials on site. However, the projects will be prioritized in the subsequent financial years.
23	Construction of a new ECDE Centre Classroom at Nyakasera	1,54 3,42 5	In the financial year under review, the project was not implemented due to delay in release of funds from the National Treasury and were not prioritized in the subsequent financial years at remained at 80% completion awaiting finishes. However, the projects will be prioritized in the subsequent financial years.
24	Acquisition of Land for Dumpsite	6,00 0,00 0	In the financial year under review, the project was not implemented due to delay in release of funds from the National Treasury
25	Wadhbuoch Box33 Culvert	5,54 0,10 5	In the financial year under review, the project was not completed because the contractor abandoned site.

26	Construction of Samakera Dispensary	2,000,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury. However, the project was prioritized in the subsequent financial years but stalled.
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#### **Committee Observation**

The Committee observed that there was non-implementation of budgeted projects by the County Executive during the year due to;

- 1) Lack of proper project conceptualization and implementation; and
- 2) late exchequer releases by The National Treasury; and
- 3) Under-collection of own source revenue.

#### **Committee Recommendation**

The Committee recommends that:

- 1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate;
- 2) the County executive puts in place measures to enhance its own generated revenue in order to meet its revenue target and address revenue shortfalls;
- 3) the County Executive to establish a project implementation, monitoring and evaluation team provide periodic project status; and
- 4) the county executive should undertake proper project conceptualization, planning and execution to ensure timely completion of projects as well as realization of value for money.

### **1.2 Uncompleted Projects**

Further, examination of the Projects Implementation Status Report revealed that forty-seven projects with an aggregate budget of Kshs. 225,810,131 scheduled for completion by 30 June, 2020 were not completed. Payments totaling Kshs. 105,570,505 had been made to the respective contractors as at 30 June, 2020, as summarized in Appendix II.

#### **Management Response**

##### **1. Completed Projects and in Use**

Project Name		Amount	Remarks by management
1.	Homa Bay Municipal Market Phase II	49,875,800	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent

			financial years. The project is now complete and in use.
2.	Grading and Gravelling of Mfangano Ring Road	18,259,890	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project is now complete (36 km) and in use.
4.	Construction of a New ECDE Classroom at Mwamba	1,006,710	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project is now complete and in use.
9.	Construction of a New ECDE Classroom at Ochunyo	750,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years and completed and in use.
10.	Construction of a New ECDE Classroom at Umayi	717,587	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project is now complete and in use.



11.	Construction of a New ECDE Classroom at Ogan go	682,206	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project is now complete and in use.
12.	Construction of a New ECDE Classroom at Agoro Sare	341,175	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project is now complete and in use.
13.	Construction of a New ECDE Classroom at Otaro	300,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project is now complete and in use.
14.	Construction of a New ECDE Classroom at Lieta Kabunde	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project is now complete and in use.
15	Construction of Magoma Structure	800,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project is completed and in use.

16.	Construction of Njeri-Sare Drainage	850,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project is now complete and in use.
17.	Construction of Koliech Box Culvert and approaches	630,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project is now complete and in use.
18.	Grading and gravelling of Kawaiindia Gaka-Nyandiwa Road	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project is now complete and in use.
19.	Grading and gravelling of Nyatindo-Ojwando-Anyona Road	1,820,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project is now complete and in use.
20.	Grading and Gravelling of Kosiare-Kanga Road	800,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project is now complete and in use.

21.	Grading and Gravelling of Ragwe-Obawa-Onjinyo Road	2,600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project is now complete and in use.
22.	Grading and gravelling of Ongukwa-Kona Kogelo-Ligongo Road	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project is now complete and in use.
23	Construction of Kichawa Health Centre	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury. However, the project was prioritized in the subsequent financial years and is now complete.
24	Construction of Wiga Dispensary	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project was prioritized in the subsequent financial years and is now complete and in use.
25	Construction of Oyombe Dispensary	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project was prioritized in the subsequent financial years and is now complete and in use.



26	Construction of Got Agulu Dispensary	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project was prioritized in the subsequent financial years and is now complete and in use.
27	Construction of Oriwo Health Centre	400,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project was prioritized in the subsequent financial years and is now complete and in use.
28	Construction of Adiedo Health Centre	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project was prioritized in the subsequent financial years and is now complete and in use.

## 2. Projects to be prioritized in the subsequent years

Project Name		Amount paid to date	Remarks by management
1.	Construction of a New ECDE Classroom at Ndwarra	800,170	In the financial year under review, the project was not implemented due to delay in release of funds from the National Treasury and was not prioritized in the subsequent financial years. However, the project will be prioritized in the subsequent financial years.

2	Construction of a New ECDE Classroom at Kogon da	1,066,710	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project was at 80% completion rate awaiting internal finishes and board.
3	Construction of a New ECDE Classroom at Orero	830,000	In the financial year under review, the project was not completed and the works were at 80% awaiting plastering and finishes.
4	Construction of a New ECDE Classroom at Kamas	823,042	In the financial year under review, the project was not completed and the works were at 80% awaiting paint works and fittings.
5	Construction of a New ECDE Classroom at Osika	800,170	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project is now at 80% completion.
6.	Construction of a New ECDE Classroom at Atem o	800,170	This project <b>was</b> at 90% completion awaiting paint works.
7.	Construction of a New ECDE Classroom at	681,290	The project was at 80% completion awaiting plastering and painting.

	Nyawino		
8.	Construction of a New ECDE Classroom at Rambim	677,240	In the financial year under review, the project was not implemented due to delay in release of funds from the National Treasury and was implemented in the subsequent financial years and was at 80% completion awaiting paint works.
9.	Construction of a new ECDE Classroom at Weta	620,417	This project was at 80% awaiting fittings of doors, windows and paint works.
10.	Construction of a New ECDE Classroom at Sero	500,000	The project was at lintel level awaiting roofing, fitting, plastering and paint works.
11.	Construction of a new ECDE Classroom at Kome	600,117	The project was at lintel level awaiting roofing, fitting, plastering and paint works.
12	Construction of a New ECDE Classroom at Wikoteng	750,000	The project was at the roofing level awaiting plastering and paint works.
13	Construction of a New ECDE Classroom at Wiodi elo	800,000	The project was at (60%) lintel level awaiting roofing, fitting, plastering and paint works.



14	Construction of a New ECDE Classroom at Longo	700,000	The project was at (60%) lintel level awaiting roofing, fitting, plastering and paint works.
15.	Construction of a new ECDE Classroom at Range nya	700,000	The works stalled at window level (45%)
16.	Construction of a New ECDE Classroom at Yiem be	720,000	The project was at (60%) lintel level awaiting roofing, fitting, plastering and paint works.
17.	Construction of a New ECDE Classroom at Abuor o	840,000	This project was at 90% completion awaiting glazing and paint works.
18.	Construction of a New ECDE Classroom at Bondo	600,000	This project was at 80% awaiting plastering, glazing and paint works.
19.	Construction of a new ECDE Classroom at Osani	600,000	The works stalled at window level (45%)

20.	Construction of Mkende Dispensary	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent Financial years.
21.	Construction of Manga Dispensary	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.
22.	Construction of Nyambare Dispensary	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.
23.	Construction of Gendo Dispensary	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.
24.	Construction of Samakera Dispensary	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.

25.	Construction of Ringa Health Centre	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.
26.	Construction of Wagwe Health Centre	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project was prioritized in the subsequent financial years and was completed and in use.
27.	Constuction of Msare Dispensary	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled pending interior plastering. However, the project will be prioritized in the subsequent financial years.
28.	Construction of Adita Dispensary	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.
29.	Construction of Pala Kakumu Health Centre	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.



30	Construction of Kuge Health Centre	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.
31	Construction of Ngeta Dispensary	600,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.
32.	Construction of Nyaruenya Health Centre	900,000	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and had stalled. However, the project will be prioritized in the subsequent financial years.
33.	Construction of Kobino Jakafuata Structure	600,000	The project was awarded to a contractor who did not manage to complete the works. An interim certificate was honored corresponding to the works achieved The remaining works have been procured and re-awarded to Jubex Enterprises Ltd.
34	Grading and Gravelling of Nyakwere-Chuowe Rd	11,113,366	In the financial year under review, the project was not completed due to delay in release of funds from the National Treasury and was prioritized in the subsequent financial years. The project was done to completion (3kms). However, the road has since

			been damaged by sand harvesters.
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### **Committee Observation**

The Committee observed that there was non-implementation of budgeted projects by the County Executive during the year due to;

- 1) Lack of proper project conceptualization and implementation; and
- 2) late exchequer releases by The National Treasury; and under-collection of own source revenue.

### **Committee Recommendation**

The Committee recommends that;

- 1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate;
- 2) the County executive puts in place measures to enhance its own generated revenue in order to meet its revenue target and address revenue shortfalls;
- 3) the County Executive to establish a project implementation, monitoring and evaluation team to provide periodic project status;
- 4) the county executive should give priority to ongoing projects before commencing new projects to ensure there is value for money already expended; and
- 5) the county executive should undertake proper project conceptualization, planning and execution to ensure timely completion of projects as well as realization of value for money.

## **1.3 Stalled Projects**

The Project Status Report as at 30 June, 2020 further indicated that the following two (2) projects approved for implementation in the 2014/2015 financial year had since stalled.

### **1.3.1 Construction of Animal Feeds Factory at Arujo**

As previously reported, the County Government contracted a firm to build an animal feeds factory and stores at Arujo in the financial year 2014/2015. The contract was valued at Kshs. 45,160,064 and was to be implemented in eight months from 28 April, 2015 to 31 December, 2015. However, examination of the contract documents and physical verification of the project site in October, 2020, revealed the following unsatisfactory matters:



- i. The works had not been completed even though the contract period had expired more than five years earlier. Only the substructure and superstructure works had been done.
- ii. The contractor was not at the project site, which appeared to have long been abandoned.
- iii. Further, the project's budgetary allocation totaling Kshs. 27,300,000 in the year under review was not utilized.

In view of the delay in completing the project, the benefits it was expected to provide to farmers and other stakeholders in the County have not been realized.

### **Management Response**

The management agreed with the audit findings on the contract for the construction of Animal Feeds Factory at Arujo and stated that it was awarded to Carolina construction company limited during the FY 2014/2015 and was to be completed within 8(eight months) from the time of contract signing.

However, that did not take place as the contractor was not able to complete the project in record time and requested for extension of time citing reasons for the same. Major reason was due to mass excavation not anticipated during designs leading to variations that later surpassed allowable 25% as per the PPAD Act 2015. It was therefore agreed that the project be terminated at the ring beam level and roofing and other related works be treated as a new tender.

The contract for completion had been awarded and the contractor was on site.

### **Committee Observations**

The Committee noted that

- 1) The works had not been completed even though the contract period had expired more than five years earlier. Only the substructure and superstructure works had been done.
- 2) The contractor was not at the project site, which appeared to have long been abandoned.
- 3) the project's budgetary allocation totaling Kshs. 27,300,000 in the year under review was not utilized.

### **Committee Recommendations**

The Committee recommends that

- 1) the County Executive to put in place measures to ensure the project is completed and submit a status report 60 days from the adoption of this report .
- 2) the county executive should undertake proper project conceptualization, planning and execution to ensure timely completion of projects as well as realization of value for money.
- 3) The Auditor General to monitor the project in the subsequent audit cycle.
- 4) The EACC to investigate the project valued at Kshs. 45,160,064 from inception and recommend prosecution in the event of loss of public funds.



### **1.3.2. Construction of Kenya Medical Training College at Sindo**

Management in the year 2015/2016 awarded a contract for construction of classrooms, an office and an ablution block at Kenya Medical Training College at Sindo in Suba North at a contract sum of Kshs.18,650,109. The project was to be executed in eight (8) weeks starting from 18 October to 5 December, 2016. Documents provided for audit indicated that Management paid the contractor Kshs.9,646,565 in 2017/2018 financial year. However, physical verification of the project site in October, 2020 revealed that the works were abandoned at 45% level of completion.

In addition to denying potential learners and residents services and other benefits, the stalled project may result in waste of public funds.

#### **Management Response**

The management concurred with the auditor that the construction of Kenya Medical Training College at Sindo was at 45% level of completion at the time of Audit. However, the County Government of Homabay had made effort to reach the contractor and he went back on site and did the grills and windows.

The management was considering proposal to fully revert the construction of the facility to the National Government.

#### **Committee Observations**

The Committee noted that the County Executive spent significant funds to undertake a function assigned to the National Government under the Fourth Schedule to the Constitution without prior agreement with the National Government as anticipated under Article 187 (1) of the Constitution.

The Committee further noted that there was no value for money from the project, in violation of Section 72 (1) of the Public Finance Management Act, 2012.

#### **Committee Recommendations**

**The Committee recommends that the County Executive:**

- 1) ensures that it only undertakes functions assigned to county governments under the Constitution; and**
- 2) engages the National Government with a view to having the project completed by the National Government, either directly or through the respective National Government Constituency Development Fund.**

### **1.4 Other Unsatisfactory Projects Works**

#### **1.4.1 Conversion of Blood Bank into an Intensive Care Unit at Homa Bay County Referral Hospital**

Expenditure records indicated that Kshs.5,847,020 was paid to a contractor to convert part of the Homa Bay County Referral Hospital Blood Bank into an Intensive Care Unit (ICU) under a contract valued at Kshs.11,841,316.

The contract was awarded through Request for Quotations procedure contrary to Section 91(1) of Public Procurement and Asset Disposal Act, 2015 which prescribes

open tendering as the preferred procurement method for procurement of goods, works and services. Therefore, Management may have breached the law.

An audit verification done in October, 2020 confirmed that the County Government did not have trained personnel to operate the specialized ICU equipment installed at the Centre. As a result, the expenditure totalling Kshs.11,841,316 budgeted for the project may not be spent in an effective way.

#### **Management Response**

The management agreed with the auditor on this issue. Due to corona pandemic and the need to save lives of the citizens, the management decided to move with speed since the tendering process could take long as compared to request for quotation due to exigency of the pandemic.

The management further concurred with the auditor that at the time of the audit the ICU Equipment were installed and there were no qualified staffs employed. However, when the building was completed and equipment fully installed, the management employed qualified technical staff to run the facility. At the time of appearance, the ICU had four operational beds that were well equipped.

#### **Committee Observation**

The Committee observed that the County Executive breached Section 91(1) of Public Procurement and Asset Disposal Act, 2015 which prescribes open tendering as the preferred procurement method for procurement of goods, works and services.

#### **Committee Recommendation**

**The Committee recommends that:**

- 1) the administrative action be taken against responsible officer(s) for breach of Section 91(1) of Public Procurement and Asset Disposal Act, 2015;**
- 2) the county executive takes measures to operationalize the facility; and**
- 3) the County Executive to establish a project implementation, monitoring and evaluation team to provide periodic project status.**

#### **1.4.2 Irregularities and Poor Quality Work in Construction of Classrooms at Ondiwa Gamba Primary School**

Records on acquisition of assets expenditure indicated that Kshs.1,066,710 was spent on construction of Early Childhood Education (ECDE) classrooms at Ondiwa Gamba Primary School at a contract sum of Kshs.1,780,307. However, physical verification on 21 October, 2020 revealed the following anomalies:

- a) The walls were weak ostensibly due to the improper mixture of cement and sand used to build the embedded bricks, contrary to specifications in the Bill of quantities;
- b) The Chief Officer Roads, Transport and Public Works in a letter dated 26 May, 2020 requested the Chief Officer, Ministry of Education to pay the contractor the 1st interim certificate amounting to Kshs. 1,066,710 citing attachments which included Bills of Quantities, contractor's letter of request for payment and the Inspection Report. However, audit examination of the Inspection and Acceptance Committee Report indicated that it was signed on 30 June, 2020.



Therefore, the basis and validity of the payment recommended by the Engineer on 26 May, 2020 was not clear.

- c) The mortar used on the walls would peel-off by mere scratching and further, part of the wall had collapsed both indicators of low-quality workmanship.

In view of these issues, the regularity and value for money on the payment amounting to Kshs. 1,066,710 made in respect to the contract in the year under review could not be confirmed.

#### **Management Response**

The management concurred with the auditor's observation that works at Ondiwa Gamba ECDE were poorly done. The department had written to the Contractor in April 2022 to go back to site and rectify the defects. However, the contractor did not comply and the management was in the process of terminating the contract.

#### **Committee Observation**

The Committee noted that the matter has since been addressed.

#### **Committee recommendation**

**The committee recommends that the matter be marked as resolved.**

### **1.4.3 Lingering Delay in Construction of Maize Processing Plant**

The acquisition of assets records indicated that a contractor was hired to build a maize processing plant at Kigoto-Suba North Sub-County in the 2014/2015 financial year at a contract sum of Kshs.12,940,392. The contract was expected to be executed in six (6) months from July to December, 2015 but had not been completed six years later as at 30 June 2020. Payments totalling Kshs.11,550,395 were made in the financial year under review.

Physical verification conducted in October, 2020 noted the slow pace of construction in spite 89% of the contract sum having been paid to the contractor. No records were provided to confirm the level of project completion attained. Management did not provide a satisfactory explanation for the delay in completion of the project.

In view of the delay, the benefits expected to have been received by farmers and other stakeholders in the County have not been realized.

#### **Management Response**

The construction of the Maize milling plant was initially awarded on 24<sup>th</sup> June 2015 at a tender sum of 12,940,392 and for a period of Six months.

The physical verification was conducted in October 2020, at that time there was minimal activity on site. However, the project has since been completed and the plant is operational.

#### **Committee Observation**

The Committee noted that:

1. there was a delay in the completion of the project beyond the contract period; and
2. the county executive had made payments of up to 89% of the contract price for works that had not been certified. This could lead to loss of funds;



### **Committee Recommendations**

**The Committee recommends that—**

- 1. The payment of project works should only be done for certified works so that the County does not incur wasteful expenditure due to incomplete works;**
- 2. the County Executive should put in place proper project monitoring systems to ensure projects are implemented as per specifications and within the contract period; and**
- 3. the Auditor General reviews the matter to ascertain project completion and utilization in the subsequent financial year.**

#### **1.4.4 Slow Pace of Work in Construction of Homa Bay Stadium**

Project records indicated that Kshs.123,537,869 had as at 30 June, 2020 been paid to a contractor for the construction of Homa Bay County Stadium. The respective contract was awarded in the previous financial year at Kshs.369,781,250 and entailed construction of the main works, a main pavilion and western wing. The contract agreement was signed on 20 June, 2019 and the commencement date set for 5 July, 2019 for execution in 78 weeks to 1 January, 2021. However, the following anomalies were noted in respect to implementation of the contract:

A cost variation was made to include construction of an underground water tank.

However, the variation was not quantified.

- i. Supervision of the project was shortly after commencement handed over to the National Government. However, the terms and conditions of the handover were not provided for audit review.
- ii. The project's Bills of Quantities were not provided for audit review.
- iii. Payments totalling Kshs.123,537,869 were made to the contractor in the year under review and as a result, the approved budget allocation totalling Kshs.120,329,509 was irregularly exceeded by Kshs.3,208,360.
- iv. Audit verification in the month of October, 2020, revealed that the works were behind schedule and were unlikely to be completed before the end of the contract period on 21 January, 2021.

In view of these issues, the regularity and value for money on the contract valued at Kshs.369,781,250 could not be confirmed.

### **Management Response**

The management stated that the Proposed Construction of Homa bay County Stadium was as follows;

	<b>Description</b>	<b>Remarks</b>
1	Initial contract period	78 weeks
2	Site Handover	21 <sup>st</sup> June 2019
3	Commencement date	5 <sup>th</sup> July 2019
4	Revised Completion date	30 <sup>th</sup> April 2023
5	Period lapsed	182 weeks
6	% Period lapsed	233%

7	Initial contract sum	369,781,250
8	Revised contract sum	460,772,557.21
9	Amount certified to date	338,525,768
10	% Amount certified	73.5%
11	Work progress	80%

The above amounts excluded other works not in the current contract. The excluded scope of works was;

1. Completion of perimeter wall
2. Cabro-paved car park
3. Gate

At the time of appearance, the project was on course to be completed by end of April 2023 awaiting completion of the following remaining works;

- i. Second trimming and compacting of the grass on the pitch
- ii. Completion of the remaining 20% of internal electrical fittings
- iii. Construction of standby generator and transformer room which is 40% complete
- iv. Installation of sanitary water in toilets
- v. Borehole drilling and equipping
- vi. Final painting works on the pavilion walls
- vii. Installation of sprinklers for grass on the pitch
- viii. Cabling works for CCTV cameras
- ix. Fixing of PVC chairs on VIP pavilion terraces

#### **Committee Observation**

The Committee noted that:

1. the contract was varied without adherence to the procedure stipulated under section 139 of the Public Procurement and Assets Disposal Act, 2015;
2. the conditions of the handing over of the project supervision to the National Government were not stipulated;
3. the expenditure on the project in the financial year was beyond what the County Executive had budgeted for; and
4. there was a delay in the completion of the project beyond the contract period.

#### **Committee Recommendations**

The Committee recommends that:

1. the County Executive should prioritize completion of the project by providing adequate budget;
2. the County CEO to take administrative action against the responsible officer(s) who failed to provide documents to the Auditor General during time of audit in accordance to section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within sixty(60) days from the adoption of this report;
3. the County Executive should put in place proper project implementation, monitoring and evaluation teams to give periodic status report on projects; and



4. the Auditor General reviews the matter to ascertain project completion and utilization in the subsequent financial year.
5. The EACC to carry out an investigation to ascertain whether the variation was lawful and whether all the project components were delivered as per contract.

#### 1.4.5 Completed Projects Not Put to Use

Expenditure records indicated that payments totalling Kshs. 25,503,916 were made to six (6) contractors for construction of dispensaries as detailed below:

	Project Name	Amount Paid	Status
1	Construction of Outpatient Block at God Agak Dispensary	4,353,584	Not in use
2	Construction of Outpatient Block at Ogwang Bware Dispensary	4,493,289	Not in use
3	Construction of Rapogi Dispensary	4,408,520	Not in use
4	Construction of Outpatient Block at Thuon Gweno Dispensary	4,060,862	Not in use
5	Construction of Pedo Health Centre	4,235,000	Not in use
6	Construction at Kilambo Dispensary	3,952,661	Not in use
	<b>Total</b>	<b>25,503,916</b>	

However, verification of the respective project sites in October, 2020 revealed that the projects were not put to use upon their completion. Therefore, the benefits they were expected to provide to the residents of Homa Bay County were not realized and as a result, no value for money was obtained on the expenditure totaling Kshs.25,503,916 spent on the projects.

Failure to utilize the projects contravened Section 162(2)(c)(i) of the Public Finance Management Act, 2012 which requires Accounting Officers to make adequate arrangements for proper use, custody, safeguarding and maintenance of public property.

#### Management Response

The management agreed with the Auditor that at the time of the audit the above listed projects were not in use. The management submitted that the status of those facilities at the time of appearance was as tabulated below;

Project Name	Amount Paid (Kshs.)	Status
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1	Construction of Outpatient Block at God Agak Dispensary	4,353,584	in use
2	Construction of Outpatient Block at Ogwang Bware Dispensary	4,493,289	in use
3	Construction of Rapogi Dispensary	4,408,520	Not in use
4	Construction of Outpatient Block at Thuon Gweno Dispensary	4,060,862	Incomplete
5	Construction of Pedo Health Centre	4,235,000	in use
6	Construction at Kilambo Dispensary	3,952,661	Not in use
	<b>Total</b>	<b>25,503,916</b>	

Agak and Ogwang Bware Health Facilities were completed, and qualified personnel had been deployed to operationalize the facilities. Further, the management was working to ensure the remaining facilities were put in use in the subsequent financial years.

#### **Committee Observation**

The Committee noted that the matter has since been addressed.

#### **Committee Recommendations**

**The committee recommends that the matter be marked as resolved.**

#### **1.4.6 Uncompetitive Award of Tender for Construction of God Nyango Box Culvert**

Expenditures records indicated that the County Executive spent Kshs. 704,869,209 on construction of major roads, access roads and bridges in the year under review. The expenditure included Kshs. 7,016,260 spent on construction of God Nyango Box culvert awarded to a contractor in the previous financial year.

Review of the tender documents revealed that Management awarded the contract to the second (2) lowest bidder instead of the lowest bidder at Kshs. 4,942,470. As a result, savings of public funds totaling Kshs. 2,073,790, being the difference between the lowest bid and the contracted sum, were forfeited.

No plausible explanation was provided for the failure to award the tender to the lowest bidder.

Consequently, the propriety and value for money on the expenditure totaling Kshs. 7,016,260 incurred on the project could not be confirmed.

#### **Management Response**

The management responded that the bidder who quoted kshs. 4,942,470 was not awarded and the project was awarded to a bidder with the least evaluated quote of kshs.

7,016,260. M/s Ralu Investments Ltd, the bidder who quoted Kshs. 4,942,470 did not meet the minimum requirements and was eliminated at the preliminaries and did not feature in the Financial Analysis report. Therefore, the lowest evaluated bidder was Mason Graphite Ltd at Kshs. 7,016,260.

#### **Committee Observation**

The Committee observed that the matter has since been resolved as the county executive submitted the report of the evaluation committee to the auditor for verification.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

#### **1.4.7 Unsatisfactory Execution of Covid-19 Mitigation Projects**

Revenue records indicated that by the time of the audit in October 2020, the County Executive had received Kshs. 170,825,535 for funding Covid-19 mitigation. The following unsatisfactory issues were noted in respect of Covid-19 funds spent in the year under review:

##### **1.4.7.1 Renovated Kisegi Health Centre Not Put to Use**

Procurement records indicated that a contract for renovation and alteration of Kisegi Health Centre was awarded at Kshs. 8,804,288 and the contract agreement signed on 8 June, 2020. However, on 13 July, 2020 Management paid Kshs. 7,264,972 to the contractor before the contractor submitted the Letter of Acceptance to undertake the contract. In addition, an audit inspection conducted on 28 October, 2020 revealed that the Centre was not put to use after the renovations were completed. Further, there was no record of qualified medical practitioners having been deployed at the Centre.

In the circumstance, Management breached the law and further, value for money was not obtained on expenditure totaling Kshs. 7,264,972 incurred on the works.

#### **Management Response**

The management concurred with the auditor that at the time of Audit the project was not put into use and qualified staff were not deployed. However, the facility was in use, qualified staffs deployed and the facility was operational.

#### **Committee Observations**

The Committee observed that-

1. Management paid Kshs. 7,264,972 to the contractor before the contractor submitted the Letter of Acceptance to undertake the contract.
2. the Centre was not put to use after the renovations were completed

#### **Committee recommendation**

**The Committee recommends that the Auditor General reviews the matter to ascertain project completion and utilization in the subsequent financial year.**

##### **1.4.7.2 Low Quality Workmanship in Renovation of Tom Mboya Hospital**



Expenditure records indicated that the County Executive awarded a contractor for renovation of Tom Mboya Hospital at a contract sum of Kshs.3,051,192. The contract agreement was signed on 29 June, 2020 and a payment of Kshs.3,027,350 was thereafter made to the contractor on 13 July, 2020.

However, the tender documents were not provided for audit review. Further, an audit inspection conducted in October, 2020 revealed the following unsatisfactory issues:

- i. Workmanship on the gatehouse was of low quality as there were cracks on the structure.
- ii. The ceiling board displayed cracks too and the painting work was of low quality.
- iii. There was no running water for use at the facility.

Consequently, propriety and value for money on expenditure totaling Kshs. 3,051,192 spent on the project could not be confirmed.

#### **Management Response**

The management agreed with the Auditor that, the tender documents were not provided for the review since the officer who oversaw the exercise was hospitalized at the time of the Audit. The management had since availed the documents for verification.

For the workmanship on the gate house and the ceiling board which displayed cracks, the management recalled the contractor and all defects were rectified.

#### **Committee Observation**

The Committee observed that the matter has since been addressed as the county executive submitted the documents to the auditor for verification. Further, the Committee noted the mitigation by the County Executive.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

#### **1.4.7.3 Low Quality Workmanship in Renovation of Nyangiela Health Centre**

A contract for renovation of Nyangiela Health Centre awarded at Kshs. 5,215,244 was varied by Kshs. 811,005 to Kshs. 6,026,249 only one and a half months after it was awarded. The variation related to repair of a three-door pit latrine and construction of a four-door one, even though these had been provided for in the Bills of Quantities at Kshs. 100,000 and Kshs. 350,000 respectively. Further, physical inspection of the building in October, 2020 indicated that the quality of the work done was low.

In addition, records showing utilization of provisional sums totaling Kshs. 752,500 set aside in the Bills of Quantities were not provided for audit.

In view of these anomalies, value for money may not have been attained on expenditure totaling Kshs. 6,026,249 incurred on the contract.

#### **Management Response**

The management agreed with the auditor that the quality for the work done was low. With regard to repair of a 3-door pit latrine and construction of a 4 Door pit latrine. However, the management took the initiative to bring the contractor back on site and the works were completed effectively.



**Committee Observation**

The Committee observed that the matter has since been addressed as the county executive submitted the documents to the auditor for verification. Further, the Committee noted the mitigation by the County Executive.

**Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

**1.4.7.4 Works Paid for Not Done in Renovation of Nyagoro Health Centre**

A contract for the renovation of Nyagoro Health Centre at a contract sum of Kshs.3,429,516 was signed on 23 June, 2020. The works entailed tiling, painting and fixing of windows and doors at the Centre. Records on the project indicated that an invoice was issued on 30 June, 2020 and the payment certificate on 6 July, 2020 with the payment following thereafter on 13 July, 2020.

Physical inspection of the project in October, 2020 indicated that works valued at Kshs.332,000 were not done despite a certificate of completion having been issued to the contractor by Management. Further, records on the project indicated that the contractor carried out the works in an improbable one week from the date the contract agreement was signed on 23 June, 2020 to the invoice date of 30 June, 2020. Consequently, the propriety and value for money on the payments totalling Kshs.332,000 could not be confirmed.

**Management Response**

The management agreed with the auditor on the issues raised above. However, the management after the audit carried independent verification of the project with the departmental respective Engineers and all the defects that were realized at the management visit were rectified and the facility put into use.

**Committee Observation**

The Committee observed that the matter has since been addressed as the county executive submitted the documents to the auditor for verification. Further, the Committee noted the mitigation by the County Executive.

**Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

**2.0 Un-Surrendered Imprests**

Note 14 of other important disclosures to the financial statements reflects outstanding imprests totalling Kshs.16,537,980 that were not surrendered within seven (7) days after the imprest holders returned to their respective duty stations. Failure to surrender the

imprest contravened Regulation 93(5) of the Public Finance Management (County Governments) Act, 2015 which requires a holder of a temporary imprest to account or surrender for the imprest within seven (7) working days after returning to duty station. Consequently, Management is in breach of the law.

#### **Management Response**

The management stated that the outstanding imprests were still active by the end of the financial year 2019-2020. However, the imprests have since been surrendered and the surrender vouchers were available for audit verification.

#### **Committee Observations**

The Committee observed that the County Executive had contravened Regulation 93(5) of the Public Finance Management (County Governments) Act, 2015; and The Committee noted that the matter has since been addressed as the supporting documents relating to the imprests were submitted for audit verification.

#### **Committee Recommendations**

**The Committee therefore recommends that the County Executive should strictly adhere to paragraph 93 of the Public Finance Management (County Government) Regulations, 2015 on imprest management.**

**The committee recommends that the matter be marked as resolved.**

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### **3.0 High Wage Bill**

Expenditure records indicated that the County Executive spent Kshs.3,145,409,833 on compensation of employees in the year under review. The spending was equivalent to 38% of the County revenue for the year totalling Kshs.8,213,774,541 and was therefore above the threshold of 35% prescribed for the item in Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015.

In the circumstance, Management breached the law on prudent use of public funds and constrained its capacity to fund public services required by the residents.

#### **Management Response**

The management agreed with the auditor's observation that as at the time of audit, the compensation of employees translated to 38 percent exceeding the required threshold of 35 percent. This was attributed to the following reasons:

- i. Collective Bargaining Agreement that the county government signed with the medical staff resulting to the increase of their salaries and allowances.
- ii. Staff inherited from the defunct local authority whose wage and other benefits were increased through a CBA signed before 2013.
- iii. The county government also recruited additional staff because employees inherited from the defunct local authority lacked the adequate capacity to implement government programmes.
- iv. The growth of the salaries as a result of the annual staff increment.

As at 30<sup>th</sup> June 2022, the management inherited staff compensation costs at 52%. This did not include 1,700 ECDE teachers who were confirmed from local contract to



permanent and pensionable terms but were yet to be affected in the payroll systems meaning the inherited wage bill was even higher. In addition, there were staff who were already at service but not yet remunerated.

However, to control the situation, the County Government of Homa Bay was taking the following measures:

- i. The management was conducting a Human Resource Audit and census.
- ii. Establishing an optimal staffing structure to ensure expenditure on personnel emoluments complied with the law.
- iii. The County Government was exploring other revenue streams to expand the revenue base and reduce the high percentage of expenditure on personnel emolument.

#### **Committee Observation**

The Committee observed that the County Executive's wage bill during the FY 2019/20 stood at 38% of its total receipts which was above the threshold of 35%.

#### **Committee Recommendations**

**The Committee recommends that;**

- 1) the management should strictly adhere to the provision of paragraph 25(1)(b) of the PFM Act (county government) regulations, 2015 which stipulate that the county wage bill should not exceed 35 per cent of the county total revenue;
- 2) the management should provide to the Auditor General a three-year strategy of measures it will put in place to contain the high wage bill within sixty (60) days of the adoption of this report;
- 3) the County Executive enhances the capacity of the County Public Service Board to effectively and efficiently carry out its mandate.

#### **4.0 Improper Use of Project Funds**

Records on domestic travel and subsistence indicated that payments totalling Kshs. 3,392,000 were made to Members of Homa Bay County Assembly (MCA'S) who attended a workshop organized by the National Agricultural and Rural Inclusive Growth Project (NARIGP) in Kisumu County for two days. Paragraph 1.2.1. of the Project's funding provisions indicated that its objective was to increase agricultural productivity and profitability in targeted rural communities living in selected counties. In the circumstance, the use of the project's funds in a workshop for the MCAs held outside the County did not appear to support this objective. As a result, it was not possible to confirm whether value for money was obtained on the expenditure totalling Kshs. 3,392,000 incurred on the workshop.

#### **Management Response**

The management stated that the referred activity was captured in the annual work plan and budget for the Financial Year 2018/2019 as Sensitization of County Stakeholders because the project was to be implemented in 20 wards within the County. The MCAs play a greater role in mobilization of farmers and influencing farmers to own the project,



which is pre-requisite for project sustainability. It was also important to sensitize the Agriculture County Assembly committee members for purposes of understanding the project to inform the assembly Project budget deliberations.

The National Agricultural and Rural Inclusive Growth Project (NARIGP) Considered the Members of County Assembly in whose wards the Project would be implemented and those in Agriculture Committee as Stakeholders in the project Implementation. This is why it was necessary to sensitize and apprise the referred group of MCAs on NARIGP.

#### **Committee Observation**

The Committee noted that the matter has since been addressed.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved. However, the Auditor General should carry out a performance audit on NARIGP across the 47 counties within 90 days of adoption of this report.**

### **5.0. Lack of Diversity in Staffing**

Review of human resource records indicated that the County Executive had 4,590 employees as at 30 June, 2020 out of whom 4,302 or 94% were members of the ethnic community dominant in the County. The high level of dominance by one community was contrary to the provisions of Section 7(1) of the National Cohesion and Integration Act, No 12 of 2008 which requires representation of the diversity of the people of Kenya in staff establishments of public entities.

In the circumstance, the County Executive of Homa Bay may be in breach of the law.

#### **Management Response**

The actual County's Staff in the IPPD comprises of 74 percent of the dominant community and 26 percent other ethnic communities as detailed in the table;

<b>Distribution of Staff by Ethnic Groups</b>			
<b>S/no</b>	<b>Ethnic Group</b>	<b>No of employees</b>	<b>Percentage</b>
1	Luo	3,850	73.7
2	Kisii	148	2.7
3	Luhya	94	2.0
4	Kalenjin	31	0.7
5	Basuba	641	14.0
6	Kikuyu	10	0.2
7	Kamba	6	0.1
8	Meru	6	0.1
9	Teso	6	0.1
10	Kuria	5	0.1
11	Masai	4	0.1
12	MijiKenda	4	0.1

13	Other Kenyans	8	0.2
	<b>Total</b>	<b>4,793</b>	<b>100</b>

#### **Committee Observation**

The Committee observed that the County Executive was in breach of Section 7(1) of the National Cohesion and Integration Act, 2008 as 94% were members of the ethnic community dominant in the County.

#### **Committee Recommendations**

**The Committee recommends that-**

- 1. The County Executive should work progressively towards attaining the requirement of the provisions of Section 65(1)(e) of County Government Act on ethnic inclusivity.**

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **1.0 Lack of Staff Establishment**

Audit review of human resource records indicated that the County Executive did not have an approved staff establishment. As a result, Management lacked objective means to recruit and deploy staff for optimal results. Consequently, it was not possible to confirm whether staffing in the County Executive was regular and optimal.

#### **Management Response**

The management stated that during the period under review, the County Executive did not have an approved staff establishment, leading to lack of objective means to recruit and deploy staff for optimal results. Consequently, it was not possible to confirm whether staffing in the County Executive was regular and optimal.

Despite the above, the County Executive was committed to ensuring that they conform to the law and had engaged Price Waterhouse Coopers whose terms of reference included development of a customized Homa Bay County Government Staff Establishment that will help in the establishment of an optimal staffing structure that will ensure expenditure on personnel emoluments comply with the law.

#### **Committee Observation**

The Committee noted that the County Government did not have an approved staff establishment.

#### **Committee Recommendation**

**The Committee recommends that the County Executive should expedite development and approval of its staff establishment and a status report should be submitted to the Auditor General for verification within sixty (60) days of the adoption of this report.**

#### **2.0 Lack of Information Technology and Risk Management policies**



Audit review of the County Executive's use of Information Communication Technology (ICT) revealed that Management had not formulated a policy to guide investment in and use of the technology. Therefore, the investments made by the County Executive in the technology may not be effective. Further, Management did not have means to identify, measure and mitigate operational and other risks dependent on the technology.

#### **Management Response**

The management concurred with the auditor's observation that at the time of audit, the County Government did not have in place an ICT policy and Risk Management Policy. However, through the County Executive Committee meeting, the management had engaged the department of Blue Economy, Fisheries, Mining, and Digital Economy to prepare and develop an ICT Policy under the budget for the Financial year 2023- 2024. Further, the management had initiated a procurement process to acquire an integrated ERP system that will bring about necessary efficiency and process controls. Also, a County wide risk assessment was being carried out to enable the development of effective policies, procedures and controls aimed at minimizing risk.

#### **Committee Observation**

The Committee noted that the County Executive did not have ICT and Risk Management Policies.

#### **Committee Recommendation**

~~The Committee recommends that the County Executive should expedite development of a Risk Management Policy and ICT Policy and should submit to the Auditor General for verification within sixty (60) days of the adoption of this report.~~



### CHAPTER THREE

#### **REPORT OF THE SENATE COUNTY PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF KAKAMEGA COUNTY EXECUTIVE FOR THE FINANCIAL YEAR 2019/2020**

The Governor of Kakamega County Executive Hon. Fernandes Baraza appeared before the Committee on Wednesday 29th March 2023 to respond (under oath) to audit queries raised in the Report of the Auditor General on Financial Statements for Kakamega County Executive for the Financial Year 2019/2020.

#### **Qualified Opinion**

<b>EXECUTIVE SUMMARY OF UN-RESOLVED AUDIT QUERIES.</b>				
<b>S/NO</b>	<b>Query</b>	<b>Recommendation</b>	<b>Actor</b>	<b>Timeline</b>
1	<b>1.0 Variations Between the Financial Statements and the IFMIS Ledgers.</b> There was an unreconciled variance of Ksh 1,678,003,622 between the expenditure figure in the financial statements and the IFMIS ledger.	1) The County CEO undertakes administrative action against officer(s) responsible for failure to undertake reconciliation of financial statements within the stipulated timelines in accordance with section 156 of the Public Finance Management Act, 2012 and submit a report to the Office of the Auditor General within 60 days of adoption of this report.	The County Chief Executive Officer	60 Days from date of adoption of this report.
2	<b>2.0 Misclassification of Expenditure.</b> There were specific expenditures that were charged to wrong accounts leading to a haphazard grouping of expenditures amounting to Kshs.1,515,298,856.	1) The County CEO undertakes administrative action against the responsible officer(s) for failure to undertake reconciliation of financial statements within the stipulated timelines in accordance with section 156 of the	The County Chief Executive Officer	60 Days from the date of adoption of this report.

		Public Finance Management Act, 2012; and 2) County CEO ensures strict adherence to the Public Audit Act, 2015 by providing accurate and reliable bank reconciliation statements and bank certificates during the audit cycle.		
3	<b>3.0 Inaccuracies in Cash and Bank Balances.</b> Kshs. 1,710,582,883 maintained in fifty-nine (59) bank accounts. Revenue of the bank account details revealed that seven (7) of the accounts were dormant with three (3) of the accounts having a Nil balance, the other three (3) having a balance of Kshs. 6,983,246 while the last account had a negative balance of Kshs.227,772. Explanation for the negative balance, closure and dormancy of accounts, and the reconciliation statements were not provided for verification.	The Committee recommends that;- 1) the Auditor General conducts a special audit on the Sugar Development Fund and provide a status update to the Senate within 90 days of adoption of this report; 2) the County Executive submit to the Auditor General a report on the Sugar Development Fund outlining the following to facilitate seamless audit; legal framework within which it was established, approvals by the Kakamega County Assembly and budgets supporting the	The Auditor General  The County Chief Executive Officer  ICPAK	60 Days from the date of adoption of this report.

		<p>expenditure, the details of the company-Mumias Distributors Ltd, CR12-ascertaining ownership, how Mumias Distributors Ltd was procured, amounts alleged to have been received by Kakamega county, accounts the money was deposited in, how they were treated in the financial statements, details of farmers who were paid, number of bags of sugar that Mumias Distributors Ltd. Received and the agreement signed between the county and Mumias Distributors Ltd within 60 days of adoption of this Report.</p> <p>3) The County CEO undertakes administrative action against the accounting officer, the Chief Officer Finance, the Head of County Treasury and any other officer(s) responsible for</p>		
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		<p>failure to undertake reconciliation of financial statements within the stipulated timelines and submit a report to the Office of Auditor General within 60 days of adoption of this report;</p> <p>4) The Institute of Certified Public Accountants (ICPAK) takes action(s) against the Head of Treasury for misrepresentation of financial statements which constitutes professional misconduct pursuant to Section 8 (a) and 30 of the Accountants Act CAP 531 and reports to the Office of Auditor General within 60 days of adoption of this report.</p>		
4	<p><b>4.0 Inaccuracies in County Own Generated Receipts</b></p> <p>The Kakamega County Alcoholic Drinks Control Fund financial statements provided for review reported a total collection figure of Kshs. 15,556,710</p>	<p>1) The County CEO undertakes administrative action against the officer(s) responsible for failure to undertake reconciliation of financial</p>	The County Chief Executive Officer	60 Days from the date of adoption of this report.

	<p>while the bank statements reflected an amount of Kshs. 16,211,310. The variances had not been reconciled or explained at the time of the audit.</p>	<p>statements within the stipulated timelines in accordance with Section 156 of the Public Finance Management Act, 2012 and submit a status report to the office of the Auditor General within 60 days of adoption of this report;</p> <p>2) The County CEO undertakes administrative action against the accounting officer, the Chief Officer Finance, the Head of County Treasury and any other officer(s) responsible for failure to undertake reconciliation of financial statements within the stipulated timelines and submit a report to the Office of Auditor General within 60 days of adoption of this report;</p> <p>3) The Institute of Certified Public Accountants (ICPAK) takes action(s) against the Head of Treasury for</p>		
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		misrepresentation of financial statements which constitutes professional misconduct pursuant to Section 8 (a) and 30 of the Accountants Act CAP 531 and reports to the Office of Auditor General within 60 days of adoption of this report		
5	<b>5.0 Compensation to Employees</b> There was a variance of Kshs. 21,009,970 between the financial statements and IFMIS ledgers. Further, a variance of Kshs. 136,879,342 reflected in the payroll schedule was not reconciled or explained.	1) The County CEO undertakes administrative action against the officer(s) responsible for failure to undertake reconciliation of financial statements within the stipulated timelines in accordance with Section 156 of the Public Finance Management Act, 2012 and submit a status report to the office of the Auditor General within 60 days of adoption of this report; 2) The County CEO undertakes administrative action against the accounting officer, the Chief	The County Chief Executive Officer	60 Days from the date of adoption of this report.



		<p>Officer Finance, the Head of County Treasury and any other officer(s) responsible for failure to undertake reconciliation of financial statements within the stipulated timelines and submit a report to the Office of Auditor General within 60 days of adoption of this report;</p> <p>3) The Institute of Certified Public Accountants (ICPAK) takes action(s) against the Head of Treasury for misrepresentation of financial statements which constitutes professional misconduct pursuant to Section 8 (a) and 30 of the Accountants Act CAP 531 and reports to the Office of Auditor General within 60 days of adoption of this report.</p>		
6	<b>7.0 Transfer to Other Government Entities - The Kakamega County Urban Water</b>	The EACC cause an investigation into the possible loss of public funds amounting to Kshs.	The Ethics and Anti-Corruption Commission.	60 Days from the date of

	<p><b>and Sewerage.</b> Kshs.27,000,000 was transferred to Kakamega County Urban Water and Sewerage Company (KACWASCO) illegally, as it was not in the budget of the County Executive. Review of receipt by the Kakamega County Urban Water and Sewerage Company revealed that the Company received Kshs. 12,000,000. The balance of Kshs. 15,000,000 was deposited in a separate bank account whose details were not provided for audit review.</p>	15,000,000 with the view of recovering the funds.		adoption of this report.
	<p><b>Unsupported Accounts Receivable-Outstanding Imprest</b> The statement of assets and liabilities and as disclosed under Note 13 to the financial statements reflects outstanding imprest balance of Kshs. 31,786,077 as at 30 June, 2020. However, the imprest register was not provided for audit verification. In the circumstances, the accuracy and completeness of the outstanding imprest</p>	<p>The Committee recommends;- 1) that the Accounting Officer(s) recover the outstanding imprests with interest as per provisions Regulation 93 (6) of the Public Finance Management (County Governments) Regulations, 2015 and provides a status report to the Office of the Auditor General within sixty (60) days from the</p>	<p>The County CEO  CECM Finance and Economic Planning</p>	<p>Within sixty (60) days from the adoption of this report</p>

	balance of Ksh. 31,786,077 could not be confirmed.	adoption of this report; and 2) sanction and surcharge of Accounting Officers who fail to recover outstanding imprests in line with Regulation 93(7) of the PFM (County Government) Regulations, 2015 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report.		
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### **Basis for Qualified Opinion**

#### **1.0 Variations between the Financial Statements and the IFMIS Ledgers**

The statement of receipts and payments reflects a total expenditure figure of Kshs. 12,667,723,059 relating to various expenditure items. A review of related IFMIS ledgers revealed a total expenditure figure of Kshs. 10,989,719,437 for the various items resulting to unreconciled variance of Kshs. 1,678,003,622 as detailed below:

Item	Financial Statement Figures (Kshs.)	IFMIS Ledger Figures (Kshs.)	Variance (Kshs.)
Acquisition of Assets	3,490,481,041	2,360,816,884	1,129,664,157
Compensation of Employees	4,395,102,410	4,374,092,440	21,009,970
Other Grants and Transfers	1,824,247,635	2,520,039,929	(695,792,294)
Transfers to Other Government Units	1,044,698,080	0	1,044,698,080
Use of Goods and Services	1,913,193,898	1,734,770,184	178,423,714



Though, the Management explained that the variation was as a result of payments made outside the Integrated Financial Management Information System (IFMIS), no explanation was provided for operating outside the prescribed financial management system and the subsequent failure to pass journal entries to capture the expenditure in the system.

Consequently, the accuracy and completeness of the financial statement for the year ended 30 June, 2020 could not be ascertained.

#### **Management Response**

The Management submitted the following;

#### **Unreconciled variance of Kshs. 1,678,003,622 between the Financial Statements and the IFMIS Ledgers.**

The variance between the Financial Statements Figure and the IFMIS Ledger was as a result of transfers made to other County Entities during the year under review as summarized in the table below:

<b>County Entity</b>	<b>Amount (Kshs.)</b>
County Assembly	977,375,288
Other County Entities	103,885,274
County Health Facilities	284,346,060
County Vocational Training Centers	101,397,000
County Early Childhood Development Centers	211,000,000
<b>TOTAL</b>	<b>1,678,003,622</b>

The funds were spent on various programs and activities as budgeted for under the specific Entities. The office of the Auditor General had an opportunity to audit the funds as spent by the respective Entities. The variance arose as a result of consolidating the annual financial statements for all the County Entities as required by Paragraph 2.1.34 to 2.1.56 of the International Public Sector Accounting Standards (IPSAS).

Kshs. 977,375,288 was transfers to the County Assembly as captured in the statement of receipts and payments under the title Transfers to Other Government Units. This expenditure was reported through IFMIS at the Kakamega County Assembly and thus the County Executive could not capture the expenditures again in IFMIS since this would amount to double recognition. The County Assembly being semi-autonomous, reports and is audited independently.

Some of the entities are spread across the county in remote areas where IFMIS is not accessible due to connectivity problems, for example, Health facilities which spent Kshs. 284,346,060, County Vocational Training Centers which spent Ksh. 101,397,000 and Early Childhood Development Education Centers which spent Kshs. 211,000,000.

Other transfers related to County Entities which prepare separate financial statements using IPSAS Accrual basis of accounting, that is, Kakamega Dairy Development Corporation (KDDC) which spent Kshs. 40,322,792.

Kakamega County Water and Sanitation Company (KACWASCO) which spent Ksh. 27,000,000 and Imarisha Afya ya Mama na Mtoto which spent Ksh. 36,562,482. These entities are semi-autonomous and thus report independently and are audited separately. Capturing their expenditures in IFMIS would amount to double reporting.

During the year under review, the County had not established and installed the Vote Book Management System (VBMS) which aids in capturing expenditures of funds transferred to other County Entities located in remote areas, for example, Village Polytechnics, Early Childhood Development Centers, Health Facilities and Sub County Treasuries. The Vote Book Management System was introduced by the National Treasury to enable capture expenditures of funds sent to the District Treasuries across the Country.

Kakamega County Treasury adopted the same to ensure expenditures for funds transferred to Sub County Treasuries and institutions located in Sub Counties were journalized and posted into the VBMS. The management was working with the National Treasury to interface the VBMS with the IFMIS system which would ensure the expenditures captured in the VBMS were uploaded into the prescribed financial management system.

Some of the semi-autonomous entities, that is, Kakamega County Water and Sanitation Company, Kakamega Dairy Development Corporation and Imarisha Afya Ya Mama Na Mtoto, report on IPSAS accrual basis thus the County Assembly could not pass journal entries to IFMIS system since they report separately and doing so would amount to double reporting.

The County Assembly had captured their expenditures into the IFMIS system and reported separately. Thus, there was no need to pass journal entries for funds transferred to it since it would amount to double reporting.

Thus, the accuracy and completeness of the financial statements for the period ended 30th June, 2020 was ascertained.

#### **Committee Observation**

The Committee noted that the County Executive had not submitted evidence supporting operating outside the prescribed financial management system and the subsequent failure to pass journal entries to capture the expenditure in the system and therefore reconcile the financial statements.

#### **Committee Recommendations**

**The Committee recommends that;**

- 1. The County CEO undertakes administrative action against the officer(s) responsible for failure to undertake reconciliation of financial statements within the stipulated timelines in accordance with Section 156**



- of the Public Finance Management Act, 2012 and submit a status report to the office of the Auditor General within 60 days of adoption of this report;
2. County CEO must ensure strict adherence to the Public Audit Act, 2015 by providing accurate and reliable bank reconciliation statements and bank certificates during the audit cycle and;

## **2.0 Misclassification of Expenditure**

The statement of receipts and payments reflects a total expenditure figure of Kshs. 12,667,723,059 relating to various expenditure items. Review of the expenditure schedules provided for audit revealed specific expenditures that were charged to wrong accounts leading to a haphazard grouping of expenditures amounting to Kshs.1,515,298,856 explained hereunder: -

- i. Included in the use of goods and services figure of Kshs.1,913,193,893 is an amount of Kshs.94,820,237 relating to compensation of employees, subsidies, grants, investment in non- financial assets, acquisition of assets and miscellaneous amount of Kshs.9,000,324 which was misclassified.
- ii. Included in the other grants and transfers figure of Kshs.1,824,247,635 is an amount of Kshs.831,004,432 relating to recurrent bank account, acquisition of assets, development bank account, use of goods & services and miscellaneous amount of Kshs.258,822,232 which was misclassified.
- iii. Included in the compensation of employees' figure of Kshs.4,395,102,410 is an amount of Kshs.44,167,342 relating to use of goods & services, grants and an adjustment of Kshs.8,191,282 which was misclassified.
- iv. Included in the acquisition of assets figure of Kshs. 3,490,481,041 is an amount of Kshs. 545,306,845 relating to use of goods & services, subsidies, grants Development Bank Account, Salary Deductions and miscellaneous amount of Kshs. 4,500,000 which was misclassified. Management did not provide explanations on what the miscellaneous amount were intended for.

Consequently, the accuracy, completeness and fair statement of the financial statement as at 30 June, 2020 could not be confirmed.

## **Management Response**

**Miscellaneous amount of Kshs. 9,000,324 under use of good services Figure of Kshs. 1,824,247,635.**

The management was not aware about this miscellaneous figure. The management requested the auditor to provide further information on this so that we can respond accurately. Miscellaneous amount of Kshs. 258,822,232 under Other Grants and Transfers Figure of Kshs. 1,824,247,635.



The management was not aware about this miscellaneous figure. The management requested the auditor to provide further information on this so that the County Executive respond accurately.

**Miscellaneous amount of Kshs. 8,191,282 under Compensation of Employees Figure of Kshs. 4,395,102,410.**

The management is not aware about this miscellaneous figure. The management requested the auditor to provide further information on this so that the County Executive can respond accurately. Miscellaneous amount of Kshs. 4,500,000 under Acquisition of Assets Figure of Kshs. 3,490,481,041.

**The Kshs. 4,500,000 was paid to the Kenya Animal Genetics Resources Centre for the supply and delivery of Semen for artificial insemination activities across the County.**

The amount was described as such in the books of accounts including the schedules provided to the auditor for audit verification and not as miscellaneous amount as indicated by the auditor.

Hence the accuracy, completeness and fair statement of the financial statements as at 30 June, 2020 is hereby confirmed.

**Committee Observation**

The Committee noted that the County Executive had not submitted reconciled statement on receipt and payments.

**Committee Recommendations**

The Committee recommends that;

1. The County CEO undertakes administrative action against officer(s) responsible for failure to undertake reconciliation of financial statements within the stipulated timelines in accordance with Section 156 of the Public Finance Management Act, 2012 and submit a status report to the office of the Auditor General within 60 days of adoption of this report; and
2. County CEO must ensure strict adherence to the Public Audit Act, 2015 by providing accurate and reliable bank reconciliation statements and bank certificates during the audit cycle and;
3. The Committee further recommends that the matter be marked as resolved.

**3.0 Inaccuracies in Cash and Bank Balances**

The statement of assets and liabilities and as disclosed under Note 12A to the financial statements reflected cash and cash equivalent balance of Kshs. 1,710,582,883 maintained in fifty-nine (59) bank accounts. Revenue of the bank account details revealed that seven (7) of the accounts were dormant with three (3) of the accounts having a Nil balance, the other three (3) having a balance of Kshs. 6,983,246 while the last account had a negative balance of Kshs.227,772.

Management did not provide explanations on the negative balance, why the accounts were not closed and remained dormant. Further, the bank reconciliation statements were not provided for audit verification.

Consequently, the accuracy, completeness of the cash and cash equivalents of Kshs. 1,710,582,883 as of 30 June 2020 could not be confirmed.

### **Management Response**

#### **Explanation on the Negative Balance of Kshs. 227,772 on Lumino Dam Water Project Account Number 1255191341 held at KCB Bank Kakamega Branch.**

The negative balance of Kshs. 227,772 on the above account was as a result of bank charges in the form of Letter of Credit commission and related importation taxes. The negative normalized later due to deposit of more funds on the project account to ensure continuity of the project.

#### **Explanation on why the seven accounts were not closed and remained dormant CGH Development Account No.01001088987000 held at the National Bank of Kenya – Kakamega Branch, Kshs.0.00 balance**

The account was maintained for expenditures related to the proposed renovation of the Kakamega County General Hospital. The account remained dormant because the project was completed. The management has closed the account as per the auditor's recommendation.

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#### **Shamakhubu Health Centre Account No.01141632398300 held at the Co-operative Bank of Kenya Ltd- Kakamega Branch Kshs. 1,255.75.**

The account was maintained for expenditures related to the proposed construction of Shamakhubu Health Centre in Shinyalu Sub County. The account remained dormant at the time of audit since the project was yet to be completed. The management initiated the process of closing the account and any further expenditures on the project shall be cleared through the Central Bank of Kenya (CBK) Development Account.

#### **Farm Mechanization Account No.01141632689500 held at the Co-operative Bank of Kenya Ltd – Kakamega Branch Kshs.0.00 balance.**

The account was erroneously captured under Note 12A to the financial statements page 31-Bank Balances as belonging to Farm Mechanization. The account number 01141632689500 is for Farm Inputs Account maintained at the Co-operative Bank Kakamega branch as it was captured correctly under Note 12A to the financial statements page 30 and not for Farm Mechanization. County Executive did not affect the cash and cash equivalents position since it had a nil balance.

#### **10 Km Ward Development Project Account No.1178747425 held at the KCB Bank Kakamega Branch Kshs.0.00 balance.**

The account was maintained for implementation of ward-based development projects, particularly maintenance of 10 kilometers of roads in each ward. Due to implementation challenges of this project, the management decided to suspend the program and issued



instructions to the Branch manager KCB Bank Kakamega to close the account on 17 July, 2018.

**Mumias West Hospital Development Account No.1182466079 held at the KCB Bank-Kakamega – Branch Kshs. 1,982,591.35 balance**

The account was maintained for the proposed construction of Mumias West Level 4 Hospital. The account remained dormant due to funding issues and the need to manage all the projects centrally at the County Treasury.

The management had closed the account and any subsequent expenditures were cleared at the Central County Treasury.

**Sugar Development Fund Account No.01141631142100 held at the Co-operative Bank of Kenya Ltd – Kakamega Branch Kshs. 4,999,400**

The account was maintained for the purpose of lending funds to Mumias Sugar Company with an aim of reducing the debt owed to its farmers for sugarcane delivered to the company since Mumias was highly indebted and could not settle farmer's dues on time as expected. The account remained dormant as a result of a cabinet decision to wound up the fund once the contract between Mumias Sugar Company and the County came to the end on 15th August 2015. The management was yet to close the account because Mumias Sugar Company was yet to refund Kshs. 38,506,881.80 from the Kshs. 197,506,881.80 that was advanced. Kshs. 159,000,000 principal amount had since been refunded.

**Lumino Dam Water Project Development Account No. 1255191341 held at the KCB Bank- Kakamega Branch Kshs. (227,772) balance.**

The account was maintained for importation of a containerized water system for Lumino Dam Water Project. The account was not dormant but remained operational until June 2022 when the balance in the account was swept to the County CRF account held at the Central Bank of Kenya. The management had since closed the account and any subsequent expenditures on the project would be cleared at the Central County Treasury.

Explanation on why the Bank Reconciliations related to the seven accounts were not provided for audit verification. Some of the bank reconciliations related to the above accounts were done and were available for a further audit verification while others were closed earlier than the period under review.

**Committee Observations**

The Committee noted that:-

- 1) the County Executive had not provided bank reconciliation statements to the Auditor General at the time of audit;
- 2) there was a need to carry out a special audit on the Sugar development fund in Kakamega;
- 3) there was loss of public funds and the reported value might not be correct;
- 4) the Sugar development fund was not developed in line with the provisions of the PFM Act, 2012 and its regulations;



- 5) Commercial banks in violation with Section 82 of the PFM Act, 2012 (County Government Regulations), thus cannot be audited by OAG.

#### **Committee Recommendations**

**The Committee recommends that:-**

- 1) the Auditor General conducts a special audit on the Sugar Development Fund and provide a status update to the Senate within 90 days of adoption of this report;
- 2) the County Executive submit to the Auditor General a report on the Sugar Development Fund outlining the following to facilitate seamless audit; legal framework within which it was established, approvals by the Kakamega County Assembly and budgets supporting the expenditure, the details of the company-Mumias Distributors Ltd, CR12-ascertaining ownership, how Mumias Distributors Ltd was procured, amounts alleged to have been received by Kakamega county, accounts the money was deposited in, how they were treated in the financial statements, details of farmers who were paid, number of bags of sugar that Mumias Distributors Ltd. Received and the agreement signed between the county and Mumias Distributors Ltd within 60 days of adoption of this Report;
- 3) The County CEO undertakes administrative action against the accounting officer, the Chief Officer Finance, the Head of County Treasury and any other officer(s) responsible for failure to undertake reconciliation of financial statements within the stipulated timelines and submit a report to the Office of Auditor General within 60 days of adoption of this report;
- 4) The Institute of Certified Public Accountants (ICPAK) takes action(s) against the Head of Treasury for misrepresentation of financial statements which constitutes professional misconduct pursuant to Section 8 (a) and 30 of the Accountants Act CAP 531 and reports to the Office of Auditor General within 60 days of adoption of this report.

#### **4.0 Inaccuracies in County Own Generated Receipts**

The statement of receipts and payments and disclosed under note 4 to the financial statements is an amount of Kshs.1,180,228,345 relating to County own generated receipts. The following anomalies were noted during the audit: -

##### **4.1 Income from Liquor Licenses**

Disclosed under Note 4 to the financial statements is revenue of Kshs. 16,915,000 collected from liquor licensing. The Kakamega County Alcoholic Drinks Control Fund financial statements provided for review reported a total collection figure of Kshs. 15,556,710 while the bank statements reflected an amount of Kshs. 16,211,310.

The variances had not been reconciled or explained at the time of the audit.

#### **Management Response**

**Variance of Kshs. 1,358,290 between note 4 of the Financial Statements figure of Kshs. 16,915,000 and Alcoholic Drinks Fund Financial Statements of Kshs. 15,556,710.**

The variance above was as a result of the Alcoholic Drinks Fund not including the cashless collections in their books totaling Kshs. 1,364,240 while the revenue agency included this amount in their revenue report since they were the host of the cashless system. On the other hand, the Alcoholic Drinks Fund factored bank charges totaling Kshs. 5,950 in what was reported in the fund financial statements, while the revenue agency did not capture the same in their report. The net variance of Kshs. 1,358,290 (i.e. Ksh. 1,364,240-Kshs. 5,950) was hereby explained.

Variance between note 4 of the Financial Statements figure of Kshs. 16,915,000 and the Bank Statements figure of Kshs. 16,211,310.

#### **Committee Observation**

The Committee noted that the matter was outstanding as the variances in the Kakamega County Alcoholic Drinks Control Fund financial statements provided for review had not been reconciled.

#### **Committee Recommendations**

**The Committee recommends that;**

- 1. The County CEO undertakes administrative action against the officer(s) responsible for failure to undertake reconciliation of financial statements within the stipulated timelines in accordance with section 156 of the Public Finance Management Act, 2012 and submit a report to the Office of Auditor General within 60 days of adoption of this report;**
- 2. The County CEO undertakes administrative action against the accounting officer, the Chief Officer Finance, the Head of County Treasury and any other officer(s) responsible for failure to undertake reconciliation of financial statements within the stipulated timelines and submit a report to the Office of Auditor General within 60 days of adoption of this report;**
- 3. The Institute of Certified Public Accountants (ICPAK) takes action(s) against the Head of Treasury for misrepresentation of financial statements which constitutes professional misconduct pursuant to Section 8 (a) and 30 of the Accountants Act CAP 531 and reports to the Office of Auditor General within 60 days of adoption of this report;**
- 4. County CEO must ensure strict adherence to the Regulation (62) of the Public Audit Act, 2015 by providing accurate and reliable bank reconciliation statements and bank certificates during the audit cycle, and the management emphasize on capacity building of the staff in the accounting departments.**

#### **4.2 Other Local Receipts**

Disclosed under Note 4 to the financial statements is Kshs. 44,997,833 relating to Other Local Receipts. A review of supporting schedules provided, reflected a total of Kshs. 41,109,992 resulting to an unexplained and unreconciled variance of Kshs. 3,887,841.



**Management Response**

The variance of Kshs. 3,887,841 was caused by a few revenue sources which had not been captured on the original schedule provided to the auditors at the commencement of the audit. These revenue streams included Land transfer fees, Burial Fees, Registration of Groups, Fire Compliance, Noise Control, Bukhungu Stadium Hire, Weights and measures. The final schedule was adjusted while amending the final set of financial statements and availed to the auditors.

**Committee Observation**

The Committee noted that the matter has since been addressed.

**Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

**4.3 Public Health Services**

Disclosed under Note 4 to the financial statements is Kshs. 234,793,412 in respect of revenue from Public Health Services. This was at variance with the schedules received from the Hospitals which reflected an amount of Kshs. 216,431,64 and the subsequent list provided in response to the audit query raised during the audit which reflected Kshs.218,548,945. The variances had not been reconciled or explained at the time of the audit.

**Management Response**

Clarification on the composition of Kshs. 234,793,412 being revenue from Public Health Services Note 4 to the financial statements indicated that the County collected a total of Kshs. 234,793,412 from Public Health Services. We wish to clarify that the description of Public Health Services as used in Note 4 to the financial statements includes hospital user fees of Kshs. 218,548,945 and public health services fees of Kshs. 16,244,467. This figure excludes hospital user fees collected through the National Insurance Fund (NHIF).

Variance of Kshs. 18,361,772 between Note 4 to the Financial Statements figure of Kshs. 234,793,412 and the original Schedule provided to the auditors of Kshs. 216,431,640.

The variance of Kshs. 18,361,772 comprised of Kshs. 16,244,467 being revenue generated from public health services and Kshs. 2,117,305 being part of the user fee revenues generated from the Kakamega General Hospital which had not been captured on the original schedule provided to auditors. This was adjusted on the final schedule provided.

Variance of Kshs. 16,244,467 between Note 4 to the Financial Statements figure of Kshs. 234,793,412 and the second Schedule provided of Kshs. 218,548,945.

The variance of Kshs. 16,244,467 was as a result of revenue generated from public health services. This schedule was provided to the auditors though they did not factor it in their audit review and only considered the schedule of Kshs. 218,548,945 being



revenues generated from hospital user fees.

**Committee Observation**

The Committee noted that the matter has since been addressed.

**Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

**4.4 Unsupported National Hospital Insurance Fund (NHIF)**

Disclosed under Note 4 to the financial statements is revenue figure of Kshs.285,926,691 collected through NHIF arrangement where the total claims from each health facility is processed and later reimbursement and channeled through individual health facility bank accounts. However, the record provided indicated a block figure of Kshs. 285,926,691. Management did not provide a breakdown on how the amount was collected for audit review.

**Management Response**

The breakdown on how the NHIF amount was collected by various health facilities was in place and still available for a further audit review.

**Committee Observation**

The Committee noted that the matter has since been addressed.

**Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

**4.5 Unreconciled Farm Input Revenue Figures**

Disclosed under Note 4 to the financial statements is farm input revenue of Kshs. 316,393,600. Review of the farm office records indicated an amount of Kshs.275,238,350 which was at variance with the records provided by the County Revenue Officer of Kshs.314,642,850. The variances had not been reconciled or explained at the time of the audit.

In addition, the following unsatisfactory matters were noted;

- (i) A random inspection on license status for liquor outlets within the Kakamega CBD revealed that eight (8) outlets were operating on expired license, depriving the Executive of revenue amounting to Kshs. 364,200.
- (ii) 225 liquor outlets had not paid their annual fee licenses while 12 others did not have a clear payment status. Although the County Executive explained that the failure to collect revenue was due to a petition by traders for a fresh consideration of the invoiced amounts since they had closed for more than six months as a result of Covid-19, no evidence was provided for audit review on the resolution of the petition as per Section 64(3) of the Public Finance Management (County Government) Regulations, 2015.

(iii) No quarterly reports showing statement of arrears of revenue and reasons for material differences between the approved estimates and the actual revenue collected were provided to support the amount collected contrary to Section 64 of Public Finance Management (County Government) Regulations, 2015. Consequently, accuracy and completeness of the county own generated receipts figure of Kshs.1,180,228,345 as at 30 June, 2020 could not be confirmed.

#### **Management Response**

**Variance of Kshs.41,155,250 between Note 4 to the Financial Statements figure of Kshs.316,393,600 and the Farm Office Records figure of Kshs.275,238,350.**

The above variance arose as a result of the farm office records omitting the revenue that had been realized from sale of outstanding quantities of farm inputs, that's planting, top dressing fertilizers and maize seeds that had been procured in the prior FY 2018/2019.

The original schedule provided to the auditors of Kshs. 275,238,350 captured only revenue realized from farm inputs that had been procured in the current year under review. At the recommendation of the auditor at the management letter level, the original schedule was adjusted with the omitted revenue to what was now captured in the amended financial statements of Kshs. 316,393,600 as total revenue collected from farm inputs.

**Variance of Kshs. 1,750,750 between Note 4 to the Financial Statements of Kshs. 316,393,600 and the County Revenue Office figure of Kshs. 314,642,850**

The variance above was as a result of farm mechanization revenue which the auditor did not factor while reviewing the financial statements. The auditor only reviewed the schedule of Kshs. 314,642,850 which was revenues received from farm inputs only, that is, sale of fertilizer and maize seeds.

**Eight (8) liquor outlets within Kakamega CBD operating on expired license depriving the County Executive a revenue of Kshs. 364,200.**

Towards the end of the year 2019, the deadly Corona virus hit the Kenyan territory. At the beginning of the year 2020, the National Government declared Corona a national disaster and invoked the Public Health measures for prevention, control and spread of COVID 19. Subsequently, alcoholic drinks outlets all over the country were closed between 15th March and 28th September 2020.

The audit exercise was done immediately after the president had temporarily lifted the ban. There was a likelihood of some trader's licenses having expired during the closure period since no much government business was going on at the time to renew or enforce compliance during this difficult period. The government encouraged officers to work from home. The management followed up and renewed the licenses of the eight (8) outlets.

**No evidence provided for audit review on the resolution on the petition**



**submitted by 225 liquor traders pleading for a reduction (waiver) in the invoiced amount.**

After the devastating effects of the Covid-19 pandemic on businesses and homes, the said traders petitioned the County Government to consider a reduction in the invoiced amounts since they had been off business for some time.

The County Government was hesitant to consider this petition because any reduction or waiver of the invoiced amount was not provided for in the Kakamega County Alcoholic Drinks Control Act, 2014. Any action towards this meant that an amendment had to be done on the act and subjected to public participation and County Assembly approval, which processes were not feasible and if feasible would have taken a long time given the current prevailing circumstances at that time. This is why there was no evidence of the resolution of this petition.

**No quarterly reports showing statement of revenue arrears submitted to the auditor for review contrary to section 64 of the PFM (CG) Regulations, 2015.**

The general provisions of the quoted section of law provides that an accounting officer or receiver of revenue shall keep books of accounts related to revenue collection in the county. These books which include, revenue reports, revenue control sheets, revenue receipt books, revenue cash books and bank statements etc., were kept and the annual revenue reports being a consolidation of the quarterly revenue reports were provided to the auditor at the time of the audit.

The statement of revenue arrears particularly on land rates was in place and still available for a further audit verification. Therefore, the county government was not in contravention of the stated section of the law.

**Reasons for material differences between the approved own source revenue estimates and actual own source revenue collection**

The county estimated to collect Kshs. 1,666,143,695 in the year under review. On actual comparison, the county collected Kshs. 1,180,228,345 leading to an under performance of Kshs. 485,915,350. The main reason for the under collection was the effects of the Covid 19 pandemic that left most businesses and government offices closed. Nevertheless, the county recorded an improvement of 18.1% in own source revenue collection as compared to Kshs. 999,827,089 collected in the prior year. Consequently, the accuracy and completeness of the own source revenue generated figure of Kshs. 1,180,228,345 as reported in the financial statements is hereby confirmed.

#### **Committee Observations**

The Committee noted that the County Executive had not done reconciliation of the financial statements during the audit cycle.

#### **Committee Recommendations**

**The Committee recommends that;**

- 1. The County CEO undertakes administrative action against officer(s) responsible for failure to undertake reconciliation of financial**



statements within the stipulated timelines in accordance with section 156 of the Public Finance Management Act, 2012 and submit a report to the Office of the Auditor General within 60 days of adoption of this report;

2. County CEO must ensure strict adherence to the Public Audit Act, 2015 by providing accurate and reliable bank reconciliation statements and bank certificates during the audit cycle and ;
3. The Committee further recommends that the matter be marked as resolved.

### **5.0 Compensation to Employees**

The statement of receipts and payments and as disclosed under Note 5 to the financial statements reflects an expenditure of Kshs. 4,395,102,410 in respect of compensation of employees. Review of IFMIS ledgers presented for audit reflected a figure of Kshs. 4,374,092,440 resulting to a variance of Kshs. 21,009,970. Further, the payroll schedules reflected an amount of Kshs. 4,531,981,752 resulting to a variance of Kshs. 136,879,342 which has not been reconciled or explained. Consequently, the accuracy and completeness of the Kshs. 4,395,102,410 in respect of compensation of employees as at 30 June, 2020 could not be confirmed.

#### **Management Response**

The Variance of Kshs.21,009,970 between Note 5 to the Financial Statements figure of Kshs.4,395,102,410 and the IFMIS Ledger figure of Kshs.4,374,092,440.

The variance above arose as result of manual salary payments done outside IFMIS and which had not been captured in the system at the time of audit. A journal entry was passed and the salaries posted in IFMIS Ledger.

Variance of Kshs.136,879,342 between Note 5 to the Financial Statements figure of Kshs.4,395,410 and the Payroll Schedules figure of Kshs.4,531,981,752 .

The variance above represented unpaid staff salary deductions as at the closure of the financial year 2019/2020. Since the County Government prepares its accounts on cash basis of accounting, the unpaid salary deductions could not be captured in the financial statements as an expenditure in the year under review. These deductions were paid in quarter one of the subsequent Financial Year 2020/2021.

Consequently, the accuracy and completeness of the Kshs. 4,395,102,410 in respect of compensation of employees as at 30 June, 2020 is hereby confirmed.

#### **Committee Observation**

The Committee noted that the County Executive provided reconciled financial statements after the audit.

#### **Committee Recommendations**

The Committee further recommends that the matter be marked as resolved.

### **6.0 Inaccuracies in Use of Goods and Services**

The statement of receipts and payments and as disclosed under Note 6 to the

financial statements reflects Kshs. 1,913,193,893 in respect use of goods and services. However, the expenditure differs with what is captured in the IFMIS of Kshs. 1,734,770,184 by Kshs. 178,423,709 that was explained to be expenditure incurred outside IFMIS but reasons for this were not given.

#### **6.1 Specialized Materials and Services**

Included in the use of goods and services amount of Kshs. 1,913,193,893 is Kshs. 364,178,102 relating to the procurement of specialized materials and supplies. This was at variance with the supporting schedules provided for audit which reflected an amount of Kshs. 370,018,502 resulting in a variance of Kshs. 21,947,491 which was not reconciled or explained.

#### **Management Response**

The correct variance between the specialized materials and supplies figure of Kshs.364,178,102 and the original schedule provided figure of Kshs.370,018,502 is Kshs.5,840,400 and not Kshs.21,947,491 as reported by the auditor. The variance arose as a result of including the items listed in the table below on the original schedule of Kshs. 370,018,502 for Specialized Materials and Supplies. This was corrected at the point of amending the final financial statements by reclassifying the expenditures into their respective expenditure schedules. The original schedule of Kshs. 370,018,502 on specialized materials and supplies was revised downwards to Kshs.364,178,102 as reflected in the financial statements.

<b>Code</b>	<b>Description</b>	<b>Amount (Kshs.)</b>
3111302	Supply of animal semen	4,500,000.00
2640599	Supply of vaccines	308,000.00
2520199	Field Machinery Inspection	129,100.00
2211006	Supply and delivery of working tools	897,062.05
<u>2211006</u>	Supply and delivery of Building Materials	6,237.95
Total		5,840,400.00

#### **Committee Observation**

The Committee noted that the County Executive provided reconciled financial statements after the audit.

#### **Committee Recommendation**

**The Committee further recommends that the matter be marked as resolved.**

#### **6.2 Domestic Travel and Subsistence**

Included in the use of goods and services amount of Kshs. 1,913,193,893 is an



amount of Kshs. 301,058,609 in respect of domestic travel and subsistence. Review of the expenditure revealed that an amount of Kshs. 9,506,938 was misclassified as domestic travel and subsistence. Further, a review of the supporting schedules revealed that an amount of Kshs. 85,632,158 was paid outside the IFMIS system which is the recommended system of government financial management as prescribed by law.

#### **Management Response**

Misclassification of Kshs. 9,506,938 as domestic travel and subsistence from the Domestic travel and subsistence expenditure of Kshs. 301,058,609

There was no misclassification of the above expenditure since the two relate to one and the same thing, i.e., Domestic Travel and Subsistence.

Domestic travel and subsistence expenditure of Kshs. 85,632,158 reported outside the recommended system of government financial management.

The variance of Kshs. 85,632,158 relates to Domestic Travel and Subsistence expenditure incurred by the county institutions spread across the county, that's health facilities, vocational training centers and early childhood development education centers as explained in query 1.0. The reason why this expenditure was incurred outside IFMIS was well explained under management response to query 1.0 and query 6.0 above.

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#### **Committee Observation**

The Committee noted that the management had not made all payments through the IFMIS system.

#### **Committee Recommendation**

**The Committee recommends that the Management should ensure that all payments are captured in IFMIS and provide a status report within 60 days after adoption of this report.**

#### **6.3 Hospitality, Supplies and Services and Fuel, Oil and Lubricants**

Included in the use of goods and services figure of Kshs.1,913,193,893 is an amount of Kshs.314,455,965 in respect of hospitality, supplies and services and Kshs.37,073,729 incurred on fuel, oil and lubricants. However, payment records for expenditure totaling Kshs. 12,116,162 were not provided for audit review.

#### **Management Response**

The management was unable to adequately respond to this query since the auditor did not provide a schedule or breakdown of the Kshs. 12,116,162 to facilitate retrieval of the payment records. The management is still waiting for a response from the regional hub audit office.

#### **Committee Observation**

The Committee noted that the County Executive did not provide payment records for expenditure at the time of audit.



#### **Committee Recommendation**

The Committee recommends that the accounting officer takes administrative actions against the responsible officers in the accounting department for failure to keep and provide records for the expenditure in accordance with section 156 of the Public Finance Management Act, 2012 and provide a status update to the Office of the Auditor General within 60 days of adoption of this report.

#### **6.4 Over-Statement of Other Operating Expenses**

Included under use of goods and services figure of Kshs1,913,193,893 is an amount of Kshs.289,097,122 for other operating expenses which does not agree with the supporting schedule totaling Kshs. 286,880,447 by Kshs.2,216,675.

Consequently, the accuracy, completeness and recording of the expenditure of Kshs. 1,913,193,893 incurred on use of goods and services as 30 June, 2020 could not be confirmed.

#### **Management Response**

The difference of Kshs. 2,216,675 relates to expenditures incurred on contracted guards and cleaning services of Kshs. 1,827,431 and on Legal Fees of Kshs. 389,244 which were previously captured under "Compensation of Employees". The reclassification was done pursuant to the recommendation made by the auditor in the management letter.

#### **Committee Observation**

The Committee noted that the matter has since been addressed.

#### **Committee Recommendation**

The Committee recommends that the matter be marked as resolved.

#### **7.0 Transfer to Other Government Entities - The Kakamega County Urban Water and Sewerage**

The statement of receipts and payments reflect transfers to other government entities figure of Kshs. 1,044,698,080. Included in this amount is Kshs. 27,000,000 transferred to Kakamega County Urban Water and Sewerage Company (KACWASCO). However, the following anomalies were noted;

- i. The amount was not in the budget of the County Executive.
- ii. Review of receipt by the Kakamega County Urban Water and Sewerage Company revealed that the Company received Kshs. 12,000,000. The balance of Kshs. 15,000,000 was deposited in a separate bank account whose details were not provided for audit review.

#### **Management Response**

Amount of Kshs. 27,000,000 was not in the Budget of the County Executive  
The Department of Water, Environment and Natural Resources had a budget of Kshs. 51,000,000 as per the last approved supplementary budget which was earmarked for transfer to the Water Companies. Details of the separate Bank Account where the Kshs. 15,000,000 was transferred were attached.

The Kshs. 15,000,000 was deposited in the Kakamega County Water and Sanitation Revenue Account No.1251924468 held at the KCB Bank Kakamega Branch. The funds were meant for operations to support operations at the water entity due to the effects of Covid-19 pandemic on its customers.

#### **Committee Observation**

The Committee observed that;

- a) There was possible loss of public funds, totaling to Kshs. 15,000,000.
- b) the County Executive did not submit relevant documents to the Auditor General at the time of audit exercise contrary to the Section 62 of the Public Audit Act, 2015.

#### **Committee Recommendation**

The Committee recommends that:-

- 1) The County CEO undertakes administrative action against the responsible officer(s) who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report; and
- 2) the EACC cause an investigation into the possible loss of public funds amounting to Kshs. 15,000,000 was deposited in a separate bank account whose details were not provided for audit review.

#### **8.0 Other Grants and Transfers**

The statement of receipts and payments and as disclosed under Note 8 to the financial statements reflects other grants and transfers figure of Kshs. 1,824,247,635. This was at variance with the IFMIS amount of Kshs. 1,572,916,769 resulting to an unexplained and unreconciled variance of Kshs. 251,330,866. Further, the following anomalies were noted:

- i. Included in the other grants and transfers figure of Kshs. 1,824,247,635 is an amount of Kshs. 653,309,155 in respect of scholarships and other educational benefits. However, audit review revealed that expenditure amounting to Kshs. 434,808,022 was misclassified as scholarships disbursement.
- ii. The County Executive made a payment of Kshs. 1,000,000 to West Pokot County as an emergency donation for an undisclosed occurrence. The payment voucher and supporting documentation for expenditure was not provided for audit verification.
- iii. Included in other grants and transfers is an amount of Kshs. 56,181,659 indicated as transfers to retention account. However, no additional information was provided to show what the transfer relates to and why retention money is a payment.
- iv. Included in the figure for rental of produced assets of Kshs. 130,979,137 is an amount of Kshs.43,482,335 paid for lease of two properties which was at variance with the expected amount of Kshs.38,168,312 resulting in an unexplained and unreconciled variance of Kshs.5,314,023.



- v. The transfers and other grants balance of Kshs.1,824,247,635 include transfers to Linda Afya ya Mama na Mtoto amount of Kshs.36,190,682. However, information available indicates that an amount of Kshs. 60,000,000 was transferred to the Fund resulting in an unexplained and unreconciled variance of Kshs. 23,809,318.
- vi. The grants and other transfers include Kenya Devolution Support Programme (KDSP) expenses of Kshs.144,399,886, Kenya climate smart agricultural expenses of Kshs.65,520,351 and special purpose universal care expenses amount of Kshs.85,418,753 for which no documentation was provided on what the transfers were for and how the funds were utilized.

Consequently, the accuracy and completeness of the expenditure on other grants and transfers amount of Kshs. 1,824,247,635 could not be confirmed as at 30 June, 2020.

#### **Management Response**

Variance of Kshs. 251,330,866 between Note 8 to the Financial Statements figure of Kshs. 1,824,247,635 and the IFMIS Ledger figure of 1,572,916,769 on Other Grants and Transfers. The IFMIS amount of Kshs. 1,572,916,769 reflected by the auditor in this query differs with the IFMIS amount of Kshs. 2,520,039,929 he reflected in query 1.0. Therefore, we cannot authenticate the accuracy of the variance of Kshs. 251,330,866 stated in this query which differs significantly with the variance of Kshs. 695,792,294 reflected in query 1.0 and to which we have responded to.

Concerning the misclassification of Kshs.434,808,022 as scholarship disbursements, the management stated that the amount was classified under other grants and transfers basing on the budget classification and the chart of accounts which classifies the expenditures incurred under the economic classification – “Other Transfers and Emergency Relief” overall class 2640000. The expenditure was mostly incurred on bursaries, provision of educational benefits to our vocational training centers and ECDE centers like furniture, tools and equipment, capacity building, and fee capitation through village polytechnic grant from the National Government ministry of Education, Science and Technology. Therefore, the expenditure was not misclassified. The undisclosed occurrence, payment voucher and supporting documentation for the Payment of Kshs. 1,000,000 to West Pokot County was attached.

The tentative information the management had on the above payment is that it was meant to support the landslide affected families in West Pokot County, whose position will be confirmed once the management gets the transaction documents which were misplaced during the audit exercise. The management had a bank statement showing the funds were paid to West Pokot Emergency Fund Account on 02/12/2019 and have written to the Manager, Co-operative Bank Kakamega Branch and West Pokot County to supply the management with more information.

Concerning what the retention money transfer of Kshs. 56,181,659 relates to, and why



retention money is a payment, the management clarified that during the year under review, the National Treasury had numerous challenges in resource mobilization and subsequent failure or delays in exchequer disbursement to counties due to the Covid 19 pandemic. The County was also unable to mobilize enough own source revenues as a result of most businesses closing down to mitigate spread of the Corona virus. Due to this, the County had to transfer some funds from the retention account to solve urgent and pressing operational needs. In the year under review, the County transferred a total of Kshs. 275,552,201. During the previous year, a balance of Kshs. 85,981,691.47 was yet to be refunded back bringing a total of Kshs. 361,533,892.47 owed to the retention account. In the same year, the management transferred a total of Kshs. 417,715,551 back to the retention account resulting in an excess transfer of the Kshs. 56,181,659 above.

The management asserted that the unexplained and unreconciled variance of Kshs.5,314,023 between the actual amount of Kshs.43,482,335 spent on lease of two properties and the expected amount of Kshs.38,168,312, was as a result of the original lease agreements providing for the quarterly lease rentals exclusive of VAT. The interpretation here then was that the County was to compute the VAT component and add to the net lease rentals as had been captured in the lease agreement. After the audit recommendation, the subsequent lease agreements were revised to include VAT component on the lease rentals.

Concerning the Unexplained and unreconciled variance of Kshs.23,809,318 between the actual expenditure of Kshs.36,190,682 and the amount transferred to Imarisha Afya ya Mama na Mtoto Programme of Kshs. 60,000,000, the management stated that Imarisha Afya ya Mama na Mtoto is a semi-autonomous County Entity funded by the Ministry of Health through the County Treasury. At the beginning of the FY 2019/2020, the entity had an opening cash book balance of Kshs. 21,820,140 and received transfers of Kshs. 60,000,000 from the ministry of Health budget. A total of Kshs 81,820,140 was therefore available for the Agency to use during the year. Out of this total the entity incurred expenses worth Kshs. 36,190,682 as captured in the Financial Statements leaving a reconciled cash book closing balance of Kshs. 45,602,808. Therefore, the variance of Kshs. 23,809,318 was unspent cash at the closure of the financial year under review and was included in the cash book closing balance of Kshs. 45,629,458.

No documents provided on transfers to Kenya Devolution Support Programme (KDSP) Kshs. 144,399,886, Kenya Climate Smart Agricultural Project Kshs. 65,520,351 and Universal Health Care Project Kshs. 85,418,753 and how the funds were utilized. Funds transfer documents not availed. The transfer documents of the above stated conditional grants were in place at the time of audit and still available for a further audit verification.

On how the funds were utilized, the management stated that the Kenya Devolution Support programme (KDSP) is a conditional world bank funded project which caters for capacity building at Level 1 and project development at Level 2. The Kshs. 144,399,886 was utilized on Level 1 capacity building and Level 2 Water Projects

development as was supported by the expenditure schedules provided to the auditors.

Concerning the Kenya Climate Smart Agriculture project, the management clarified that the project is a conditional World Bank funded Programme. The expenditure of Kshs. 65,520,351 was for project coordination, grants to communities and building technical/institutional capacity. The amount was supported by an expenditure schedule which was provided to the auditors and is still available for a further audit review.

The management also stated that the Universal Health Care grant is a conditional World Bank funded Programme. The expenditure of Kshs. 85,418,753 incurred under this grant was spent on universal health coverage which ensured that all citizens in the County accessed quality health services to safeguard them from public health risks. The expenditure schedule of Kshs. 85,418,753 was provided during the audit and is still available for a further audit review.

#### **Committee Observation**

The committee observed that the matter was addressed and documents submitted for the committee review.

#### **Committee Recommendation**

**The committee recommends that the matter be marked as resolved.**

#### **9.0 Inaccuracies in Acquisition of Assets**

The statement of receipts and payments reflects expenditure on acquisition of assets amount of Kshs.3,490,481,041, This was at variance with the IFMIS amount of Kshs.2,360,816,884 and the schedules amount of Kshs.3,485,981,041 provided to support the amount resulting in unexplained and unreconciled variances of Kshs1,129,664,157 and Kshs.4,500,000 respectively.

In addition, the expenditure on acquisition of assets included an expenditure of Kshs. 10,381,600 in respect of research, feasibility studies, project preparation & design, and project supervision. This was at variance with the supporting schedules provided for audit which reflected an amount of Kshs. 40,265,295

Consequently, the accuracy and completeness of the expenditure on acquisition of assets amount of Kshs. 3,490,481,041 as at 30 June, 2020 could not be ascertained.

#### **Management Response**

The variance of Kshs. 1,129,664,157 relates to acquisition of assets expenditure incurred by the county institutions spread across the county, that's health facilities, vocational training centers and early childhood development education centres as explained in query 1.0. The reason why this expenditure was incurred outside IFMIS was well explained above.

The variance of Kshs. 4,500,000 was an amount spent on supply and delivery of animal semen for artificial insemination activities across the county and which had



originally been classified under specialized materials and services – use of goods and services. Upon recommendation by the auditor at the management level, the same was classified under Acquisition of strategic stocks and commodities – Acquisition of Assets. This meant that the original schedule of Kshs. 3,485,981,041 provided to the auditors on acquisition of assets had to be adjusted by incorporating this expenditure. Refer also to query 2.0 (iv) above.

The variance of Kshs. 29,883,695 was as a result of including allowances related to board committees, seminars and conferences on the original schedule of research, feasibility studies, project preparation, design and supervision of Kshs. 40,265,295. Upon recommendation by the auditors at the management letter level, the final schedule was adjusted to Kshs. 10,381,600 with the variance moved to the schedule of Board committees, seminars and conferences.

#### **Committee Observation**

The Committee noted that the expenditure on acquisition of assets had a variance of Kshs. 40,265,295. The variance was however explained satisfactorily.

#### **Committee Recommendations**

**The Committee recommends that the matter be marked as resolved.**

#### **10.0 Unsupported Accounts Receivable- Outstanding Imprest**

The statement of assets and liabilities and as disclosed under Note 13 to the financial statements reflects outstanding imprest balance of Kshs. 31,786,077 as at 30 June, 2020.

However, the imprest register was not provided for audit verification.

In the circumstances, the accuracy and completeness of the outstanding imprest balance of Ksh. 31,786,077 could not be confirmed.

#### **Management Response**

The imprest register was in place at the time of audit and still available for a further audit review. Out of the Kshs.31,786,077, Kshs.18,411,445 relate to staff who have left the service of the county, Kshs.11,777,066 who are still in service and Kshs.1,597,566 had been surrendered. The new management has now put in place the following measures to address this emotive area of imprest management:

- i. Follow up with payroll office on the status of staff who owe the county and are no longer in service.
- ii. Follow up with the payroll office on status of recovery of the long outstanding imprest.
- iii. Write off any loss in line with section 150 of the PFM Act 2012 where all options deem impossible to recover due to demise of staff.
- iv. Ensure proper management of imprest currently in line with paragraphs 91 to 94 of the Public Finance Management (County Governments) Regulations, 2015.

#### **Committee Observation**



The Committee noted that the county executive had weak internal controls in terms of management of imprest.

#### **Committee Recommendation**

**The Committee recommends that:-**

- 1) the Accounting Officer(s) recover the outstanding imprests with interest as per provisions Regulation 93 (6) of the Public Finance Management (County Governments) Regulations, 2015; and**
- 2) sanction and surcharge of Accounting Officers who fail to recover outstanding imprests in line with Regulation 93(7) of the PFM (County Government) Regulations, 2015.**

#### **11.0 Unsupported Accounts Payable**

The statement of assets and liabilities reflects a balance of Kshs. 316,041,196 in respect of deposits and retention monies. Management made withdrawals and transfers of funds from the account to other accounts for other operational expenditure amounting to Kshs. 225,384,566.

However, supporting analysis and documentation of the deposits and retention monies together with the supporting documents for the withdrawals was not provided for audit.

Consequently, the accuracy and completeness of the deposits and retention monies balance of Ksh. 316,041,096 reflected in the financial statements as at 30 June, 2020 could not be confirmed.

#### **Management Response**

The Kshs. 225,384,566 was part of the Kshs. 275,552,201 transferred from the deposit retention account to solve urgent financial needs especially when there was a delay by the National Treasury in releasing of equitable share to Counties. During this year, the National Treasury had numerous challenges in resource mobilization and subsequent disbursement to counties due to the Covid 19 pandemic.

The County was also unable to mobilize enough own source revenues as a result of most businesses closing down to mitigate spread of the Coronavirus. Due to this, the County had to transfer some funds from the retention account. The management refunded the entire amount in question to the retention account before the closure of the financial year under review. Analysis schedule of the amount and supporting withdrawal instructions were in place and still available for further audit verification.

#### **Committee Observation**

The committee noted that the borrowing was irregular unless there was a confirmation of approval by the County Assembly which has that power in the Public Finance Management (PFM) Act, 2012.

#### **Committee Recommendations**

**The committee however recommends that the matter be marked as resolved.**

## **Other Matter**

### **1.0 Failure to Submit Financial Statements for Audit**

The County Executive transferred Kshs. 468,344,081 to the Kakamega County Sugar Fund, the Investment and Development Corporation, Kakamega County Emergency Fund, Farm Inputs Fund and the Kakamega County Youth and Sports Fund during the year under review. However, the County Executive Management did not prepare and submit for audit by the Auditor-General financial statements for the entities and funds.

## **Management Response**

### **Kakamega County Sugar Fund**

The Kakamega Sugar Fund was not in operation in the financial year under review as it was wound up by a resolution of the Cabinet upon expiry of the contract agreement between the County and Mumias Sugar Company on 15th August 2015. No funds were transferred to the Fund in the year under review hence financial statements for the FY 2019-2020 could not be prepared.

### **Investment and Development Corporation Kshs. 43,440,600**

The expenditure above includes Kshs. 42,500,000 being funds transferred to the Kakamega County Microfinance Corporation as budgeted for in the year under review and not to Investment and Development Corporation (KCMFC) as indicated by the auditor. The balance of Kshs. 940,600 was spent on operational activities of the fund drawn from the Department of Trade, Tourism and Industrialization. The Kakamega County Microfinance Corporation prepared and submitted its financial statements to the Auditor General during the year under review.

### **Kakamega County Emergency Fund Kshs. 12,446,052**

The above amount was spent on emergency relief programmes as had been budgeted for under the Department of Finance and Economic Planning Vote Head Emergency Fund code 2810205. Funds transferred to the fund were captured in the financial statements of the County Executive as the fund had not been fully operationalized during the year under review. Subsequent transfers to the Fund in the following Financial Year were well reported in the financial statements of the Fund which were prepared and audited since FY2020/2021 onwards.

### **Farm Inputs Fund Kshs. 303,656,636**

The above expenditure was incurred on purchase of farm inputs, that's planting, top dressing, maize seeds and its related distribution expenses as had been budgeted for under the department of Agriculture, Livestock, Fisheries and Co-operatives Vote Head Farm Inputs code 2510199. The expenditure was captured in the County Executive Financial Statements under discussion since payments were made direct to suppliers from the IFMIS and Internet Banking Platform. Any other amount in excess of the above expenditure transferred to the Fund during the year under review, was captured in the fund financial statements prepared and submitted to the Auditor General.



**Kakamega County Youth and Sports Fund Kshs. 108,800,793**

No funds were transferred to this Fund since it was not operational during the year under review as envisaged.

The above expenditure was incurred on social and cultural services as budgeted for in the year under review in various departments, that's, Social Services, Youth and Sports; Education, Science and Technology; Lands, Housing, Urban Areas and Physical Planning. These expenditures were captured in the audited financial statements for the County Executive under discussion.

**Committee Observations**

The committee observed that the matter was addressed satisfactorily.

**Committee Recommendations**

**The Committee recommends that the matter be marked as resolved.**

**2.0 Budgetary Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.15,407,059,188 and Kshs.12,416,574,234 respectively resulting to an under-funding of Kshs. 2,990,484,954 or 19% of the budget. Similarly, the County Executive expended Kshs. 12,667,723,059 against an approved budget of Kshs. 15,407,059,188 resulting to an under-expenditure of Kshs. 2,739,336,129 or 18% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

**Management Response****Receipts Budget under-funding of Kshs. 2,990,484,954**

The under-funding was as a result of the county not receiving full equitable share from the National Treasury, Donor grants from both foreign and domestic partners and under-performance in own source revenue collection as a result of Covid-19 pandemic.

**Budget Under expenditure of Kshs. 2,739,336,129**

During the FY 2019/2020 the County had an approved budget of Kshs. 15,407,059,188 but only managed to spend Kshs. 12,667,723,059 which translated to an absorption rate of 82% as observed by the Auditor. The following reasons explains the under-expenditure figure of Kshs. 2,739,336,129 above.

1. The County received equitable share for June 2020 amounting to Kshs.895 million in August 2020.

This was after the closure of the FY 2019/2020 when the window period for spending had closed.

2. The County did not meet the own source revenue target by Kshs. 485,915,350 due to Covid-19 pandemic.

3. Under and non- disbursement of some donor funds for Example EU-Water Tower Protection and Climate Change Mitigation and Adaptation Programme (WaTER).



4. Late disbursement of Donor funds for projects for example Kenya Urban Development Programme which was disbursed on July 2nd 2020 (Kshs.278 million out of 389 million).
5. Slow implementation of planed activities and projects due to the Covid-19 pandemic lockdown measures.

#### **Committee Observation**

The Committee noted that delays in receiving exchequer releases from the National Treasury and under-collection of own source revenue hindered optimal program implementation and effective budget execution.

#### **Committee Recommendations**

**The Committee recommends that:**

1. the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate; and
2. The County executive puts in place measures to enhance its own generated revenue in order to meet its revenue target and address revenue shortfalls.

#### **3.0 Delayed Disbursement of Exchequer**

The County Executive received exchequer releases amounting to Kshs. 9,517,344,900 during the year under review. Included in this amount is Kshs. 1,932,408,025 received between 4 June 2020 and 6 July 2020. The delay in disbursements of funds by The National Treasury adversely affected implementation of projects for financial year 2019/2020.

#### **Management Response**

The Management agreed with the auditor's observation on delayed disbursement of exchequer funds and urged the National Treasury to observe the provisions of the Constitution of Kenya 2010, the Public Finance Management Act, 2012 and the annual County Allocation of Revenue Acts by ensuring timely disbursement of funds to counties. This will enable timely implementation of planned activities and minimize accumulation of pending bills.

#### **Committee Observation**

The Committee noted that delays in receiving exchequer releases from the National Treasury and under-collection of own source revenue hindered optimal program implementation and budget execution.

#### **Committee Recommendations**

**The Committee therefore recommends that:**

- 1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time; and

- 2) the county executive puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.

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

### **1.0 Failure to Utilize Covid-19 Funds**

The County Executive allocated Kshs. 487,618,000 towards mitigation of Covid-19 pandemic. However, the County Executive did not have approved work plans and procurement plans for COVID-19 prevention, mitigation and response. The funds from the government grant, KDSP and DANIDA had not been utilized by 30 June, 2020 due to lack of work plans and procurement plans. This was contrary to Section 107(2) of the County Governments Act, 2012 which requires that the county government plans shall be the basis of all budgeting and spending in a county. Consequently, the County Executive Management was in breach of law and value for money was not realized on the allocation of the funds.

### **Management Response**

The above funds were received late towards the closure of the financial year under review. These funds were emergency funds meant to combat the effects of Covid-19 pandemic and the County could not foresee the emergence of the pandemic when preparing the budget estimates in early 2019. Since these funds had not been captured in the original budget, the county had to prepare a supplementary budget at the end of the financial

### **Committee Observation**

The committee observed that the matter was addressed satisfactorily

### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

## **2.0 Construction of Markets**

### **2.1 Construction of Kambi Somali Market in Lurambi Sub-County**

The County Executive awarded the contract for the construction of Kambi Somali Market in Lurambi Sub-County at a contract sum of Kshs. 17,000,000. The project commenced on 22 May, 2017 with the expected completion date set for 22 May, 2019. However, as at the time of audit in October 2020 the following anomalies were noted;

- i. The project was incomplete with about 80% of the works completed 15 months after the expected completion date.
- ii. A perimeter wall was constructed at a cost of Kshs. 3,014,234. However, this was not provided for in the original Bills of Quantities. Management did not provide explanations on how the cost for the perimeter wall was arrived at.
- iii. Repair of the ablution block had commenced at the time of the audit.



However, this was contrary to the contract agreement which provided for construction of a new ablution block.

#### **Management Response**

There was a delay in completion of the project due to the contract variation from constructing a chain link fence to a wall fence around the market which required more time and extra budgetary resources. The project is now complete and in use.

#### **How the cost of the perimeter wall Kshs. 3,014,234 was arrived at.**

The original bill of quantities included construction of a chain link and concrete posts fence around the market.

However, the project implementation committee approved a variation to move from the chain link fence to construction of a perimeter wall. An additional Bill of Quantities for the Perimeter wall was then prepared that arrived at the above cost.

#### **Repair visa vie construction of a new ablution block**

The original contract sums as quoted by the lowest bidder was Kshs.22, 967,998 which included construction of a new ablution block. Due to budgetary constraints and in line with Section 131 (c) of the Public Procurement and Asset Disposal Act, 2015, the management-initiated negotiations with the lowest bidder with an objective of reducing the quoted sum from Kshs.22,967,998 to Kshs.17,000,000 to suit the engineer's estimates and the available budgetary allocation. The lowest bidder agreed but with a condition that he will not construct a new ablution block but renovate the one existing so that he doesn't incur losses at the expense of the County. Both parties agreed on this proposal and that is why renovation of the existing block was ongoing and not construction of a new one as stipulated in the original bill of quantities when the auditor visited the site.

## **2.2 Construction of VIP Toilets at Mudiri Estate**

The County Executive awarded the contract for the construction of VIP Toilets at Mudiri Estate at a contract price of Kshs. 2,292,478. The project was scheduled to commence on 24 April, 2018 with the expected completion date set for 15 July, 2018. However, an audit inspection conducted on the project on 14 October, 2020 revealed that;

- i. The toilets have not been handed over but were in use.
- ii. Two of the pit latrines had holes on their floors reflecting poor workmanship by the contractor.
- iii. A flat roof had been erected on the toilets instead of the proposed gable roof provided for in the drawings.
- iv. The roofing was completed using ordinary iron sheets instead of the pre-painted iron sheets provided for in the contract.
- v. The paint work was poorly done with weak doors which were falling apart.

#### **Management Response**

#### **Toilets not handed over but were in use**

Due to high need of the sanitary facility from the citizens around Mudiri area, some started using the toilets before they could be handed over by the contractor as observed by the auditor.



**Holes on the floor of two of the Toilets**

Instructions were issued to the Contractor to make good any defects on the toilets on 15th October, 2020. His retention monies were still withheld until the defects were rectified.

**A flat roof erected instead of proposed gable roof**

Instructions were issued to the Contractor to make good any defects on the toilets on 1st March, 2018. His retention monies were still withheld until the defects were rectified.

**Use of ordinary iron sheets instead of pre-painted iron sheets**

Instructions were issued to the Contractor to make good any defects on the toilets on 15th October, 2020. His retention monies were still withheld until the defects were rectified.

**Paint work poorly done with weak doors**

Instructions were issued to the Contractor to make good any defects on the toilets on 15th October, 2020. His retention monies were still withheld until the defects were rectified.

**2.3 Delayed Hand Over of Bukura Modern Market**

The County Executive entered into a contract for the construction of the Bukura Modern Market in 2015. The project had not been handed over and work had stopped. Also, the final accounts providing how prime cost and provisional sums totalling Kshs. 5,850,000 was spent have were not provided. Management did not provide explanation on when the project would be handed over for use.

**Management Response****Project not handed over and work stopped**

At the time of audit visit, the project was still work in progress though the contractor was not on site due to funding issues. The contractor later resumed works and the Bukura Modern Market was completed, handed over on 19th June, 2020 and commissioned on 19th January, 2022.

Final accounts on how prime costs and provisional sums totaling Kshs.5,850,000 were spent not provided Out of the prime cost and provisional sums of Kshs.5,850,000, the contractor spent Kshs.4,427,500 on plumbing and drainage works, electrical works, elevated water tank, landscaping and gates as provided in the valuation statement no.5.

The management provided the valuation statement no.5 on how the prime cost and provisional sums were spent at the time of audit. The valuation statement is still available for further audit verification.

**2.4 Delayed Hand Over of Mumias West Market**

The County Executive entered into a contract for the construction of the Mumias

West Market in 2015. The County Executive incurred expenditure of Kshs. 4,500,300 on the gate houses and gates for the Phase 1 and 2. However, Management did not provide for audit documents and information on how the procurement for the works was done. Further, Management provided for Kshs. 6,225,000 as prime cost and provisional sums for which documents in support were not provided for audit verification. The project was yet to be handed over due to failure to connect electricity to the market because the County Executive had not provided for the cost of electricity connection. Consequently, value for money has not been realized from the implementation of the projects.

### **Management Response**

#### **Procurement of Gate Houses and Gate for Phase 1 and 2 of Mumias West Market**

The gate houses and gates for the above market was costed at Kshs. 4,200,300 and not Kshs. 4,500,300 as indicated by the auditor. The component was included in the main contract/Bill of Quantities, Bill No.3 and thus followed the normal procurement process as required by law. The procurement file/documents for the entire project were provided to the auditors for review during the audit exercise. The same is still available for further audit verification.

#### **Documents in support of prime costs Kshs. 6,225,000 not provided**

The above prime cost and provisional sums was made of Kshs. 5,200,000 under phase I and Kshs.1,025,000 under phase II of the project. Under Phase 1, the contractor spent Kshs. 4,612,945 on prime cost and provisional sums, while Kshs. 268,293.10 was spent on Phase II of the project. Therefore, a total of Kshs. 4,881,238.10 out of the budgeted prime cost and provisional sums was spent.

#### **Handover of the project and electricity connection**

The project was handed over to the procuring entity on 26 May 2020 by the contractor. The department of Trade, industrialization and Tourism later handed over the project to the department of Lands, Housing, Urban Areas and Physical Planning since the project falls under Mumias Municipality on 27th May, 2021. Electricity was later connected and the project is now in use.

### **3.0 Mumias West Level 4 Hospital**

The County Executive awarded the tender for the construction of Mumias West Level 4 Hospital on 19 February, 2016 at a contract price of Kshs. 191,116,022. The contract was for a duration of 104 weeks. However, additional works were included and captured under variation order (V.O) Nos.1-16 amounting to Kshs. 13,552,737. This included expenditure of Kshs. 6,406,228 which was not supported. Audit verification of the project in October, 2020 revealed the following matters:

- i. The project was handed over by the contractor and had been put to use. Management explained that only some of the buildings were handed over. The final handover report was not provided for audit verification.
- ii. Some areas such as walkways remained incomplete.



- iii. The variation costs for paving slabs carried out at a cost of Kshs.5,952,000 was not supported.
- iv. The water reticulation project, the elevated steel water tank and a large ground steel water tank were poorly constructed and not valued.
- v. Proper analysis of the variation orders showing omissions and additions was not provided for evaluation.
- vi. Management did not explain how prime cost and provisional sums were arrived at and accounted for. Consequently, value for money has not been realized in the construction of the Mumias West Level 4 Hospital.

#### **Management Response**

Expenditure of Kshs. 6,406,228 included under variation orders (V.O) No.1-16 not supported. The variations on record were thirteen (13) in number totaling Kshs. 11,489,156.79 and not Sixteen (16) totaling Kshs. 13,552,737 as indicated by the auditor. We have attached the summary analysis of the variation orders and page 280 of the draft project final accounts which also gives the summary.

#### **Final handover report not provided for audit verification**

At the time of audit and due to Covid-19 outbreak the county executive committee passed a resolution to use completed parts of the facility as a Covid-19 treatment and isolation center.

Due to budgetary constraints, the county administration has allocated Kshs. 50,000,000 in this financial year's budget for the completion of the project. Thus, at the time of audit, the management could not provide the final handover report to the auditor since the project was yet to be completed. Some areas such as walkways remained incomplete.

During the Covid-19 period, works on the facility were interrupted by the conversion of the facility into a Covid-19 treatment and isolation center. Furthermore, one of the key directors of the contracted company passed on. These two events contributed to the walkways remaining incomplete as observed by the auditor.

#### **Variation costs for paving slabs carried out at a cost of Kshs. 5,952,000 not supported**

The bill of quantities for variation costs for paving slabs were provided and indicated an estimated cost of Kshs. 8,651,985. The contractor spent Kshs. 5,952,000 on actual as indicated above by the auditor. The bill of quantities for paving of slabs costs of Kshs. 8,651,985 was available and still available for audit verification.

Poorly done and not valued water reticulation project, the elevated steel water tank and a large ground steel water tank.

Although the auditor did not point out specific areas of deviation from the BQ or architectural designs that would justify the poor workmanship, the observation was taken up by the project management team. The contractor is yet to complete the project and yet to be paid his retention monies. The valuation for the said components of the project were valued in the Bill of Quantities. Proper analysis of the variation

orders showing omissions and additions not provided for evaluation.

**Explanation on how prime cost and provisional sums were arrived at and accounted for**

The bill of quantities for the project provides how the prime cost and provisional sums of Kshs. 23,000,000 was arrived at. This document was provided to the auditors during the audit exercise.

The prime cost and provisional sums of Kshs. 23,000,000 was part of the original contract sum of Kshs. 191,116,022. At the time of audit, the management could not provide the final account of how the prime cost was spent since the project was still work in progress. Once the project is fully completed and handed over, the management will provide an analysis of how the prime cost and provisional sums were applied.

**4.0 Stalled Construction of Lumakanda Wards in Lugari**

The County Executive awarded the tender for the construction of a 24-bed ward at Lumakanda at a contract sum of Kshs. 8,658,445.324 December, 2015. The project which commenced on 9 February, 2016 was expected to be completed by September, 2016. The project stalled when it was about seventy percent (70%) complete. The County Executive Management decided to change the project into a health center after realizing that wards were six (6) kilometers away from the nearest health facility. However, Management has not taken any action to implement the decision. Consequently, value for money in constructing the wards and converting the wards into health center has not been realized.

**Management Response**

The management has prepared a bill of quantities and architectural design for the proposed completion of the 24-bed general ward into a health centre in Lumakanda. Due to budgetary constraints and time factor, the management intends to allocate the proposed cost of the project Kshs. 6,052,938 to complete the project into the next financial year's budget.

**Committee Observation**

The committee noted that the management failed to provide any correspondences to prove the intension to allocate a budget for implementation of the idea to change the ward into a health facility.

**Committee Recommendation**

**The Committee recommends that the auditor follow up the matter in the next audit cycle and provide a status report on the usability of the project to the public and to confirm value for money.**

**5.0 Irregularities in Supply of Furniture and Electronics at Bukhungu Stadium**

The County Executive entered into a contract for the supply of furniture and electronics at a contract cost of Kshs. 14,992,768. However, anomalies were noted as detailed below:



- i. The automatic Ice Making Machine purchased at Kshs. 264,000 was not in use as at the time of the audit.
- ii. The contracted for supply and delivery of two hundred and ten (210 square metres of 5mm carpet at a cost of Kshs. 3,045,000. However, the County received one hundred and thirty-eight (138) square metres of carpet was supplied and laid out at the stadium.
- iii. The wet and dry industrial vacuum purchased at Kshs. 128,000 had not been delivered at the time of the audit.

Consequently, value for money has not been realized from the purchase of the furniture and electronics for the Bukhungu Stadium

### **Management Response**

#### **Automatic Ice Making Machine not in use.**

The Automatic Ice Making Machine had not been installed at the time of audit as observed by the auditor. However, the machine has since been installed at the home team changing room and well-functioning. The auditor is invited to the site for audit verification.

The wet and dry industrial vacuum purchased at Kshs. 128,000 not delivered at the time of the audit. The wet and dry Industrial Vacuum machine has since been delivered, inspected and accepted in good condition. The auditor is invited to the site for audit verification.

The Contractor/supplier was to supply a red carpet of 210 square meters by 5mm thick but the county only received a carpet of 138 square meters by 5mm thick. The carpet was supplied and received according to the ordered specifications. That is, 210 sq. meters of 5mm thickness. Out of this, 138sq. meters was fitted at the VVIP Lounge while the remaining 72sq. meters was fitted in the Stadium Manager's office. At the time audit, the auditor only visited the VVIP Lounge and measured the carpet laid there but did not visit the Stadium Manager's office. He is therefore invited to visit the manager's office for further audit verification.

### **Committee Observation**

The Committee noted that the auditors during the time of audit, the items in the said contract had not been delivered fully.

### **Committee Recommendation**

**The Committee recommends that the auditors follow up the matter in the next audit cycle to confirm the availability and status of the items, to confirm value for money, and report to the Office of the Auditor General.**

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **1.0 Unaccounted for Supply of Water Metres (1/2" and 3")**

The County Executive through the Department of Water, Environment and Natural Resources contracted for the supply water metres to facilitate control of non-revenue

water in Sango Community Water Supply pipeline, Likuyani Sub-County. Review of the supporting documents for the payment revealed that the items were received vide counter receipt voucher (S13) No.2847. However, the S13 was just a photostat copy and the original could not be traced to confirm the authenticity of the delivery. Also, there were no stores ledgers (S3 Card), counter requisition issue vouchers (S11) and procurement file relating to the supplier. Controls over store records were weak and cannot be relied upon.

#### **Management Response**

The Original Counter receipt voucher (S13), stores ledgers (S3 cards), Counter requisition Vouchers (S11) and the procurement file related to the above procurement was available during the audit exercise and still available for further audit verification.

#### **Committee Observation**

The Committee noted that the matter has since been addressed.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

### **2.0 Poor Internal Controls for Revenue Collection -**

#### **Bukura Agricultural Training College**

The Bukura Agricultural Training College collected Kshs. 5,566,024 from various sources. However, review of the internal controls over revenue collection and banking revealed the following weaknesses; i. Used miscellaneous receipt books were not examined before issuance of new receipt books at the County Treasury. ii. Collection control sheets (CCS) were not used in surrendering of revenue. Also, the revenue office did not verify cash banked against cash collected to ensure that all the revenue collected was banked intact. iii. The County Revenue Office did not have a proper mapping of all the revenue sources at the College but relied on records as presented by the revenue collectors.

#### **Management Response**

Used miscellaneous receipt books not examined before issuance of new ones

The management has since put in place measures that ensure miscellaneous receipt books are examined before issuance of new receipt books from the County Treasury. Collection control sheets (CCS) not used in surrendering of revenue. Also, revenue office not verify cash banked against cash collected to ensure all revenue collected is banked.

The management has since put in place measures that ensure collection control sheets are used in surrendering of revenue collected. In addition, the revenue office verifies cash banked against cash collected to ensure all revenue collected is banked intact. County Revenue Office not having a proper mapping of all the revenue sources at the College but relied on records presented by the revenue collectors.

The county revenue office has now mapped all the revenue sources at the College and issues collection targets to the revenue collectors at the College.



**Committee Observation**

The Committee noted that the matter has since been addressed.

**Committee Recommendation**

The Committee recommends that the matter be marked as resolved.

**3.0 Veterinary Revenue**

Revenue under veterinary was received under cashless method, which was generated from artificial insemination, meat inspection, meat carrier fee, flayers' license, movement permit, slaughter house license, premise fee - where the skins and hides are stored and dispatch note - for transporting skins and hides. However, a block figure of Kshs. 5,035,625 is recorded as having been collected in the year under review, making it difficult to verify revenue collections from various revenue centers. Further, it was noted that the revenue collection under veterinary units had other anomalies as detailed below: (i) No receipts were issued on payment of revenue at the slaughter since there was no revenue collector. Also, there were no records of collections maintained throughout the year under review. (ii) Meat carriers were in use but fees was not being collected because there was no license book. (iii) Movement permits were not issued as they were not available.

**Management Response**

The management has provided a detailed schedule breaking down the block veterinary revenue figure above showing collection from various revenue centers. No receipts were issued on payment of revenue at the slaughter house since there was no revenue collector. Also, there were no records of collections maintained throughout the year under review.

At the time of audit, the county was short of enough personnel to man all the slaughter houses across the twelve sub counties. As a result, the management through the Kakamega County Revenue Agency employed more personnel who were then deployed to all the slaughter houses across the County. They now issue receipts upon payment.

Records of collections are now maintained at sub county revenue offices throughout the year. Meat carriers in use but fees not collected because of lack of license book. The management procured meat carrier License books and are used to collect fees from the operators. Movement permits were not issued as they were not available.

**Committee Observation**

The Committee noted that the matter has since been addressed.

**Committee Recommendation**

The Committee recommends that the matter be marked as resolved.

**4.0 High Staff Turnover**

During the year under review, three hundred and forty-two (342) members of staff left the County services through contract expiry, death, dismissal, resignation, early

retirement, retirement on medical grounds and mandatory retirement. However, the human resource records availed for review did not provide reasons for exit for six (6) members of staff. In addition, there were no detailed reports for dismissal of one hundred and three (103) staff who were alleged to have been dismissed for financial misappropriation.

**Management Response**

The auditor did not provide specific names of the six members of staff referred to above to enable it respond appropriately. We wrote to the auditor awaiting his response.

The 103 staff in question were revenue officers who were dismissed for financial misappropriation. A comprehensive report relating to the investigations and disciplinary process been provided review.

**Committee Observation**

The Committee noted that the issue is still under consideration by the auditors.

**Committee Recommendation**

The Committee recommends that the auditors follow up the matter in its next audit cycle, and the management provide its Staff Establishment report to the auditors within 60 days after adoption of this report.

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**CHAPTER FOUR**  
**REPORT OF THE SENATE COUNTY PUBLIC ACCOUNTS COMMITTEE**  
**ON THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL**  
**STATEMENTS OF KIRINYAGA COUNTY EXECUTIVE FOR THE**  
**FINANCIAL YEAR 2019/2020**

The Governor of Kirinyaga County Executive Hon. Ann Waiguru, EGH appeared before the Committee on Thursday, 20th April 2023 to respond (under oath) to audit queries raised in the Report of the Auditor General on Financial Statements for Kirinyaga County Executive for the Financial Year 2019/2020.

**Qualified Opinion**

<b>EXECUTIVE SUMMARY OF UN-RESOLVED AUDIT QUERIES</b>				
	<b>QUERY</b>	<b>COMMITTEE RECOMMENDATION</b>	<b>ACTORS</b>	<b>TIMELINE</b>
<b>1</b>	<p><b>1.4 Integrated Financial Management Information System Ledger Balances</b></p> <p>There was an unexplained variance of Kshs.657, 446,922 between the balances in financial statements and that in the Integrated Financial Management Information (IFMIS) System.</p>	<p>1) The County CEO undertakes administrative action against the responsible officer(s) for failure to undertake reconciliation of financial statements within the stipulated timelines in accordance with section 156 of the Public Finance Management Act, 2012 and submit a report to the Office of the Auditor General within 60 days of adoption of this report; and</p> <p>2) The County Executive to identify training needs of its staff serving in the Finance Department and initiate capacity building and training in conjunction with the National Treasury within 60 days of adoption of this report.</p>	<p>1. The County Chief Executive Officer</p> <p>2. The Auditor - General</p>	60 days from the adoption of this report
<b>2</b>	<p><b>2.1.1 Daily Subsistence Allowances</b></p> <p>Records on the trips, including travel tickets, visas and boarding passes as</p>	The Committee recommends that the EACC should fast track investigations into the matter and provide a status update to the Senate within	The Ethics and Anti-Corruption Commission (EACC)	EACC to present a status report to Senate within 60

	<p>applicable, were not submitted to the Auditor General at time of audit.</p> <p>The Committee noted that the matter was under investigation by the EACC.</p>	90 days of adoption of this report.		days of adoption of this report.
3	<p><b>2.1.2 Purchase of Specialized Materials</b></p> <p>User requisitions, Local Purchase Orders (LPOs), and other procurement documents as well as delivery notes and goods inspection and acceptance certificates were not provided to the Auditor General at time of audit.</p> <p>The Committee noted that the matter was under investigation by the EACC.</p>	The Committee recommends that the EACC should fast track investigations into the matter and provide a status update to the Senate within 90 days of adoption of this report.	The Ethics and Anti-Corruption Commission (EACC)	EACC to present a status report to Senate within 60 days of adoption of this report.
4	<p><b>2.2.1 Construction and Civil Works</b></p> <p>Payment vouchers and procurement records were not provided to the Auditor General at time of audit.</p>	The Committee recommends that the EACC should fast track investigations into the matter and provide a status update to the Senate within 90 days of adoption of this report.	The Ethics and Anti-Corruption Commission (EACC)	EACC to present a status report to Senate within 60 days of adoption of this report.
5	<p><b>2.2.5 Unavailable Documents</b></p> <p>Ownership documents for forty (40) of the seventy-two (72) parcels of land were not provided for audit verification</p>	<p>The Committee recommends that the-</p> <ol style="list-style-type: none"> <li>1. the County Executive expedites the process of acquiring the title deeds to the 40 parcels of land and provides a status update to the OAG within 60 days of adoption of this report;</li> <li>2. County Executive should update and</li> </ol>	<ol style="list-style-type: none"> <li>1. The County Chief Executive Officer</li> <li>2. The Auditor General</li> </ol>	60 & 90 days from the adoption of this report



		<p>present their Fixed Assets Register in the format prescribed by the Public Sector Accounting Standards Board;</p> <p>3. County Executive should adopt and implement the report of the Inter-Governmental Technical Relations Committee (IGTRC) on assets and liabilities from defunct Local Authorities and provide a status update to the Office of the Auditor General within 90 days of adoption of this Report; and</p> <p>4. Office of the Auditor General should progressively review and report on the matter in the subsequent Financial Years.</p>		
6	<p><b>3.0 Unconfirmed Pending Bills Balance</b></p> <p>Outstanding pending accounts payable totaling Kshs.359,010,501 out of which bills totaling Kshs.150,917,677 were incurred during the year under review.</p>	<p>The Committee therefore recommends that:</p> <p>1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time; and</p> <p>2) the county executive puts in place measures</p>	<p>1. The County Chief Executive Officer</p> <p>2. The National Treasury</p> <p>3. The Auditor General</p>	Continou s

		<p>to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.</p> <p>3) Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) for investigation proper legal action taken against those filing false claims.</p> <p>4) County Government to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending bills verification committees unconstitutional and engage Office of the OAG and strengthen the internal audit functions.; and</p> <p>5) All valid pending bills that have been reviewed by the Office of the Auditor General be paid and a payment plan be submitted to the county assembly for approval and progress report on implementation sent to the Senate and the</p>		
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		Office of the Controller of Budget.		
<b>OTHER MATTER</b>				
7	<b>1. Budgetary Control and Performance</b>  There was under-funding of Kshs.272,888,861 or 4% of the budget. The County Executive spent Kshs.4,937,177,741 against an approved budget of Kshs.6,131,617,883 resulting to an under-expenditure of Kshs.1,194,440,142	i)the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate and comply with Article 219 of the Constitution and Section 17(6) of the Public Finance Management Act, 2012;  ii)the County executive puts in place measures to enhance its own generated Revenue in order to meet its revenue target and address revenue shortfalls.	1. The National Treasury 2. The County Chief Executive Officer	Continuous
8.	<b>3.0 Unresolved Prior Year Issues</b> Note 9 of other disclosures highlights only seven (7) of at least eighteen (18) issues raised in the audit report for 2018/2019 financial year. does not conform to Public Sector Accounting Standards Board (PSASB) requirements.	The Committee recommends that;- 1) the County Executive complies with section 53 of the Public Audit Act, 2015 by taking action on the issues raised by the Auditor General and submits a report to the Office of the Auditor General within sixty (60) days of the adoption of this report; and 2) The Institute of Certified Public Accountants (ICPAK) takes action(s) against the responsible officer (s) for preparing financial statements	1. The County Chief Executive Officer 2. ICPAK	60 days from the adoption of this report

		that do not conform to Public Sector Accounting Standards Board (PSASB) requirements which constitutes professional misconduct pursuant to Section 8 (a) and 30 of the Accountants Act CAP 531 and reports to the Office of the Auditor General within 60 days of adoption of this report.		
9	<b>2.0. Delayed Implementation of Projects</b>  30 (thirty) projects budgeted at Kshs.979,842,995 were ongoing as at 30 June, 2020.	The National Treasury should strictly adhere to the cash disbursement schedule on the release of funds to County Governments as approved by the Senate.	1. The National Treasury 2. The County Chief Executive Officer	Continuous
	Implementation of 7 (seven) Projects budgeted at Kshs.36,457,362 had not started.	The Committee further recommends the Auditor General should undertake the verification of those projects within sixty (60) days from the adoption of this report.	3. The Auditor General	
10.	<b>4.0 Irregular Payments to Council of Governors</b>  The County Executive paid Kshs.5,438,993 to the Council of Governors.	The Committee recommends that the irregular payments to the Council of Governors (COG) be stopped and further recommends the surcharge of any Governor, in their capacity as Chief Executive Officer, who continues to make the irregular contribution. The EACC should oversee the recovery of all the public funds irregularly transferred to the Council of Governors (COG) by the Governor. This	The County Chief Executive Officer	Immediate



		is in line with the Resolution of the Senate.		
11.	<p><b>6.0 Excessive Expenditure on Personnel Emoluments.</b></p> <p>Compensation of employees' expenditure for the year under review totaled Kshs.2,320,111,647 equivalent to 44% of the revenue of the County Executive totaling Kshs.5,287,285,007.</p>	<p>i. That the County Executive to strictly adhere to the provision of paragraph 25(1)(b) of the PFM Act (county government) regulations, 2015 which stipulate that the county wage bill shall not exceed 35 per cent of the county total revenue; and</p> <p>ii. That County Executive to provide to the Auditor General the measures put in place to contain the county higher wage bill within sixty (60) days from the adoption of this report.</p>	<p>1. The County Chief Executive Officer</p> <p>2. The Auditor General</p>	60 days from the adoption of this report
12.	<p><b>9.0 Officers Earning Less Than a Third Basic Pay</b></p> <p>Several officers earned less than one third of their basic pay contrary to Section 19(3) of the Employment Act, 2007.</p>	<p>(i) The County Executive should provide to the Auditor General within sixty (60) days after the adoption of this report a plan of the measures put in place to mitigate on the issue as well as comply with the requirements of the law.</p> <p>(ii) The county should configure their IPPD system such that it is able to lock out commitments beyond the accepted thresholds.</p> <p>(iii) The Auditor General should continue monitoring the issue in subsequent Audit cycle.</p>	<p>1. The County Chief Executive Officer</p> <p>2. The Auditor General</p>	60 days from the adoption of this report.

### Qualified Opinion

## **1.0 Discrepancies in Financial Statements**

### **1.1 Statement of Receipts and Payments**

The statement of receipts and payments reflects payments for compensation of employees totaling Kshs.2, 320,111,647. However, the ledgers presented for audit reflect balances totaling Kshs.2, 277,890,682 in respect to the account, resulting to an unexplained variance of Kshs.42, 220,965. As a result, the accuracy of compensation of employees' expenditure balance has not been confirmed.

#### **Management Response**

The Management submitted that the actual amount incurred for compensation to employees was Ksh. 2,320,111,647 as reported in the audited Financial Statements. This amount was accurately supported by corresponding ledgers. The County Government had currently addressed the above challenges of IFMIS reconciliation by Capacity building in liaison with the IFMIS Department.

#### **Committee Observation**

The Committee noted that The Management did not submit all the relevant documents and information to the Auditor General at the time of Audit as per section 62 of the Public Audit Act, 2015, the management has since submitted the documents and they were verified by The Auditor General.

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#### **Committee Recommendations**

**The Committee recommends that the matter be marked as resolved.**

### **1.2 Summary Statement of Appropriation-Recurrent and Development Combined**

The summary statement of appropriation-recurrent and development combined for the year ended 30 June, 2020 reflects actual receipts on returned issues to the County Revenue Fund (CRF) totalling Kshs.571,444,015. However, note 10 to the Financial Statements and the statement of receipts and payments reflect a Nil balance in respect to the item.

In the circumstance, the accuracy of the statement of appropriation: recurrent and development combined has not been confirmed.

#### **Management Response**

The Management stated that as per IPSAS cash basis accounting, amount returned to CRF and closing balance in CRF account were not included in the statement of receipt and payment. This was not the actual receipt for the year. The Management submitted the balance of Ksh. 571,444,015 was to be included in the statement of receipts, it would have amounted to accounting for the receipts twice.

Returns to CRF and closing balances in this account was accounted for in the statement of assets and appropriation account as indicated in the audited financial statements.

#### **Committee Observation**

The Committee noted that the matter has since been addressed.



**Committee Recommendation**

The Committee recommends that the matter be marked as resolved.

**1.3 Statement of Budget Execution by Programs and Sub-Programs**

The statement of budget execution by programs and sub-programs reflects payments totaling Kshs. 4,933,714,239, whereas the statement of appropriation recurrent and development combined reflects payments totaling Kshs. 4,937,177,741 resulting to an unexplained variance of Kshs. 3,463,502. As a result, the accuracy of the statement of budget execution by programs and sub-programs has not been confirmed.

**Management Response**

The Management stated that the statement of budget execution by programs and sub-programs was automatically generated from IFMIS. It reflected the amount of budget as captured in IFMIS. During financial year 2019/2020, the County received a grant of Kshs. 3,463,502 from Aquiculture Business development program (ABDP). This amount was not captured in IFMIS since it was not in the CARA.

The variance established in the audit report was as a result of this amount. It was manually captured and recognized in the statement of appropriation recurrent and development combined.

**Committee Observation**

The Committee noted that the matter has since been addressed.

**Committee Recommendation**

The Committee recommends that the matter be marked as resolved.

**1.4 Integrated Financial Management Information System Ledger Balances**

The Financial Statements reflect balances totaling Kshs.4,161,930,291 in respect to thirty-nine (39) items, whereas records on the items in the Integrated Financial Management Information (IFMIS) System reflect balances totaling Kshs.3,504,483,369 resulting to an unexplained variance of Kshs.657,446,922 between the two sets of records. The items are shown in the attached Appendix I.

In the circumstance, the accuracy of the Financial Statements for the year under review has not been confirmed.

**Management Response**

The Management submitted that as per IPSAS cash basis accounting, the figures in the Financial Statements were based on actual payments and receipts for the year. Under expenditures, the figures for actual payment were generated from the IFMIS payment details report while the figures for actual receipts were generated from both CRF statement and manual reports for some receipts. This contributed to some of the variances.

In case of any discrepancies between the actual receipts and payments with any other IFMIS reports, the standards recommended the use of the actuals. The IFMIS report referred to in the audit findings was not fully automated to auto reconcile all the payments and receipts with the CBK statements. This also contributed to variances. The county had resorted to manual reconciliations for all the CBK accounts since the ones generated from IFMIS were incomplete.

Under transfers to other Government entities, the expenditures were captured in the IFMIS budget using the SCOA (standard chart of accounts) sub-items and not the name of specific transfer to entities for instance FIF, DANIDA, NARIGP, ASDSP, ABDP. The Management stated that to come up with the amount for the transfers, IFMIS payment details report was sorted using the account description. These differences in capturing transfer to entities would appear as variances between what was reported in the Financial Statements and IFMIS report referred to in the audit findings.

Amount transferred to county assembly was generated from the CRF statement and not IFMIS. This contributed to variance for this sub-item as per the audit findings. The County Assembly had their own independent accounting system but shared the same CRF with the county executive. The IFMIS report used the exact cut off dates of 30th June for all the payments made during the year which was not always the case since there was always an extension to make payments after this date. This contributed to the variances.

The individual item variances identified in the audit findings were explained as tabulated below;

	Items	Financial Statements Amounts (Kshs)	IFMIS Report amounts (Kshs)	Explanation for Variances
1	County Assembly	570,764,950	-	The county executive does not capture county assembly payments in IFMIS since they have independent IFMIS accounting system. This amount was generated from CRF account hence the variance.
2	Hospital Facility improvement fund	89,718,294	-	This item was captured in IFMIS under various sub-items in health recurrent budget since there is no such an item as Hospital Facility improvement fund in IFMIS SCOA.
3	NARIGP	201,561,354	-	This item was captured in IFMIS as other grants sub-item in agriculture dept. Budget as



	Items	Financial Statements Amounts (Kshs)	IFMIS Report amounts (Kshs)	Explanation for Variances
				earlier explained since there is no such an item as NARIGP in IFMIS SCOA.
4	Health Centers DANIDA Fund	12,281,250	-	This item was captured in IFMIS under various sub-items in health recurrent budget since there is no such an item DANIDA in IFMIS SCOA.
5	Alcoholic Fund	3,084,000	-	This item was captured in IFMIS under various sub-items in Gender dept. budget since there is no such an item as alcoholic fund in IFMIS SCOA.
6	User fees	11,282,570	-	This item was captured in IFMIS under various sub-items in health recurrent budget since there is no such an item as user fees foregone in IFMIS SCOA.
7	Agriculture Sector Development Support Project	15,506,753	-	This item was captured in IFMIS under other grants sub-items in agriculture budget since there is no such an item as ASDSP in IFMIS SCOA.
8	Aqua Culture Business Development Programme	3,463,500	-	This was generated from bank statement since it was not factored in the IFMIS budget for the year.
9	Transforming Health Universal Services Care Project	34,907,139	-	This item was captured in IFMIS under various sub-items in health recurrent budget since there is no such an item THUSP in IFMIS SCOA.
10	Transfer to the Council of Governors	5,438,993	-	This item was captured in IFMIS under various sub-items in office of governor recurrent budget since there is no such an item as Transfer to the Council of Governors in IFMIS SCOA.
11	Purchase of Office Furniture &	9,311,316	10,161,816	Actual amount for this item was as per the Financial Statements as supported by ledgers. Annex 2A.

	Items	Financial Statements Amounts (Kshs)	IFMIS Report amounts (Kshs)	Explanation for Variances
	General Equipment			
12	Purchase of Specialized Plant Equipment & Machinery	65,593,118	67,193,118	Actual payments amount for this item was as per the Financial Statements as supported by ledgers. Annex 2B.
13	Purchase of Certified seeds	8,571,599	8,901,554	Actual payments amount for this item was as per the Financial Statements as supported by ledgers. Annex 2C.
14	Fuel Oil and Lubricants	61,092,213	68,228,676	The correct amount for this item was 61,092,212.80 as supported by ledgers. Annex 2D.
15	Basic Salaries Permanent Employees	2,090,548,147	2,312,048,454	Actual payment amount for this item was as per the Financial Statements as supported by ledgers. Annex 1A. Variance was as a result of lack of IFMIS auto reconciliation, use of below the lines account in payment of salaries and misclassification of sub items. The amount of 2,312,048,454 incorporated other sub-items like NHIF, NSSF and Pensions which were classified separately in the notes to Financial Statement.
16	Pension and other social security contributions	121,995,288	-	This item was charged in salary sub-item in the budget. There was no sub-item in IFMIS budget in the name of pension. IFMIS payment details report was sorted using the account description and amounted to Ksh. 121,995,287.65. Annex 1A.
17	Compulsory national social	4,081,024	-	This item was charged in salary sub-item in the budget. There was no sub-item in IFMIS budget



	Items	Financial Statements Amounts (Kshs)	IFMIS Report amounts (Kshs)	Explanation for Variances
	security schemes			in the name of NSSF. IFMIS payment details report was sorted using the account description and amounted to Ksh. 4,081,024. Annex 1A.
18	Compulsory national health insurance schemes	35,573,950	-	This item was charged in salary sub-item in the budget. There was no sub-item in IFMIS budget in the name of NHIF .IFMIS payment details report was sorted using the account description and amounted to Ksh.35,573,950 . Annex 1A.
19	Utilities, supplies and services	36,971,664	39,471,664	Actual payment amount for this item was as per the Financial Statements as supported by ledgers .Annex 2E.
20	Communication, supplies and services	6,931,264	7,205,264	Actual payment amount for this item was as per the Financial Statements as supported by ledgers .Annex 2F.
21	Domestic travel and subsistence	46,960,163	50,096,073	Actual payment amount for this item was reconciled to Ksh. 46,960,163 as supported by ledgers and amended Financial Statements. Annex 2G.
22	Foreign travel and subsistence	10,320,668	7,848,648	Actual payment amount for this item was reconciled to Ksh.10,320,668 as supported by ledgers .Annex 2H.
23	Printing, advertising and information supplies & services	31,020,101	43,908,398	Actual payment amount for this item was as per the Financial Statements as supported by ledgers .Account Annex 2J.
24	Rentals of produced assets	1,205,000	1,333,000	Actual payment amount for this item was as per the Financial Statements as supported by ledgers. Annex 2K.
25	Training expenses	15,089,394	24,053,294	Actual payment amount for this item was as per the Financial

	Items	Financial Statements Amounts (Kshs)	IFMIS Report amounts (Kshs)	Explanation for Variances
				Statements as supported by ledgers. Annex 2L.
26	Hospitality supplies and services	18,235,849	21,018,399	Actual payment amount for this item was as per the Financial Statements as supported by ledgers. Annex 2M.
27	Specialized materials and services	251,160,399	178,660,087	Actual payment amount for this item was as per the Financial Statements as supported by ledgers. Annex 2N.
28	Office and general supplies and services	12,698,209	15,862,129	Actual payment amount for this item was as per the Financial Statements as supported by ledgers. Annex 2P.
29	Other operating expenses	124,058,108	134,958,714	Actual payment amount for this item was as per the Financial Statements as supported by ledgers. Annex 2Q.
30	Routine maintenance – vehicles and other transport equipment	22,386,731	11,728,219	Actual payment amount for this item was as per the Financial Statements as supported by ledgers. Annex 2R.
31	Routine maintenance – other assets	3,972,387	4,245,157	Actual payment amount for this item amounted to Ksh.3,972,386.75 as supported by ledgers. Annex 2S.
32	Other Payments	106,968,083	119,478,742	Actual payment amount for this item was as per the Financial Statements as supported by ledgers. Annex 2T.
33	Scholarships and other educational benefits/Bursary	25,000,000	26,950,000	Actual payment amount for this item was as per the Financial Statements as supported by ledgers. Annex 2U.
34	National Health Insurance Fund	35,573,950	10,000,000	This was included Under compensation to employees



	Items	Financial Statements Amounts (Kshs)	IFMIS Report amounts (Kshs)	Explanation for Variances
				amounting to Ksh. 35,573,950. Account Annex 1A. The differences were as a result of misclassification in IFMIS.
35	Current Grants to Semi-Autonomous Government Agencies	0	19,931,545	This was as a result of misclassification in IFMIS. This item was classified in note 15 under other grants and payments.
36	Capital Grants to Other levels of government	0	61,109,147	Transfer to other Government entities(note14) was captured under this item
37	Emergency Relief (food, medicine, blankets, cash grant, tents and other temporary shelter etc.)	0	200,000	This was as a result of misclassification in IFMIS. This item was classified in note 15 under other grants and payments.
38	Other Capital Grants and Trans	50,635,263	258,741,271	Transfer to other Government entities (note14 in Financial Statement) was captured under this item in the IFMIS budget
39	Purchase of Household and Institutional Appliances	17,967,600	1,150,000	The correct amount for this item was as recorded in the Financial Statements amounting to 17,967,600 as supported by ledgers. Annex 2V
	TOTAL	4,161,930,291	3,504,483,369	

#### Committee Observation

The Committee noted that there was an unexplained variance of Kshs.657,446,922 between the balances in the financial statements and records of the 39 items in the Integrated Financial Management Information (IFMIS) System.

#### Committee Recommendations

The Committee recommends that-

- a) The County CEO undertakes administrative action against the accounting officer, the Chief Officer Finance, the Head of County Treasury and any other officer(s) responsible for failure to undertake reconciliation of financial statements within the stipulated timelines and submit a report to the Office of the Auditor General within 60 days of adoption of this report;
- b) The Institute of Certified Public Accountants (ICPAK) takes action(s) against the Head of Treasury for misrepresentation of financial statements which constitutes professional misconduct pursuant to Section 8 (a) and 30 of the Accountants Act CAP 531 and reports to the Office of the Auditor General within 60 days of adoption of this report;
- c) County CEO must ensure strict adherence to the Public Audit Act, 2015 by providing accurate and reliable reconciliations of the financial statements, payment details and the vote books during the audit cycle; and
- d) The County Executive to identify training needs of its staff serving in the Finance Department and initiate capacity building and training in conjunction with the National Treasury within 60 days of adoption of this report.

### **1.5 Summary Statement of Appropriation**

The summary statement of appropriation-development reflects an aggregate development budget of Kshs. 1,835,804,621 which, however differs from the budget sum of Kshs. 1,348,466,250 reflected in the project implementation status report as at 30 June, 2020. No explanation has been provided by Management for the difference of Kshs. 487,338,371 between the two sets of records and as a result, the accuracy of the summary statement of appropriation - development could not be confirmed.

### **Management Response**

The Management stated that the amount shown in the project implementation report was the actual amount incurred for the projects implemented during 2019/2020 financial year. The development budget was not fully absorbed/implemented and this explained the variance between the summary statement of appropriation-development and the project implementation status report as at 30th June, 2020.

The County Executive noted that the following reasons why the budget was not fully absorbed-

1. The County accrued a budget deficit brought about by unrealized own source revenue of Kshs. 105,275,743.
2. The delayed exchequer releases by National Treasury of Kshs. 364,734,600.

### **Committee Observation**

The Committee noted that the matter has since been addressed.

### **Committee Recommendation**

The Committee recommends that the matter be marked as resolved.

## **2.0 Unaccounted for Expenditures**



Several expenditure balances reflected in the Financial Statements contain payments that were not sufficiently accounted for, as explained below:

### **2.1 Use of Goods and Services**

The statement of receipts and payments reflects Kshs. 737,443,728 in respect to use of goods and services. However, payments for the per diem and specialized materials totalling Kshs. 17,038,003 were not accounted for:

#### **2.1.1 Daily Subsistence Allowances**

Expenditure records examined, indicated subsistence allowances totalling Kshs.4,559,965 were paid to officials travelling on duty, as detailed in the attached appendix II.

However, records on the trips, including travel tickets, visas and boarding passes as applicable, were not made available for audit review.

In view of the missing records, the occurrence and validity of the payments totaling Kshs.4, 559,965 could not be confirmed. The records further indicated that payments totaling Kshs.3, 419,108 were made to a firm to supply air-tickets for use by officials of the County Executive in the year under review. However, records on the supply and use of the tickets were not provided for audit. As a result, it was not possible to confirm whether the tickets bought were supplied and used for the intended purpose.

#### **Management Response**

The County Government acknowledged that the Supporting documents relating to payment of allowances and supply of air tickets were not availed at the time of the audit since the county was under review by EACC- Central Region Office. As a result, the County Government could not avail these documents for audit review because they had already been requested and submitted to EACC.

#### **Committee Observation**

The Committee noted that the County Executive was under investigation by the Ethics and Anti-Corruption Commission, who had seized the documents, and therefore could not provide the documents at the time of audit.

#### **Committee Recommendation**

**The Committee recommends that the EACC should fast track investigations into the matter and provide a status report to Senate within 90 days of adoption of this report.**

#### **2.1.2 Purchase of Specialized Materials**

Other goods and services expenditure records examined, indicated that Kshs.251,160,399 was spent on purchase of specialized materials and services. However, payments totaling Kshs.12,478,038 included therein were not supported with relevant records including user requisitions, Local Purchase Orders (LPOs), and other procurement documents as well as delivery notes and goods inspection and acceptance certificates.

In the circumstance, the receipt of specialized equipment costing of Kshs.12,478,038 and the validity of the procurement process followed in their purchase could not be confirmed.

#### **Management Response**

The following payments under specialized material and equipment were made.

PV No.	Payee	Date	Amounts (Kshs)
30909	Halyard Products Limited	26 <sup>th</sup> Nov.2019	5,797,738
30954	Highpharm Pharmaceuticals Limited	27 <sup>th</sup> Nov.2019	6,680,300
Total			12,478,038

During the period under review, the County Government of Kirinyaga acknowledged that, relevant records including user requisitions, Local Purchase Orders (LPOs), and other procurement documents as well as delivery notes and goods inspection and acceptance certificates as indicated in the above observation by the auditor were not provided. The audit exercise was done during the same period the County was under review by EACC- Central Region Office. As a result, the County Government was not in possession of these documents since they had already been submitted to EACC.

#### **Committee Observation**

The Committee noted that the County Executive was under investigation by the Ethics and Anti-Corruption Commission, who had seized the documents, and therefore could not provide the documents at the time of audit.

#### **Committee Recommendation**

**The Committee recommends that the EACC should fast track investigations into the matter and provide a status report to Senate within 90 days of adoption of this report.**

### **2.2 Acquisition of Assets**

The statement of receipts and payments reflects acquisition of assets payments totalling Kshs.641, 408,819 as further disclosed in Note 17 to the Financial Statements. The following issues were noted in respect to the balance:

#### **2.2.1 Construction and Civil Works**

The acquisition of assets balance includes Kshs.77, 474,485 spent on construction and civil works, out of which payments totalling Kshs.4, 781,211 were not supported with payment vouchers and procurement records. As a result, the occurrence and validity of payments could not be confirmed.

#### **Management Response**

The following payments were made under construction and civil works category;

Payee	Date	Amount (Kshs)
Master Rock Construction Company Limited	17/1/2020	2,670,028



Payee	Date	Amount (Kshs)
Master Rock Construction Company Limited	27/3/2020	2,111,183
Total		4,781,211

In response, the County Executive duly followed the procurement process and was in compliance with all the relevant sections of the PPAD, 2015.

During the period under review, the procurement documents had been submitted for review to EACC. As a result, the County Government was not in possession of these documents since they had already been submitted to EACC.

#### **Committee Observation**

The Committee noted that the County Executive was under investigation by the Ethics and Anti-Corruption Commission, who had seized the documents, and therefore could not provide the payment vouchers and procurement records at the time of audit.

#### **Committee Recommendation**

**The Committee recommends that the EACC should fast track investigations into the matters and provide a status report to Senate within 90 days of adoption of this report.**

#### **2.2.2 Purchase of Vehicles**

The balance further includes Kshs.19, 745,500 spent on purchase of vehicles and other transport equipment, including a four-wheel-drive vehicle bought at Kshs.14, 500,000. The respective tax invoice dated 14 October, 2019 identified the vehicle as a Toyota Land Cruiser Prado registration number 20CG 054A and chassis JTEBH3FJ90K217341. However, the vehicle was not presented for audit verification. In the circumstance, its receipt and ownership by the County Executive could not be confirmed.

#### **Management Response**

The County Government of Kirinyaga acknowledged, the Toyota Land Cruiser Prado registration number 20CG 054A and chassis JTEBH3FJ90K217341 was not physically available to be presented for verification by the auditor during the period under review. The Management stated that this was the official car assigned to the Governor – County Government of Kirinyaga and it was on official duty with the Governor hence could not be availed for physical verification.

#### **Committee Observation**

The Committee noted that the matter has since been addressed.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

#### **2.2.3 Fixed Assets**

Annex 5 to the Financial Statements reflects historical cost of assets totaling Kshs. 2,506,166,821. However, Management has not indicated whether the balance includes the values of assets inherited from the defunct local authorities in the County.

In addition, the costs for eleven (11) items included in the balance differ with balances reflected in respect to the items in Note 17 to the Financial Statements, as shown in the attached Appendix III.

Further, records provided for audit indicated that the County Executive had ninety-nine (99) motor vehicles. However, log books for twenty-four (24) vehicles valued at Kshs.196,791,980 were not provided for audit verification. The vehicles are listed in Appendix IV.

In the circumstance, the valuation, accuracy and completeness of the acquisition of assets balance totaling Kshs.2,506,166,821 reflected in the Financial Statements could not be confirmed.

### **Management Response**

The Management stated that the historical cost of assets totaling Kshs.2,506,166,821 did not include assets inherited from the defunct local authorities in the County. The reason why the County's Fixed Asset Register (FAR) did not include asset and liabilities which were inherited from defunct Local Authorities was because the County was still waiting for list of verified and authenticated assets and corresponding values from IGRTC for inclusion in the FAR.

The asset verification and authentication exercise commenced by Transition Authority (TA) pursuant to Transition to Devolved Act, 2012 but was not completed before TA's term expiry. Consequently, IGRTC had taken over the residual function in accordance with Intergovernmental Relations Act, 2012. However, despite the staling, as aforementioned above, the County Government had since formed a taskforce with a mandate of conducting valuation of all County assets to develop an accurate and complete Fixed Asset Register.

The County Government had since reconciled the Cost of the eleven items.

The County Government acknowledged that logbooks for twenty-four (24) vehicles were not provided at the period of audit and but were submitted.

### **Committee Observation**

The committee noted that the County did not submit all the relevant documents and information to the Auditor general at the time of audit as per Section 62 of the Public Audit Act, 2015. However, the documents were subsequently submitted and the matter was addressed satisfactorily.

### **Committee Recommendations**

**The Committee recommends that the matter be marked as resolved.**

#### **2.2.4 Unconfirmed Ownership of Land**

Records on land owned by the County Government reflected seventy-two (72) parcels of land of varying sizes. However, the following anomalies were noted in respect to the land:

#### **2.2.5 Unavailable Documents**



Ownership documents for forty (40) of the seventy-two (72) parcels of land were not provided for audit verification. In addition, the land records did not disclose other vital information on all the parcels such as costs and carrying value, dates acquired, nature and use. Further, sixty (60) out of the seventy-two (72) parcels were not reflected in the fixed asset register.

### Management Response

The parcels of land had restrictions placed on them with the registrar of land therefore no ownership documents could be provided. In addition, the parcels of land were inherited from the Defunct Local Authorities and their final transfers including their determined values was a subject matter of Inter-Governmental Relations technical Committee (IGRTC) The exact status of the parcels of land was as tabulated below:

NO.	PARCEL NO.	OWNERS HIP	STATUS	REMARKS
1.	Kabare/Nyangati/18	Mathew Githae	Restricted	Restriction CECM Land, Housing & Urban Development 2014
2.	Kabare/Nyangati 20	Ngecu Kibe	Restricted	Restriction CECM Land, Housing & Urban Development 2014
3.	Kabare/Nyangati/23	Nyumu Ngari	Restricted	Restriction CECM Land, Housing & Urban Development 2014
4.	Kabare/Nyangati/22		Restricted	Restriction CECM Land, Housing & Urban Development 2014
5.	Kabare/Nyangati/42	Mukuria Kaimori	Restricted	Restriction CECM Land, Housing & Urban Development 2014
6.	Kabare/Nyangati/66	Kiragu Nduthu	Restricted	Restriction CECM Land, Housing & Urban Development 2014
7.	Kabare/Nyangati/67	Bakari Kibicho	Restricted	Restriction CECM Land, Housing & Urban Development 2014
8.	Kabare/Nyangati/68	Joseph Mwangi Kivuva	Restricted	Restriction CECM Land, Housing & Urban Development 2014

9.	Kabare/Nyangati /82	Mbiti Njogu	Restricted	Restriction CECM Land, Housing & Urban Development 2014
10.	Kabare/Nyangati/83	Robert Gutu	Restricted	Restriction CECM Land, Housing & Urban Development 2014
11.	Kabare/Nyangati/84	Amos Muchira	Restricted	Restriction CECM Land, Housing & Urban Development 2014
12.	Kabare/Nyangati/86	Gachogu Njambuya	Restricted	Restriction CECM Land, Housing & Urban Development 2014
13.	Kabare/Nyangati/152	Machai Cewa	Restricted	Restriction CECM Land, Housing & Urban Development 2014
14.	Kabare/Nyangati/715	Benson Munene	Restricted	Restriction CECM Land, Housing & Urban Development 2014
15.	Kabare/Nyangati/146		Restricted	Restriction CECM Land, Housing & Urban Development 2014
16.	Kabare/Nyangati/148	Kinguru Gakotho	Restricted	Restriction CECM Land, Housing & Urban Development 2014
17.	Kabare/Mikarara/146	Michael Ndege Muturi	Restricted	Restriction CECM Land, Housing & Urban Development 2014
18.	Inoi/Kerugoya/194	Njau Nduna	Restricted	Restriction CECM Land, Housing & Urban Development 2014
19.	Mwerua/Kagio/128	Mutugi Kathimba	Restricted	Restriction CECM Land, Housing & Urban Development 2014
20.	Mwerua/Baricho/285	Kagama Kabuga	Restricted	Originally recorded as



				Mwerua/Baricho/285
21.	Kabare/Nyagati/527	Wagati Kibaria	-	Sub-division 2379-2380
22.	Mwerua/Baricho/90	-	Restricted	-
23.	Kabare/Nyangati/64	Gichimu Magu	Restricted	Sub-division 2493-2504
24.	Kabare/Nyangati/215	Edith Wagatu Nguri	Restricted	Sub-division 5621-5623
25.	Kabare/Nyangati/216	Mbui Kinja	Restricted	Sub-division 650-651
26.	Kabare/Nyangati/127	Ciuma Kabira	Restricted	Sub-division 1825-1830
27.	Kabare/Nyangati/38	Warui Gachirigwa	Restricted	Sub-division 691-692
28.	Kabare/Nyangati/46	Muriithi Njuguna	Restricted	Sub-division 804-805
29.	Kabare/Nyangati/92	Josphat Njanjo	Restricted	-
30.	Kabare/Nyangati/91	-	Restricted	Sub-division 953-954
31.	Kabare/Nyangati/298	Thiaka Mutige	Restricted	-
32.	Mwerua/Baricho/292	Kibuga Kaguma	Restricted	-
33.	Kiine/Sagana/161	Wagocho Kabinga	Restricted	Closed combination on with 468
34.	Baragwi/Raimu/38	Mugo Ngare	Restricted	Sub-division 1489-1490
35.	Mwea/Tebere/92	Kimunyi Kishinga	Restricted	Sub-division 476-477
36.	Kabare/Nyangati/5879	James Kinyua Mbogo	Restricted	Restriction CECM Land, Housing & Urban Development 2014
37.	Kiine/Kibingoti/666	CGK	No Restriction	Reserved for Kibingoti Youth Polytechnic
38.	Kabare/Ngiroche/411	CGK	No Restriction	Reserved for Kamiigua Youth Polytechnic

39.	Ngariama/Merichi/419	CGK	No Restriction	Reserved Kimweas Polytechnic	for Youth
40.	Gichugu/settlement /scheme/2291	CGK	No Restriction	Reserved Difathas Centre	for Health

### **Committee Observation**

The Committee noted that;-

1. The parcels of land had restrictions placed on them with the registrar of land therefore no ownership documents could be provided.
2. the parcels of land were inherited from the Defunct Local Authorities and their final transfers including their determined values was a subject matter of Inter-Governmental Relations technical Committee (IGRTC)

### **Committee Recommendation**

The Committee recommends that the-

1. the County Executive expedites the process of acquiring the title deeds to the 40 parcels of land;
2. County Executive should update and present their Fixed Assets Register in the format prescribed by the Public Sector Accounting Standards Board;
3. County Executive should adopt and implement the report of the Inter-Governmental Technical Relations Committee (IGTRC) on assets and liabilities from defunct Local Authorities and provide a status update to the Office of the Auditor General within 90 days of adoption of this Report; and
4. Office of the Auditor General should progressively review and report on the matter in the subsequent Financial Years.

### **2.2.6 Disputed Land**

As previously reported, a parcel of land, measuring approximately 250 acres (KIINE/THINGIRICHI/527) reserved as cattle holding ground was registered on 5 May, 1960 under the Native Trust Land Board and the County Council of Kirinyaga thereafter. However, in the year 2000, a resident of the County filed a suit against the Council seeking to be declared the legal owner of the land. In 2004, the Commissioner of Lands registered the land in the name of the petitioner's widow.

Although the County Government has asserted that the allocation of the land to the petitioner was illegal and that the title deed held by his widow is not valid, the Court is yet to rule on the matter.

In the circumstance, the ownership of the land by the County Executive as at 30 June, 2020 could not be confirmed.

### **Management Response**

The County Government clarified that during the audit review, the parcel of land titled Kiine/Thigirichi/527 was in dispute. However, the dispute had been resolved in favor



of the County and a title issued in the name of the County Government. Copies of the land ownership documents were attached.

#### **Committee Observation**

The Committee noted that the matter has since been addressed.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

### **3.0 Unconfirmed Pending Bills Balance**

Note 7.10.1 of other important disclosures reflects pending accounts payable totaling Kshs.359,010,501 out of which bills totaling Kshs.150,917,677 were incurred during the year under review. However, a recast of the outstanding commitments in the vote book status report for the year under review revealed development and recurrent commitments totaling Kshs.132,818,256 and Kshs.27,300,812 or Kshs.160,119,068 in aggregate, as shown in Appendix V. The variance of Kshs.9,201,391 in the pending bills reflected in the two sets of records has not been explained.

In addition, review of the financial reporting system in the County Executive indicated that contrary to Regulation 54(2) (c) of the Public Finance Management (County Governments) Regulations, 2015, Management did not submit monthly financial and non-financial budgetary reports to the County Treasury.

Further, the pending bills balance has distorted the financial performance and position of the County Executive as at 30 June, 2020. Had the bills been paid during the year, the County Executive would have incurred a deficit of Kshs.8,903,235 instead of the surplus of Kshs.350,107,266 reported in the Financial Statements. In addition, the bills may use up the County's budgetary allocations for the 2020/21 financial year from which they are expected to be paid.

#### **Management Response**

The County Government stated that the variance of pending bills cited by the auditor amounting to Kshs.9, 201,391.00 was because of the following:

1. The variance of Kshs 9,201,391.00, was realized due to the auditor relying on the total figure of outstanding commitments from the IFMIS at the end of the financial year in determining pending bills payable.
2. However, the figure of pending bills for the year was not equal to the outstanding commitments in the Vote-Book as at the end of the fiscal year since as part of the end-of financial year procedures, outstanding commitments in IFMIS were reversed prior to the preparation of the Financial Statements and as such no figures of outstanding commitments can be availed to the auditor during audit.
3. In addition, Payments which had been processed up-to Internet-Banking (IB) payment level in the IFMIS were also reversed as part of the end-of-year adjustments due to delayed exchequer or unrealized revenue of Ksh. 364M and

105M these payments also formed part of the pending bills list. This was illustrative of the fact that not only outstanding commitments are pending bills.

4. That, Other projects which were in various phases of implementation e.g., contract award, LPO issue level, or payment certificate preparation level. At all these phases of projection implementation, these projects were considered pending bills at the end of the Financial Year while they were not outstanding commitments in the IFMIS vote-book.
5. According to IPSAS cash basis of accounting, only actual receipts and actual payments are used when calculating deficit or surplus for the year in the statement of receipts and payments. Further pending bills were only disclosed as part of annexures in the Financial Statements.

#### **Committee Observations**

The Committee observed that-

- 1) The County Executive had not settled all its pending bills at the time of the audit;
- 2) The County Executive did not provide a status report of all its pending bills as prescribed by the Public Sector Accounting Standards Board. This could lead to inadequate disclosures of the pending bills; and
- 3) There was poor record keeping of pending bills that could lead to ineligible bills and litigations.

#### **Committee Recommendations**

The Committee therefore recommends that:

- 1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time; and
- 2) the county executive puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.
- 3) Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) for investigation proper legal action taken against those filing false claims.
- 4) County Government to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending bills verification committees unconstitutional and engage Office of the OAG and strengthen the internal audit functions.; and
- 5) All valid pending bills that have been reviewed by the Office of the Auditor General be paid and a payment plan be submitted to the county assembly for approval and progress report on implementation sent to the Senate and the Office of the Controller of Budget.

#### **4.0 Unconfirmed Own-Generated Revenue**

The statement of receipts and payments reflects county own-generated receipts totaling Kshs. 374,724,257, as further disclosed in Note 9 to the Financial Statements. The



receipts include rental income totaling Kshs. 5,393,300. However, records on the revenue including the inventory of buildings let out, their location expected and actual rental income received and the outstanding balance as at 30 June, 2020, if any, were not presented for audit.

In the circumstance, the completeness and accuracy of the receipts totaling Kshs. 5,393,300 could not be confirmed.

#### **Management Response**

The County Government of Kirinyaga noted the observation by the auditor that receipts totaling to Kshs.5,393,300 could not be confirmed due to lack of revenue records including the inventory of buildings let out, their location expected and actual rental income received and the outstanding balance as at 30 June, 2020. At the time of audit, the County Government was undertaking a migration of data exercise from manual to automated Revenue Management System. The County Government later submitted the above-mentioned records to the auditor for verification.

#### **Committee Observation**

The committee noted that the County did not submit all the relevant documents and information to the Auditor general at the time of audit as per Section 62 of the Public Audit Act, 2015. However, the documents were subsequently submitted for review and the matter addressed satisfactorily.

#### **Committee Recommendations**

**The Committee recommends that the matter be marked as resolved.**

### **5.0 Inadequate Presentation and Disclosures in Financial Statements**

The Financial Statements reflect the following anomalies:

- (i) The statement of appropriation - recurrent and development combined indicates that the total budget for the year under review was reduced by Kshs.207,194,784.00. However, contrary to the requirements of IPSAS 1.9.23, the Notes to the Financial Statements have not disclosed the reasons for the adjustments.
- (ii) Annex 6 to the Financial Statements is signed by officers of the County Executive only, namely, the Chief Officer Finance and the Director of Accounts, contrary to the PSASB guidelines that require inter-entity transfers to be certified by the issuing and receiving parties.
- (iii) Contrary to the financial reporting requirements set by the Public Sector Accounting Standards Board, the statement of receipts and payments, statement of assets and liabilities, statement of cash flows and statement of appropriation do not indicate the respective accounting period they relate to.

#### **Management Response**

The Management stated the following;

- (i). The reduction of Kshs.207,194,784 in the budget was an aggregate adjustment of the county receipts which were adjusted by the supplementary

budget of FY2019/2020 as a result of CARA review, the amount of exchequer was reduced by Ksh.256,878,000. Additionally, local revenue budget was reduced by Kshs 20,000,000 when the county noted it could not realize the initial budget of Ksh.500,000,000.

(ii) Annex 6 had been revised and duly signed as per Public Sector Accounting Standards Board (PSASB) guidelines.

(iv) The statement of receipts and payments, statement of assets and liabilities, statement of cash flows and statement of appropriation related to the financial year ended 30th June, 2020 as indicated in the cover page of the financial statements.

#### **Committee Observation**

The Committee noted that the matter has since been addressed.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

#### **Other Matter**

##### **1. Budgetary Control and Performance**

The summary statement of appropriation: recurrent and development combined for the year ended 30 June, 2020 reflects final receipts budget and actual on comparable basis totaling Kshs.6,131,617,883 and Kshs.5,858,729,022 respectively, resulting to an under-funding of Kshs.272,888,861 or 4% of the budget. Similarly, the County Executive spent Kshs.4,937,177,741 against an approved budget of Kshs.6,131,617,883 resulting to an under-expenditure of Kshs.1,194,440,142 or 19% of the budget. The underfunding and underperformance constrained execution of planned activities and delivery of services to the residents of Kirinyaga County.

#### **Management Response**

The County Executive clarified that underfunding in budget and under-expenditure could be accounted for by: -

1. The County accrued a budget deficit brought about by unrealized own source revenue of Kshs. 105,275,743
2. The delayed exchequer releases by the National Treasury of Kshs. 364,734,600

#### **Committee Observations**

The Committee observed that;

- a) there was under-utilization of appropriated funds by the county executive as a result of delay in exchequer releases by the National Treasury; and
- b) the county did not meet its own-source revenue targets.

#### **Committee Recommendation**

**The Committee therefore recommends that:**

1. **The National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by**



the Senate and comply with Article 219 of the Constitution and Section 17(6) of the Public Finance Management Act, 2012; and

2. The County executive puts in place measures to enhance its own generated revenue in order to meet its revenue target and address revenue shortfalls.

## **2. Delayed Exchequer Releases**

Note 1A to the Financial Statements indicates that total Exchequer releases due in the year under review totaled Kshs.4, 241,100,000. However, examination of revenue records indicated that, out of this balance, receipts totaling Kshs.1, 191,749,100 or 28% of the budget were received by the County Government from the National Treasury between 15 June, 2020 and 5 August, 2020 as shown below:

<b>Date Funds Received in Bank Account</b>	<b>Amount (Kshs.)</b>
15.06.2020	445,315,500
24.06.2020	381,699,000
05.08.2020	364,734,600
Total	1,191,749,100

As a result of the delayed receipt of funds, the County Executive did not have sufficient time to spend its budget for the year.

### **Management Response**

The County Executive had been engaging with the Council of Governors (CoG), Intergovernmental Budget and Economic Council (IBEC) and the National Treasury itself on the issues of timely disbursement of exchequer releases.

### **Committee Observation**

The Committee noted that the County Executive received delayed exchequer releases by the National Treasury thereby hampering their budget implementation.

### **Committee Recommendation**

**The Committee recommends that the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate.**

## **3.0 Unresolved Prior Year Issues**

The report on progress of follow-up of prior year's auditor recommendations in Note 9 of other disclosures highlights only seven (7) of at least eighteen (18) issues raised in the audit report for 2018/2019 financial year. Therefore, the disclosure does not fulfil the reporting requirements set by the Public Sector Accounting Standards Board (PSASB).

### **Management Response**

The Management stated that the Eighteen (18) issues raised in the audit report for FY2018/2019 had been highlighted and duly disclosed to fulfil the requirements of PSASB.

#### **Committee Observation**

The Committee observed that the County Executive did not take action on the issues raised in the Report of the Auditor General for the Financial year 2018/2019.

#### **Committee Recommendation**

**The Committee recommends that the County Executive complies with section 53 of the Public Audit Act, 2015 by taking action on the issues raised by the Auditor General and submits a report to the Office of the Auditor General within sixty (60) days of the adoption of this report.**

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

#### **1.0 Un-utilized Covid-19 Funds**

The statement of receipts and payments reflects transfers from other government entities totalling Kshs.329,731,807 out of which a sum of Kshs.160,096,000 was received from the National Government for use in mitigating the effects of the Covid-19 pandemic. However, records on the payments indicated that the funds had not been utilised as at 30 June, 2020 and therefore the measures needed to protect the County's residents from COVID-19 may not have been executed as planned.

#### **Management Response**

The amount of Kshs. 160,096,000 cited by the auditor referred to Kshs. 43,740,000 and 116,356,000 grant from the National Government's Ministry of Health for Frontline Workers allowance and Health Infrastructure improvement in prevention and combating the COVID-19 Pandemic.

The inability to utilize the funds was occasioned by late disbursement of the funds by the relevant National Government Ministry in the period under review FY 2019/2020. The funds were included in the budget for the subsequent financial year FY2020/2021 and utilized.

#### **Committee Observation**

The Committee noted that the matter has since been addressed.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

#### **2.0. Delayed Implementation of Projects**

Project implementation records indicate that 96 projects budgeted at Kshs.332, 165,893 in aggregate were completed, whereas 30 (thirty) projects budgeted at Kshs.979, 842,995 were ongoing as at 30 June, 2020. Implementation of 7 (seven) projects



budgeted at Kshs.36, 457,362 had not started. The status of the projects at the time of the audit is summarized in Appendix VI.

In the circumstances, the residents of Kirinyaga County did not enjoy the benefits due from the investments totaling Kshs.1, 016,300,357 made in planned projects that were not started and those started but not completed in the year under review.

The project implementation report further indicated that thirty-three (33) key projects with budgetary allocations totaling Kshs.629, 800,357 were either not completed or not started as at 30 June, 2020, as outlined in the attached Appendix VII

As a result, the residents of Kirinyaga County did not enjoy the services expected from the projects.

### **Management Response**

The County Government of Kirinyaga acknowledged that there were stalled and uncompleted projects during the period under review.

In the period under review, The County Government of Kirinyaga had a budget deficit brought about by unrealized own source revenue.

Also, the County Executive had implemented performance management system to that measure performance, report effectively, & get insights of various projects being implemented by the County Government.

Further, the Counties had been engaging Intergovernmental Budget and Economic Council (IBEC) and the National Treasury itself through the Council of Governors (CoG), on the issues of delay in the disbursement of exchequers affects the implementation of planned Programmes and subsequently affects completion of projects.

### **Committee Observations**

1. The Committee observed there was non-implementation of budgeted projects by the County Executive during the year.
2. The Committee was concerned that delay in projects implementation will deny the county residents the required service delivery accruing from those projects.
3. The Committee further noted that failure to implement the projects by the County Executive is mainly attributed to late exchequer releases by the National Treasury.

### **Committee Recommendations-**

- 1) The Committee recommends that the National Treasury should strictly adhere to the cash disbursement schedule on the release of funds to County Governments as approved by the Senate; and
- 2) The Committee further recommends the Auditor General should undertake the verification of those projects within sixty (60) days from the adoption of this report.

### **3.0 Stalled Previous Years' Projects**

As reported in the previous year, examination of project records and inspection of civil works revealed that construction of seventy-seven (77) projects budgeted at

Kshs.188,085,355 launched in the financial year 2016-2017 had stalled and the works abandoned as outlined in the attached Appendix VIII.

An audit inspection conducted in the month of October, 2020 revealed two more projects contracted at Kshs.23,069,581 in aggregate and expected to be completed during the year under review had also stalled. As a result, no value for money had been obtained from the use of public funds totalling Kshs.211,154,936 invested in stalled projects as at 30 June, 2020.

#### **Management Response**

The Management stated that the stalled projects were occasioned by Unrealized Own Source Revenue (OSR) and delayed exchequer from The National Treasury.

The County Government confirmed that these projects had been completed and the phased projects were ongoing and thereby invited the auditor for a verification visit.

#### **Committee Observation**

The Committee observed that projects were still incomplete beyond the stipulated contractual period.

#### **Committee Recommendations**

The Committee recommends that;

1. The county government takes immediate action to finish the incomplete projects and provide information on the Project status, and plans to complete them to the Auditor General, within 60 days from the adoption of this report; and
2. The Auditor General should audit the projects to ascertain the completion and utilization of the said projects in line with this recommendation.

#### **4.0 Irregular Payments to Council of Governors**

Examination of transfers to other government entities during the year indicated that a total of Kshs.5, 438,993 was paid to the Council of Governors. However, the expenditure was incurred in disregard to Section 37 of the Inter-Governmental Relations Act, 2012 which provides that the budget of the Council should be provided for in the annual estimates of the revenue and expenditure of the National Government. In the circumstance, the payment made to the Council was irregular.

#### **Management Responses**

Payments of Ksh.5, 438,992.55 to council of Governor was properly accounted for as evidenced by the supporting documents

<b>Date</b>	<b>Description</b>	<b>Amount</b>
8/28/2019	Rent for Kirinyaga Liaison Office at Delta Towers	923,842.50
10/16/2019	Rent for Kirinyaga Liaison Office at Delta Towers	923,842.50
2/5/2020	Rent for Kirinyaga Liaison Office at Delta Towers	411,307.55
2/13/2020	Annual Devolution Conference Fees	2,000,000.00
3/2/2020	Exhibition Booths	200,000.00
3/4/2020	Delegates Fees	480,000.00
6/24/2020	Legal Fees (Equitable Share and Formula Impasse)	500,000.00



	Total	5,438,992.55
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#### **Committee Observation**

The Committee noted that payments made to the Council of Governors from County Revenue Funds were irregular and unlawful since the Intergovernmental Relations Act specifies that funding for the COG shall be drawn from the Consolidated Fund.

#### **Committee Recommendation**

**The Committee recommends that;-**

- 1. the irregular payments to the Council of Governors (COG) be stopped and further recommends the surcharge of any Governor, in their capacity as Chief Executive Officer, who continues to make the irregular contribution; and**
- 2. The EACC should oversee the recovery of all the public funds irregularly transferred to the Council of Governors (COG) by the Governor. This is in line with the Resolution of the Senate.**

#### **5.0 Unsupported Procurement of Fuel**

Examination of procurement records indicated that a sum of Kshs.61,092,213 was spent on purchase of fuel, oil and lubricants during the year under review. However, procurement documents such as tender advertisements and evaluation reports and supply contracts were not availed for audit.

In the circumstance, the validity of the procurement of the fuel, oil and lubricants worth Kshs.61,092,213 could not be confirmed.

#### **Management Response**

The Management stated that the County Government of Kirinyaga contracted National Oil Corporation for supply of fuel for the period under review pursuant to section 103 (2)(e) which permits Public Entities to acquire goods, works or services provided by a public entity provided that the acquisition price was fair and reasonable and compared well with known prices of goods, works or services in the circumstances.

The procurement was duly done through Direct Procurement and relevant supporting documents were attached for review.

#### **Committee Observations**

The Committee noted the failure of the County Assembly entity to submit relevant documents on time to the Auditor General during the audit exercise.

#### **Committee Recommendations**

**The Committee recommends that the accounting officer undertakes administrative actions against the responsible officer(s) who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act and provides a status report to the Office of the Auditor General within 60 days from the adoption of this report.**

#### **6.0 Excessive Expenditure on Personnel Emoluments.**

Examination of revenue and expenditure records indicated that compensation of employees' expenditure for the year under review totaled Kshs.2,320,111,647 equivalent to 44% of the revenue of the County Executive totaling Kshs.5,287,285,007. The expenditure surpassed the threshold of 35% prescribed in Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015.

Therefore, Management breached the law on containment of personnel emoluments expenditure. Further, the excessive spending on the item constrained funding for development projects and delivery of services to the residents of the County.

#### **Management Response**

The Management stated that the situation was due to the huge wage bill that was inherited from the defunct Local authorities, SRC circulars to increase health workers allowances and Implementation of Job evaluation report for phase 1 Salary review of all civil servants. Despite the above, the County Government undertook not to replace exiting staff who were not critical for service delivery in a bid to lower the wage bill. Further, the County had also embarked on increasing its own source revenue by:

- i. Automation of Revenue collection and management system
- ii. Increase Own Source Revenue by collection of arrears and penalties
- iii. Employment of Additional revenue officers and clerks

#### **Committee Observation**

The Committee observed that the County Executive's wage bill during the FY 2019/20 stood at 44% of the Assembly's total receipts.

#### **Committee Recommendations**

**The Committee recommends that; -**

1. that the County Executive to strictly adhere to the provision of paragraph 25(1)(b) of the PFM Act (county government) regulations, 2015 which stipulate that the county wage bill shall not exceed 35 percent of the county total revenue; and
2. County Executive to provide to the Auditor General the measures put in place to contain the county higher wage bill within sixty (60) days from the adoption of this report.

#### **7.0. Lack of Approved Staff Establishment**

Employees of the County Executive as at 30 June, 2020 totaled two thousand five hundred and seventy-one (2,571) out of whom three hundred and sixty-one (361) were recruited in the year under review. As in the previous year, the County Executive did not have an approved staff establishment, contrary to Section B 5(2) and Section B 6(3) of the County Public Service Human Resource Manual, 2013. The provision requires the County Government to ensure optimum staffing levels are based on an authorized establishment and organization structure.

Consequently, Management was in breach of the regulations on efficient and effective use of human resources and further, the staffing levels may not be optimal.



In addition, out of the 361 staff recruited during the year, 278 (77%) were from the dominant community in the county contrary to Section 65 (1) (e) of the County Governments Act, 2012 which requires at least thirty percent of the vacant posts at entry level to be filled by candidates who are not from the dominant ethnic community in the County.

#### **Management Response**

The Management stated that at the time of the audit the establishment was under review based on the Capacity Assessment and Rationalization of the Public Service (CARPS) report of 2015. This report was approved for implementation by the Summit bringing together all the 47 Counties and the National Government Executive. The report among some of its recommendations, proposed an establishment for the County and gave a way forward on the phased filling of vacant positions that it had identified subject to budgetary provisions.

The county staff establishment was approved by the County Executive Committee in its meeting held on 8<sup>th</sup> July, 2021 vide minute No. MIN.CGK/CECM/3/7/2021.

#### **Committee Observation**

The Committee noted that the matter was addressed.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

#### **8.0. Irregular Renewal of Teachers Contract**

Examination of compensation of employees' expenditure records indicated that salaries totaling Kshs.29,454,000 were paid to Early Childhood Development Education (ECDE) teachers in May and June, 2020. However, documents presented for audit indicated that the employment contracts signed between the teachers and the County Executive expired on 31 December, 2019 but were extended by Management without approval from the County Public Service Board contrary to Section 59 of the County Governments Act, 2012.

In the circumstance, the extended employment of the ECDE teachers without renewal of contract was irregular.

#### **Management Response**

The Management stated that during the period of review, there was no duly constituted County Public Service Board and hence could not approve the extension of the Early Childhood Development Education (ECDE) teachers. However, they had been duly approved as per Section 59 of the County Governments Act, 2012 on 5<sup>th</sup> February, 2021 and subsequently the Contracts of the ECDE Teachers were renewed.

#### **Committee Observation**

The Committee noted that the County Executive was in breach of Section 59 of the County Governments Act, 2012

#### **Committee Recommendation**

**The Committee recommends that the County Executive strictly adhere to section 59 of the County Government Act, 2012.**

#### **9.0 Officers Earning Less Than a Third Basic Pay**

Audit review of payroll records revealed that several officers earned less than one third of their basic pay contrary to Section 19(3) of the Employment Act, 2007. The provision requires the total amount of deduction of the wages of an employee not to exceed 2/3 of such wages.

Management therefore breached the law and put the officers at the risk of pecuniary embarrassment.

#### **Management Response**

The IPPD System was configured in such a manner that when an employee applies for a bank or SACCO facility, the payroll manager/officer inputs the amount of the facility sought and the system automatically calculates and indicates whether the officer qualifies for the loan/facility based on the amount and period. The system was configured to reject any amount which is beyond two third (2/3) of an officer's basic salary.

However, in certain circumstances an officer who had committed the maximum allowed limit would have basic pay affected due to the following reasons: -

- i) Recovery of a government liability
- ii) Court imposed obligations e.g., child maintenance
- iii) An officer whose rank has been reduced
- iv) An officer on interdiction/suspension
- v) Other voluntary deductions like to social welfare association

In the above cited circumstances, the IPPD system prioritized the deductions over the allowed basic pay limit.

#### **Committee Observation**

The Committee observed that some of the county staff were earning less than a third of their basic pay contrary to Section 19 (3) of the Employment Act 2007.

#### **Committee recommendations**

**The Committee therefore recommends that -**

1. the County Executive should provide to the Auditor General within sixty (60) Days after the adoption of this report a plan of the measures put in place to mitigate on the issue as well as comply with the requirements of law;
2. the county should configure their IPPD system such that it is able to lock out commitments beyond the accepted thresholds; and
3. The Auditor General should continue monitoring the issue in subsequent financial years.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**



**Lack of Policy on Use of Information, Communication Technology**

Audit review of the Information Communication Technology (ICT) system confirmed that Management had no documented policy to guide investment in and use of ICT resources. In addition, there were no continuity and disaster management plans to mitigate the effects of unexpected disruptions of the system.

In the circumstances, effective use of public resources invested in the system, and the appropriateness of risk management policies established thereof, could not be confirmed.

**Management Response**

The Management stated that the County had since developed an ICT policy.

**Committee Observation**

The Committee noted that the County Executive had not put in place a policy on use of Information, Communication Technology.

**Committee Recommendation**

**The Committee recommends that the County Executive put in place an Information, Communication Technology policy and submit a status report sixty (60) days from the adoption of this report.**

**CHAPTER FIVE**  
**REPORT OF THE SENATE COUNTY PUBLIC ACCOUNTS COMMITTEE**  
**ON THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL**  
**STATEMENTS OF MAKUENI COUNTY EXECUTIVE FOR THE FINANCIAL**  
**YEAR 2019/2020**

The Governor of Makueni County, Hon. Mutula Kilonzo Jnr, appeared before the Committee on Wednesday, 13<sup>th</sup> June, 2023 to respond (under oath) to audit queries raised in the Report of the Auditor General on Financial Statements for Makueni County Executive for the Financial Year 2019/2020.

**Qualified Opinion**

<b>EXECUTIVE SUMMARY OF UN-RESOLVED AUDIT QUERIES</b>				
	<b>Query</b>	<b>Recommendations</b>	<b>Actor</b>	<b>Timeline</b>
<b>1</b>	<b>Budgetary Control and Performance</b> Recurrent and development combined for the year ended 30 June, 2020 reflects final receipts budget and actual on comparable basis totalling Kshs.11,186,278,572 and Kshs.9,556,519,636 respectively, resulting to an under-funding of Kshs.1,629,758,936 or 15% of the budget. Similarly, the County Executive spent Kshs.8,591,014,554 against an approved budget of Kshs.11,186,278,572 resulting to an under-expenditure of Kshs.2,595,264,018 or 23% of the	1. The National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate. 2. The County Executive puts in place measures to enhance its own generated revenue in order to meet its revenue target and address revenue shortfalls.	1. The National Treasury 2. The County CEO	Continuous



	budget. The shortfall of revenue was the main cause of the under-expenditure which in turn constrained delivery of planned services.			
2	<p><b>2. Unresolved Prior Year Audit Matters</b></p> <p>Two issues raised in the report for the previous year were resolved in the year under review. However, does not provide information on the progress attained in resolving several other issues highlighted in the report. Consequently, the disclosures on follow-up of previous years issues are incomplete and do not conform to the reporting requirements set by the Public Sector Accounting Standards Board.</p>	The County Executive complies with the Section 53 of the Public Audit Act, 2015 by taking action on the issues raised by the Auditor General and submits a report to the Auditor General within (60) days of the adoption of this report.	<p>1. County Chief Executive Officer</p> <p>2. Auditor General</p>	(60) days after the date of the adoption of this report.
<b>REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES</b>				
3	<p><b>Implementation of Projects; - Stalled and Unutilized Projects</b></p> <p>The County Government implemented thirty-one (31) projects valued at Kshs.63,073,334 during the year under</p>	The Auditor General to undertake verification of the project to ascertain the completion and utilization of the projects and submit a status report to the Office of the Auditor General	<p>1. The County Chief Executive Officer</p> <p>2. Auditor General</p>	60days from the date of adoption of this report.

	<p>review. However, twenty-nine (29) projects executed to completion at an aggregate cost of Kshs.55,276,523 were not commissioned for use by residents. Further, two (2) projects on which a total of Kshs.7,796,811 had been spent as at 30 June, 2020, had stalled. No adequate explanation was provided by Management for the delay in commissioning the projects.</p>	<p>within 60 days of the adoption of this report.</p>		
4	<p><b>2.2 Delayed Implementation of Early Childhood Education Project</b></p> <p>Procurement records indicated that a tender for construction of two (2) classroom blocks, an office, three (3) door pit latrine and installation of a 5,000-litre plastic water tank at Katumini Early Childhood Education (ECDC) Centre was awarded in February, 2020 at a contract sum of Kshs.3,203,433. Although the project was to be implemented in 90</p>	<p>1. The Auditor General to undertake verification of the project to ascertain the completion and utilization of the Early Childhood Development Education (ECDE) project and submit a status report to the Office of the Auditor General within 60 days after the adoption of this report.</p>	<p>1. The County Chief Executive Officer 2. Auditor General</p>	<p>60days from the date of adoption of this report.</p>



	<p>days to 18 May 2020, it had, however, not been completed by the time of the audit inspection in November 2020. Further, only one Interim Certificate valued at Kshs.2,698,959, had been issued by the contractor.</p>			
	<p><b>3. Compensation of Employees</b>  <b>3.1 Limit on Personnel Emoluments</b>  Expenditure Not Observed The statement of receipts and payments reflects compensation of employee's expenditure totalling Kshs.3,409,529,862 as further disclosed in Note 5 to the financial statements. The expenditure was equivalent to 41.8% of the total receipts for the year, net of returned CRF Issues totalling Kshs.8,156,213,537. The spending exceeded the threshold of 35% prescribed in Section 25(1) (a) and 25(b) of the Public Finance Management (County Governments) Regulations, 2015.</p>	<p>The Committee recommends that-</p> <ol style="list-style-type: none"> <li>1. the management should provide to the Auditor General and the Senate the measures it will put in place to contain the high wage bill within sixty (60) days of the adoption of this report;</li> <li>2. the management should strictly adhere to the provision of paragraph 25(1)(b) of the PFM Act (county government) regulations, 2015 which stipulate that the county wage bill should not</li> </ol>	<p>The County CEO</p>	<p>Within sixty (60) days of the adoption of this report</p>

		<p>exceed 35 per cent of the county total revenue; and</p> <p>3. the county executive puts in place measures to enhance own source revenue collection in order to address wage bill gap.</p>		
5	<p><b>4. Irregular Payment to the Council of Governors</b></p> <p>Examination of records on payments made for goods and services indicated that a sum of Kshs.4,700,000 was paid to the Council of Governors as contribution to offsetting the Council's expenses.</p>	<p>The Committee recommends that the irregular payments to the Council of Governors (COG) be stopped and further recommends the surcharge of any Governor, in their capacity as Chief Executive Officer, who continues to make the irregular contribution. The EACC should oversee the recovery of all the public funds irregularly transferred to the Council of Governors (COG) by the Governor. This is in line with the Resolution of the Senate.</p>	<p>The County Chief Executive Officer</p> <p>EACC</p>	Immediate
<b>REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE</b>				
6	<b>Lack of Disaster Recovery and</b>	1. The County CEO ensures that the disaster and risk	1. The County Chief	Within 60 days of



	<p><b>Business Continuity Plan</b> In previous years, Management did not have an approved Disaster Recovery and Business Continuity Plan for the County Government's operations. As a result, service delivery by the County Executive is likely to be disrupted on occurrence of unfavorable events that may affect the County Government's operational systems.</p>	<p>management policies and plans are finalized and adopted and provide a status update to the Office of the Auditor General within 60 days of adoption of this report. 2. The Auditor General to verify that the County Executive has adopted the relevant disaster and risk management policies and plans.</p>	<p>Executive Officer 2. Auditor General</p>	<p>adoption of this report</p>
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## Qualified Opinion

### 1. Unconfirmed Balances

The following balances reflected in the financial statements differ with those reflected in the Integrated Financial Management Information Systems (IFMIS) trial balance as at 30 June, 2020 by a net credit balance of Kshs.19, 861,508,968, as shown in the Appendix to this report. As a result, the accuracy and completeness of the financial statements has not been confirmed.

### Management Response

The Management stated that the variances reflected in the financial statements and the Integrated Financial Management Information Systems (IFMIS) trial balances were caused by delayed operationalization of the auto reconciliation module in IFMIS.

### Committee Observation

The Committee noted that the matter has since been addressed.

### Committee Recommendation

**The committee recommends that the matter be marked as resolved.**

### 2. Land without Ownership Documents

The statement of receipts and payments reflects acquisition of assets payments totaling Kshs.1, 501,460,426 as further disclosed in Note 9 to the financial statements. Included in the balance is Kshs.2, 500,000 paid for purchase of two (2) acres of land in June,

2020. However, the need identified for the land was not disclosed and further the valuation report relied upon to make the purchase and the title deed transferred to the County Government were not presented for audit. In the absence of this information, value for money on the price paid for the land and its ownership and intended use by the County Government could not be confirmed.

#### **Management Response**

The Management submitted that the expenditure of Kshs 2,500,000 was as a result of a court ruling of 5<sup>th</sup> May 2020 ordering the county government of Makueni to pay one Mrs. Susan Kavuli Kin'goo Musimba the total sum for 2 acres of land to be curved off Land Parcel Makindu/ Kalii/1556. This cost was to cover purchase price, damages and costs, and valuation fees and fence destruction.

The order compelled the county to pay within 60 days after the ruling was made and therefore in order to comply with the court and out of abundance of caution not put the government in contempt of court, the payment was done. At the same time the department of Lands, Mining, Physical Planning and Urban Development initiated the process of subdivision and transfer of the 2 acres of land from the mother title but the efforts were hampered by the presidential decree to halt all public gatherings in April 2020. Further the Cabinet Secretary, State Ministry of Lands and Physical Planning issued a public notice of indefinite closure of all land offices therefore halting all land transactions within the country that further delayed the process.

This is because the transfer of land and processing of new Title Deed must have gotten a consent from the Land Control Board that were suspended due to the COVID-19 pandemic. However, after the operations of land control boards resumed, the process of subdivision, transfer and processing of the New Title for Mbulutini Uthasyo Dispensary began and the title deed was processed and the land was already in use by the dispensary at the moment and was surveyed and beaconed.

#### **Committee Observation**

The Committee noted that the matter has since been addressed.

#### **Committee Recommendation**

**The committee recommends that the matter be marked as resolved.**

#### **Other Matter**

##### **1. Budgetary Control and Performance**

The summary statement of appropriation: recurrent and development combined for the year ended 30 June, 2020 reflects final receipts budget and actual on comparable basis totalling Kshs.11,186,278,572 and Kshs.9,556,519,636 respectively, resulting to an under-funding of Kshs.1,629,758,936 or 15% of the budget. Similarly, the County Executive spent Kshs.8, 591,014,554 against an approved budget of Kshs.11, 186,278,572 resulting to an under-expenditure of Kshs.2, 595,264,018 or 23% of the



budget. The shortfall of revenue was the main cause of the under-expenditure which in turn constrained delivery of planned services.

### **Management Response**

The Management stated that revenue collection was adversely affected by the restrictions imposed by the COVID-19 protocols. Up until the end of third quarter of the FY 2019/2020, the County was on course to collect more than the amount collected in a similar period in the previous financial year. Revenue performance at the end of the quarter was Kshs. 356,567,484.50 compared to Kshs. 39,285,170 which is equivalent to 12.3% increment.

The County Executive had nearly all the revenue streams recording a slump in actual performance in the FY 2019/ 2020 compared with actual performance in FY 2018/2019 owing to COVID-19 pandemic.

The County undertook the following measures to enhance own source revenue generation;

- a) Implementation of a Revenue Administration Policy and Own Source Revenue Mobilization Strategy as shown in Appendix 3a and 3b respectively which encompasses all the revenue administration processes from assessment, invoicing, enforcement for compliance, collection, accounting and reporting. The Policy advocates for an independent enforcement for compliance unit which will be engaged in revenue only as opposed to general enforcement of several government functions.
- b) The County had an approved valuation roll as shown in Appendix 3c to aid in the mobilization of property rates. The valuation roll has a database for all ratepayers and reminders are sent occasionally on their property rate paying obligations.
- c) The County put in a request to the County Public Service Board for recruitment of extra 50 new officers to replace those who retired since 2013 in order to enhance collection of unstructured revenue streams.
- d) The county piloted cashless payments in the 2020/2021 financial year for the parking fees. The cashless payments are being rolled out in 2022/2023 financial year for the other revenue streams. This will reduce revenue leakage as a result of cash handling.

The under- expenditure on the budget was a result of COVID – 19 restrictions which hampered the economic activities that required travel arrangements.

### **Committee Observation**

The Committee noted that delays in receiving exchequer releases from the National Treasury and under-collection of own source revenue hindered optimal program implementation and budget execution.

### **Committee Recommendations**

**The Committee recommends that-**

- 1) The National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate; and**
- 2) The County executive puts in place measures to enhance its own generated revenue in order to meet its revenue target and address revenue shortfalls.**

## **2. Unresolved Prior Year Audit Matters**

Note 7 to the financial statements indicates that two issues raised in the report for the previous year were resolved in the year under review. The Note, however, does not provide information on the progress attained in resolving several other issues highlighted in the report. Consequently, the disclosures on follow-up of previous years issues are incomplete and do not conform to the reporting requirements set by the Public Sector Accounting Standards Board.

### **Management Response**

The county prepared and submitted progress reports on follow up of prior year audit matters.

### **Committee Observation**

The Committee observed that the County Executive did not take action on the issues raised in the Report of the Auditor General for the Financial Year 2018/2019.

### **Committee Recommendation**

**The Committee recommends that the County Executive complies with section 53 of the Public Audit Act, 2015 by taking action on the issues raised by the Auditor General and submits a report to the Office of the Auditor General within sixty (60) days of the adoption of this report.**

## **3. Delayed Exchequer Receipts**

Revenue records indicated that the Exchequer receipts totaling Kshs.666, 549,000 were received on 24 June 2020, only one week to the end of the financial year under review on 30 June 2020. In view of the delay, the programmes and activities that the funds were extracted to finance were not implemented in due time.

### **Management Response**

The Management stated that the release of Exchequer funds to counties is within the domain of the National Treasury. The County Government would appreciate interventions geared towards timely and regular disbursement of funds to counties. As at the closure of the year, the disbursement from the exchequer were expected, necessary arrangements made and projects procured.

Upon receipt of the Kshs 666, 549,000 on 24<sup>th</sup> June 2020, the County Government processed requisition of funds to the controller of Budget and transferred the funds from the County Revenue Fund account to operational accounts in order to pay goods and services offered.



### **Committee Observation**

The Committee noted that delays in receiving exchequer releases from the National Treasury and under-collection of own source revenue hindered optimal program implementation and budget execution.

### **Committee Recommendations**

**The Committee recommends that-**

- 1) The National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate; and
- 2) The County executive puts in place measures to enhance its own generated revenue in order to meet its revenue target and address revenue shortfalls.

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

### **1. Irregularities in Operations of Makueni County Fruit Development and Marketing Authority**

Records examined indicated that the County Executive established an agro-processing entity namely, Makueni County Fruit Development and Marketing Authority, in July, 2017 and appointed the Board of Directors and Managing Director in January, and August, 2018 respectively. However, audit review of the operations of the Authority revealed the following unsatisfactory matters:

#### **1.1 Lack of Operational Autonomy**

Examination of the Authority's financial records for the year under review indicated that, despite the Authority being established as a separate County entity, it was not granted sufficient autonomy by the County Executive. For example, the Authority's budget totalling Kshs.72, 941,000 in the year under review was spent through the Ministry of Agriculture. As a result, the Management of the Authority did not have sufficient autonomy in implementing the budget and may, therefore, not be solely accountable for the results attained from the Authority's operations.

### **Management Response**

Management submitted that since the gazettelement of Makueni County Fruit Development and Marketing authority in July 2017, the department of agriculture, irrigation, livestock and fisheries development supported it by seconding ten staff to the authority. In order to strengthen the capacity of the authority to be able to hire a finance and administration manager as well as other 7 staff. The department availed budgetary support and eight staff members were recruited. Having been satisfied that the capacity of the authority to perform financial functions was enhanced, the department commenced the process of appointing the CEO as an accounting officer on 1st July 2020.

**Committee Observation**

The Committee noted that the matter has since been addressed.

**Committee Recommendation**

**The committee recommends that the matter be marked as resolved.**

**1.2 Failure to Submit Financial Statements for Audit**

The Authority did not prepare and submit financial statements to the Auditor-General for audit as required by Section 19(1-3) of the Makueni County Fruit Development and Marketing Authority Act, 2017 and Sections 81(4) (a) and 185 of the Public Finance Management Act, 2012. Consequently, the nature and extent of the operations of the Authority during the year under review, and its financial position as at 30 June, 2020, could not be confirmed.

**Management Response**

Makueni County Fruit Development and Marketing authority prepared and submitted its financial statement for the financial years 2017/2018, 2018/2019, 2019/2020 and 2020/2021.

**Committee Observation**

The Committee noted that the matter has since been addressed.

**Committee Recommendation**

**The committee recommends that the matter be marked as resolved.**

**1.3 Misrepresented Bank Accounts**

The legal name of the Authority defined in the enabling Act is 'Makueni County Fruit Development and Marketing Authority'. However, the bank account operated by the Authority is registered in the name of 'Makueni Fruit Processing Plant'. Management did not provide an explanation for the anomaly in the bank account name. Consequently, the legal relationship between the two entities on one hand, and between 'Makueni Fruit Processing Plant' and the County Government on the other, has not been confirmed.

**Management Response**

Makueni fruit processing plant operates under the auspice of the Makueni County Fruit Development and Marketing authority. According to the Makueni County Fruit Development and Marketing Authority (Amendment) Act 2017 section 6, the authority is mandated to oversee the operations of the Makueni Fruit Processing Plant (MFPP) from a policy perspective. The board passed a resolution to open a Makueni County fruit Development and Marketing Authority account.

**Committee Observations**

The Committee noted that the matter has since been addressed.

**Committee Recommendations**

**The committee recommends that the matter be marked as resolved.**



#### **1.4 Non-Official Bank Signatories**

In addition, two signatories to the Authority's bank account were not employees or officials of the County Executive despite the Authority's expenditures and revenues being public resources entrusted to the County Government. Further, the minutes of the Board of Directors meeting that authorized the opening of the bank account and nominated its signatories were not provided for audit review. Therefore, Management of the Authority has breached the law on accountable management of public resources.

#### **Management Response**

Two signatories to the Authority's bank accounts were employees of the Authority during the period under review. The two signatories could authentically transact on behalf of the authority since their employment contracts were still valid. The contract for one signatory, Mr. Stephen Makanga had lapsed and therefore ceased being an employee of the authority. The minutes of the board of Directors meeting that authorised the opening of the bank accounts and nominated its signatories.

#### **Committee Observation**

The Committee noted that the matter has since been addressed.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

### **2. Implementation of Projects**

#### **2.1 Stalled and Unutilized Projects**

Review of records on development vote spending indicated that the County Government implemented thirty-one (31) projects valued at Kshs.63, 073,334 during the year under review. However, twenty-nine (29) projects executed to completion at an aggregate cost of Kshs.55, 276,523 were not commissioned for use by residents. Further, two (2) projects on which a total of Kshs.7, 796,811 had been spent as at 30 June, 2020, had stalled. No adequate explanation was provided by Management for the delay in commissioning the projects. As a result of the delay, the public services that the projects were expected to provide were not realized.

#### **Management Response**

An updated projects status report was attached showing the current status of each project.

#### **Committee Observation**

The Committee noted that the supporting documents for the management responses on projects were submitted late hence the auditors had not verified the projects

#### **Committee Recommendation**

**The Committee recommends that the auditors carry out projects verification in the next audit cycle.**

## **2.2 Delayed Implementation of Early Childhood Education Project**

Procurement records indicated that a tender for construction of two (2) classroom blocks, an office, three (3) door pit latrine and installation of a 5,000-litre plastic water tank at Katumini Early Childhood Education (ECDC) Centre was awarded in February, 2020 at a contract sum of Kshs.3, 203,433. Although the project was to be implemented in 90 days to 18 May 2020, it had, however, not been completed by the time of the audit inspection in November 2020. Further, only one Interim Certificate valued at Kshs.2, 698,959, had been issued by the contractor.

In view of the delay, the objectives of the project were not attained.

### **Management Response**

The project was affected by heavy rains which made the roads impassable and the site unworkable. The contractor requested for contract extension in order to resume and complete the project once the rains subsided. The project was completed and a completion certificate was attached.

### **Committee Observations**

The Committee noted that the supporting documents for the management responses on projects were submitted late hence the auditors had not verified the projects

### **Committee Recommendations**

**The Committee recommends that the auditors carry out projects verification in the next audit cycle.**

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## **3. Compensation of Employees**

### **3.1 Limit on Personnel Emoluments**

**Expenditure Not Observed** The statement of receipts and payments reflects compensation of employee's expenditure totalling Kshs.3,409,529,862 as further disclosed in Note 5 to the financial statements. The expenditure was equivalent to 41.8% of the total receipts for the year, net of returned CRF Issues totaling Kshs.8, 156,213,537. The spending exceeded the threshold of 35% prescribed in Section 25(1) (a) and 25(b) of the Public Finance Management (County Governments) Regulations, 2015.

### **Management Response**

Compensation of employees exceeded the threshold of 35% of total revenue due to the following reasons;

- a) Implementation of job evaluation results
- b) Revision of House allowance and hardship allowance.
- c) Implementation of return to work formula occasioned by the health worker's strike
- d) staff recruitment

### **Committee Observation**

The Committee observed that; -



1. that the wage Bill for Makueni County Executive was above the set limit of 35% as provided for by the Public Finance Management (County Government) Regulations, 2015.
2. that the county has a bloated workforce which is currently at 41.8% of the total revenue.

#### **Committee Recommendations.**

##### **The Committee recommends that-**

1. the management should provide to the Auditor General and the Senate the measures it will put in place to contain the high wage bill within sixty (60) days of the adoption of this report;
2. the management should strictly adhere to the provision of paragraph 25(1)(b) of the PFM Act (county government) regulations, 2015 which stipulate that the county wage bill should not exceed 35 per cent of the county total revenue; and
3. the county executive puts in place measures to enhance own source revenue collection in order to address wage bill gap.

#### **3.2 Non-Compliance with Law on Ethnic Diversity in Employment**

Review of the staff records indicated that 3,299 employees or 92% of the establishment of 3,589 staff were from the dominant ethnic community in the County. Section 7(2) of the National Cohesion and Integration Act, 2008 prescribes that no public establishment shall have more than one third (1/3) of its employees from the same ethnic community. Consequently, the County Executive is yet to attain the prescribed threshold for ethnic diversity in employment.

#### **Management Response**

The Board has continued to face a challenge in attracting applicants from outside the Kamba community which is the dominant ethnic group, despite wide advertising in the main newspaper and indicating the county is an equal opportunity employer. Copies of the adverts, shortlisting and interview score sheet summary were attached.

#### **Committee Observation**

The Committee observed that the matter remained unresolved, as the county staff establishment lacked ethnic diversity.

#### **Committee Recommendation**

**The Committee recommends that the county executive should work progressively towards attaining the requirement of the provisions of Section 65(1)(e) of County Government Act on ethnic inclusivity.**

#### **4. Irregular Payment to the Council of Governors**

Examination of records on payments made for goods and services indicated that a sum of Kshs.4,700,000 was paid to the Council of Governors as contribution to offsetting the Council's expenses. The payment was made contrary to Section 37 of the

Intergovernmental Relations Act, 2012 which provides that the operational costs of the Council shall be funded from the budget of the National Government.

#### **Management Response**

The expenditure item was included in the financial year 2019/2020 budget. The Council of governors in their resolution authorized the counties to transfer funds in order to foot the bills of those expenditure items. Minutes of COG authorizing the expenditure were attached.

#### **Committee Observation**

The Committee noted that payments made to the Council of Governors from County Revenue Funds were irregular and unlawful since the Intergovernmental Relations Act specifies that funding for the COG shall be drawn from the Consolidated Fund.

#### **Committee Recommendation**

The Committee recommends that:-

1. the irregular payments to the Council of Governors (COG) be stopped and further recommends the surcharge of any Governor, in their capacity as Chief Executive Officer, who continues to make the irregular contribution.
2. The EACC should oversee the recovery of all the public funds irregularly transferred to the Council of Governors (COG) by the Governor. This is in line with the Resolution of the Senate.

### **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

#### **Lack of Disaster Recovery and Business Continuity Plan**

Regulation 158 of the Public Finance Management Act (County Governments) Regulations, 2015 requires every Accounting Officer to develop risk management strategies that support robust business operations. However, as in previous years, Management did not have an approved Disaster Recovery and Business Continuity Plan for the County Government's operations.

As a result, service delivery by the County Executive is likely to be disrupted on occurrence of unfavorable events that may affect the County Government's operational systems.

#### **Management Response**

The County embarked on the development of a Disaster Recovery Plan. The county government prepared a COVID19 recovery and reengineering strategy plan to mitigate effects of COVID 19 pandemic. This addressed the impact of pandemic and unfavorable events. Other measures taken by the County Government to mitigate disasters and ensure continuity of business include preparation and implementation of IT Administrative policy and enterprise risk management policy. The county also put in place an additional fire station at Makindu town to alleviate the risk of fire on property.



**Committee Observation**

The Committee noted that the County executive did not have a disaster recovery and business continuity plan.

**Committee Recommendation**

The Committee recommends that the County Executive should put in place a disaster recovery and business continuity plan and submit a status report to the auditor general sixty days from the adoption of this report.

## CHAPTER SIX

### REPORT OF THE SENATE COUNTY PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF MERU COUNTY EXECUTIVE FOR THE FINANCIAL YEAR 2019/2020

The Governor of Meru County, H.E Kawira Mwangaza, appeared before the committee on Thursday 15th June 2023, to respond (under oath) to audit queries raised in the Report of the Auditor General on Financial Statements for Meru County Executive for the Financial Year 2019/2020.

#### Qualified Opinion

EXECUTIVE SUMMARY OF UN-RESOLVED AUDIT QUERIES				
	Query	Recommendations	Actor	Timeline
1.	<p><b>1.1 Inaccuracies in Exchequer Releases.</b></p> <p>The statement of receipts and payments differed from the actual amount received resulting to an unexplained and unreconciled variance of Kshs.838,562,167.</p>	<p>The Committee recommends that;-</p> <p>a) County Chief Executive Officer undertakes administrative actions against the responsible officer(s) who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act and provides a status report to the Office of the Auditor General within 60 days from the adoption of this report;</p> <p>b) The County CEO undertakes administrative action against the accounting officer, the Chief Officer Finance, the Head of County Treasury and any other officer(s) responsible for failure to undertake reconciliation of financial statements within the stipulated timelines in accordance with Section 156 of the Public Finance Management Act, 2012 and</p>	<p>The County Chief Executive Officer</p> <p>ICPAK</p>	<p>60 Days from the date of adoption of this report</p>



		<p>submit a report to the Office of the Auditor General within 60 days of adoption of this report;</p> <p>c) The Institute of Certified Public Accountants (ICPAK) takes action(s) against the responsible officer(s) for misrepresentation of financial statements which constitutes professional misconduct pursuant to Section 8 (a) and 30 of the Accountants Act CAP 531 and reports to the Office of the Auditor General within 60 days of adoption of this report;</p> <p>d) County CEO must ensure strict adherence to the Public Audit Act, 2015 by providing accurate and reliable reconciliations of the financial statements, payment details and the vote books during the audit cycle.</p>		
2.	<p><b>1.2 In accuracies in Proceeds from Domestic and Foreign Grants</b></p> <p>The statement of receipts and payments showed total payments for the year but there were discrepancies between the balance reflected in the financial statements and those in the payment details.</p>	<p>The Committee recommends that;-</p> <p>a) County Chief Executive Officer undertakes administrative actions against the officers who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act and provides a status report to the Office of the Auditor General within 60 days from the adoption of this report.</p> <p>b) The County CEO undertakes administrative action against the</p>	The County Chief Executive Officer	60 Days from the date of adoption of this report

		<p>accounting officer, the Chief Officer Finance, the Head of County Treasury and any other officer(s) responsible for failure to undertake reconciliation of financial statements within the stipulated timelines and submit a report to the Office of the Auditor General within 60 days of adoption of this report;</p> <p>c) The Institute of Certified Public Accountants (ICPAK) takes action(s) against the responsible officer(s) for misrepresentation of financial statements which constitutes professional misconduct pursuant to Section 8 (a) and 30 of the Accountants Act CAP 531 and reports to the Office of the Auditor General within 60 days of adoption of this report; and</p> <p>d) County CEO must ensure strict adherence to the Public Audit Act, 2015 by providing accurate and reliable reconciliations of the financial statements, payment details and the vote books during the audit cycle.</p>		
3.	<p><b>2.0 Own Generated Revenue – Plot Rent</b></p> <p>Management did not provide the register of all the county plots and the approved charges for rent for audit review.</p>	<p>The Committee recommends that Chief Executive Officer undertakes administrative action against the responsible officer(s) who failed to provide the documents (Plot Rent Registers and the Meru County Finance Act for the years 2019 and 2020) to the auditors in accordance with section 156 of the Public Finance</p>	<p>The County Chief Executive Officer</p>	<p>60 days from the date of adoption of this report</p>





	business permits. However, due to lack of business register documentation, the accuracy of this amount cannot be confirmed.			
7.	<p><b>5.0 Unsupported Scholarships and Other Educational Benefits</b></p> <p>The bursary application letters, admission letters, bursary committee appointments and vetting details, criteria for award and bursary acknowledgement letters for 697 beneficiaries issued with bursaries. totalling to Kshs.1,756,350 were not provided for audit review.</p>	The Committee recommends that: The matter be referred to the Senate County Public Investment and Special Funds Committee for consideration.	CPISFC	60 days from the date of adoption of this report
8.	<p><b>6.0 Unsupported Acquisition of Strategic Stocks and Commodities</b></p> <p>Acquisition of strategic stocks and commodities relating to purchase of milk for Early Childhood and Development Education (ECDE) children supporting documents including delivery notes and list of recipient's schools were not availed for audit review.</p>	The Committee recommends that Chief Executive Officer undertakes administrative action against the responsible officer(s) who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act and provides a status report to the Office of the Auditor General within 60 days from the adoption of this report.	The County Chief Executive Officer	60 days from the date of adoption of this report
9.	<b>7.0 Inaccuracies in the Summary of Fixed Assets Register</b>	The Committee recommends that the-	The County Chief	Next audit cycle



	<p>The fixed assets register availed for audit review reflected a balance Kshs.5,738,391,806 resulting to an unreconciled and unexplained variance of Kshs.1,372,894,380.</p>	<p>a) County Executive should update and present their Fixed Assets Register in the format prescribed by the Public Sector Accounting Standards Board;</p> <p>b) County Executive should adopt and implement the report of the Inter-Governmental Technical Relations Committee (IGTRC) on assets and liabilities from defunct Local Authorities and provide a status update to the Office of the Auditor General within 90 days of adoption of this Report; and</p> <p>c) Office of the Auditor General should progressively review and report on the matter in the subsequent Financial Years.</p>	Executive Officer	
10.	<p><b>8.0 Other Payments – Payables from Previous Financial Period</b></p> <p>Management did not provide evidence on how the funds payables from previous financial transferred to seven (7) tea factories in the county were utilized and accounted for.</p>	<p>The Committee recommends that Chief Executive Officer undertakes administrative action against the responsible officer(s) who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act and provides a status report to the Office of the Auditor General within 60 days from the adoption of this report.</p>	The County Chief Executive Officer	60 days from the date of adoption of this report
<b>Key Audit Matters</b>				
11.	<p><b>Other Matters</b></p> <p><b>3.0 Project Implementation Status</b></p>	<p>The Committee recommends that:</p> <p>1. the management provides a status report on the delayed completion of projects to the Office of the Auditor General</p>	The County Chief Executive Officer	60 days from the date of adoption of this report

	<p>The residents did not get the planned services equivalent to the two hundred and sixty-two (262) ongoing projects worth Kshs.574,409,120</p>	<p>within 60 days of adoption of this report.</p> <ol style="list-style-type: none"> <li>2. The County executive should undertake proper project conceptualization, planning and execution to ensure timely completion of the projects as well as realization of value for money; and,</li> <li>3. OAG to follow up on this matter in its subsequent audit cycle.</li> </ol>	Office of the Auditor General	
12.	<p><b>4.0 Pending Bills</b></p> <p>Management did not explain why the bills were not settled during the year when they failed to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.</p>	<p>The Committee therefore recommends that:</p> <ol style="list-style-type: none"> <li>1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time; and</li> <li>2) the county executive puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.</li> <li>3) Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) for investigation proper legal action taken against those filing false claims.</li> <li>4) County Government to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending bills verification committees</li> </ol>	<ol style="list-style-type: none"> <li>a) The National Treasury</li> <li>b) The County Chief Executive Officer</li> <li>c) The DCI</li> </ol>	Continuous



		<p>unconstitutional and engage Office of the OAG and strengthen the internal audit functions.; and</p> <p>5) All valid pending bills that have been reviewed by the Office of the Auditor General be paid and a payment plan be submitted to the county assembly for approval and progress report on implementation sent to the Senate and the Office of the Controller of Budget.</p>		
<b>REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES</b> <b>Basis for Conclusion</b>				
	<b>1.0 Domestic Travel and Subsistence</b>  The County Executive incurred an amount of Kshs.4,189,250 in respect of travel and subsistence expenses paid to County Executive Officers for workshops and retreats held outside the duty stations. Management did not provide justification for holding the workshops and retreats away from the duty station	The Committee recommends that Chief Executive Officer undertakes administrative action against the responsible officer(s) who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act and provides a status report to the Office of the Auditor General within 60 days from the adoption of this report.	Chief Executive Officer	Within 60 days from the adoption of this report
13.	<b>Basis for Conclusion</b>  <b>4.0 Construction of Boundary Wall at Githongo Stadium</b> Supporting documents including contract agreement were not	The Committee recommends that; - 1. The Committee recommends that the County Chief Executive Officer undertakes administrative actions against the responsible officer(s) who failed to provide documents to the	EACC  CECM Finance	Next audit cycle

	<p>provided for audit review. Physical verification conducted on 21st October 2020 revealed that the project was incomplete, the contractor was not on site and the project appeared stalled.</p>	<p>auditors in accordance with section 156 of the Public Finance Management Act and provides a status report to the Office of the Auditor General within 60 days from the adoption of this report;</p> <ol style="list-style-type: none"> <li>2. EACC to pursue the contractor with the view of recovering the extra amount that as paid to him/her;</li> <li>3. the management blacklists the contractor from accessing tenders from the county; and</li> <li>4. The Auditor General to undertake a project verification and provide a status report in the next audit cycle.</li> </ol>		
14.	<p><b>7.0 Irregular Recruitment of Legal Officer</b></p> <p>The County Executive advertised a legal officer position requiring ten years of experience. However, the selected candidate had only four years of experience, making the recruitment process irregular.</p>	<p>The Committee recommends that:</p> <ol style="list-style-type: none"> <li>1. The County Executive should ensure that future recruitment processes adhere strictly to the advertised qualifications and requirements, including the specified minimum years of experience.</li> <li>2. A thorough review of the recruitment and selection procedures should be conducted to identify any gaps or discrepancies that led to the hiring of a legal officer with insufficient experience and provide a status update to the Office of the Auditor General and the Senate within 60 days of adoption of this report; and</li> <li>3. The County Executive should take appropriate corrective measures, such as conducting an evaluation of the performance and qualifications of the current legal officer, and considering any necessary actions based on the findings.</li> </ol>	The County Chief Executive Officer	60 days from the date of adoption of this report



15.	<b>10.0 Non-Compliance with Law on Ethnic Composition</b> In the year under review, the County Executive hired 329 new employees, but 93% of them were from the dominant ethnic group, contrary to the County Government Act (2012) and the National Cohesion and Integration Act (2008). The County Executive's management violated the law by not meeting the required diversity quotas for hiring.	The Committee recommends that- a) The County Executive should work progressively towards attaining the requirements of the provisions of the County Government Act, 2012 and the National Cohesion and Integration Act (2008) on ethnic inclusivity. b) The County Executive and CPSB should provide to the Auditor General a five-year strategy of measures it will put in place to ensure compliance is achieved within sixty (60) days of the adoption of this report.	The County Chief Executive Officer  CPSB	60 days from the date of adoption of this report
16.	<b>11.0 Failure to Publicize and Publish Contracts</b> During the financial year under review, the County failed to comply with Section 138(1)(2) of the Public Procurement and Assets Disposal Act, 2015. They did not publish and publicize all contract awards or report them to the Public Procurement Regulatory Authority, thus violating the law.	The Committee recommends that: 1. The County should immediately rectify the non-compliance by preparing, publishing, and publicizing all contract awards as required by Section 138(1)(2) of the Public Procurement and Assets Disposal Act, 2015. 2. The County executive should ensure that all future contract awards are prepared, published, publicized, and submitted to the Public Procurement Regulatory Authority in a timely and compliant manner. 3. the County executive establishes internal controls and procedures to ensure ongoing compliance with the relevant procurement regulations and laws. This may include training staff, implementing oversight mechanisms, and maintaining	The County Chief Executive Officer  Office of the Auditor General	60 days from the date of adoption of this report

		<p>accurate records of contract awards and their publication.</p> <p>4. the auditors to verify within 60 days of adoption of this report that the contracts are being advertised on PPRA website.</p>		
17.	<p><b>12.0 Format of Revenue Estimates - County Own Generated Receipts</b></p> <p>The committee observed that the County Executive's approved budget of Kshs.705,000,000 for County own generated revenue lacked essential information, violating Regulation 58 of the Public Finance Management (County Governments) Regulations, 2015. The budget did not provide details such as the source of revenue, estimated revenues, receiver of revenues, revenue items, and corresponding amounts and receipts.</p>	<p>The Committee recommends that;-</p> <p>a) the County Chief Executive Officer undertakes administrative actions against the responsible officer(s) who failed to provide documents to the auditors in accordance with section 156 of the Public Finance Management Act and provides a status report to the Office of the Auditor General within 60 days from the adoption of this report; and</p> <p>b) The Institute of Certified Public Accountants (ICPAK) takes action(s) against the responsible officer(s) for misrepresentation of financial statements which constitutes professional misconduct pursuant to Section 8 (a) and 30 of the Accountants Act CAP 531 and reports to the Office of the Auditor General within 60 days of adoption of this report.</p>	<p>The County Chief Executive Officer</p> <p>ICPAK</p>	60 days from the date of adoption of this report
<b>REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE</b>				
18.	<p><b>1.0 Facilitation of the County Assembly Benchmarking Tour</b></p>	<p>The Committee recommends that:</p> <p>1. the Executive should focus on ensuring transparency, accountability and compliance with the rules and regulations governing financial disbursements within the County Executive.</p>	<p>The County Chief Executive Officer</p>	60 days from the date of adoption of this report
19.	<p><b>2.0 Maintenance of Grounded Vehicles</b></p>	<p>The Committee recommends that the county government takes immediate action to service and</p>	<p>The County Chief</p>	60 days



		repair the grounded vehicles or dispose the unserviceable vehicles and provide a status update within 60 days from the adoption of this report.	Executive Officer	
20.	<b>3.0 Use of a Manual Payroll</b>	The Committee recommends that; 1. The County Executive should engage the State Department of Public Service to fast-track the issuance of personal numbers to enable them onboard all employees on the Integrated Personnel and Payroll Database (IPPD) System; and 2. the Auditor General to monitor the matter in subsequent audit cycle.	The County Chief Executive Officer	60 days from the date of adoption of this report

### **Basis for Qualified Opinion.**

#### **1.0 Inaccuracies in the Financial Statements**

The statement of receipts and payments reflects an amount of Kshs.9,238,117,386. However, the following inaccuracies were noted: -

#### **1.1 Inaccuracies in Exchequer Releases**

The statement of receipts and payments reflects an amount of Kshs.8,186,299,567 in respect to Exchequer releases. This differs from the actual amount received of Kshs.7,347,737,400 reflected in the statement of appropriation: recurrent and development combined resulting to an unexplained and unreconciled variance of Kshs.838,562,167.

### **Management Responses**

The management concurred with the audit observation that there were inconsistencies in the exchequer releases reported in the statement of receipts & payment and the amount reported understatement of appropriation. This has been reconciled by including amount of Kshs. 373,872,834 relating to conditional grant to level 5 hospitals and amount of Kshs. 464,689,333 relating to donor funds released through exchequer both totaling to Kshs. 838,562,167 reported under Note 1B and 1C respectively as part of exchequer release in the statement of appropriation- recurrent and development combined. A copy of amended statement of appropriation: recurrent and development combined were attached for the committee review.

### **Committee Observations**

The Committee noted;

- 3) the failure of the management to submit documents on time to the Auditor General during the audit cycle.
- 4) That the query was not responded to satisfactorily at the time of appearance.

#### **Committee Recommendations**

**The Committee recommends that:-**

- a) the County Chief Executive Officer undertakes administrative actions against the responsible officer(s) who failed to provide documents to the auditors in accordance with section 156 of the Public Finance Management Act and provides a status report to the Office of the Auditor General within 60 days from the adoption of this report;
- b) The County CEO undertakes administrative action against the accounting officer, the Chief Officer Finance, the Head of County Treasury and any other officer(s) responsible for failure to undertake reconciliation of financial statements within the stipulated timelines and submit a report to the Office of the Auditor General within 60 days of adoption of this report;
- c) The Institute of Certified Public Accountants (ICPAK) takes action(s) against the responsible officer(s) for misrepresentation of financial statements which constitutes professional misconduct pursuant to Section 8 (a) and 30 of the Accountants Act CAP 531 and reports to the Office of the Auditor General within 60 days of adoption of this report; and
- d) County CEO must ensure strict adherence to the Public Audit Act, 2015 by providing accurate and reliable reconciliations of the financial statements, payment details and the vote books during the audit cycle.

#### **1.2 Inaccuracies in Proceeds from Domestic and Foreign Grants**

The statement of receipts and payments reflects an amount of Kshs.467,933,688 in respect to proceeds from domestic and foreign grants. This differs from the actual amount received of Kshs.1,306,495,855 reflected in the statement of appropriation: recurrent and development combined resulting to an unexplained and unreconciled variance of Kshs.838,562,167.

In the circumstances, the accuracy of the receipts for the year ended 30 June, 2020 could not be confirmed.

#### **Management Response**

The management concurred with the audit observation that there were inconsistencies in the proceeds from Domestic and foreign Grants reported in the statement of receipts & payment and the amount reported understatement of appropriation. This has been reconciled by Excluding amount of Kshs. 373,872,834 relating to conditional grant to level 5 hospitals and amount of Kshs. 464,689,333 relating to donor funds released through exchequer both totaling to Kshs. 838,562,167 reported under Note 1B and 1C respectively from amount earlier reported as part of proceeds from domestic and foreign grants in the statement of appropriation- recurrent and development combined. A copy of amended statement of appropriation: recurrent and development combined were attached for the committee verification.



### **Committee Observations**

The Committee noted the failure of the management to submit documents on time to the Auditor General during the audit cycle. The Committee also observed that the query was not responded to satisfactorily at the time of appearance.

### **Committee Recommendations**

The Committee recommends that:-

- a) the County Chief Executive Officer undertakes administrative actions against the responsible officer(s) who failed to provide documents to the auditors in accordance with section 156 of the Public Finance Management Act and provides a status report to the Office of the Auditor General within 60 days from the adoption of this report;
- b) The County CEO undertakes administrative action against the accounting officer, the Chief Officer Finance, the Head of County Treasury and any other officer(s) responsible for failure to undertake reconciliation of financial statements within the stipulated timelines and submit a report to the Office of the Auditor General within 60 days of adoption of this report;
- c) The Institute of Certified Public Accountants (ICPAK) takes action(s) against the responsible officer(s) for misrepresentation of financial statements which constitutes professional misconduct pursuant to Section 8 (a) and 30 of the Accountants Act CAP 531 and reports to the Office of the Auditor General within 60 days of adoption of this report; and
- d) County CEO must ensure strict adherence to the Public Audit Act, 2015 by providing accurate and reliable reconciliations of the financial statements, payment details and the vote books during the audit cycle.

### **2.0 Own Generated Revenue – Plot Rent**

The statement of receipts and payments and as disclosed under Note 3 to the financial statements reflects county own generated revenue amount of Kshs.583,884,131. Included in this is Kshs.4,991,187 in respect to plot rent revenue. Management did not provide the register of all the county plots and the approved charges for rent for audit review.

In the circumstances, the accuracy of Kshs. 4,991,187 in respect to plot rents for the year ended 30 June 2020 could not be confirmed.

### **Management Response**

During the period under review, the county collected Kshs 4,991,187 in respect of plot rent from various plot owners in the county. An approved register of all the county plots charged rent was available for audit review. Further, details of the chargeable rent for plots within all the regions within the county are contained in the finance act. A copy of finance act showing plot rent chargeable per plot across all regions within the county and copies of plot rent registers were attached for the committee verification.

### **Committee Observation**

The Committee noted the failure of the management to submit an authenticated copy of the Plot Rent Registers and the Meru County Finance Act to the auditors during the audit cycle.

#### **Committee Recommendation**

The Committee recommends that Chief Executive Officer undertakes administrative action against the responsible officer(s) who failed to provide the documents (Plot Rent Registers and the Meru County Finance Act for the years 2019 and 2020) to the auditors in accordance with section 156 of the Public Finance Management Act and provides a status report to the Office of the Auditor General within 60 days from the adoption of this report.

#### **3.0 Delay in Banking of Revenue**

The statement of receipts and payments and as disclosed under Note 3 to the financial statements reflects Kshs.583,884,131 in respect to county own generated revenue. This includes an amount of Kshs.21,332,964 in respect of revenue collected at Kaguru Agricultural Training Centre (ATC) and Mitunguu Agricultural Mechanization Services (AMS). Review of documents presented for audit verification revealed that the revenue of Kshs.21,332,964 collected from the two institutions was not deposited into the County Revenue Fund. This was contrary to Section 81(1) of the Public Finance Management (County Government) Regulations, 2015 which require receivers of revenue to promptly deposit into the county revenue fund account all receipts due to the County. In addition, included in county own generated revenue is an amount of Kshs.178,160,756 in respect to public health facilities operations – Facility Improvement Fund (FIF). Review of documents presented for audit verification revealed that an amount of Kshs.188,641 was collected and spent without banking in the County Revenue Fund. This was contrary to Section 81(1) of the Public Finance Management (County Government) Regulations, 2015 which require receivers of revenue to promptly deposit into the county exchequer account all receipts due to the County Revenue Fund.

In the circumstances, the accuracy of the Kshs.583,884,131 in respect to county own generated revenue could not be confirmed.

#### **Management Response**

During the period under review, the ATC Kaguru and AMS Mitunguu collected a total revenue of Kshs. 13,414,431 and Kshs. 7,918,533 respectively giving a total of Kshs.21,332,964 which was not banked to CRF but was utilized based on a cabinet memo of reference MC/CO/OOG/1/15 of 2<sup>nd</sup> September 2014 that provided a framework where by 70% of the revenue was retained by the institution, 20% was to be paid to the county revenue fund and 10% retained in a revolving fund. During the period under review, Kshs 3,400,000 was transferred from the Meru County agricultural fund to the Meru County revenue fund. As at the moment, The County has since passed legislation through the county assembly to provide a legal framework to the above-mentioned cabinet memo by establishing a fund to administer both Kaguru ATC and Mitunguu AMS centers.



Contrarily to audit observation, amount of Kshs 188,641 collected in respect to respect to public health facilities operations – Facility Improvement Fund (FIF) which remained unbanked at the closure of the financial year relates to the cash in hand at the closure of the financial year. This amount was captured in the board of survey conducted at the closure of the financial year and was disclosed under as part of cash and cash equivalents in the financial statements. Copies of board of survey at the closure of financial year confirming cash in hand of Kshs. 188,641 held at the closure of the financial year by various health facilities, copy of banks statement as evidence of transfer of funds from the two institutions to CRF and a copy of County Assembly Act establishing the fund was attached for the committee verification.

#### **Committee Observations.**

The Committee noted that;

- 1) the management was in breach of Section 109 of the Public Finance Act by using the revenue collected at Kaguru Agricultural Training Centre at source, without transferring it to the County Revenue Fund;
- 2) the letter to authorize such expenditure and the legal provision for such was not provided to the auditors during the audit cycle. This was contrary to Regulation 81 of the Public Finance Management (County Government) Regulations, 2015 and Section 15 (2) of the Kaguru Agricultural and Training Centre Act, 2019.

#### **Committee Recommendations**

The Committee recommends that; -

1. the Chief Executive Officer takes administrative action against the responsible officer(s) who failed to provide the auditors with the relevant documents in accordance with Section 156 of the Public Finance Management Act, 2012 and provide a status update to the Office of the Auditor General within 60 days of adoption of this report;
2. The EACC should carry out a review of revenue collection systems and processes in the county to establish whether the non-provision of documents was an effort to cover up loss of public funds and recommend prosecution of the culpable officers in line with the Public Audit Act.

#### **4.0 Unsupported Revenue Collection from Issuance of Business Permits**

The statement of receipts and payments and as disclosed under Note 3 to the financial statements reflects Kshs.583,884,131 in respect to County own generated revenue. This includes an amount of Kshs.95,366,737 in respect of revenue from business permit. However, Management did not provide for audit verification the business register indicating the business names, registration number, amount paid, and receipt issued. It was, therefore, not possible to establish the actual businesses that applied for the annual business permits and the respective amount of the revenue received. In the circumstances, the accuracy and completeness of Kshs.95,366,737 in respect revenue from business permit for the year ended 30 June, 2020 could not be confirmed.

#### **Management Response**

During the period under review, the county collected Kshs 95,366,737 from Single Business permits. This amount is collectable from business within the county. To ensure collection of the monies the county government maintains an updated register of the businesses in the county which is available for audit review.

Further the amount of Kshs. 95,366,737 collected is adequately supported with details relating the collections to the source documents like the name of business, receipt issued and or permit number issued. Copies of supporting schedule for SBP collected including both permit number and receipt issued and a copy of business register were attached for the committee verification.

#### **Committee Observation**

The committee observed that the management did not provide the business register indicating the business names, registration numbers, amount paid, and receipts issued for audit verification. As a result, it was not possible to establish the actual businesses that applied for the annual business permits and the respective amount of revenue received. Consequently, the accuracy and completeness of Kshs. 95,366,737 in revenue from business permits for the year ended 30 June 2020 could not be confirmed.

#### **Committee Recommendations.**

**The Committee recommends sanctions against the responsible officer(s) who failed to provide the documents to the auditors in accordance with section 62(2) of the Public Audit Act, 2015 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report.**

#### **5.0 Unsupported Scholarships and Other Educational Benefits**

The statement of receipts and payments and as disclosed under Note 7 to the financial statements reflects Kshs.763,902,284 in respect to other grants and transfers. This includes an amount of Kshs.46,438,037 in respect to scholarships and other educational benefits utilized on bursaries to 16,781 beneficiaries. However, the bursary application letters, admission letters, bursary committee appointments and vetting details, criteria for award and bursary acknowledgement letters for 697 beneficiaries issued with bursaries totaling to Kshs.1,756,350 were not provided for audit review. Further, an amount of Kshs.2,766,800 was disbursed to 686 students whose admission numbers were not indicated in the schedules of students availed for audit. In addition, it was observed that bursaries amounting to Kshs.904,800 were issued to 378 beneficiaries who were sharing similar admission numbers in their respective schools/institutions. In the circumstances, the accuracy and validity of the scholarship and other educational benefits amount of Kshs.46,438,037 as at 30 June, 2020 could not be confirmed.

#### **Management Response**

During the period under review the county spent Kshs 46,438,037 on bursaries to 16,781 beneficiaries. Bursary application letters, admission letters, bursary committee appointments and vetting details, bursary acknowledgement letters are available for audit review.

Further, Kshs. 2,766,800 was disbursed to 686 students whose admission numbers were not indicated in the schedules. This was due to the fact that the applicants were those



students who were joining form one/first year. Application for the bursary had been undertaken using admission letters/calling letters before the students reported hence, they did have admission numbers

In addition, bursaries amounting to Kshs. 904,800 was issued to 378 beneficiaries who were sharing similar admission numbers, this was due to the fact that majority of schools use numeric while allocating admission numbers. This has led to situation where different students in different institution of learning sharing similar numeric numbers. See annex 5(c), analysis of the 378 beneficiaries demonstrating they belong to different institutions. See annex 5 (b), evidence that the 686 students were either form ones or first years. See annex 5(a), copies of bursary application letters, admission letters, bursary committee appointments and vetting details, bursary acknowledgement letters.

#### **Committee Observation**

The Committee noted that the matter was an investment plan by the County.

#### **Committee Recommendation.**

**The Committee recommends the matter be referred to the Senate County Public Investments and Special funds Committee for consideration.**

#### **6.0 Unsupported Acquisition of Strategic Stocks and Commodities**

The statement of receipts and payments and as disclosed under Note 9 to the financial statements reflects Kshs.387,423,795 in respect to acquisition of assets. This includes an amount of Kshs.50,693,622 in respect to acquisition of strategic stocks and commodities relating to purchase of milk for Early Childhood and Development Education (ECDE) children. However, supporting documents including delivery notes and list of recipient schools were not availed for audit review.

In the circumstances, the accuracy, completeness and validity for the expenditure of the Kshs.50,693,622 in respect to acquisition of strategic stocks and commodities for the year ended 30 June, 2020 could not be confirmed.

#### **Management response**

During the period under review the county spent Kshs 50,693,622 on purchase of Milk for ECDE pupils. Records supporting quantities supplied to each school along with how the milk was distributed in each school are available for audit review. Copies of documents supporting ECDE milk supplied were attached for committee review.

#### **Committee Observation**

The committee noted that the schedule of the distribution of the purchased milk was not provided for the committee verification.

#### **Committee Recommendations**

**The Committee recommends that Chief Executive Officer undertakes administrative action against the responsible officer(s) who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act and provides a status report to the Office of the Auditor General within 60 days from the adoption of this report.**

### **7.0 Inaccuracies in the Summary of Fixed Assets Register**

Annex 5 to the financial statements reflects Kshs.7,111,286,186 in respect to summary of fixed assets. However, the fixed assets register availed for audit review reflected a balance Kshs.5,738,391,806 resulting to an unreconciled and unexplained variance of Kshs.1,372,894,380.

In the circumstances, the accuracy and validity of Kshs.7,111,286,186 in respect to fixed assets as at 30 June, 2020 could not be confirmed.

### **Management Response**

During the year under review, the county maintained a fixed asset register with a total balance of Kshs 7,111,286,186 Which did not agree with a figure of Kshs. 5,738,391,806 in the schedule of fixed assets register in annex 5 of the financial statements. The discrepancies in the figures between the two schedules was due to the fact that Summary of fixed assets in the financial statement included cumulative amounts reported under acquisition of assets in note 10 of the financial statement, which includes both County and community assets. While the fixed assets register solely represents the assets which are solely owned by the county. A disclosure of the variance between the two figures was made in the financial statement.

Further an analysis of the community projects totaling to Kshs 1,372,894,380 is available for audit review. Copies of the schedule of the said community projects and a copy of annex 5 to the financial statement containing the said disclosure was attached for the Committee verification.

### **Committee Observation.**

The committee noted that the management didn't have a complete asset register during the time of audit. That the management was in the process completing the assets register and the evaluation roll for the county assets.

### **Committee Recommendation**

**The Committee recommends that the-**

- a) County executive should expedite updating of valuation roll in accordance with Section 3 of the Valuation for Rating Act CAP 266 so as to reflect current market values for optimal revenue collection and comply with the guidelines of the Public Sector Accounting Sector Boards of reporting in the FY 2023/2024;
- b) County Executive should adopt and implement the report of the Inter-Governmental Technical Relations Committee (IGTRC) on assets and liabilities from defunct Local Authorities and provide a status update to the Office of the Auditor General within 90 days of adoption of this Report; and
- c) Office of the Auditor General should progressively review and report on the matter in the subsequent Financial Years.

### **8.0 Other Payments – Payables from Previous Financial Period**



The statement of receipts and payments and as disclosed under Note 10 to the financial statements reflects other payments amount of Kshs.1,476,552,008. This includes Kshs.1,000,882,404 in respect of payables from previous financial periods. Included in the payables from previous financial periods is Kshs.25,487,507 transferred to seven (7) tea factories in the county being the distribution of 10% ad valorem levy for tea industry infrastructure development by the Agriculture and Food Authority (AFA) to tea factories through the County Governments. However, Management did not provide evidence on how the funds were utilized and accounted for. Further, Management did not provide records on how the roads for maintenance were identified. In the circumstances, the accuracy and value for money for Kshs.25,487,507 as at 30 June, 2020 could not be confirmed.

### **Management Response**

During the period under review, the county transferred Kshs 25,487,507 transferred to seven (7) tea factories in the county being the distribution of 10% ad valorem levy for tea industry infrastructure development to counties by the Agriculture and Food Authority (AFA).

Ad Valorem levy relates to a per centum of the value of all made tea imposed by the Minister at the point of export or import in accordance with Section 18 of the tea Act. The funds were to be utilized as per section 18 (3) (c) of the Tea Act cap 343 which states that ten percent shall be used for the development of infrastructure for the tea Industry. As per the guidelines issued, the role of the County was to ensure formation of committees at the tea factories and later disburse the funds. Upon disbursement of the funds, the factories identified the roads and shared a list of the identified copies. Further the factories submitted expenditure returns to the county on utilization of the funds.

Since the tea factories are managed by the Kenya Tea Development Authority which is a parastatal body under the ministry of agriculture, the ultimate duty to account for how the funds were utilized rests with KTDA. Copies of correspondences detailing the County role in the funds received from AFA, details of the roads maintained by each individual factory and copies of expenditure return from each tea factory were attached for the committee review and verification.

### **Committee Observation**

The committee noted that;

- 1) the management received the fund and later transferred to KTDA, for expenditure;
- 2) the management failed to provide documents to the Auditor at the time of audit contrary to section 62 of the Public Audit Act, 2015.

### **Committee Recommendation**

The Committee recommends that Chief Executive Officer undertakes administrative action against the responsible officer(s) who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act and provides a status report to the Office of the Auditor General within 60 days from the adoption of this report.

## **Key Audit Matters**

### **Other Matter**

#### **1.0 Budget Control and Performance**

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.10,298,432,519 and Kshs.9,238,117,386 respectively resulting to an under-funding of Kshs.1,060,315,133 or 10% of the budget. Similarly, the County Executive expended Kshs.9,193,073,341 against an approved budget of Kshs.10,298,432,519 resulting to an under-expenditure of Kshs.1,105,359,178 comprising an under expenditure of Kshs.1,974,949,524 in four (4) items and over expenditure of Kshs.869,590,346 in two (2) item. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

#### **Management Response**

During the period under review, the county did not realize its revenue budget. This was occasioned by failure by the national government to disburse the final Exchequer tranche of Kshs 949,116,764 along with disruption of revenue collection by Covid 19 pandemic, which lead to closure of businesses along with closure of offices resulting to under collection of Kshs 121,115,869 collectable from local sources. The under expenditure was as a result of failure by the county to meet its budget.

#### **Committee Observation**

The committee noted that the matter was satisfactorily addressed.

#### **Committee Recommendation**

**The committee recommends that the matter be marked as resolved.**

#### **2.0 Late Exchequer Release**

The County Executive had budgeted for Exchequer releases amount of Kshs.7,347,737,400. However, the County Executive received Kshs.1,567,624,500 as exchequer releases from The National Treasury in the month of June, 2020 resulting to inadequate time to utilize the funds. The late release of the budgeted funds by The National Treasury could have affected implementation of the planned activities and projects by the County Government worth Kshs.1,567,624,500.

#### **Management Response**

The management concurred with the audit observation that during the period under review, the National treasury delayed in releasing exchequer to the County with Kshs. 1,567,624,500 equitable share and Kshs. 308,273,373.80 in form of conditional grants totaling to Kshs. 1,875,897,873.80 both receivable through the county Revenue fund been received in the month of June and July (after the closure of the financial year). See annex 9, copy of CRF bank statement. The County has no Control of when the funds are disbursed by the National Treasury. The Said delays usually cause cash flow challenges to the County, and usually lead to a situation where the county does not have



adequate time to utilize the funds in implementation of the planned activities and projects.

#### **Committee Observation**

The committee noted that the matter was satisfactorily addressed.

#### **Committee Recommendation**

**The committee recommends that the matter be marked as resolved.**

### **3.0 Project Implementation Status**

During the year under review, the approved development budget reflects Kshs.3,325,998,613. The projects implementation status report availed for audit review indicated that a total of 874 projects with an approved budget of Kshs.3,251,364,329 were to be implemented during the year. Of the 874 projects, 593 projects with a budget of Kshs.2,594,054,769 were complete, 262 projects with a budget of Kshs.574,409,120 were ongoing while 19 projects with a budget of Kshs.82,900,440 had not started. In view of the foregoing, the residents did not get the planned services equivalent to the two hundred and sixty-two (262) ongoing projects worth Kshs.574,409,120 and nineteen (19) projects worth Kshs.82,900,440 not started both totaling Kshs.657,309,560. This is an indication of poor project planning and implementation.

#### **Management Response**

The management concurred with the audit observation that at the closure of the financial year under review, 262 projects were ongoing and 19 had not commenced. This was caused by disruption of Key government operation by the Covid 19 which led to suspension of various government operations from the Month of March up to closure of the financial year. As at the moment all the above-mentioned projects have since been completed. The said projects have since been completed. Copies of completion certificate, notice of suspension of various operations due to Covid 19 were attached for the committee verification.

#### **Committee observations**

The committee observed that the residents did not receive the planned services equivalent to the two hundred and sixty-two (262) ongoing projects worth Kshs.574,409,120 and nineteen (19) projects worth Kshs.82,900,440, which were not initiated, resulting in a total of Kshs.657,309,560. This indicates poor project planning and implementation.

#### **Committee Recommendation**

**The Committee recommends that:**

- 1. the management provides a status report on the delayed completion of projects to the Office of the Auditor General within 60 days of adoption of this report.**
- 2. The County executive should undertake proper project conceptualization, planning and execution to ensure timely completion of the projects as well as realization of value for money; and,**

### **3. OAG to follow up on this matter in its subsequent audit cycle.**

#### **4.0 Pending Bills**

The financial statements under Note 7.9.1 reflects pending accounts payable amounting to Kshs.1,826,051,130 (2019: Kshs.1,914,178,573) as at 30 June, 2020. Management has not explained why the bills were not settled during the year when they. Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

#### **Management Response**

During the period under review, the County reported pending bills of Kshs. 1,826,051,130. This amount contains accumulation pending bills incurred by successive Governments, which arise as result of delayed exchequer releases, existence of work in progress at closure of the financial year, failure to meet revenue collection budget among other factors. The County strives to clear pending bills and provides budget for the same. During the period under review, the county paid Kshs 1,000,882,404 in offsetting the previous year's pending bills and it has continued to provide budget for the same.

#### **Committee Observation**

The committee noted that the management didn't have a pending bills committee to verify the pending bills, and thus couldn't authenticate the status of all its pending bills.

#### **Committee recommendations**

**The Committee therefore recommends that:**

- 1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time; and**
- 2) the county executive puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.**
- 3) Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) for investigation proper legal action taken against those filing false claims.**
- 4) County Government to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending bills verification committees unconstitutional and engage Office of the OAG and strengthen the internal audit functions.; and**
- 5) All valid pending bills that have been reviewed by the Office of the Auditor General be paid and a payment plan be submitted to the county assembly for approval and progress report on implementation sent to the Senate and the Office of the Controller of Budget.**



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

### **Basis for Conclusion**

#### **2.0 Domestic Travel and Subsistence**

The County Executive incurred an amount of Kshs.4,189,250 in respect of travel and subsistence expenses paid to County Executive Officers for workshops and retreats held outside the duty stations. Management did not provide justification for holding the workshops and retreats away from the duty station. This was contrary to Section 7 of the Treasury Circular number 20/2015 of 4 November 2015 which requires accounting officers to ensure that all workshops and retreats with majority of the participants drawn from one duty station are held within the precincts of the duty station. In addition, The County Executive paid claims of Kshs.4,189,250 in respect of the workshops and retreats. This was contrary to Section 93(3) of Public Finance Management (County Government) Regulations, 2015 which provides that temporary imprests shall be issued mainly in respect of official journeys and are intended to provide officers with funds with which they can meet travelling, accommodation and incidental expenses. Consequently, Management was in breach of laws and regulations governing the management of workshops and retreats, and the management of imprests.

#### **Management Response**

During the period under review, the County spent Kshs To ensure compliance with Treasury Circular number 20/2015 of 4 November 2015 which requires accounting officers to ensure that all workshops and retreats with majority of the participants drawn from one duty station are held within the precincts of the duty station, the County developed a policy whereby any travel outside the county has to be approved by the County secretary and head of public services to curb unnecessary/ avoidable travel. The Kshs 4,189,250 includes facilitation for officers attending trainings organized by professional bodies, activities organized by other organization and several, other retreats which require to be undertaken outside the office to ensure that the concerned officers are not disrupted by other routine office operations. See annex, copies of approval by County secretary to travel outside the county.

Further imprest is usually issued before officer's travel, during the period under review, there were instances which officers were expected to travel outside the county but the county was experiencing cash flow challenges arising from delay in exchequer disbursement, long requisition process for funds from the controller of budget among other factors. Since imprest is made to facilitate for activities which has not taken place, it makes no sense to issue imprest when the activity has already taken place. In those instances, the county reimbursed expenses incurred by the said officers.

#### **Committee Observation**

The committee noted that the training needs assessment and documents to support the travel for the retreat were not provided for audit verification contrary to Section 62 of the Public Audit Act, 2015.

#### **Committee Recommendation**

The Committee recommends that Chief Executive Officer undertakes administrative action against the responsible officer(s) who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act and provides a status report to the Office of the Auditor General within 60 days from the adoption of this report.

## **2.0 Construction of the Governor's Residence**

The County Executive paid Kshs.18,599,807 to a firm for the construction of the Governor's Official Residence in Meru Town. The Kshs.18,599,807 (14.6%) was for the first certificate dated 29 March, 2019 of the contract with a contract price of Kshs.127,124,366. A review of the contract and an addendum to the contract revealed that the contract period was for 24 weeks from 15 October, 2018 to 14 April, 2019. Physical verification carried out on 21 October, 2020, revealed that the project was incomplete, the contractor was not on site and the project had stalled. In the circumstances, the value for money for the expenditure of Kshs.18,599,807 on the construction of the Governor's Official Residence has not been realized.

### **Management Response**

The management concurred with the Audit observation that there were delays in executing Construction works for the Governor's residence and that at the time of audit review the works were not complete and the contractor was not at site. The delays arose following the Capping of the amount that counties could spend towards construction of Governors and Deputy Governor's residence. The capping was done when the County Government of Meru had already awarded the contract for the construction of the official Governor's residence. After the capping was introduced the County experienced challenges with Controller of Budget declining to approve release of funds for the project which ultimately led to the contractor abandoning the site. Following resolution of the Capping stalemate between the Counties, Senate and the Controller of budget, the funds for the projects were availed and construction works resumed. As at the Moment Construction works at the Governor's Residence has since been completed and the house occupied. A Copy of Completion Certificate was attached as evidence of completion of the works.

### **Committee Observation**

The committee noted that the matter was satisfactorily addressed by the Auditors at their level of meeting with the management.

### **Committee Recommendation**

The committee recommends that the matter be marked as resolved.

## **3.0 Construction of Deputy Governor's Residence**

The County Executive paid Kshs.8,768,550 to a firm for the construction of the Deputy Governor's Official Residence in Meru Town. A review of the contract revealed that the contract period as 24 weeks from 15 October, 2018 to 14 April, 2019. Physical verification carried out on 21 October, 2020, revealed that the project was incomplete, the contractor was not on site and the project appeared stalled.



In the circumstances, the value for money for the expenditure of Kshs.8,768,550 on the construction of the Deputy Governor's Official Residence has not been realized.

#### **Management Response**

We Concur with the Audit observation that there were delays in executing Construction works for the Deputy Governor's residence and that at the time of audit review the works were not complete. The delays arose following the Capping of the amount that counties could spend towards construction of Governors and Deputy Governor's residence. The capping was done when the County Government of Meru had awarded the contract for the construction of the official Deputy Governor's residence. After the capping was introduced the County experienced challenges with controller of budget approving release of funds for the project which ultimately led to the contractor abandoning the site. Following resolution of the Capping stalemate between the Counties, Senate and the Controller of budget the funds for the projects were availed and construction works resumed. As at the Moment Construction works at the Deputy Governor's Residence has since been completed and the house occupied. A copy of Completion Certificate for Construction of official Deputy Governor's Residence as evidence of completion of the said construction works.

#### **Committee Observation**

The committee noted that the matter was satisfactorily addressed by the Auditors at their level of meeting with the management.

#### **Committee Recommendation**

**The committee recommends that the matter be marked as resolved.**

#### **4.0 Construction of Boundary Wall at Githongo Stadium**

The County Executive entered into a contract for the construction of a boundary wall at Githongo Stadium at contract price of Kshs.13,845,480. The Management paid Kshs.8,933,640 towards the construction during the year under review. However, supporting documents including contract agreement were not provided for audit review. Physical verification conducted on 21 October, 2020 revealed that that the project was incomplete, the contractor was not on site and the project appeared stalled. In the circumstances, the value for money for the expenditure of Kshs.8,933,640 construction of a boundary wall at Githongo Stadium has not been realized.

#### **Management Response**

During the period under review, the county made a payment of Kshs. 8,933,640.00 Enterprises for construction of the proposed boundary wall at Githongo Stadium. Supporting documentation including contract agreement are available for audit review. It is worthy to note that physical verification was undertaken when the country was under partial lock down with most of operation suspended. However, after end Covid the contractor informed the county on his inability to complete the project hence leading to termination of the Project. The county has since commenced procurement process to ensure completion of the project. A copy correspondence with the supplier along with

commencement of procurement process to complete the works and a copy of contract document were attached for the committee verification.

#### **Committee Observation**

The Committee noted that;-

1. the project is about 30% complete
2. the contractor had terminated the contract and the county was in the process of procuring another contractor to complete the project.
3. the contractor was paid monies in excess of the tender amount and that the work was poorly done.

#### **Committee Recommendations**

The Committee recommends that; -

1. The Committee recommends that the County Chief Executive Officer undertakes administrative actions against the responsible officer(s) who failed to provide documents to the auditors in accordance with section 156 of the Public Finance Management Act and provides a status report to the Office of the Auditor General within 60 days from the adoption of this report;
2. EACC to pursue the contractor with the view of recovering the extra amount that was paid to him/her;
3. the management blacklists the contractor from accessing tenders from the county; and
4. The Auditor General to undertake a project verification and provide a status report in the next audit cycle.

#### **5.0 Mwariama Cultural Centre**

Note 10 to the financial statements reflects Kshs.1,476,552,008 in respect to other payments which includes Kshs.1,000,882,404 in respect to other expenses - payables from previous financial period which further include Kshs.7,183,330 paid to a firm for the construction of Mwariama Cultural Centre in Muthara. However, though the project is said to be complete, no evidence was availed for audit review that the project has been handed over or put into use. In the circumstances, the value for money for the Kshs.7,183,330 expenditure for the year ended 30 June, 2020 could not be confirmed.

#### **Management Response**

During the period under review, the County had completed construction works at Mwariama cultural Centre in Muthara. However, the project had not been handed over and put into use. This was due to the fact ban in physical meetings as part of Covid 19 containment measures that were in place as at the time of audit review. The project has since been handed over. A copy of complete on certificate and evidence of handing over of the project was attached for the committee verification.

#### **Committee Observation**

The committee noted that the matter was satisfactorily addressed.



**Committee Recommendation**

The committee recommends that the matter be marked as resolved.

**6.0 Non-Compliance to Fiscal Responsibility Principles – Wage Bill**

The statements of receipts and payments reflects an expenditure of Kshs.4,465,745,306 in respect to compensation of employees which was 48% of the total revenue of Kshs.9,23,117,386. This was contrary to Section 25(1)(b) of the Public Finance Management (County Government) Regulations, 2015 which limits the County Executive's expenditure on wages and benefits to not more than 35% of the total revenue for the year. In the circumstances, the management is in breach of the law.

**Management Response**

We concur with the audit observation that County wage bill expenditure is above the set limit of 35% of the total revenue. To mitigate the situation, the County has frozen recruitment except for key/critical services. This effort along with anticipated retirement of staff will ensure the County achieves the set limit within the next two years.

**Committee Observation**

The committee noted that the matter was satisfactorily addressed.

**Committee Recommendation**

The committee recommends that the matter be marked as resolved.

**7.0 Irregular Recruitment of Legal Officer**

The County Executive advertised for the position of legal officer advertisement indicating that the applicant should have knowledge, experience and a distinguished career of not less than ten years' experience as a legal practitioner. However, a review of the recruitment file and the personal file of the legal officer attached to the Governor's office revealed that the officer had four (4) years of experience as at the date of employment comprising of two and a half years as a senior associate advocate and one and a half years as legal assistant and researcher.

In the circumstances, the recruitment process of the legal officer was irregular.

**Management Response**

The County employed Governors legal advisor during F/Y 2017/18. The legal advisor advises the Governor on all legal matters. Since the post is one among various governors' appointees, the governor considers various factors in making those appointments including merit, confidentiality, loyalty, experience, integration of youth in governance among other factors. The appointed officer is an advocate of the high court hence it's unfair to impute that he lacks the requisite qualification to hold the post. During the period that the officer served as governor's advisor, he performed his duties diligently and exhibited high level of professionalism and there no instances reported about him misadvising the governor in any legal issue.

Further the officer has since left the service following change of Government since his term was tied to that of former governor. Copies of documents to prove that the officer has left service following expiry of his contract were attached for the committee review.

### **Committee Observations**

The committee observed that the County Executive had advertised for the position of legal officer, specifying that applicants should possess knowledge, experience, and a distinguished career of not less than ten years as a legal practitioner. However, upon reviewing the recruitment file and the personal file of the legal officer attached to the Governor's office, it was revealed that the officer had only four (4) years of experience at the time of employment, including two and a half years in a senior role.

### **Committee Recommendations**

**The Committee recommends that:**

1. **The County Executive should ensure that future recruitment processes adheres strictly to the advertised qualifications and requirements, including the specified minimum years of experience.**
2. **A thorough review of the recruitment and selection procedures should be conducted to identify any gaps or discrepancies that led to the hiring of a legal officer with insufficient experience.**
3. **The County Executive should take appropriate corrective measures, such as conducting an evaluation of the performance and qualifications of the current legal officer, and considering any necessary actions based on the findings.**

### **8.0 Officers Working Beyond the Age of 60**

Review of employee biodata revealed that the County Executive had two (2) employees who were above the age of sixty (60). This was contrary to Section D.21 of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which provides officers to retire from the service on attaining the mandatory retirement age of 60 years except for persons with disabilities whose retirement age is set at the age of 65 years or as may be prescribed by government from time to time. In the circumstances, the County Executive is in breach of the law.

### **Management Response**

During the period under review, the county had one officer by the name Mwedia Benard Muguna in its payroll whose age was above 60, this was due to the fact that the officer was employed under contract, Since his employment details were contract, the period of service was as per the employment contract. As at the moment the Officers contract has since lapsed and he subsequently existed service. Further Contrarily to audit observation the remaining officer (Karegi Joanina Mwitari) attained the age of 60 at June 2020 and proceeded on her retirement with effect from 1st July 2020 and hence removed from the payroll. Copies of employment contract of the officer, her National identity card and data capture sheet indicating she was born in 1960, along with evidence she was removed from the payroll in July 2020 when she attained retirement



age, of data sheet as evidence that the officer was removed from payroll following expiry of his employment Contract, were attached for the committee verification.

#### **Committee Observation**

Review of employee biodata revealed that the County Executive had two (2) employees who were above the age of sixty (60). This was contrary to Section D.21 of the Human Resource Policies and Procedures Manual for the Public Service, 2016

#### **Committee Recommendation**

**The Committee directed that the matter be marked as resolved.**

#### **9.0 Earnings below the Statutory Minimum**

A review of the County Executive's payroll for the year under review revealed that thirty-eight (38) employees' net salary fell below one-third (1/3) of the basic salary. This was contrary to Section 19 (3) of the Employment Act, 2007 which provides that deductions made by an employer from the wages of the employee at any one time shall not exceed two thirds of such wages. In the circumstances, the County Executive was in breach of the law.

#### **Management Response**

It is indeed true that at the time of audit review, thirty-six (38) officers net pay was less than one third of their basic pay. This was occasioned by overpayment recovery, Enrolment to provident fund, Helb recoveries and recoveries of salary advance, whose recovery commenced while the officers had already committed their salaries. To remedy the situation, a letter was issued to each individual officer by re county secretary requiring the officers to make arrangements to correct the breach. As at the moment majority of the officers as per the audit observation are no longer earning a net pay of less than one third of their basic salary. Copies of pay slips for the officers as evidence that their net salary is not below one third of their basic salary and copies of individual letters to the officers on the subject matter were attached for the committee verifications.

#### **Committee Observations**

The committee observed that during the review of the County Executive's payroll, it was found that the net salary of thirty-eight (38) employees was below one-third (1/3) of their basic salary. This discrepancy was found to be in contravention of Section 19 (3) of the Employment Act, 2007.

#### **Committee Recommendation**

**The Committee directed that the matter be marked as resolved.**

#### **10.0 Non-Compliance with Law on Ethnic Composition**

During the year under review, the County Executive recruited three hundred and twenty- nine (329) employees on permanent and contract terms. However, an analysis of the ethnic composition of the newly employed staff revealed that three hundred and seven (307) of them or 93% came from the dominant ethnic group resulting to 7% recruited from other ethnic groups contrary to Section 65(1)(e) of the County

Government Act, 2012 which stipulates that at least thirty percent (30%) of the vacant posts at entry level be filled by candidates who are not from the dominant ethnic community in the County, and Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which provides that all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community. In the circumstance, the management of County Executive was in breach of the law.

#### **Management Response**

The County has not met the one third constitutional requirement of recruitment of officers from non- dominant communities. This has been occasioned by the fact that during the recruitment process few applicants from non-dominant community tendered their application, with most of the applicant from the non-dominant community not meeting the minimum qualification criteria.

in future the County Public Service Board will encourage more applicants from non-dominant community by putting a caption on any advertisement “applicants form non-dominant community are encouraged to apply”.

#### **Committee Observations**

The committee observed that the County Executive had recruited a total of three hundred and twenty-nine (329) employees on both permanent and contract terms. However, upon analyzing the ethnic composition of the newly employed staff, it was found that three hundred and seven (307) individuals, accounting for 93% of the hires, belonged to the dominant ethnic group. This resulted in only 7% of the recruits being from other ethnic groups, which was found to be in violation of Section 65(1)(e) of the County Government Act, 2012, as well as Section 7(1) and (2) of the National Cohesion and Integration Act, 2008.

#### **Committee Recommendations**

**The Committee recommends that-**

- a) **The County Executive should work progressively towards attaining the requirements of the provisions of the County Government Act, 2012 and the National Cohesion and Integration Act (2008) on ethnic inclusivity.**
- b) **The County Executive and CPSB should provide to the Auditor General a five-year strategy of measures it will put in place to ensure compliance is achieved within sixty (60) days of the adoption of this report.**

#### **11.0 Failure to Publicize and Publish Contracts**

During the financial year under review, the County did not prepare, publish, publicize all contract awards as well as submitting the same to the Public Procurement Regulatory Authority. This was contrary to Section 138(1)(2) of the Public Procurement and Assets Disposal Act, 2015 which stipulates that the accounting officer of a procuring entity shall publish and publicize all contract awards on their notice boards at conspicuous



places, and website if available and report all contracts awards to the Authority as prescribed.

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

#### **Management responses**

During the period under review, the county maintained, continuously updated and publicized contracts and tenders awarded during the period using the PPRA portal. This can be confirmed using tenders.go.ke website. Further an extract of tenders and contracts published is hereby provided for audit review.

Arising from the above the county did not deny the stakeholders of Meru County the principles of good governance, integrity, transparency, and accountability in public finance as enshrined by article 201 of the Constitution.

A copy of Tenders and contracts published were attached for the committee verification.

#### **Committee Observations**

The committee observed that the County failed to prepare, publish, and publicize all contract awards, as well as submit them to the Public Procurement Regulatory Authority. This non-compliance was found to be in violation of Section 138(1)(2) of the Public Procurement and Assets Disposal Act, 2015.

#### **Committee Recommendations**

**The Committee recommends that:**

1. **The County should immediately rectify the non-compliance by preparing, publishing, and publicizing all contract awards as required by Section 138(1)(2) of the Public Procurement and Assets Disposal Act, 2015.**
2. **The County executive should ensure that all future contract awards are prepared, published, publicized, and submitted to the Public Procurement Regulatory Authority in a timely and compliant manner.**
3. **the County executive establishes internal controls and procedures to ensure ongoing compliance with the relevant procurement regulations and laws. This may include training staff, implementing oversight mechanisms, and maintaining accurate records of contract awards and their publication.**
4. **the auditors to verify within 60 days of adoption of this report that the contracts are being advertised on PPRA website.**

#### **12.0 Format of Revenue Estimates - County Own Generated Receipts**

A review of the County Executive's approved budget revealed a budget of Kshs.705,000,000 in respect to County own generated revenue. However, the revenue budget lacked information relating to description of source of revenue in terms of head code, estimated revenues, the receiver of revenues, revenue items and the amounts and nature of receipts. This was contrary to the Regulation 58 of the Public Finance Management (County Governments) Regulations, 2015 which stipulates that the estimates of revenues shall be in the format issued by the Cabinet Secretary and shall include the description of the source of revenue in terms of head code; the estimated revenues; the receiver of revenue; for each revenue head, there shall be shown revenue

items; and the amounts and the nature of receipts. In the circumstances, the County Government is in breach of the law.

### **Management Responses**

During the period under review, the County prepared a budget with local source of revenue of Kshs.705,000,000. information relating to description of source of revenue in terms of head code, estimated revenues, the receiver of revenues is available and was even used by the county in capturing own source revenue in the budget loaded in IFMIS. A copy of evidence that income of Kshs 705,000,00 had breakdown specifying amount collectable for each revenue item code, was attached for the committee verification.

### **Committee Observations**

The committee observed that during the review of the County Executive's approved budget, a budget of Kshs.705,000,000 was allocated for County own generated revenue. However, the revenue budget lacked essential information such as the description of the source of revenue in terms of head code, estimated revenues, the receiver of revenues, revenue items, and the corresponding amounts and nature of receipts. This non-compliance was found to be in violation of Regulation 58 of the Public Finance Management (County Governments) Regulations, 2015.

### **Committee Recommendation**

**The Committee recommends that:-**

1. the County Chief Executive Officer undertakes administrative actions against the responsible officer(s) who failed to provide documents to the auditors in accordance with section 156 of the Public Finance Management Act and provides a status report to the Office of the Auditor General within 60 days from the adoption of this report; and
2. The Institute of Certified Public Accountants (ICPAK) takes action(s) against the responsible officer(s) for misrepresentation of financial statements which constitutes professional misconduct pursuant to Section 8 (a) and 30 of the Accountants Act CAP 531 and reports to the Office of the Auditor General within 60 days of adoption of this report.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Basis for Conclusion**

#### **1.0 Facilitation of the County Assembly Benchmarking Tour**

The County Executive paid Kshs.422,400 to an Officer to facilitate seven (7) County officers and five (5) Members of the County Assembly to travel to Kisii on a benchmarking exercise on the use of mechanical and transport equipment. Included in the Kshs.422,400 is Kshs.200,000 paid as allowances to the five (5) Members of the County Assembly. The County Executive was directly facilitating Members of County Assembly which is the body that provides oversight. The facilitation ought to have been budgeted through the County Assembly budget. The facilitation creates conflict of



interest on Members of the County Assembly and may affect effectiveness of governance and oversight role over the management of the County Executive.

#### **Management Response**

During the period under review, the County spent Kshs. 422,400 to facilitate Seven (7) county officers to (5) Members of the County Assembly travel to Kisii on a benchmarking exercise on the use of equipment under the Mechanical and Transport Fund. Included in the Kshs. 422,400 is Kshs. 200,000 paid to the five (5) Members of the County Assembly at Kshs. 40,000 per member. The County Assembly Members facilitated belonged to the County Assembly departmental committee on roads and infrastructure. The Benchmarking was necessary since the county was contemplating using the Mechanical and Transport Fund to implement several road infrastructures within the county. By involving the County assembly, the County was ensuring that both staff under and members of the County assembly's departmental committee gained insight on success and challenges that may arise by opting to use of the Mechanical and Transport Fund in implementing the road infrastructure in the County. Since this was an initiative of the County Executive, facilitation for delegation was done by the county executive. Further the MCAs were not facilitated by the County assembly and thus there was no risk of Double payment.

#### **Committee Observations**

The committee observed that the County Executive disbursed a total of Kshs. 422,400 to an officer for the purpose of facilitating seven (7) County officers and five (5) Members of the County Assembly to travel to Kisii for a benchmarking exercise on the use of mechanical and transport equipment. Within the Kshs. 422,400, Kshs. 200,000 was allocated as allowances specifically for the five (5) Members of the County Assembly. It was noted that the County Executive directly facilitated the Members of the County Assembly, even though the oversight body's facilitation should have been budgeted through the County Assembly budget.

#### **Committee Recommendations**

**The Committee resolved that the matter is a breach of the law and recommends that the Executive should focus on ensuring transparency, accountability and compliance with the rules and regulations governing financial disbursements within the County Executive.**

#### **2.0 Maintenance of Grounded Vehicles**

Reflected in the fixed assets register were twenty (24) motor vehicles which were grounded between 2012 and 2017 with carrying cost of Kshs.12,153,000. As at the time of the audit, the vehicles were parked in the open air exposing them to vagaries of weather. This subjected the motor vehicles to damages and loss of value which will lower their cost during disposal. This is contrary to Section 132(1)(a) of the Public Finance Management (County Government) Regulations, 2015 which require accounting officer to ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage, and misuse.

### **Management Response**

At the time of Audit review, twenty (24) motor vehicles valued at Kshs. 12,153,000 that were grounded and appeared to have little economic benefit to the Executive were included in the Fixed assets register. The said Motor vehicles were inherited from the defunct local authorities. When the County government came into being, the transitional authority placed a moratorium on sell or disposal of all assets held by the defunct local authorities until the complete handing over of the assets and liabilities to the county government. At the expiry of the term of the transitional authority, the handing over process was not complete. The task was under over to the Inter-Governmental Technical and Relation Committee, which completed the exercise and forwarded the reports to the attorney General who is yet to give a final direction.

Arising from the above, the county has no powers to dispose the grounded vehicle before completion of the handing over exercise.

However, 8 of the 24 motor vehicles stated as grounded are operation and are being used by various County departments to discharge official county duties. Copies of work tickets for the said Motor vehicles as evidence that they are in operation was attached for the committee verification.

### **Committee Observations**

The committee observed that between 2012 and 2017, a total of twenty (24) motor vehicles were rendered inoperable, resulting in a carrying cost of Kshs. 12,153,000. At the time of the audit, these vehicles were found to be parked in the open air, exposing them to various weather conditions. This exposure subjected the motor vehicles to damages and loss of value, which would ultimately reduce their cost upon disposal. This non-compliance was found to be in violation of Section 132(1)(a) of the Public Finance Management (County Government) Regulations, 2015.

### **Committee Recommendations**

**The Committee recommends that the county government takes immediate action to service and repair the grounded vehicles or dispose the unserviceable vehicles and provide a status update within 60 days from the adoption of this report.**

### **3.0 Use of a Manual Payroll**

The statement of receipts and payments reflects Kshs.4,465,745,306 in respect to compensation of employees which include payments of Kshs.52,115,787 that was made through the manual payroll. The use of manual system requires manual calculation of earnings and deductions. This is open to human error, manipulation and/or delay in payroll processing.

### **Management Response**

During the period under review, the County Executive of Meru had two payroll systems in operation aimed at compensating the County's existing human work force. The County pays its staff via IPPD systems and an Excel worksheet. The IPPD systems are used to process salaries for officers who have personal numbers. The personal numbers



are issued by the Ministry of Public Service Youth and gender on request by the County Government. The County usually puts request for personal numbers for officers as and when appointments are done. On request there are instances where the personal numbers are issued promptly and in other instances delay are experienced.

At the time of audit review, some of the newly staff did not have IPPD numbers as they had not been processed. Since it was not their making, it would have been punitive not to pay them their salaries while awaiting their personal numbers to be processed. As at the moment the county has been able to get Personnel numbers for the employees who had been paid using manual payroll and have since integrated them in the IPPD system. Copies of personnel numbers processed were attached for the committee verification.

#### **Committee Observations**

The committee observed that the statement of receipts and payments reflected a total of Kshs.4,465,745,306 designated for the compensation of employees. Additionally, it was noted that a payment of Kshs.52,115,787 was made through the manual payroll system. The use of a manual system necessitated the manual calculation of earnings and deductions, which introduced the potential for human errors, manipulation, and delays in payroll processing.

#### **Committee Recommendations**

**The Committee recommends that;**

- 1) **The County Executive should engage the State Department of Public Service to fast-track the issuance of personal numbers to enable them onboard all employees on the Integrated Personnel and Payroll Database (IPPD) System; and**
- 2) **the Auditor General to monitor the matter in subsequent audit cycle.**

## CHAPTER SEVEN

### REPORT OF THE SENATE COUNTY PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF BOMET COUNTY EXECUTIVE FOR THE FINANCIAL YEAR 2019/2020

The Governor of Bomet County Executive Hon. Hillary Barchok, EGH appeared before the Committee on Monday, 13<sup>th</sup> March 2023 to respond (under oath) to audit queries raised in the Report of the Auditor General on Financial Statements for Bomet County Executive for the Financial Year 2019/2020.

#### Qualified Opinion

EXECUTIVE SUMMARY OF UNRESOLVED AUDIT QUERIES				
	Query	Recommendations	Actor	Timeline
1	<b>2.0.9 Fixed Assets</b> Assets acquired during the year under review were not tagged and ownership documents for land parcels valued at Kshs.49, 717,599 were not provided for audit.	The Committee recommends that the- a) County Executive should update and present their Fixed Assets Register in the format prescribed by the Public Sector Accounting Standards Board; b) County entities should adopt and implement the report of the Inter-Governmental Technical Relations Committee (IGTRC) on assets and liabilities from defunct Local Authorities and provide a status update to the Office of the Auditor General within 90 days of adoption of this Report; and	The County Executive Officer  Auditor General	Within 60 days of the adoption of this report



		c)Office of the Auditor General should progressively review and report on the matter in the subsequent Financial Years.		
2	<b>2.0.10 Pending Bills.</b> The accuracy, validity and completeness and valuation of the pending accounts payable balance totaling Kshs.696,052,764 as at 30 June, 2020 could not be confirmed since there were various anomalies	The Committee therefore recommends that: 1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time; and 2) the county executive puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.	The National Treasury  The County CEO  The DCI	Immediate and Continuous

		<p>3) Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) for investigation proper legal action taken against those filing false claims.</p> <p>4) County Government to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending bills verification committees unconstitutional and engage Office of the OAG and strengthen the internal audit functions.; and</p> <p>5) All valid pending bills that have been reviewed by the Office of the Auditor General be paid and a payment plan be submitted to the</p>		
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		county assembly for approval and progress report on implementation sent to the Senate and the Office of the Controller of Budget.		
3	<b>Other Matter</b> <b>1.0 Budgetary Control and Performance</b> Recurrent and development combined reflects budgeted revenue and actual receipts on comparable basis totalling Kshs.7,512,699,158 and Kshs.6,711,538, 419 respectively, resulting in a revenue shortfall of Kshs.801,160,739 or 11% of the budget. The county did not meet its revenue target.	The Committee recommends that: 1. The National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate 2. The County Executive puts in place measures to enhance its own generated revenue in order to meet its revenue target and address revenue shortfalls.	The County Chief Executive Officer  The National Treasury	Continuous
4	<b>2.0 Prior Year Issues</b> The audit report for the previous year had highlighted several issues on the financial statements for the year and on lawfulness and effectiveness in use of resources. The management report indicates that all of the issues have been	The Committee recommends that: The County Executive complies with Section 53 of the Public Audit Act, 2015 by taking action on the issues raised by the Auditor General and submits a report to the Auditor General for review within sixty (60) days	1. The County Chief Executive Officer 2. Auditor General	Continuous

	resolved but does explain their manner of resolution.	of the adoption of this report.		
<b>REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES</b>				
5	<b>Unsatisfactory Implementation of Projects</b> Physical verification of thirty-four (34) sampled projects contracted at an aggregate sum of Kshs.332,580,838 revealed several unsatisfactory issues on their implementation. These issues included irregular procurement of works, low quality and delayed completion of works, unauthorized variations of project scope and materials as well as stalling and abandonment of some projects. As a result of the anomalies, the residents of Bomet County may not receive value for money on the projects worth Kshs.332,580,838.	The Committee recommends that: 1. The County Executive makes adequate budget provisions to complete the stalled projects for public use 2. Proper project conceptualization and project planning should be undertaken to ensure timely completion of projects; 3. The County Executive establishes a projects delivery unit in the county to manage implementation of projects as per Public Procurement and Asset Disposal Act, 2015 4. The Auditor General to undertake verification of the project to ascertain the completion and utilization in line with these recommendations and submit a status report to the Office of the Auditor General within 60 days after the	1. The County Executive Officer 2. Auditor General	60 days from the date of adoption of this report



		adoption of this report.		
6	<b>2.01 Payments to Council of Governors.</b> Payments totalling to Kshs.8,864,851 were made to the Council of Governors in the year under review to help the Council meet some of its operational expenses	The Committee recommends that;- 1) the irregular payments to the Council of Governors (COG) be stopped and further recommends the surcharge of any Governor, in their capacity as Chief Executive Officer, who continues to make the irregular contribution; and 2) The EACC should oversee the recovery of all the public funds irregularly transferred to the Council of Governors (COG) by the Governor. This is in line with the Resolution of the Senate.	1. The County Chief Executive Officer & 2. EACC	Immediate
7	<b>2.0.3 Payments Made Outside IFMIS</b> Kshs.90,099,635 was reportedly spent on public participation activities funded through imprests issued to various officers.	The Committee recommends: 1. the Ethics and Anti-Corruption Commission (EACC) cause the investigation of the accounting officer and the responsible officers for the expenditure of Kshs.90,099,635 supposedly on public participation activities funded through imprests	EACC County Executive Officer 2. Auditor General	90 days from the date of adoption of this report

		<p>issued to various officers contrary to Regulation 82(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 and Paragraph 6.7.6 (v) of the County Financial Accounting and Reporting Manual with a view to instituting the prosecution of the officer(s) for the offences and provide a status update to the Office of the Auditor General and the Senate within 90 days of adoption of this report;</p> <p>2. Sanctions as outlined in Section 62(2) of the Public Audit Act, 2015 against the responsible officer(s) who failed to provide the documents to the auditors and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report;</p> <p>3. The Committee recommends that the officers who</p>		
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		<p>failed to surrender imprest in violation of provisions of Section 93 of the PFM Act (County Governments) Regulations, 2015 be surcharged with an interest at the prevailing Central bank rates</p> <p>4. The Committee further recommends sanctions and surcharge of Accounting Officers who fail to recover outstanding imprests in line with Regulation 93(7) of the PFM (County Government) Regulations, 2015;and</p> <p>5. the OAG keeps the matter in view in the subsequent audit cycle to ascertain progress.</p>		
8	<p><b>3.0 Lack of Sufficient Disclosure on Managed Medical Equipment Contract</b></p> <p>The Managed Medical Equipment was not included in the County Government's assets records and consequently, accounting for their use and custody was inadequate.</p>	<p>The Committee recommends that A special audit be undertaken on the lease of medical equipment in the County governments.</p>	Auditor General	60 days from the date of adoption of this report

	In view of the insufficient disclosures on the managed medical equipment contract, it was not possible to confirm whether value for money was obtained from payment totalling Kshs.95,744,680 made in respect to the contract in the year under review.			
9	<b>4.0 Non-Compliance with Law on Establishment of Emergency Funds</b> In establishing the operational structure of Fund, Management may have breached the law.	The Committee recommends that The County Executive establishes an emergency fund in line with the Public Finance Management Act, 2012	1. The County Chief Executive Officer  2. Auditor General	60 Days from the date of adoption of this report
10	<b>5.01 Inefficient Revenue Collection Software</b> Expenditure records indicated that the average cost of implementing and operating the software each year was Kshs.19,654,355. However, analysis of financial statements for the years it has been in use revealed that revenues collected through the software averaged Kshs.23,748,742 each year. Therefore, purchase of the software may have been a bad investment given its initial costs	The Committee recommends that: 1. The County Executive to identify training needs of its staff serving in the Revenue Collection Department and initiate capacity building and training in conjunction with the National Treasury within 60 days of adoption of this report 2. The County Executive should have value for money audit in all their acquisitions	The County Chief Executive Officer          OAG	60 Days from the date of adoption of this report



	<p>totalling Kshs.45,356,203 and outflow of cash totalling Kshs.19,654,355 it causes every year.</p> <p>The County may not have obtained value for money by procuring the software.</p>	<p>3. That the County Executive should put in place measures to improve their local revenue collection capacity in order to meet their revenue collections target.</p> <p>4. The Auditor General to carry out a value for money audit of the software at the expiry of the three year contract period and submit a report to the Senate.</p>		
11	<p><b>5.02 Un-Updated Land Valuation Roll</b></p> <p>Included in county own-generated receipts are land rates receipts totalling Kshs.44,776,748 reported under other property income. However, the valuation roll used to bill the plot owners has not been updated for several years to reflect the appreciating land values.</p> <p>The County property rates and income realized in the year under review were not optimal and may have resulted in under-collection of revenue.</p>	<p>The Committee recommends that the County executive should expedite updating of valuation roll in accordance with Section 3 of the Valuation for Rating Act CAP 266 so as to reflect current market values for optimal revenue collection and comply with the guidelines of the Public Sector Accounting Sector Boards of reporting in the FY 2023/2024</p>	The County CEO	FY 2023/2024
12	<p><b>5.03 Long Outstanding Land Rates</b></p> <p>Examination of land records disclosed arrears</p>	<p>The Committee recommends that;-</p> <p>1. the County executive should expedite updating of</p>	1. The County Chief Executive Officer	Next Audit Cycle

	of revenue totalling Kshs.252,260,438 and there was no evidence of any concerted efforts having been made by Management to enforce the collections as provided for under Section 63(1) of Public Finance Management (County Governments) Regulations, 2015).	valuation roll in accordance with Section 3 of the Valuation for Rating Act CAP 266 so as to reflect current market values for optimal revenue collection and comply with the guidelines of the Public Sector Accounting Sector Boards of reporting in the FY 2023/2024; and 2. the Auditor General verifies the status of the query in subsequent audits.	2. Auditor General	
13	<b>6.0 Failure to Comply with One-Third Basic Salary Rule</b> Examination of the payroll for July, 2019 revealed that net salaries for forty-eight (48) employees were less than one-third of their basic pay contrary to Section 19(3) of the Employment Act, 2007).	The Committee recommends that: 1. The county should configure their IPPD system such that it is able to lock out commitments beyond the accepted thresholds 2. The Auditor General should continue monitoring the issue in subsequent financial years.	1. The County Chief Executive Officer 2. Auditor General	60 days from the date of adoption of this report
14	<b>1.0 Lack of Risk Management Policy</b> Management lacks objective means to	The Committee recommends that: 1. The County Chief Executive ensures that the disaster and	1. The County Chief Executive Officer	60 Days from the date of adoption of this report



	manage operational and other risks in an effective way.	<p>risk management policies and plans are finalised and adopted in the shortest time possible.</p> <p>2. The Auditor General to verify that the County Executive has adopted the relevant disaster and risk management policies and plans.</p>	2. Auditor General	
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## **Qualified Opinion**

### **1.0 Inaccuracies in Financial Statements**

The financial statements contain the following inaccuracies:

- i. The statement of assets and liabilities as at 30 June, 2020 reflects accounts payable-deposits and retentions totalling Kshs.40,259,597 whereas Note 21A on bank balances reflects County deposits account bank balance totalling Kshs.109,575,065 resulting to an unexplained variance of Kshs.69,315,468.
- ii. The summary statement of appropriation: recurrent and development combined reflects actual exchequer releases balance totalling Kshs.5,033,489,400 whereas the statement of receipts and payments reflects Kshs.5,451,814,911 in respect to the account resulting to an unreconciled variance totalling Kshs.418,325,511.
- iii. The statement of cash flows reflects other adjustments totalling Kshs.40,259,595 that have not been referenced for explanation in the notes to the financial statements.

In view of these discrepancies the accuracy of the financial statements could not be confirmed.

### **Management Response**

The Management submitted that;

- i) the statement of assets and liabilities in the financial statement as at 30 June, 2020 reflected accounts, payable-deposits and retentions totalling Kshs. 109,575,065 which is in line with Note 21A on bank balances. The variance of Ksh 69,315,468 had been corrected in the financial report for financial year 2020/21 under prior year adjustments (Annex 1). The variance arose due to paid retentions on 30<sup>th</sup> June 2020 and reflected in the subsequent financial year.
- ii) the summary of statement of appropriation, recurrent and development combined reflected actual exchequer releases balance totalling Kshs. 5,451,814,911 which was a combination of equitable share of Kshs. 5,033,489,400 (Note 1A) and donor funds through exchequer totalling Kshs.418,325,511(Note 1C), therefore there was no variance in the exchequer releases.
- iii) the amount reflected in the statement of cash flows of 40,259,595 was referenced to note 25 of the financial statements.

### **Committee Observations**

The committee noted variances in the statement of assets and liabilities in the financial statements of the county executive. The committee further observed that the matter has since been addressed as remedial measures has been undertaken.

### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

### **2.0 Unsupported Balances**

Several balances reflected in the financial statements are not sufficiently supported with records to confirm their occurrence, accuracy, completeness, propriety or validity:

#### **2.0.1 Balances that Differ with their Supporting Schedules**

Three accounts reflected in the statement of receipts and payments namely, Income from Profits and Dividends, Business Permit Income and Support to Bomet Water



Company Limited reflect balances that differ from those computed in their respective supporting schedules presented for audit as follows:

Account	Amounts in Statement of Receipts and Payments (Kshs.)	Amount in Supporting Schedule (Kshs.)	Variance (Kshs.)
Income from Profits and Dividends	14,769,212	16,316,212	(1,547,000)
Business Permit Income	23,169,572	18,934,900	4,234,672
Support to Bomet Water Company	91,900,000	93,000,000	(1,100,000)

#### **Management Response**

The Management stated that the anomaly in the supporting schedules was noted and had since been reconciled. The variances were mainly due to timing differences at the beginning and at the end of the financial year and had been reconciled accordingly with the figures in the financial statements. The reconciled supporting schedules had been availed for audit verification.

#### **Committee Observations**

The committee observed variances between accounts and the respective supporting schedule. The committee further noted that the accounts and the schedule has since been reconciled and verified by the Auditor General.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

### **2.0.3 Compensation of Employees**

The statement of receipts and payments reflects compensation of employees' costs totalling Kshs.2,335,324,255, as further disclosed in Note 11 to the Financial Statements. Examination of records on the expenditure disclosed two large unconfirmed balances:

#### **2.0.3.1 Salaries for Contract Employees**

Included in the expenditure is Kshs.22,329,622 paid to twelve (12) officers denoted as contract employees. However, their respective contracts were not provided for audit review and as a result, the accuracy and propriety of the payments made to them as compensation, and the employees costs totalling Kshs.2,335,324,255, for the year under review, could not be confirmed.

#### **Management Response**

The Management submitted that the mentioned officers exited between June 2014 and September 2018 on expiry of their term of service and no payments were made (Evidenced by P9 forms that were attached) to the officers during the year under review

except for one officer whose contract was extended until 2020. Schedule showing their term end date and contracts and P9 forms from IPPD had been availed for audit verification and copies were attached.

**Committee Observation**

The committee observed that the supporting documents on the terms of service of the contract employees has been provided and verified by the Auditor General.

**Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

**2.0.3.2 Salaries Paid Outside the Prescribed Payroll**

The statement of receipts and payments and Note 11 to the financial statements reflect compensation of employees' expenditure totalling Kshs.2,335,324,255 for the year under review. However, one thousand nine hundred and sixty (1960) employees with gross salaries totalling Kshs.642,233,467 were paid through a separate electronic payroll purchased by Management. No proper explanation was provided for the failure to use the Integrated Payroll and Personnel Data base (IPPD) system prescribed by The National Treasury for public entities. Further, audit review of monthly payrolls from the off-shelf software revealed that the payrolls lacked details of dates of appointment, date of birth, paying bank account, work station and date of retirement. As a result, the accuracy, completeness and validity of the compensation of employees payments totalling Kshs.2,335,324,255 could not be confirmed.

**Management Response**

The Management stated that the main reason why the county maintained two payroll systems was because there were missing designations in the Integrated Payroll & Personnel Database (IPPD) and also the mapping into the IPPD system of newly recruited staff took longer to be approved by the directorate of public service management. However, the one thousand nine hundred and sixty (1960) employees had since been incorporated in the IPPD. The County government had subsequently phased out the off-shelf payroll system after moving all the staff into the IPPD system.

The management had availed the January 2023 payroll summary and correspondences confirming that the county paid staff only in IPPD for audit verification.

**Committee Observation**

The committee observed that the county executive took corrective measures and that all county employees has since been incorporated into the IPPD payroll.

**Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

**2.0.4 Use of Goods and Services**

The statement of receipts and payments reflects use of goods and services payments totalling Kshs.1,012,387,021, as further disclosed in Note 12 to the financial statements. However, the following unsatisfactory matters were noted in relation to items included in the balance:

**2.0.4.1 Variances Between Financial Statements and Ledger Balances**



Several account balances reflected in the financial statements differ from the Integrated Financial Management Information Systems (IFMIS) trial balance as at 30 June, 2020 as shown in Appendix I to this report.

No explanation was provided by Management for the differences and as a result, the accuracy and completeness of the balances could not be confirmed.

#### **Management Response**

The Management stated that the County Executive reported Kshs. 6,664,635,264.00 as the total trial balances which reflected the true state of affairs of the county Government of Bomet. The variances with IFMIS trial balances were due to the balances brought forward since the operationalization of IFMIS and most of it attributed to the phased implementation of IFMIS. IFMIS system had been implemented in phases and not all of the modules were fully operational. An example of accounting for revenue (AR) modules which had not been enabled to transfer funds from county Revenue Fund (CRF) to operational accounts.

The Management further requested the Committee to intervene so that national treasury-IFMIS department captured audited opening balances in a bid to resolve the variances noted going forward.

#### **Committee Observation**

The Committee noted that although the management did not submit all the relevant documents and information to the Auditor General at the time of audit as per Section 62 of the Public Audit Act, 2015, the management has since submitted documents and reconciliation verified by the Auditor.

#### **Committee Recommendations**

**The Committee further recommends that the matter be marked as resolved.**

#### **2.0.4.2 Purchase of Specialized Materials**

The specialised materials and services expenditure totalling Kshs.250,698,645 includes Kshs.32,147,875 spent on procurement of specialized materials. However, records to confirm receipt and issuance of the materials were not presented for audit.

#### **Management Response**

The Management submitted that the county executive incurred Kshs. 32,147,875 in procurement of Specialized Materials. All the materials received under these categories were properly received, stored and issued as per the regulations. During the time of audit, the procurement files were misplaced and were not retrieved on time by the lean staff imposed by the covid 19 restrictions. However, the files had been retrieved and availed for audit verification. These included procurement of Artificial insemination materials, and vaccination materials for the department of agriculture which had a distinct AI service store due to the nature of these items. All the procured materials were recorded in stock cards and counter issue forms were used in dispensing the materials to beneficiaries. Copies of stock cards, counter issue and counter requisition forms and list of beneficiaries had been availed for audit verification and copies were attached.

#### **Committee Observations**

The Committee noted that although the management did not submit all the relevant documents and information to the Auditor General at the time of audit as per Section 62 of the Public Audit Act, 2015, the management has since submitted documents and reconciliation verified by the Auditor.

#### **Committee Recommendations**

**The Committee therefore recommends that the matter be marked as resolved.**

#### **2.0.4.3 Misclassified Expenditures**

Audit review of expenditure ledgers revealed misclassifications of payments totalling Kshs.182,664,312.

In view of the misclassified expenditures, the use of goods and services expenditure totalling Kshs.1,012,387,021 for the year ended 30 June, 2020 is not fairly stated.

#### **Management Response**

The Management stated that the transactions were charged and accounted for in their relevant vote heads and the anomaly observed was corrected by passing of journal entries. The transactions, however, had been properly described in the reconciled use of goods and services ledger that had been availed for audit verification and copies were attached.

#### **Committee Observation**

The committee that the county executive has since addressed the anomalies on the misclassified and corrective measures undertaken.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

#### **2.0.4.4 Repair and Maintenance of Motor Vehicles**

Records on use of goods and services indicated that Kshs.24,267,787 was spent on routine maintenances of vehicles and other transport equipment. The payments totalling Kshs.4,728,150 were paid to various garages for the repairs of motor vehicles. However, inspection reports on the vehicles repaired were not provided for audit review. Further, the defects were not recorded in the respective vehicle work tickets and log books as regulations require. In view of the omissions and missing records, the occurrence and propriety of the payments totalling Kshs.4,728,150 could not be confirmed.

#### **Management Response**

The Management stated the county incurred Kshs. 4,728,149.55 on routine maintenance of motor vehicles during the financial year under review.

During the time of audit, one pre-inspection file was misplaced and was not retrieved at the time by the lean staff imposed by the covid 19 restrictions. However, the files had been retrieved and availed for audit verification. The Management had taken the corrective measure as per the audit recommendation to record all the defects in the logbooks and work tickets. The work tickets, pre-inspection reports, log books and post inspection certificates had been availed for audit verification.



### **Committee Observations**

The Committee noted that although the management did not submit all the relevant documents and information to the Auditor General at the time of audit as per Section 62 of the Public Audit Act, 2015, the management has since submitted documents and verified by the Auditor.

### **Committee Recommendations**

**The Committee therefore recommends that the matter be marked as resolved.**

#### **2.0.4.5 Routine Maintenance of Other Assets**

Payments for routine maintenance of other assets totalling Kshs.20,811,577 includes Kshs.14,407,624 not supported by pre and post repair inspection reports done by the Maintenance Unit. As a result, the occurrence, accuracy and propriety of the payments could not be confirmed.

### **Management Response**

The Management stated that the county incurred Kshs. 20,811,577 on routine maintenance of other assets during the financial year under review.

During the time of audit one of the pre-inspection report files had been misplaced because of the same reasons of covid restrictions but had since been found. The work tickets, preinspection reports, log books and post inspection certificates had been availed for audit verification.

### **Committee Observations**

The Committee noted that although the management did not submit all the relevant documents and information to the Auditor General at the time of audit as per Section 62 of the Public Audit Act, 2015, the management has since submitted documents and reconciliation verified by the Auditor.

### **Committee Recommendations**

**The Committee therefore recommends that the matter be marked as resolved.**

#### **2.0.4.6 Hire of Ambulances**

Expenditure records indicated that Kshs.38,761,879 was spent on hire of ambulances for emergency medical services. However, procurement documents and schedules of rescue operations undertaken by the ambulances including pick-up and drop-off points and details on patients served, were not provided for audit review.

Consequently, the propriety of the payments totalling Kshs.38,761,879 spent on hire of ambulances and maintenance of vehicles and other assets could not be confirmed.

### **Management Response**

The Management submitted that the County floated through open tender, the purchase of two ambulances and lease of four ambulances in the FY 2017/2018 for provision of pre-hospital emergency services. This was because of the same restrictions on staff

movement; the procurement process documents and evidence of services provided were misplaced but later retrieved and had been availed for audit verification.

#### **Committee Observations**

The Committee noted that although the management did not submit all the relevant documents and information to the Auditor General at the time of audit as per Section 62 of the Public Audit Act, 2015, the management has since submitted documents and reconciliation verified by the Auditor.

#### **Committee Recommendations**

**The Committee therefore recommends that the matter be marked as resolved.**

#### **2.0.5 Transfer to Other Government Units**

The statement of receipts and payments reflects transfers to other government entities totalling Kshs.1,004,635,448, as detailed in Note 14 to the financial statements. Included in the balance are cash transfers to health facilities totalling Kshs.199,284,563 out of which a sum of Kshs.10,680,195 was not accounted for by way of expenditure returns. Further, Kshs.90,353,894 of the cash transfers to health facilities was spent on procurement of COVID-19 medical equipment whose tender documents and stores ledgers were not provided for audit review.

In the circumstance, the accuracy and propriety of cash transfer payments to health facilities totalling Kshs.199,284,563 reported in the year under review could not be confirmed.

#### **Management Response**

The Management stated that the cash transfers made to health facilities were done through AIEs. The department of health received monthly summaries of expenditures before further disbursements were made to account for the AIEs.

Furthermore, following the announcement and confirmation by the Government on COVID-19 cases in the Country, the County in collaboration with its stakeholders scaled up emergency preparedness and response protocols to support the National efforts geared towards minimizing the spread of the disease in the rural areas. The procurement processes were done as per the requirements of the Public procurement and assets disposal act 2015.

#### **Committee Observations**

The Auditor informed the Committee that the matter has since been addressed. The Committee noted that the matter has since been addressed.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

#### **2.0.6 Grant to Vocational Training**

The statement of receipts and payments reflects other grants and payments totalling Kshs.423,061,786, as further disclosed in Note 15 to the financial statements.



Included in the balance are transfers for scholarships and other educational benefits totalling Kshs.86,362,263, out of which Kshs.62,704,156 was transferred to various polytechnics. However, expenditure returns confirming receipt and use of the funds by the polytechnics were not provided for audit. As a result, the accuracy and propriety of other grants and payments totalling Kshs.423,061,786 for the year ended 30 June, 2020 could not be confirmed.

#### **Management Response**

The Management stated that, the county received Kshs. 47,388,298 from state department of vocational training and technical directorate for youth Polytechnic support grant during the financial year. This was in addition to the balances brought forward and incurred Kshs. 62,704,156.00 in respect to transfers to polytechnics during the year under review. The expenditure returns had been availed for audit verification and copies were attached.

#### **Committee Observations**

The Committee noted that although the management did not submit all the relevant documents and information to the Auditor General at the time of audit as per Section 62 of the Public Audit Act, 2015, the management has since submitted documents and reconciliation verified by the Auditor.

#### **Committee Recommendations**

**The Committee recommends that the matter be marked as resolved.**

#### **2.0.7 Acquisition of Assets**

The statement of receipts and payments reflects acquisition of assets costs totalling Kshs.1,521,820,161 incurred in the year under review, and as further disclosed in Note 17 to the financial statements. The following unsatisfactory matters were however, noted in regard to the expenditure:

##### **2.0.7.1 Hire of Tippers**

Included in the acquisition of assets costs are construction of road costs totalling Kshs.108,983,327 which in turn include Kshs.59,340,258 reportedly spent on hire of tippers and building of road culverts. However, review of County work plans and road works monitoring and evaluation reports, revealed that all roads maintained during the year under review were done under other contracts that were procured and paid for separately. Further, records on the hired tippers, including work plans and operational schedules, roads-maintained and work inspection reports were not provided for audit. Consequently, the propriety of the expenditure totalling Kshs.59,340,258 on hire of tippers and on building of culverts services reported in the year under review could not be confirmed.

#### **Management Response**

Management submitted that, during the year under review, the county incurred Kshs. 108,983,327 in respect to construction of roads. The payments under review were for

pending bills in respect to services rendered through hire of equipment method under the work plan for the financial years before 2018/2019 but were not paid during those financial years. These pending bills were vetted by the special audit and the county pending bills committee and formed part of the eligible pending bills. The payment plan was factored during the first supplementary budget of 2019-2020 financial year. The first administration adopted hire of equipment for contracts using force account method of procurement whereby tippers were hired for haulage of murram. The inspection certificates and schedule indicating the roads maintained had been availed for audit verification and copies were attached.

### **Committee Observations**

The Committee noted that although the management did not submit all the relevant documents and information to the Auditor General at the time of audit as per Section 62 of the Public Audit Act, 2015, the management has since submitted documents and reconciliation verified by the Auditor.

### **Committee Recommendations**

**The Committee further recommends that the matter be marked as resolved.**

#### **2.0.7.2 Misclassified Payments**

Examination of sampled expenditures on acquisition of assets revealed various misclassified items totalling Kshs.86,402,117 as detailed out below;

<b>Expenditure Description</b>	<b>Correct Account</b>	<b>Acquisition of Assets Account Charged</b>	<b>Amount Misclassified (Kshs.)</b>
Hire of Tippers, Construction of Roads, Supply and Delivery of Pasture, Seedlings and Grow Bags	Various	Purchase of Buildings	10,509,950
Hire of Tippers and Construction of Buildings	Various	Refurbishment of Buildings	17,649,033
Funds Transfer to Imprest Account, AIEs Transfers-No Sub-schedules	Various	Other Current Transfer Grants	58,243,134
<b>Total</b>			



In view of the incorrect classification of these items, acquisition of assets costs totalling Kshs.1,521,820,161 reflected in the statement of receipts and payments are not fairly stated.

#### **Management Response**

The Management stated that the mentioned transactions were charged and accounted for in their relevant vote heads and thus were not misclassified. The erroneous descriptions of the transactions arose due to inactive IFMIS journal level. Updating the ledgers was always done to reconcile charge accounts through passing of journal entries. The transactions, however, had been properly described in the reconciled acquisition of assets ledger through journal entries which had been availed for audit verification.

#### **Committee Observations**

The Committee noted that although the management did not submit all the relevant documents and information to the Auditor General at the time of audit as per Section 62 of the Public Audit Act, 2015, the management has since submitted documents and reconciliation verified by the Auditor.

#### **Committee Recommendations**

**The Committee recommends that the matter be marked as resolved.**

#### **2.0.8 Bank Balances**

The statement of assets and liabilities and Note 21 to the financial statements reflect bank balances totalling Kshs.609,118,026 as at 30 June, 2020, and as further reflected in Note 21 to the financial statements. However, bank balances in fourteen (14) bank accounts operated by the County Executive in commercial banks were not supported by certificates of bank balances, cash books and bank reconciliation statements. Further, the County Executive operated two (2) imprest bank accounts but authority granted by the County Treasury was not provided for audit and as a result it was not possible to confirm whether they were opened and ran in accordance with the law.

In the circumstance, the accuracy and fair statement of the reported bank balances totalling Kshs.609,118,026 as at 30 June, 2020 could not be confirmed.

#### **Management Response**

The Management stated that the county government maintained two imprest accounts only for the operations of the county departments; however additional accounts were operated by the county government to fulfil the conditions of donor funds which required that their grants were distinct from equitable share of revenue sources.

The 14 accounts maintained by the county executive were among dormant accounts which were closed as per the directives from the national treasury. These accounts were reported in the financial statements for comparative purposes only since no transactions took place in the year under review.

The certificate of bank balances, cashbooks, bank reconciliations and authority letters for the two imprest accounts had been availed for audit verification and copies were attached.

### **Committee Observations**

The Committee noted that although the management did not submit all the relevant documents and information to the Auditor General at the time of audit as per Section 62 of the Public Audit Act, 2015, the management has since submitted documents and reconciliation verified by the Auditor.

### **Committee Recommendations**

**The Committee recommends that the matter be marked as resolved.**

#### **2.0.9 Fixed Assets**

The summary of fixed assets register at Annex 5 to the financial statements reflects assets with historical costs totalling of Kshs.5,855,848,723 as at 30 June, 2020.

However, verification of the assets acquired during the year under review indicated that these were not tagged, contrary to Section 136 of the Public Finance Management (County Governments) Regulations, 2015. The provision requires each Accounting Officer to maintain a register of all assets under his control. Further, ownership documents for land parcels valued at Kshs.49,717,599 were not provided for audit.

In view of the missing records, ownership by the County Executive of the land valued at Kshs.49,717,599 and the accuracy, fair statement of the assets totalling Kshs.5,855,848,723 as at 30 June, 2020 could not be confirmed.

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### **Management Response**

The Management submitted that the county government of Bomet ensured that all the assets acquired were recorded in stores ledgers and tagged. The county government updated inventory once in every quarter and tagging was also done. During the audit review some of the assets acquired in the last quarter of the financial year were not yet tagged due to the shortage of tags. But the assets had been properly recorded and temporary asset numbers were used for labeling. The assets had since been tagged. Pictorial evidence of tagged assets had been availed for audit verification and copies were attached.

Furthermore, the parcels of lands in the asset register were at various stages of transfer. Some parcels of land had ready title deeds while others were in mutation stages. The management had availed transfer documents with regards to land for audit verification and copies were hereby attached.

### **Committee Observations**

The Committee noted that although the management did not submit all the relevant documents and information to the Auditor General at the time of audit as per Section 62 of the Public Audit Act, 2015, the management has since submitted documents and reconciliation verified by the Auditor.

### **Committee Recommendations**



**The Committee recommends that the Executive expedites the transfer of the title deeds that were in mutation stage at the time of the audit and provides an update to the Auditor General within 60 days from the adoption of this report.**

#### **2.0.10 Pending Bills**

Note 18.1 of other important disclosures to the financial statements discloses pending accounts payables balances totalling Kshs.696,052,764 as at 30 June, 2020. However, the following anomalies were noted in relation to the balance:

- i. Records provided for audit indicated that the balance was arrived at after an upward adjustment by Kshs.207,670,598 to the previous balance on record totalling Kshs.488,382,166. However, minutes of the Pending Bills Committee meeting that approved the change were not provided for audit review. As a result, the validity and accuracy of the adjustment could not be confirmed.
  - ii. The bills reflected in Annex 2 amounted to Kshs.622,834,065 and therefore differ by Kshs.73,218,699 from the sum of Kshs.696,052,764 reflected in the summary. Further, the disclosure at Annex 2 does not indicate aggregate payments made to the creditors as at 30 June, 2020.
  - iii. Included in the pending bills totalling Kshs.125,629,006 paid in the year under review are payments totalling Kshs.105,199,699 for motor vehicle spare parts and hire of road works vehicles, hospitality expenses and software costs. However, these expenditures were not supported with records on user requisitions and receipt and use of the goods and services procured.
  - iv. The special report of the Auditor-General dated 15 March, 2019 on pending bills referenced KK/AUD/OAG/JCT/000269 reflected pending bills totalling Kshs.1,190,167,877 as at 30 June, 2018 which differed from the pending bills balance brought forward totalling Kshs.366,764,128 in the financial statements for the year under review.
  - v. Contracts valued at Kshs.23,485,095 described as terminated, and Kshs.120,951,610 with no description of work done, have been included in the pending bills balance.
- In view of these issues, the accuracy, validity and completeness and valuation of the pending accounts payable balance totalling Kshs.696,052,764 as at 30 June, 2020 could not be confirmed.

#### **Management Response**

The Management stated that the anomalies in the reported pending bills were noted by the management. This was mainly due to the variances in balances in the reported figure as at 30th June 2020 and special audit reports as at 30th June 2019 that included settled bills during that financial year.

The variances highlighted herein were subsequently audited and reconciled during the special audit on pending bills carried out in 2021 which confirmed a figure of Ksh. 575,277,292 as at 30th April 2021. The variance in annex 2 had been reconciled to agree with the special report of the Auditor general.

Further, pending bills paid during the year included bills for financial years from 2014-2018 based on the eligibility determined by the special audit and pending bills committee established to determine the admissibility of supporting documents available for the suppliers. Those paid were processed based on the eligibility thresholds. The

payments made were done with fully supported payment vouchers with requisitions, invoices, lso/lpos and other requisite documents.

Copies of work approval requisitions, measurement sheets and completion certificates for road maintained and pre-inspection reports for requisitions and post inspection reports for maintenance of vehicles showing the receipt and use had been availed. The variances in pending bills were reconciled during the special audit carried out in March 2021.

#### **Committee Observation**

The Committee noted that the County currently has pending bills totalling Kshs. 250 million.

The committee further noted that the County Executive did not provide a status report in all its pending bills as prescribed by the Public Sector Accounting Standards Board. This led to inadequate disclosure of pending bills.

#### **Committee Recommendation**

The Committee therefore recommends that:

- 1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time; and
- 2) the county executive puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.
- 3) Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) for investigation proper legal action taken against those filing false claims.
- 4) County Government to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending bills verification committees unconstitutional and engage Office of the OAG and strengthen the internal audit functions.; and
- 5) All valid pending bills that have been reviewed by the Office of the Auditor General be paid and a payment plan be submitted to the county assembly for approval and progress report on implementation sent to the Senate and the Office of the Controller of Budget.

#### **Other Matter**

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

##### **1.1. Revenue Budget**

The summary statement of appropriation: recurrent and development combined reflects budgeted revenue and actual receipts on comparable basis totalling Kshs.7,512,699,158 and Kshs.6,711,538, 419 respectively, resulting in a revenue shortfall of Kshs.801,160,739 or 11% of the budget. The shortfall mainly resulted from undisbursed exchequer releases and proceeds from foreign grants/development partners budgeted for the year.



**Management Response**

The Management stated that there was a shortfall of Kshs. 801,160,739 or 11% of the budget due to undisbursed exchequer releases and proceeds from foreign grants during the year under review.

The Management appealed to the relevant government institution to disburse all the exchequer releases to enable county governments to deliver on their mandates on time.

**Committee Observation**

The Committee observed that the county did not meet its own source revenue targets.

**Committee Recommendation**

**The Committee recommends that -**

- 1. The National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate; and**
- 2. the County Executive puts in place measures to enhance its own generated revenue in order to meet its revenue target and address revenue shortfalls**

**1.2. Expenditure Budget**

The summary statement of appropriation: recurrent and development combined reflects actual expenditure totalling Kshs.6,366,194,972 against the realized budget totalling Kshs.6,711,538,419 resulting to under-expenditure of Kshs.345,343,447.

Management attributed the under-expenditure to the shortfall in revenue and delay in passing of the Division of Revenue Bill at the Senate.

This shortfall in revenue and the under-expenditure constrained implementation of projects and delivery of goods and services planned to benefit the residents of Bomet County.

**Management Response**

The Management stated that the under-utilization observed during the year under review was as a result of the delays in disbursement of exchequer releases due to the county government from The National Treasury.

The Management requested the CPAC Committee to intervene to deter such occasions in future so as to ensure that no further delays are experienced.

The Management availed a copy of CRF statement indicating the amount received at the close of the financial year.

**Committee Observation**

The Committee observed that there was under-utilization of appropriated funds by the County Executive as a result of delay in exchequer releases by The National Treasury.

## **Committee Recommendation**

**The Committee recommends that-**

- 1. The National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate; and**
- 2. the County Executive puts in place measures to enhance its own generated revenue in order to meet its revenue target and address revenue shortfalls.**

### **2.0 Prior Year Issues**

The audit report for the previous year had highlighted several issues on the financial statements for the year and on lawfulness and effectiveness in use of resources.

Annex 9 of Other Important Disclosures contains Management's report on progress made in following-up on auditor recommendations on the matters. The report indicates that all of the issues have been resolved but does explain their manner of resolution.

The actual status of the issues shall be confirmed after they are deliberated upon by the Legislature.

### **Management Responses**

The Management stated that the issues raised by the Auditor general for prior years had been resolved and recommendations made during the last appearance had been implemented and other areas which required policy formulation were going on as planned. The management was keen on improving controls and ensuring that policy framework was put in place to ensure prudent and effective utilization of public resources.

### **Committee Observation**

The Committee observed that the County Executive did not take action on the issues raised in the Report of the Auditor General for the Financial Year 2018/2019.

### **Committee Recommendations**

**The Committee recommends that the County Executive complies with the Section 53 of the Public Audit Act, 2015 by taking action on the issues raised by the Auditor General and submits a report to the Auditor General for review within sixty (60) days of the adoption of this report.**

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

### **1.0 Unsatisfactory Implementation of Projects**

The Project Implementation Status Report as at 30 June, 2020 disclosed 463 projects with contract sums totalling Kshs.2,252,267,254 at different stages of execution as detailed out below:

<b>Project Status</b>	<b>Count</b>	<b>Contract Sum</b>
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		(Kshs.)
Completed Projects	330	1,247,858,731
Incomplete/Ongoing/Stalled	104	930,425,117
Contract Terminated	1	1,562,126
Not Started	28	72,421,281
Total	463	2,252,267,255

The table indicates one hundred and four (104) projects with contracted sums totalling Kshs.930,425,117 or 41% of the portfolio were either incomplete, were ongoing or had stalled. Consequently, the residents were yet to receive the public services that were to be provided through the projects.

Physical verification of thirty-four (34) sampled projects contracted at an aggregate sum of Kshs.332,580,838 revealed several unsatisfactory issues on their implementation, as highlighted in Appendix III to this report.

The issues included irregular procurement of works, low quality and delayed completion of works, unauthorized variations of project scope and materials as well as stalling and abandonment of some projects. As a result of the anomalies, the residents of Bomet County may not receive value for money on the projects worth Kshs.332,580,838.

### **Management Response**

The Management stated that some of the projects implemented over the years were in different levels of completion during the audit review. The contracts relating to construction of ward offices were for financial years 2013-2016. These contracts had lapsed as at the time of audit review. This was majorly because the contracts were done in phases across three financial years. There was a tendency of contractors to not show up in the financial years 2017-2018. The management was reviewing the terms of the contracts and bill of quantities in view of re-evaluating the contracts for budgeting in the subsequent financial year.

The county government had committed through cabinet resolution dated 31st January 2023 to ensure all the stalled projects were completed in the current financial year (2022-23), which informed the first supplementary estimates approved by the County Assembly. Management attached a copy of cabinet minutes and status report.

### **Committee Observations**

The Committee noted the following that;

1. the County had completed only 17 of the 104 projects.
2. the County Executive had formed a task force to review implementation of projects that were either ongoing or stalled.
3. the hydrological survey and feasibility studies were not done before drilling of most of the boreholes and other water projects.

### **Committee Recommendation**

**The Committee recommends that:**

1. the County Executive makes adequate budget provisions to complete the project for public use;
2. proper project conceptualization and project planning should be undertaken to ensure timely completion;
3. the County Executive should establish Projects Delivery Unit in the county to manage implementation of projects; and
4. the Auditor General should undertake verification of the project to ascertain the completion and utilization in line with these recommendations and submit a status report to the Office of the Auditor General within 60 days after the adoption of this report.

## **2.0 Irregular Expenditure**

Examination of expenditure records disclosed several instances that payments for goods and services were made in disregard to laws and regulations, as explained in the following paragraphs:

### **2.01 Payments to Council of Governors**

Examination of expenditure records indicated that payments totalling Kshs.8,864,851 were made to the Council of Governors in the year under review, ostensibly to help the Council meet some of its operational expenses.

However, Section 37 of the Inter-Governmental Relations Act, 2012 provides that all operational expenses of the Council shall be met from the budget of the National Government. Therefore, the payments totalling Kshs.8,864,851 were irregular.

### **Management Response**

The Management stated that section 37 of inter-governmental relation Act 2012 stated clearly that the operational expenses should be met by National Government while section 3(a) of the same Act (IGR) object and purpose Act provide a framework for consultation and cooperation between the National and County Government.

Furthermore, the payments were made on the strength of the minutes by the council of governors to support annual devolution conference.

After the issues were raised on the legality of the payments, no further payments were made from that time to council of governors except for the annual devolution conference.

### **Committee Observation**

The Committee noted that payments made to the council were irregular and unlawful. The Committee also noted that the payment has since been stopped.

### **Committee Recommendations**

**The Committee recommends that;-**

1. the irregular payments to the Council of Governors (COG) be stopped and further recommends the surcharge of any Governor, in their capacity as



**Chief Executive Officer, who continues to make the irregular contribution;  
and**

- 2. The EACC should oversee the recovery of all the public funds irregularly transferred to the Council of Governors (COG) by the Governor. This is in line with the Resolution of the Senate.**

## **2.02 Payments for Fuel and Lubricants**

Expenditure records further indicated that Kshs.12,327,412 was paid to various fuel suppliers in advance. The payments were made contrary to Section 146 of the Public Procurement and Asset Disposal Act, 2015 which provides that, contracts for works, goods or services may only be paid for after they are executed and approved by the Accounting Officer. In addition, the respective tender documents, supply contracts, fuel registers, detailed orders and work tickets were not provided for audit and as a result, the validity of the procurement process and propriety in supply and use of the fuel valued at Kshs.12,327,412 could not be confirmed.

To the extent, the Management is in breach of the law.

### **Management Response**

The Management submitted that the payments with regard to fuel and lubricants were always paid after the delivery. However, during the Covid19 pandemic a few payments were made that were meant to serve ambulances engaged during this period as part of the emergency response measures. This was because the suppliers were not in a position to supply the large volumes required with the committed LPOs due to economic downturns. During the pandemic most of the suppliers declined to supply fuel before outstanding bills were cleared. The quantities procured and supplied were properly accounted for by use of card system charged at pump price as stipulated in the framework contract. The procurement documents and accounting documents such as fuel register, statements, work tickets and framework contract agreements had been availed.

### **Committee Observations**

The Committee noted that although the management did not submit all the relevant documents and information to the Auditor General at the time of audit as per Section 62 of the Public Audit Act, 2015, the management has since submitted documents and reconciliation verified by the Auditor.

### **Committee Recommendations**

**The Committee therefore recommends that the matter be marked as resolved.**

## **2.0.3 Payments Made Outside IFMIS**

Examination of imprest records indicated that Kshs.90,099,635 was reportedly spent on public participation activities funded through imprests issued to various officers. This was contrary to Regulation 82(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 and Paragraph 6.7.6 (v) of the County Financial

Accounting and Reporting Manual both of which prohibit payments to be made out of petty cash should not exceed Kshs.10,000 per item in financial year. To the extent, the Management breached the law on management of cash Expenditures.

### **Management Response**

The Management submitted that during the year under review, the County Executive made all payments through IFMIS. The expenditures in question under use of goods and services were administered through AIEs and incurred mainly for public participations. The expenditures were fully supported and accounted through the cashbook and well supported vouchers. Due to the nature of the activities, it was a convenient way to facilitate the functions through imprests.

### **Committee Observations**

The Committee observed that the County spent ninety (90) million on public participation in one financial year at the expense of development projects. The Committee further observed that this was imprudent.

The Committee further noted that the management did not submit all the relevant documents and information to the Auditor General at the time of audit as per Section 62 of the Public Audit Act, 2015.

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### **Committee Recommendations**

The Committee recommends:

6. the Ethics and Anti-Corruption Commission (EACC) cause the investigation of the accounting officer and the responsible officers for the expenditure of Kshs.90,099,635 supposedly on public participation activities funded through imprests issued to various officers contrary to Regulation 82(1)(b) of the Public Finance Management (County Governments) Regulations, 2015 and Paragraph 6.7.6 (v) of the County Financial Accounting and Reporting Manual with a view to instituting the prosecution of the officer(s) for the offences;
7. Sanctions as outlined in Section 62(2) of the Public Audit Act, 2015 against the responsible officer(s) who failed to provide the documents to the auditors and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report;
8. The Committee recommends that the officers who failed to surrender imprest in violation of provisions of Section 93 of the PFM Act (County Governments) Regulations, 2015 be surcharged with an interest at the prevailing Central bank rates
9. The Committee further recommends sanctions and surcharge of Accounting Officers who fail to recover outstanding imprests in line with Regulation 93(7) of the PFM (County Government) Regulations, 2015;and
- 10.the OAG keeps the matter in view in the subsequent audit cycle to ascertain progress.



### **3.0 Lack of Sufficient Disclosure on Managed Medical Equipment Contract**

Included in specialized materials and services costs totalling Kshs.250,698,645 is Kshs.95,744,680 being payment towards annual leased medical equipment supplied by the National Government. However, although the equipment was in use, the lease agreement detailing the scope of the programme including equipment types, costs, specifications and quantities were not provided for audit review.

Further, the equipment was not included in the County Government's assets records and consequently, accounting for their use and custody was inadequate.

In view of the insufficient disclosures on the managed medical equipment contract, it was not possible to confirm whether value for money was obtained from payment totalling Kshs.95,744,680 made in respect to the contract in the year under review

#### **Management Response**

The Management submitted that the county executive budgeted for lease of medical equipment as provided for by the CARA (County allocation of Revenue Act 2020) though Management didn't receive the budgeted amount through the county revenue fund account since it was checked off from the exchequer releases.

The medical equipment was currently in use, however memorandum of understanding and ownership documents had not been handed over to the county government to be taken in charge in the asset register.

#### **Committee Observation**

The Committee observed that Bomet County had not signed for the leased equipment, however the equipment were delivered and deployed to health facilities and currently in use.

The Committee also noted that the equipment were in use although there were no corresponding values in the financial statements.

#### **Committee Recommendation**

**The Committee recommends that a special audit be undertaken on the lease of medical equipment in the County governments.**

### **4.0 Non-Compliance with Law on Establishment of Emergency Funds**

The County Executive established the Bomet County Disaster and Emergency Fund through the Bomet County Disaster and Emergency Management Act, 2014. The Act provides that the Fund should be managed by the County Disaster Council.

However, the provision is contrary to Section 111(1) of the Public Finance Management Act, 2012 which provides that a County Emergency Fund should be administered by the County Executive Committee Member for Finance in accordance with the framework and criteria approved by the County Assembly.

Therefore, in establishing the operational structure of Fund, Management may have breached the law.

#### **Management Response**

The Management submitted that the during the year under review, the County Government did not administer Emergency Fund because of the conflicting provisions of the two Acts. However, the CECM finance with the help of legal services department had made recommendations for consideration by the County Assembly as per the audit review.

#### **Committee Observation**

The Committee noted that the County was in breach of Section 112 of the Public Finance Management Act, 2012, on making payments outside established Emergency fund.

#### **Committee Recommendations**

The Committee recommends that;

- 1) the County Executive establishes an emergency fund in line with the Public Finance Management Act, 2012; and
- 2) the Auditor General to monitor this in the subsequent audit cycle.

#### **5.0 Weaknesses in Revenue Collection Systems**

Audit review of the revenue management system and records disclosed the following weaknesses that may be hampering the County Executive from attaining its revenue collection goals:

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##### **5.01 Inefficient Revenue Collection Software**

The County Executive in May, 2019 contracted a software provider to supply a revenue collection solution for a period of three (3) years. Installation and implementation fees totalling Kshs.45,356,203 were paid in the first year. Annual maintenance fees totalling Kshs.6,803,430 were to be paid in the second and third years. However, upon installation, the software was not integrated with the Integrated Financial Management Information System (IFMIS) and (LAIFOMS) and Integrated Payroll and Personnel Database (IPPD) as provided for in Paragraph 2.1.11 of the contract agreement.

Further, expenditure records indicated that the average cost of implementing and operating the software each year was Kshs.19,654,355. However, analysis of financial statements for the years it has been in use revealed that revenues collected through the software averaged Kshs.23,748,742 each year. Therefore, purchase of the software may have been a bad investment given its initial costs totalling Kshs.45,356,203 and outflow of cash totalling Kshs.19,654,355 it causes every year.

As a result, the County may not have obtained value for money by procuring the software.

#### **Management Response**

The Management stated that the National Treasury had not released IFMIS Application Programming Interface (API) for use by third party software's therefore integration with IFMIS had not been done, however integration with IFMIS would be done as per the contract when the APIs become available with no extra cost to the County. Integration with IPPD would also be done when the APIs were made available. The



solution was a replacement of LAIFORMs so there was no need for integration only migration of existing data.

The county was in the process of widening its own source revenue base and enhance compliance through enforcement of revenue to ensure maximum collection for the unstructured section.

#### **Committee Observation**

The Committee observed that automation did not result in increased revenue collection in the County.

#### **Committee Recommendations**

The Committee recommends that:

1. The County Executive to identify training needs of its staff serving in the Revenue Collection Department and initiate capacity building and training in conjunction with the National Treasury within 60 days of adoption of this report;
2. The County Executive should have value for money audit in all their acquisitions;
3. That the County Executive should put in place measures to improve their local revenue collection capacity in order to meet their revenue collections target; and
4. The Auditor General to carry out a value for money audit of the software at the expiry of the three year contract period and submit a report to the Senate.

#### **5.02 Un-Updated Land Valuation Roll**

Included in county own-generated receipts are land rates receipts totalling Kshs.44,776,748 reported under other property income. However, the valuation roll used to bill the plot owners has not been updated for several years to reflect the appreciating land values. Management explained that a new roll had been finalized but had not been prepared for use. Consequently, the County property rates and income realized in the year under review were not optimal and may have resulted in under-collection of revenue.

#### **Management Response**

The Management stated that the implementation of the new valuation Roll was underway after the intervention by a select committee to ensure its full utilization upon its approval by the county assembly. The public participation by the key stakeholders was at the tail end as an MOU between multinationals and the county government on specific areas of cooperation had been entered.

#### **Committee Observation**

The Committee noted that the County has a draft valuation roll which was yet to be presented to the County Assembly for adoption.

#### **Committee Recommendation**

The Committee recommends that the County executive should expedite updating of valuation roll in accordance with Section 3 of the Valuation for Rating Act CAP 266 so as to reflect current market values for optimal revenue collection and comply with the guidelines of the Public Sector Accounting Sector Boards of reporting in the FY 2023/2024.

#### **5.03 Long Outstanding Land Rates**

Examination of land records disclosed arrears of revenue totalling Kshs.252,260,438. However, there was no evidence of any concerted efforts having been made by Management to enforce the collections as provided for under Section 63(1) of Public Finance Management (County Governments) Regulations, 2015.

In addition, the collector of revenue did not provide satisfactory reasons for the failure to collect the arrears by making a report to the County Executive Committee Member of Finance and Economic Planning as provided for in Section 63(2) of the Regulations.

#### **Management Response**

The Management stated that the County Government was owed huge arrears in Overdue Land Rates. However, demand notices and legal notifications had been made to the owners of the need to clear outstanding rate balances; failure to which legal actions would be taken against them including repossession of the plots with huge land rates arrears.

There was a policy to introduce waiver on such huge accrued penalties that was proposed by the management and was being reviewed to ensure realization of the stated long outstanding land rates.

#### **Committee Observation**

The Committee noted that the County had issued demand notices and legal notifications to the owners of the need to clear outstanding rate balances; failure to which legal actions would be taken against them including repossession of the plots with huge land rates arrears.

#### **Committee Recommendation**

The Committee recommends that:-

3. the County executive should expedite updating of valuation roll in accordance with Section 3 of the Valuation for Rating Act CAP 266 so as to reflect current market values for optimal revenue collection and comply with the guidelines of the Public Sector Accounting Sector Boards of reporting in the FY 2023/2024; and
4. the Auditor General verifies the status of the query in subsequent audits.

#### **5.04 Failure to Prepare Statement of Receipts and Arrears of Revenue**

According to Section 165(1) and 165 (2)(b) of the Public Finance Management Act, 2012, at the end of each financial year, each Receiver of Revenue is required to prepare a statement in respect of revenue collected, received, recovered and arrears during the year.



However, Management did not prepare the statement for the year under review and are therefore in breach of the law.

#### **Management response**

The management informed the Committee that the county prepared annual Statement of Revenue and has been availed for audit verification.

#### **Committee Observations**

The Committee noted that although the management did not submit all the relevant documents and information to the Auditor General at the time of audit as per Section 62 of the Public Audit Act, 2015, the management has since submitted documents and reconciliation verified by the Auditor.

#### **Committee Recommendations**

**The Committee therefore recommends that the matter be marked as resolved.**

#### **6.0 Failure to Comply with One-Third Basic Salary Rule**

Examination of the payroll for July, 2019 revealed that net salaries for forty-eight (48) employees were less than one-third of their basic pay contrary to Section 19(3) of the Employment Act, 2007. The provision requires the total amount of all deductions which may be made by an employer from the wages of his employee at any one time not to exceed two-thirds of basic pay.

Therefore, Management was in breach of the law and, in addition, exposed the officers to the risk of pecuniary embarrassment.

#### **Management Response**

The Management stated that the county executive had endeavoured to comply with the provisions of Section 19(3) of the Employment Act, 2007 while administering the deductions of all the employees. The staff in question were Over committed due to explicit deductions of imprest and HELB loan recoveries. These were occasional scenarios that flout the one third rule. Otherwise for the normal and regular non-explicit deductions ensured adherence to the third basic salary rule.

#### **Committee Observation**

The Committee observed that forty-eight (48) county staff were earning less than a third of their basic pay contrary to section 19(3) of the Employment Act 2007.

#### **Committee recommendations**

**The Committee therefore recommends that -**

- 1. The county should configure their IPPD sytem such that it is able to lock out commitments beyond the accepted thresholds; and**
- 2. The Auditor General should continue monitoring the issue in subsequent financial years.**

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **2.0 Lack of Risk Management Policy**

Contrary to Section 158 of the County Governments Regulations, 2015, (1), the County Executive did not have in place a documented risk management policy for identifying, measuring and mitigating operational and other risks that the County Executive may face. The law requires the Accounting Officer to ensure that the County Government develops a system of risk management and internal control that builds robust business operations.

In the circumstance, Management lacks objective means to manage operational and other risks in an effective way.

#### **Management Response**

The Management stated that the county government had put in place a risk management policy as per to Section 158 of the County Governments Regulations, 2015, (1). The management had availed risk management policy for audit verification.

#### **Committee Observation**

The Committee noted that the matter has since been addressed and verified by the Auditor General.

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#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

### **2.0 Lack of Asset Management Policy**

Review of the internal controls system indicated that Management had not established an asset management policy to guide acquisition, maintenance and replacement of fixed assets. As a result, the risk of ineffective investment in, and use of the assets, was high.

#### **Management Response**

The Management stated that the county government had developed a county asset policy. The policy was currently in use and had improved efficiency in asset management. The Management had availed the asset management policy for audit verification.

#### **Committee Observation**

The Committee noted that the matter has since been addressed and verified by the Auditor General.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**





## CHAPTER EIGHT

### REPORT OF THE SENATE COUNTY PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF MURANGA COUNTY EXECUTIVE FOR THE FINANCIAL YEAR 2019/2020

The Governor of Murang'a County Executive H.E Irungu Kang'ata appeared before the Committee on Wednesday, 17<sup>th</sup> May 2023, to respond (under oath) to audit queries raised in the Report of the Auditor General on Financial Statements for Kakamega County Executive for the Financial Year 2019/2020.

#### Qualified Opinion

EXECUTIVE SUMMARY OF UN-RESOLVED AUDIT QUERIES				
S/NO	QUERY	RECOMMENDATION	ACTOR	TIMELINE
1.0	<p><b>Differences Between the Financial Statements and Ledger Balances</b></p> <p>Several balances reflected in the financial statements differ with identical account balances reflected in the Integrated Financial Management Information Systems (IFMIS) ledger.</p>	<p>The Committee recommends that the County CEO undertakes administrative action against the responsible officer(s) who failed to provide the documents/evidence of reconciliation to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within sixty (60) days from the adoption of this report.</p>	The County Chief Executive Officer	Within 60 days from the date of adoption of this report.
2.0	<p><b>Unreported Balances</b></p> <p>Audit review of the IFMIS trial balance revealed the following credit balances totaling Kshs.50,366,420,967.40, which however, were not reported in the financial statements for the year under review.</p>	<p>The Committee recommends that the County CEO undertakes administrative action against the responsible officer(s) who failed to provide the documents/evidence of reconciliation to the auditors in accordance with section 156 of the Public</p>	The County Executive Officer	Within 60 days from the date of adoption of this report.



		Finance Management Act, 2012 and provides a status report to the Auditor General within sixty (60) days from the adoption of this report.		
4.2	<p><b>Unconfirmed Revenue Collection through Mpesa Paybill</b></p> <p>Records on the collections totaling Ksh 126,185,813 generated from hospitals and health centres, and Ksh. 19,469,831 collected by the Public Health Department indicated that the revenues were collected through Mpesa and deposited into designated bank accounts. However, the Mpesa statements for the period under review were not made available for review.</p>	The Committee recommends that the County CEO undertakes administrative action against the responsible officer(s) for failure to provide documents (signed and stamped Mpesa statements from Safaricom) to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within sixty (60) days from the adoption of this report.	The County Chief Executive Officer	Within 60 days from the date of adoption of this report.
5.0	<p><b>Payments Charged to Un-Budgeted Expenditure Item</b></p> <p>The payments for printing and advertising (Ksh 6,958,625); rentals of produced assets (Ksh 6,183,321); other grants and payments (Ksh 8,398,380) and other payments (Ksh 42,463,782) were charged to an incorrect account code described as 'Cash' which was not in the Chart of Accounts or in the approved budget for the year. No</p>	The County Executive to identify training needs of its staff serving in the Finance Department and initiate capacity building and training in conjunction with the National Treasury within 60 days of adoption of this report.	The County Chief Executive Officer	Continuous

	documentary evidence was presented to explain the anomalies			
<b>6.1</b>	<b>Acquisition of Goods and Services</b>  The approved budget for acquisition of strategic stocks and commodities during the year was Kshs.93,148,384 denoted as provision for purchase of school milk. However, payment records indicated that expenditures totaling Kshs.65,067,850 for civil works, supply of uji flour, communication expenses, supply of relief rations and supply of sugar were charged to the expenditure item.	The Committee recommends that the management adheres to provisions of the Public Finance Management (County Government) Regulations, 2015 and PFM, Act, 2012 on budgetary allocations and reallocations.	The County Chief Executive Officer	Continuous
<b>6.2</b>	<b>Specialized Materials and Services</b>  A review of payments charged under use of goods and services revealed unrelated expenditure items totaling Ksh 150,336,925 incurred on payment of retention fee, insurance covers, purchase of vehicles, construction and renovation of roads, market stalls and classrooms, supply of medicine, and consultancy services.	The Committee recommends that the management adheres to provisions of the Public Finance Management (County Government) Regulations, 2015 and PFM, Act, 2012 on budgetary allocations and reallocations.	The County Chief Executive Officer	Continuous
<b>7.1</b>	<b>Unconfirmed Bank Balances</b>  The statement of assets and liabilities reflects	The Committee recommends that the County CEO undertakes administrative action	The County Executive Officer	Within 60 days from the date of



	<p>cash and cash equivalents balances totalling Ksh 389,216,290, whereas the bank statements reflect balances totalling Ksh. 801,676,123 resulting in unexplained variances totalling Ksh.412,459,832.55.</p> <p>Bank reconciliation statements for the sixteen bank accounts were not provided for audit review</p>	<p>against the responsible officer(s) who failed to provide the other ten (10) bank reconciliation statements to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within sixty (60) days from the adoption of this report.</p>		<p>adoption of this report.</p>
7.2	<p><b>Undisclosed Deposits and Retentions Money</b></p> <p>The statement of assets and liabilities reflects a nil balance in relation to accounts payables - deposits and retentions as at 30 June, 2020.</p> <p>Records at the County Treasury indicated that the County operated a centralized retentions account at the Central Bank of Kenya (CBK) and had deducted retention fees totaling KES 4,426,658 from contractors, as reflected in the IFMIS general ledger for the year.</p> <p>However, the deductions were not deposited in the retentions account. Further, no cash book was maintained in respect to the account.</p>	<p>The Committee recommends that the County CEO undertakes administrative action against the responsible officers for illegal transfer of retention money in contravention of Section 47(1)(e) and 63 (4) of the Public Finance Management (County Government) Regulations, 2015 and provides a status report to the Auditor General within 60 days of adoption of this report.</p>	<p>The County Executive Officer</p>	<p>Within 60 days from the date of adoption of this report.</p>
8.0	<p><b>Undisclosed Outstanding Imprests</b></p> <p>Examination of the IFMIS ledger revealed</p>	<p>The Committee recommends that the Accounting Officer recovers the outstanding imprests with interest at the</p>	<p>The CECM Finance</p>	<p>Within 60 days from the date of</p>

	<p>that imprests totaling Kshs.7,971,842 issued to various officers were outstanding as at 30 June, 2020.</p> <p>Further, the imprests were not recorded in the imprests register</p>	<p>prevailing Central bank rates from the officers who failed to surrender the safari imprest within 7 days of returning to duty station, pursuant to Regulation 93(6) of the PFM Act (County Governments) Regulations, 2015.</p> <p>The Committee further recommends sanctions and surcharge of Accounting Officers who fail to recover outstanding imprests in line with Regulation 93(7) of the PFM (County Government) Regulations, 2015.</p>		adoption of this report.
9.1	<p><b>Inadequate Disclosures on Pending Bills</b></p> <p>Disclosure of the pending accounts payables does not indicate the bills incurred, and paid, during the year. The financial statements depicts all the bills as if they were for the financial year 2018/2019. A detailed analysis of the bills is not provided as the Annexures only shows a summarized list of types of pending bills instead of the respective supplier's name, original amount of the respective bill and the dates they were incurred, payments, if any, made and outstanding balances as at 30, 2020.</p>	<p>The Committee therefore recommends that:</p> <ol style="list-style-type: none"> <li>1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time; and</li> <li>2) the county executive puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.</li> </ol>	<p>The County Executive Officer</p> <p>The National Treasury</p> <p>The DCI</p>	Continous



		<p>3) Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) for investigation proper legal action taken against those filing false claims.</p> <p>4) County Government to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending bills verification committees unconstitutional and engage Office of the OAG and strengthen the internal audit functions.; and</p> <p>5) All valid pending bills that have been reviewed by the Office of the Auditor General be paid and a payment plan be submitted to the county assembly for approval and progress report on implementation sent to the Senate and the Office of the Controller of Budget.</p>		
9.2	<p><b>Inaccurate Pending Accounts Payable</b></p> <p>478 suppliers that were owed Ksh 1,297,091,867</p>	<p>The Committee therefore recommends that:</p> <p>1) the National Treasury should</p>	The County Executive Officer	Continuous

	<p>by the management, were not included in the list of pending bills totalling. The exclusion of the suppliers understated the pending payables totalling KES 1,258,944,867 as at 30 June, 2020 by Ksh 1,297,091,867.</p> <p>Pending bills claims totaling to Ksh 34,895,034 included therein were not supported with local purchase orders and contracts.</p>	<p>ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time; and</p> <p>2) the county executive puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.</p>	<p>The National Treasury</p> <p>The DCI</p>	
		<p>3) Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) for investigation proper legal action taken against those filing false claims.</p> <p>4) County Government to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending bills verification committees unconstitutional and engage Office of the OAG and strengthen</p>		



		<p>the internal audit functions.; and</p> <p>5) All valid pending bills that have been reviewed by the Office of the Auditor General be paid and a payment plan be submitted to the county assembly for approval and progress report on implementation sent to the Senate and the Office of the Controller of Budget.</p>		
9.3	<p><b>Undisclosed Pending Bills</b></p> <p>i) Murang'a County owed Kenya Power and Lighting Company KES 23,768,852 in relation to power bills. However, the debt was not included in the list of pending bills as at 30 June 2020.</p> <p>ii) Records maintained at the Ministry of Health indicated that salaries totaling KES 286,763,132.55 were paid by the Ministry to Health workers employed by the County Government during the 2013/14 financial year. Although the salaries were to be recovered in the same financial year, the County did</p>	<p>On Issues (i) The Committee recommends that;</p> <p>1) the County Executive should disclose all pending bills in the format prescribed by the Public Sector Accounting Standards Board as stipulated under Section 104(1)(h) of Public Finance Management Act, 2012;</p> <p>2) the County Executive should make adequate efforts to pay pending bills as a first in the subsequent financial year.</p> <p>On Issues (ii), the Committee recommends that-</p>	The County Executive Officer	To be reported in the next audit cycle.

	not clear the debt. However, the outstanding amount has not been included in the list of pending bills as at 30 June, 2020. No explanation was provided for the omissions and as a result, the pending bills balance totaling KES 1,258,944,867 as at 30 June, 2020 could not be confirmed.	<ol style="list-style-type: none"> <li>1. the County Government should not pay the Ministry of Health any money for provision of medical services that were undertaken before the full transfer of the health function to Counties; and</li> <li>2. the National Treasury refunds the County Government any and all funds irregularly received ostensibly for provision of medical services that were undertaken before the full transfer of the health function to Counties.</li> </ol>	The National Treasury	
<b>9.4</b>	<b>Pending Staff Payables</b> audit review of records on statutory deductions indicated that the County Executive deducted statutory dues in respect of National Health Insurance Fund (NHIF), National Social Security Fund (NSSF), pension contribution and Co-operative Savings and Credit and Co-operative Societies (Saccos) totalling KES 892,571,422.30.	The Committee recommends that the County CEO undertakes administrative action against the responsible officer(s) for non-provision of documents and non-remittance of various statutory deductions and Sacco dues totalling Kshs.892,571,422.30 in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General for verification within sixty (60) days from the adoption of this report.	The County Executive Officer  Auditor General	Within 60 days from the date of adoption of this report.
<b>10.0</b>	<b>Unexplained Transactions</b> Review of the general ledger revealed transactions totaling KES 47,721,424 described as	The Committee recommends that the County CEO undertakes administrative action against the responsible officer(s) for failure to	The County Executive Officer.	Within 60 days from the date of adoption of this report.



	<p>'deductions' and denoted as having been made in 2016 and 2017. However, the transactions were not in IFMIS and may therefore have been paid outside the system and thereafter recorded in the books of account by use of journal entries.</p>	<p>provide documents (stamped or signed IFMIS extract of the payments) to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within sixty (60) days from the adoption of this report.</p>		
12.0	<p><b>Summary of Fixed Assets Register</b></p> <p>The summary of the register relates to 2018/2019 and comparative balances for 2017/2018, instead of those for the year under review. Further, Management did not provide an updated fixed asset register.</p> <p>The assets were not tagged and properly recorded in both manual and automated registers and were therefore prone to misplacement and loss. Biological assets at its Mariira Farm were not valued and included in the assets register</p>	<p>The Committee recommends that the-</p> <ul style="list-style-type: none"> <li>a) County Executive should update and present their Fixed Assets Register in the format prescribed by the Public Sector Accounting Standards Board;</li> <li>b) County Executive should adopt and implement the report of the Inter-Governmental Technical Relations Committee (IGTRC) on assets and liabilities from defunct Local Authorities and provide a status update to the Office of the Auditor General within 90 days of adoption of this Report; and</li> <li>c) Office of the Auditor General should progressively review and report on the matter in the</li> </ul>	<p>The County Executive Officer</p>	<p>Within 60 days from the date of adoption of this report.</p>

		subsequent Financial Years.		
	<p><b>Other Matter</b></p> <p><b>1.0 Unresolved Prior Year Issues</b></p> <p>The audit report for 2018/19 financial year highlighted several unsatisfactory issues on financial statement balances, lawfulness and effectiveness in use of public resources and effectiveness of internal controls, risk management and governance. However, the report on the progress made in resolving the issues, as prescribed in the reporting requirements set by the Public Sector Accounting Standards Board, has not been included in the financial statements. As a result, the matters are considered unresolved.</p>	The Committee recommends that the County executive complies with section 53 of the Public Audit Act, 2015 by taking action on the issues raised by the Auditor General and submits a report to the Auditor General within 60 days of the adoption of this report.	<p>1. The County Chief Executive Officer.</p> <p>2. The Auditor – General.</p>	60 days from the date of adoption of this report.
14.0	<p><b>Failure to Meet Revenue Targets on County Own-Generated Receipts</b></p> <p>The actual amount collected was KES 551,677,223 out of the budgeted target of Ksh 960,000,000 representing 57% of the projected own-generated receipts, resulting in a revenue short fall of Ksh 408,322,777 of 43% of the targeted collections.</p>	<p>The Committee recommends that;</p> <ol style="list-style-type: none"> <li>1) The County Executive should put in place measures to improve their local revenue collection capacity in order to meet their revenue collections target;</li> <li>2) the County Executive should automate revenue collection across all revenue streams to reduce leakages;</li> </ol>	<p>The County Executive Officer</p> <p>The Auditor – General.</p>	To be reported in the next audit cycle.



		<p>3) the county executive submits to the Office of the Auditor General the Murang'a County Health Act, 2022 that guides spending at source of health related revenues;</p> <p>4) the Auditor General keeps the matter in view in the subsequent audit cycle.</p>		
14.2	<p><b>Budgetary Control Over Expenditure</b></p> <p>The final approved expenditure budget for the year under review totaled Ksh 8,823,421,331 comprised of Ksh 5,549,938,072 for the recurrent vote and Ksh 3,273,483,259 for the development vote. The management incurred expenditures totaling Ksh 5,000,545,248 and Ksh 2,362,593,362 on recurrent and development votes respectively resulting in an aggregate under-expenditure of Ksh 1,460,282,221 equivalent to 16.5 % of the budget.</p>	<p>The Committee recommends that</p> <p>1) the county executive adheres to the approved budget by the county assembly, and ensure effective budget implementation; and</p> <p>2) the Auditor General to review this matter in the subsequent audit cycle.</p>	<p>The County Executive Officer</p> <p>The Auditor – General.</p>	<p>To be reported in the next audit cycle.</p>
14.3	<p><b>Late Exchequer Release</b></p> <p>Financial Statements reflects exchequer releases receipts from the National Treasury totaling Ksh 6,254,948,060, out of</p>	<p>The Committee recommends that the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement</p>	<p>The National Treasury</p>	<p>Continuous</p>

	which receipts totalling Ksh 790,027,209 or 12.6% were received during the month of June, 2020	schedules approved by the Senate.		
<b>REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES</b>				
<b>1.1</b>	<b>High Wage Bill</b>  Examination of expenditure and revenue records indicated that the compensation of employees' expenditure totaling KES 2,984,713,835 incurred in the year under review was equivalent to 41.5% of the total revenue for the year amounting to KES 7,191,014,611	The Committee recommends that-  1. the management should provide to the Auditor General and the Senate the measures it will put in place to contain the high wage bill within sixty (60) days of the adoption of this report; 2. the management should strictly adhere to the provision of paragraph 25(1)(b) of the PFM Act (county government) regulations, 2015 which stipulate that the county wage bill should not exceed 35 per cent of the county total revenue; and 3. the county executive puts in place measures to enhance own source revenue collection in order to address wage bill gap.	The County Chief Executive Officer.  County Public Service Board  The Auditor – General.	60 days from the date of adoption of this report.



<b>1.2</b>	<b>Lack of Ethnic Diversity in Staff Establishment</b>  Out of 3,853 staff on permanent and pensionable terms, 3,383 or 87.8% were drawn from the dominant ethnic community in the County. The dominance was contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which requires public entities to ensure that their staff establishments reflect the diversity of the people of Kenya.	The Committee recommends that; a) the County Executive should work progressively towards attaining the requirement of the provisions of Section 65(1)(e) of County Government Act 2012 on ethnic inclusivity. b) the County Executive and CPSB should provide to the Auditor General a five-year strategy of measures it will put in place to ensure compliance with Section 65 (1) (e) of County Government Act 2012 within sixty (60) days of the adoption of this report.	County CEO  CPSB  Auditor General	Within 60 days of adoption of this report
<b>3.0</b>	<b>Irregular Procurement of Goods under COVID-19 Grant</b>  Supplies of maize flour purchased at KES 1,823,438 on 19 June, 2020 were not supported with delivery notes, invoices and an inspection and acceptance reports from the users or the Goods Inspection Committee	The Committee recommends that the responsible accounting officer undertakes administrative action against the officer(s) who failed to provide the documents (contract document and a register of the recipients of the maize flour) to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within 60 days of adoption of this report.	The County Executive Officer	Within 60 days of adoption of this report
<b>4.0</b>	<b>Failure to Prepare and Publish Contract Awards</b>	The Committee recommends that the County CEO undertakes administrative action against the responsible	The County Executive Officer	Within 60 days of adoption of this report

	<p>The County Executive did not prepare, publish, and publicize all contract awards and submit the information to the Public Procurement Regulatory Authority as required by Section 138(1) and 138(2) of the Public Procurement and Assets Disposal Act, 2015.</p>	<p>officer(s) for failure to provide documents (signed monthly progress reports on all procurement contracts from the Public Procurement Regulatory Authority (PPRA) to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within sixty (60) days from the adoption of this report.</p>		
5.0	<p><b>Failure to Comply with Financial Reporting Requirements</b></p> <p>Executive Order No.6 of 7 May, 2015 directed all public entities in National and County Governments to fully implement end-to-end e-procurement processes within two weeks from the date of the circular. Further, Executive order No.2 of 2018 directed that by 1 January, 2019, all procuring entities were to undertake all their procurements through the Government e-procurement module</p> <p>Review of the procurement activities of the County Executive indicated that some open tender advertisements, and all payments were done through the IFMIS system while other procurement processes</p>	<p>The Committee recommends that the County CEO undertakes administrative action against the responsible officer(s) for failure to provide documents (quarterly financial reports and monthly bank reconciliation statements) to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within sixty (60) days from the adoption of this report.</p>	The County CEO	Within 60 days of adoption of this report



	were done manually outside the system.			
<b>7.1</b>	<b>Direct Procurement of Fuel</b>  The expenditure includes Ksh 9,058,813 paid to two service stations in the county for supply of motor vehicle fuel. However, there was no evidence indicating that the two suppliers were subjected to a competitive procurement process as required by law.	The County CEO undertakes administrative action against the Head of Procurement for breaching procurement laws in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report.	The County Executive Officer	Within 60 days of adoption of this report
<b>7.2</b>	<b>Direct Procurement of Air Tickets for Senior Management in the County</b>  Ksh 7,463,916 paid to a firm for bookings and air tickets for senior management who travelled to foreign countries during the year under review. However, the supplier was identified through direct procurement (single sourcing) contrary to Section 104 of the Public Procurement and Assets Disposal Act, 2015. As a result, the expenditure was irregular and value for money on the spending could not be confirmed.	The Committee recommends that the County CEO undertakes administrative action against the responsible officer(s) who failed to provide relevant documents (list of prequalified air ticket service providers, tender committee minutes and evaluation report and an explanation on the balance of Kshs.5.2 million) to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within sixty (60) days from the adoption of this report.	The County Executive Officer	Within 60 days of adoption of this report
<b>8.0</b>	<b>Unconfirmed Citizen Participation in Budget-Making Process</b>	The Committee recommends that the County CEO undertakes administrative action	The County Executive Officer	Within 60 days of

	No document on public participation including notices of meetings, signed attendance lists of participants and feedback or reports of the outcome of an effective public participation during development of their annual budget estimates were presented for audit review.	against the responsible officer(s) who failed to provide relevant documents (notice of meetings for public participation, the signed list of attendance, feedback or reports of outcome of public participation and list of projects discussed during the public participation) to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within sixty (60) days from the adoption of this report.		adoption of this report
<b>9.0</b>	<b>Irregular Implementation of Programmes under the National Government</b>  The County Executive implemented several projects costing KES.6,061,603 in respect of functions which fall under the National Government	The Committee recommends that the county executive should adhere to the Public Finance Management (County Government) Regulations by ensuring that any collaboration between it and the National Government is supported by communications and agreements between the two governments, before incurring expenditure on projects and programmes under the National Government.	The County Head of Treasury.	Continuous

### **Basis for Qualified Opinion**

#### **1. Differences Between the Financial Statements and Ledger Balances**

Several balances reflected in the financial statements differ with identical account balances reflected in the Integrated Financial Management Information Systems (IFMIS) ledger. The differences were not explained and as a result, the accuracy of the financial statements could not be confirmed.



**Management Responses**

The variances which were there were cleared and the clearing process is ongoing to ensure the problem does not recur.

**Committee Observation.**

The Committee observed that the matter was unresolved since no evidence/documents of reconciliation or clearing of variances were provided at the time of audit contrary to Section 62 of the Public Audit Act, 2015.

**Committee Recommendations**

The Committee recommends that the County CEO undertakes administrative action against the responsible officer(s) who failed to provide the documents/evidence of reconciliation to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within sixty (60) days from the adoption of this report.

**2. Unreported Balances**

Audit review of the IFMIS trial balance revealed the following credit balances totaling Kshs.50,366,420,967.40, which however, were not reported in the financial statements for the year under review:

Balance Code	Description	Amount (Ksh)
6530101	Ministry Headquarters Recurrent Bank Account	444,574,355
7380101	General Withholding Tax	97,523
7390103	AP Liabilities	1,710,589,554
7399999	Cash Clearing Account	30,394,156,148
9910101	Provision for Encumbrance	1,908,459
9910201	Exchequer Releases Provisioning Account	17,815,094,930
9919200	Exchequer Provision	17,815,094,930
	<b>Total</b>	<b>50,366,420,967</b>

No explanation was provided on the nature and reasons for exclusion of the balances from the financial statements. As a result, the accuracy and completeness of the financial statements could not be confirmed.

**Management Response**

These were errors that appeared in the system. The clearance of erroneously accumulated balances is ongoing.

**Committee Observation.**

The Committee observed that the matter was unresolved since no evidence/documents of reconciliation or clearing of variances were provided at the time of audit contrary to Section 62 of the Public Audit Act, 2015.

**Committee Recommendations**

The Committee recommends that the County CEO undertakes administrative action against the responsible officer(s) who failed to provide the documents/evidence of reconciliation to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within sixty (60) days from the adoption of this report.

### **3. Transfers from Other Government Entities**

The statement of receipts and payments reflects transfers from other government entities totaling Kshs.291,723,844, as further disclosed in Note 3 to the financial statements. The amount includes Covid-19 mitigation grants from the Ministry of Health totalling Kshs.112,941,000. However, records published by the Ministry indicated that the County received grants totalling Kshs.176,451,000 through Authority-to-Incur-Expenditure (AIE) No. A685724, comprising Kshs.112,941,000 of Covid-19 conditional grants and Kshs.63,510,000 emergency allowances for health-care workers.

The difference totalling Kshs.63,510,000 between the two sets of records has not been explained. In addition, the Management did not provide records on payment of the emergency allowances to the health-care workers.

As a result of these issues, the accuracy, propriety and regularity in use of the grants totalling Kshs.112,941,000 could not be confirmed.

### **Management Response**

The amount of Ksh 63,510,000 for emergency allowances for health care workers was deposited in the County Revenue Fund on 06-07-2020. The management noted that when the money was deposited, it had already moved into the 2020-21 Financial Year. As a result, the amount was not captured in that financial year 2019-2020, instead, it was captured in the year ended 30 June. An extract of CRF was attached for verification.

### **Committee Observations**

The Committee noted that the matter was partially resolved as the county had submitted the payment details/schedule but was yet to be verified by the Auditors for verification.

### **Committee Recommendation**

**The committee recommends that the matter be marked as resolved.**

### **4. County Own-Generated Receipts**

The statement of receipts and payments reflects county own-generated receipts totaling KES 551,677,223 received in the year under review, as further disclosed in Note 9 to the financial statements. However, examination of revenue records revealed the following anomalies:

#### **4.1 Understatement of Revenue from Mariira Farm**

Note 9 to the financial statements reflects receipts totaling KES 216,773 collected at the County Executive's Mariira Farm in the year under review. However, examination of records on various sources of revenue at the Farm indicated that receipts in the year



totalled KES 1,477,178. The resultant revenue shortfall totaling KES 1,260,405 was not explained.

#### **Management Response**

Mariira Farm delivered tea leaves worth KES 1,260,405 to Nduti Tea Factory. Instead of Nduti Tea Factory paying Mariira Farm directly, it remitted the money to the County Revenue Account. The KES 216,773 captured in the Financial Statements was realized from the sale of milk and was paid directly to Mariira Farm. Note 9 to the Financial Statements and the Statement of Confirmation of Payment from Nduti Tea Factory to County Revenue Account were attached for the Committee review and verification.

#### **Committee Observation.**

The Committee observed that the matter was satisfactorily addressed.

#### **Committee Recommendation**

**The Committee recommends that the matter be marked as resolved.**

#### **4.2 Unconfirmed Revenue Collection through Mpesa Paybill**

Disclosed in Note 9 to the financial statements under County own-generated receipts are revenues totaling Ksh 126,185,813 generated from hospitals and health centres, and Ksh. 19,469,831 collected by the Public Health Department. Records on the collections indicated that the revenues were collected through Mpesa and deposited into designated bank accounts. However, the Mpesa statements for the period under review were not made available for review.

Consequently, the accuracy and completeness of the KES 126,185,813 revenue reported to have been generated from hospitals and health centres and KES 19,469,831 collected by the Public Health Department could not be confirmed.

In view of these discrepancies, the accuracy and completeness of the aggregate own generated balance totaling KES 126,185,813 reflected in the statement of receipts and payments could not be confirmed.

#### **Management Response**

Though the Paybill statements relating to the hospitals were not available during the conduct of the audit, the same were provided later by Safaricom and provided for audit. Attached is Annex 3.2 on Mpesa Statements.

#### **Committee Observations**

The Committee observed that; -

1. the matter was partially resolved since the Mpesa Statements provided were not signed or stamped by Safaricom.
2. the county executive stopped using the Mpesa Paybill for revenue collection

#### **Committee Recommendations**

**The Committee recommends that the County CEO undertakes administrative action against the responsible officer(s) for failure to provide documents (signed and stamped Mpesa statements from Safaricom) to the auditors in accordance**

with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within sixty (60) days from the adoption of this report.

#### **5. Payments Charged to Un-Budgeted Expenditure Item**

Review of the IFMIS ledger revealed transactions totaling KES 269,956,223 charged to four expenditure categories comprising of printing and advertising (Ksh 6,958,625); rentals of produced assets (Ksh 6,183,321); other grants and payments (Ksh 8,398,380) and other payments (Ksh 42,463,782). However, the payments were charged to an incorrect account code described as 'Cash' which was not in the Chart of Accounts or in the approved budget for the year. Further, the payments were drawn from code 6530101-Ministry HQ Recurrent Bank Account, resulting in overdrawing of the account.

No documentary evidence was presented to explain the anomalies and as a result, the presentation and validity of the balances could not be confirmed. Further, the use of goods and services, other grants and payments, and other payments balances reflected in the financial statements may not be fairly stated.

#### **Management Response**

The charging to incorrect account code was as a result of lack of capacity in the use of IFMIS system. This is being mitigated through continuous training.

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#### **Committee Observation**

The Committee observed that the county was experiencing capacity issues in use of IFMIS and is currently undertaking continuous training for its officers on IFMIS.

#### **Committee Recommendation**

**The County Executive to identify training needs of its staff serving in the Finance Department and initiate capacity building and training in conjunction with the National Treasury within 60 days of adoption of this report.**

#### **6.1 Acquisition of Goods and Services**

Note 17 to the financial statements on acquisition of assets reflects expenditure on acquisition of strategic stocks and commodities totaling Ksh. 79,444,384. The approved budget for the item during the year was Ksh 93,148,384 denoted as provision for purchase of school milk. However, payment records indicated that expenditures totaling Ksh 65,067,850 for civil works, supply of uji flour, communication expenses, supply of relief rations and supply of sugar were charged to the expenditure item.

#### **Management Response**

The School Milk Programme entailed building of storage to guard against insecurity as well as the supply of uji flour, communication, supply of relief rations and sugar. All these items were in the same category and were charged from the same budget line. Note 17 to the Financial Statements were attached for the Committee review and verification.



### **Committee Observation**

The Committee noted that the matter was unresolved since the item on this line was charged wrongly, as other expenditure and thus the county executive irregularly reallocated the expenditure.

### **Committee Recommendation**

**The Committee recommends that the management adheres to provisions of the Public Finance Management (County Government) Regulations, 2015 and PFM, Act, 2012 on budgetary allocations and reallocations.**

## **6.2 Specialized Materials and Services**

Note 12 to the financial statements under use of goods and services reflects expenditure totaling KES 1,139,835,313 on specialized materials and services. However, a review of payments charged to the expenditure item revealed unrelated expenditure items totaling Ksh 150,336,925 incurred on payment of retention fee, insurance covers, purchase of vehicles, construction and renovation of roads, market stalls and classrooms, supply of medicine, and consultancy services.

In view of the misappropriations, acquisition of assets and use of goods and services expenditures balances totaling Ksh 200,785,510 and Ksh 2,786,208,055 respectively reported in the financial statements are misstated.

### **Management Response**

The county classified the above items as specialized materials and services, which included the supply of specialized medical drugs, pest control (Vervet monkeys) and herbicides. Note 12 to the Financial Statements was attached for the Committee review and verification.

### **Committee Observation**

The committee observed that the issue stands unresolved as: -

1. the management ought to have engaged the Kenya Wildlife Services (KWS) in a bid to conserve and protect the ecosystem in pest control of vervet monkeys;
2. the county executive irregularly reallocated the expenditure in violation of provisions of the PFM (County Governments) Regulations, 2015 and the PFM, Act, 2012.

### **Committee Recommendation.**

**The Committee recommends that the management adheres to provisions of the Public Finance Management (County Government) Regulations, 2015 and PFM, Act, 2012 on budgetary allocations and reallocations.**

## **7.1 Unconfirmed Bank Balances**

The statement of assets and liabilities reflects cash and cash equivalents balances totalling KES 389,216,290 as at 30 June 2020, whereas the bank statements reflect balances totalling Ksh. 801,676,123 resulting in unexplained variances totalling Ksh.412,459,832.55 as shown in the attached final statements.

In addition, bank reconciliation statements for the sixteen (16) bank accounts were not provided for audit review. As a result, the accuracy and completeness of the balances could not be confirmed.

#### **Management Response**

The bank reconciliation statements were provided during the audit and we have availed them for further audit and confirmation.

The cash and cash equivalent should be as per amount in the cash book and bank reconciliation statements prepared for each account held in the financial statement as per notes to the financial statements.

#### **Committee Observations**

The Committee noted that the Committee that the matter was unresolved since the county only provided six (6) banks accounts for audit and failed to provide bank reconciliation statements in contravention of Section 90 of the PFM (County Government) Regulations.

#### **Committee Recommendations.**

The Committee recommends that the County CEO undertakes administrative action against the responsible officer(s) who failed to provide the other ten (10) bank reconciliation statements to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within sixty (60) days from the adoption of this report.

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#### **7.2 Undisclosed Deposits and Retentions Money**

The statement of assets and liabilities reflects a nil balance in relation to accounts payables - deposits and retentions as at 30 June, 2020. Records at the County Treasury indicated that the County operated a centralized retentions account at the Central Bank of Kenya (CBK) and had deducted retention fees totaling KES 4,426,658 from contractors, as reflected in the IFMIS general ledger for the year. However, the deductions were not deposited in the retentions account. Further, no cash book was maintained in respect to the account.

In the circumstance, the nil account receivables – deposits and retentions reflected in the financial statements may not be fairly stated.

#### **Management Response**

The retentions remained in the CRF account and the same were paid to the respective contractors upon the completion of their defect liability period. In future, the County will operationalize the Retentions Account.

#### **Committee Observation**

The Committee observed that the management did not submit the documents to support its response, as it did not have the retentions account neither any plan in operationalizing it.

#### **Committee Recommendations.**



The Committee recommends that the County CEO undertakes administrative action against the responsible officers for illegal transfer of retention money in contravention of Section 47(1)(e) and 63 (4) of the Public Finance Management (County Government) Regulations, 2015 in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within 60 days of adoption of this report.

#### **8. Undisclosed Outstanding Imprests**

Note 22 to the financial statement reflects a nil balance in respect of outstanding imprest as at 30 June, 2020. However, examination of the IFMIS ledger revealed that imprests totaling KES 7,971,842 issued to various officers were outstanding as at 30 June, 2020. Further, the imprests were not recorded in the imprests register. Consequently, the nil imprests balance reflected in the financial statements is not fairly stated.

#### **Management Response**

The figure of KES 7,971,842 relates to the financial year that ended on 30 June 2016. This is the reason for them not appearing in the register of the year that ended on 30 June 2020. However, the imprests were surrendered manually in year ended 30 June 2016. The Note 22 to the Financial Statement was attached for the committee verification.

#### **Committee Observations**

The Committee observed that;

- 1) the imprest surrenders were not done through IFMIS; and
- 2) the imprests totalling Kshs.7,971,842 were not recorded in the imprests register

#### **Committee Recommendations**

The Committee recommends that the Accounting Officer recovers the outstanding imprests with interest at the prevailing Central bank rates from the officers who failed to surrender the safari imprest within 7 days of returning to duty station, pursuant to Regulation 93(6) of the PFM Act (County Governments) Regulations, 2015.

The Committee further recommends sanctions and surcharge of Accounting Officers who fail to recover outstanding imprests in line with Regulation 93(7) of the PFM (County Government) Regulations, 2015.

#### **9. Pending Bills**

##### **9.1 Inadequate Disclosures on Pending Bills**

Note 7.9 to the financial statements on other important disclosures reflects pending accounts payables totaling Ksh1,258,944,867 as at 30 June, 2020 (2019: Ksh 1,525,661,683).

However, the disclosure does not indicate the bills incurred, and paid, during the year. In addition, Annexure 2 to the financial statements depicts all the bills as if they were for the financial year 2018/2019. Further, a detailed analysis of the bills is not provided

as the Annexure only shows a summarized list of types of pending bills instead of the respective supplier's name, original amount of the respective bill and the dates they were incurred, payments, if any, made and outstanding balances as at 30, 2020.

In view of the omissions, the disclosures made on the pending bills balance are insufficient and do not comply with the reporting requirements prescribed by the Public Sector Accounting Standards Board.

#### **Management Response**

The details on the pending bills are available and were provided for review. Note 7.9 to the Financial Statements, an Extract of Amended Financial Statements and an extract of the OAG Report on Pending Bills 2019-2020 was attached for the committee verification.

#### **Committee Observations**

The Committee observed that; -

- 1) the legible pending bills for Murang'a County currently stands at Kshs.640 million.
- 2) the County had put in place a pending bills verification committee.

#### **Committee Recommendations**

The Committee therefore recommends that:

- 1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time;
- 2) the County Executive should disclose all pending bills in the format prescribed by the Public Sector Accounting Standards Board as stipulated under Section 104(1)(h) of Public Finance Management Act, 2012;
- 3) the county executive puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.
- 4) Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) for investigation proper legal action taken against those filing false claims.
- 5) County Government to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending bills verification committees unconstitutional and engage Office of the OAG and strengthen the internal audit functions.; and
- 6) All valid pending bills that have been reviewed by the Office of the Auditor General be paid and a payment plan be submitted to the county assembly for approval and progress report on implementation sent to the Senate and the Office of the Controller of Budget.

#### **9.2 Inaccurate Pending Accounts Payable**



- (i) Examination of pending bills records indicated that 478 suppliers that were owed Kshs.1,297,091,867 were not included in the list of pending bills totalling as at 30 June 2020 even though there were no records of their having been paid. The exclusion of the suppliers understated the pending payables totalling Kshs.1,258,944,867 as at 30 June, 2020 by Kshs.1,297,091,867.
- (ii) Bills totalling Kshs.189,003,499 are reflected in Annex II as payable in respect to supply of goods and services. However, examination of records on the bills indicated that claims totalling Kshs.34,895,034 included therein were not supported with local purchase orders and contracts and as a result, the validity and accuracy of the bills could not be confirmed.

#### **Management Response**

- 1) The 478 suppliers were either paid or declared ineligible in the year that ended on 30 June 2020. They are, therefore, not part of pending accounts payable. The Schedule of the 478 suppliers was attached for Committee review and verification.
- 2) Bills totaling KES 189,003,499 are reflected in Annex II as payable in respect to supply of goods and services. However, examination of records on the bills indicated that claims totaling KES 34,895,034 included therein were not supported with local purchase orders and contracts and as a result, the validity and accuracy of the bills could not be confirmed.

A special audit was done by the Auditor General on pending bills which was at variance with general audit and indicated as in the attached statements.

#### **Committee Observation**

The Committee noted that the County had put in place a committee to verify pending Bills.

#### **Committee Recommendations**

The Committee therefore recommends that:

- 1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time;
- 2) the County Executive should disclose all pending bills in the format prescribed by the Public Sector Accounting Standards Board as stipulated under Section 104(1)(h) of Public Finance Management Act, 2012;
- 3) the county executive puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.
- 4) Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) for investigation proper legal action taken against those filing false claims.
- 5) County Government to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending

bills verification committees unconstitutional and engage Office of the OAG and strengthen the internal audit functions.; and

- 6) All valid pending bills that have been reviewed by the Office of the Auditor General be paid and a payment plan be submitted to the county assembly for approval and progress report on implementation sent to the Senate and the Office of the Controller of Budget.

### **9.3 Undisclosed Pending Bills**

- (i) National Treasury Letter Ref. IGRF/COD/01/E (51) dated 23 December, 2020 addressed to all Governors indicated that Murang'a County owed Kenya Power and Lighting Company KES 23,768,852 in relation to power bills. However, the debt was not included in the list of pending bills as at 30 June 2020.

### **Management Response**

The bills stated relate to the subsequent financial year. However, the bills have since been paid.

### **Committee Observation**

The Committee observed that the county Executive did not disclose all its pending bills.

### **Committee Recommendations**

The Committee therefore recommends that:

- 1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time;
- 2) the County Executive should disclose all pending bills in the format prescribed by the Public Sector Accounting Standards Board as stipulated under Section 104(1)(h) of Public Finance Management Act, 2012;
- 3) the county executive puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.
- 4) Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) for investigation proper legal action taken against those filing false claims.
- 5) County Government to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending bills verification committees unconstitutional and engage Office of the OAG and strengthen the internal audit functions.; and
- 6) All valid pending bills that have been reviewed by the Office of the Auditor General be paid and a payment plan be submitted to the county assembly for approval and progress report on implementation sent to the Senate and the Office of the Controller of Budget.



- (ii) Records maintained at the Ministry of Health indicated that salaries totaling KES 286,763,132.55 were paid by the Ministry to health workers employed by the County Government during the 2013/14 financial year. Although the salaries were to be recovered in the same financial year, the County did not clear the debt. However, the outstanding amount has not been included in the list of pending bills as at 30 June, 2020. No explanation was provided for the omissions and as a result, the pending bills balance totaling KES 1,258,944,867 as at 30 June, 2020 could not be confirmed.

#### **Management Response**

The amount of KES 286,763,132.55 indicated as being owed to Ministry of Health was recovered by the National Treasury in the financial year that ended on 30 June 2014. The Schedule of payments were attached for the committee verification.

#### **Committee Observations**

The Committee observed that the National Government demanded payments from County governments in relation to provision of medical services that were undertaken before the full transfer of the health function to Counties. This demand was irregular as funds for the Health function had not been fully devolved and therefore budgeted in the National Government.

#### **Committee Recommendations**

The Committee recommends that-

1. the County Government should not pay the Ministry of Health any money for provision of medical services that were undertaken before the full transfer of the health function to Counties; and
2. the National Treasury refunds the County Government any and all funds irregularly received ostensibly for provision of medical services that were undertaken before the full transfer of the health function to Counties.

#### **9.4 Pending Staff Payables**

Note 7.9 on other important disclosures reflects nil balance in respect of pending staff payables.

However, audit review of records on statutory deductions indicated that the County Executive deducted statutory dues in respect of National Health Insurance Fund (NHIF), National Social Security Fund (NSSF), pension contribution and Co-operative Savings and Credit and Co-operative Societies (Saccos) totalling KES 892,571,422.30 as follows:

However, no records were provided for audit to confirm remittance of the deductions to the statutory and other bodies.

As a result of these issues, the accuracy and completeness of nil balance reported under pending staff payables as at 30 June, 2020 could not be confirmed.

No.	Name	Details	Amount (KES)
1.	National Hospital Insurance Fund (NHIF)	Premiums and Deductions	51,036,450.00
2.	National Social Security Fund (NSSF)	Deductions	1,841,800.00
3.	Pension Scheme	Lap fund and Lap trust	57,920,190.80
4.	Savings and Credit Cooperative Societies (SACCOs)	Various	216,412,949.50
5.	Pay As You Earn (PAYE) Tax	Permanent and Temporary	565,360,032.00
		<b>Total</b>	<b>892,571,422.30</b>

#### Management Response

The county cleared all staff payables and is current in remittances.

Note 7.9 to the Financial Statements on other Important Disclosures, alongside details of the above payments were provided for Committee review and verifications.

#### Committee Observation

The Committee noted that the County Executive did not submit any document to support remittance of various statutory dues.

#### Committee Recommendations

The Committee recommends that the County CEO undertakes administrative action against the responsible officer(s) for non-provision of documents and non-remittance of various statutory deductions and Sacco dues totalling Kshs.892,571,422.30 in accordance with Section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General for verification within sixty (60) days from the adoption of this report.

#### 10. Unexplained Transactions

Audit review of the general ledger revealed transactions totaling KES 47,721,424 described as 'deductions' and denoted as having been made in 2016 and 2017. However, the transactions, which are listed in Appendix III to this report, were not in IFMIS and may therefore have been paid outside the system and thereafter recorded in the books of account by use of journal entries.

#### Management Response

The transaction listed in appendix 3 were not recorded through journal entries nor paid outside the system. Attached in Annex 8(II) evidence of the transactions captured in IFMIS using invoice entry. The payees are pension funds as tabulated below. The list of Unremitted deductions, Appendix III of the Audit report IFMIS extracts of the above payments was attached for the Committee verification.



Date	PV. No.	Payee	Purpose	Amount (Kshs)
29/6/2020	14523	LAP Fund	Deduction November, 2017	5,738,750
29/6/2020	14524	LAP Trust	Deduction November, 2017	3,389,142
27/3/2020	45845	LAP Fund	Deduction June, 2017	4,985,937.15
27/3/2020	45899	LAP Trust	Deduction June, 2017	3,347,606.40
27/3/2020	32679	LAP Trust	Deduction June, 2016	3,435,362.55
27/3/2020	46182	LAP Trust	Deduction August, 2017	3,347,965.50
27/3/2020	46181	LAP Trust	Deduction August, 2017	5,274,625.50
27/3/2020	46898	LAP Trust	Deduction December, 2017	3,369,272.30
27/3/2020	46897	LAP Fund	Deduction December, 2017	5,321,674.30
27/3/2020	46899	NSSF	Deduction December, 2017	1,246,300.00
27/3/2020	46960	Ukulima Sacco	Deduction October, 2017	3,819,507.85
30/3/2020	132670	NSSF	Deduction November, 2016	1,105,300.00
30/3/2020	13669	LAP Trust	Deduction May, 2017	3,339,982.00
Total				47,721,424.25

#### **Committee Observation**

The Committee that the matter was not resolved as the documents to support the payments were not provided for audit.

#### **Committee Recommendation**

The County CEO undertakes administrative action against the responsible officer(s) who failed to provide the documents (stamped or signed IFMIS extract of the payments) to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report.

#### **11. Unaccounted for Transfers to Murang'a Municipal Board**

Note 14 to the financial statements reflects transfers totalling KES.45,200,000 made to Murang'a Municipal Board in the year under review. In the previous year, transfers to the Board totalled KES 62,437,600. Available records indicated that the Municipal Board was established in January, 2019 through Gazette Notice No.459 in accordance with the Urban areas and Cities Act, 2011. However, the Board has never submitted its financial statements for audit since it was established. Further, the Board's membership may not be lawfully constituted since the registered informal sector associations in the County are not represented as required under Section 14 of the Urban Areas and Cities Act, 2011.

In view of these issues, the validity and accountability of the transfers to Murang'a County Municipal Board totaling KES 107,637,600 made in the two financial years ended 30 June, 2020 could not be confirmed.

#### **Management Response**

The Murang'a Municipal Board financial statements for the year that ended on 30<sup>th</sup> June 2020 were provided for audit review on 7<sup>th</sup> December 2020 as evidenced by evidence tracking sheet PF11 as annexed. Copies of the financial statements for the eighteen months are however available for review and were attached for the committee verification.

Note 14 to the Financial Statements, Evidence Tracking Sheet PF11, Copies of the Financial Statements of Murang'a Municipality for year 2019/2020, and copies of the Financial Statements of Murang'a Municipality for year 2018/2019 were availed for the committee verification.

#### **Committee Observation.**

The Committee observed that the matter was satisfactorily addressed.

#### **Committee Recommendations**

**The Committee recommends that the matter be marked as resolved.**

#### **12. Summary of Fixed Assets Register**

Disclosed under Annex 5 to the financial statements (Attached in Annex 12(I)) was a summary of fixed assets register that reflected assets with a historical cost of Ksh 4,469,952,508. However, the summary of the register relates to 2018/2019 and comparative balances for 2017/2018, instead of those for the year under review. Further, Management did not provide an updated fixed asset register.

In addition, the assets were not tagged and properly recorded in both manual and automated registers and were therefore prone to misplacement and loss.

Additionally, the audit revealed that the County Executive owns biological assets at its Mariira Farm which, however, have not been valued and included in the assets register. As a result of these discrepancies, the accuracy and completeness of the fixed assets register balance as at 30 June, 2020 could not be confirmed.

#### **Management Response**

The biological assets at Mariira Farm were not included in the register because the animals had not been valued by the time of preparing the financial statements. Also, the country-wide process of preparing fixed asset register, including registers of assets from the defunct local authorities and devolved units of the National Government, had not been concluded and adopted by the Inter-Governmental Relations & Technical Committee,

The County is working on automating the register and revaluing assets. The heading of the summary is a typographical error which was resolved in the amended Financial Statements.

#### **Committee Observation**



The Committee noted that the county does not have an updated assets register and a valuation roll.

#### **Committee Recommendation**

**The Committee recommends that –**

- a) **County Executive should update and present their Fixed Assets Register in the format prescribed by the Public Sector Accounting Standards Board;**
- b) **County entities should adopt and implement the report of the Inter-Governmental Technical Relations Committee (IGTRC) on assets and liabilities from defunct Local Authorities and provide a status update to the Office of the Auditor General within 90 days of adoption of this Report; and**
- c) **Office of the Auditor General should progressively review and report on the matter in the subsequent Financial Years.**

#### **Other Matter**

##### **1.0 Unresolved Prior Year Issues**

The audit report for 2018/19 financial year highlighted several unsatisfactory issues on financial statement balances, lawfulness and effectiveness in use of public resources and effectiveness of internal controls, risk management and governance. However, the report on the progress made in resolving the issues, as prescribed in the reporting requirements set by the Public Sector Accounting Standards Board, has not been included in the financial statements. As a result, the matters are considered unresolved.

#### **Management Response**

As at the time of preparing the financial statements, the Audit Report for the financial year that ended on 30<sup>th</sup> June 2019 was received in January 2021. Therefore, it was not possible to capture issues that were unresolved.

#### **Committee Observation**

The Committee noted that the CPAIC Committee tabled a report of the Auditor General for Murang'a County Executive for 2018/2019 and was adopted by the Senate.

#### **Committee Recommendations**

**The Committee recommends that the County executive complies with section 53 of the Public Audit Act, 2015 by taking action on the issues raised by the Auditor General and submits a report to the Auditor General within 60 days of the adoption of this report.**

#### **2.0 Budget Performance**

##### **2.1 Failure to Meet Revenue Targets on County Own-Generated Receipts**

The County Government had budgeted to raise KES 960,000,000 in own-generated receipts from local sources in the financial year ended 30 June, 2020. However, the

actual amount collected was KES 551,677,223 representing 57% of the projected own-generated receipts, resulting in a revenue short fall of KES 408,322,777.

Further a trend analysis on revenue collection data for the four (4) financial years to 30 June, 2020 showed an unsatisfactory performance by the County Executive and incessant failure to meet revenue targets as follows:

Year	Revenue Budget (KES)	Actual Receipts (KES)	Revenue Shortfall (KES)	Ration (%) of Actual to Budget
2016/2017	880,000,000	535,583,977	351,118,925	60.8
2017/2018	850,000,000	423,996,982	426,003,018	49.9
2018/2019	1,000,000,000	699,007,969	300,992,031	69.9
2019/2020	960,000,000	551,677,223	408,322,777	56.5

The persistent shortfall in revenue collection suggests that the system established by Management to collect and account for revenue is not effective.

#### **Management Response**

The county had budgeted to collect KES 960,000,000 in 2019/2020, however due to Covid 19 pandemic, global national and county economies were negatively affected hence the shortfall in own source revenue.

Currently, the county has automated revenue collection and the revenues are on an upward trajectory.

#### **Committee Observation**

The Committee observed that; -

1. the county executive fell short in their revenue collection by 43%.
2. the county has an in-house revenue collection system but questioned its effectiveness
3. the county was spending some of its revenue at source and has an existing legislation-Murang'a County Health Act, 2022- that allows spending at source for health-related revenues.

#### **Committee Recommendations**

The Committee recommends that;

- 1) The County Executive should put in place measures to improve their local revenue collection capacity in order to meet their revenue collections target;
- 2) the County Executive should automate revenue collection across all revenue streams to reduce leakages;
- 3) the county executive submits to the Office of the Auditor General the Murang'a County Health Act, 2022 that guides spending at source of health related revenues;



- 4) the Auditor General keeps the matter in view in the subsequent audit cycle.

## **2.2 Budgetary Control Over Expenditure**

The summary statement of appropriation – recurrent and development combined indicates that, the final approved expenditure budget for the year under review totaled Ksh 8,823,421,331 comprised of Kshs.5,549,938,072 for the recurrent vote and Ksh 3,273,483,259 for the development vote. However, the County Executive incurred expenditures totaling Ksh 5,000,545,248 and Ksh 2,362,593,362 on recurrent and development votes respectively resulting in an aggregate under-expenditure of Ksh 1,460,282,221 equivalent to 16.5 % of the budget.

Management did not provide an explanation for the failure to utilize the whole of the approved budget. The significant level of under-expenditure adversely affected service delivery and execution of development programmes intended to benefit the residents of Murang'a County.

### **Management Response**

As per note 7.4 of the summary statement of appropriation: Recurrent and Development budgets underperformed by Ksh 1,632,406,720.

The main factor that contributed to this was mainly the ravages of Covid-19 which affected negatively the ability of the county to implement the projects due to restricted movement.

### **Committee Observation**

The Committee noted that the county budget implementation was greatly affected by the Covid-19 pandemic.

### **Committee Recommendations**

The Committee recommends that

- 1) the management adheres to the approved budget by the county assembly, and ensure effective budget implementation; and
- 2) the Auditor General to review this matter in the subsequent audit cycle.

## **2.3 Late Exchequer Release**

Note 1 to the Financial Statements reflects exchequer releases receipts from the National Treasury totaling Ksh 6,254,948,060, out of which receipts totalling Ksh 790,027,209 or 12.6% were received during the month of June, 2020, as tabulated below:

Date	Details	Amount Received (KES)
3 June, 2020	Exchequer Release	60,300,000
3 June, 2020		207,335,100
16 June, 2020		14,627,905
16 June, 2020		15,000,000

16 June, 2020		25,986,545
30 June, 2020		10,000,000
30 June, 2020		50,000,000
30 June, 2020		263,647,270
30 June, 2020		17,489,959
30 June, 2020		27,580,103
30 June, 2020		74,191,785
30 June, 2020		10,200,000
30 June, 2020		13,668,542
<b>Total</b>		<b>790,027,209</b>

In view of the delay, Management did not have sufficient time to execute programmes and activities that the funds were expected to finance.

#### **Management Response**

The late release of exchequer, which is a factor beyond the control of the county, affected negatively the implementation of programmes.

#### **Committee Observation**

The Committee noted that the Assembly experienced delay in exchequer releases from the National Treasury thereby hampering program implementation and budget execution.

#### **Committee Recommendation**

**The Committee recommends that the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate.**

#### **Basis for Conclusion**

##### **1.0 Employee Compensation and Staffing Irregularities**

##### **1.1 High Wage Bill**

Examination of expenditure and revenue records indicated that the compensation of employees' expenditure totaling KES 2,984,713,835 incurred in the year under review was equivalent to 41.5% of the total revenue for the year amounting to KES 7,191,014,611. Therefore, the spending was above the threshold of 35% set for the item in Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015.

As a result, limited funds available to the County Executive were overused in funding staff salaries and other emoluments instead of development projects and delivery of services to the residents of the County.



### **Management Response**

The wage bill of 41.5% was as a result of inheriting workers from the defunct local authorities and devolved units of the national government. Although Murang'a county government aspired to reduce the wage bill, this could only be done gradually. Apart from not replacing those who exit through natural attrition, recruitment and replacement are only done for critical positions.

With the ongoing revenue automation, the management anticipated to increase their own source revenue with a view to reducing the wage bill percentage.

### **Committee Observation**

The Committee observed that; -

1. that the wage Bill for Murang'a County Executive was above the set limit of 35% as provided for by the Public Finance Management (County Government) Regulations, 2015.
2. that the county has a bloated workforce which is currently at 41% of the total revenue.
3. the county has initiated a staff audit process and directed

### **Committee Recommendations.**

**The Committee recommends that-**

1. the management should provide to the Auditor General and the Senate the measures it will put in place to contain the high wage bill within sixty (60) days of the adoption of this report;
2. the management should strictly adhere to the provision of paragraph 25(1)(b) of the PFM Act (county government) regulations, 2015 which stipulate that the county wage bill should not exceed 35 per cent of the county total revenue; and
3. the county executive puts in place measures to enhance own source revenue collection in order to address wage bill gap.

### **1.2 Lack of Ethnic Diversity in Staff Establishment**

Analysis of the ethnic composition of employees of the County Executive of Murang'a in the year under review revealed that out of 3,853 staff on permanent and pensionable terms, 3,383 or 87.8% were drawn from the dominant ethnic community in the County. The dominance was contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which requires public entities to ensure that their staff establishments reflect the diversity of the people of Kenya.

### **Management Response**

The management stated that its current recruitment strategies entailed encouraging diverse people to apply for positions and hiring equitably.

### **Committee Observation**

The Committee observed that the matter remained unresolved, as the county staff establishment lacked ethnic diversity.

### **Committee Recommendation**

The Committee advised the county to circulate job advertisements in national newspapers and other platforms to attract all Kenyans in its subsequent recruitment exercises.

### **3.0 Irregular Procurement of Goods under COVID-19 Grant**

During the year under review, the County Executive received a conditional grant amounting to KES 112,941,000 from the Ministry of Health for use in mitigating the effects of the Covid-19 pandemic. However, a review of expenditure records for the grants revealed the following anomalies:

- (i) The County Executive did not have an approved budget for Covid-19 related expenditure. Further, the procurement plan for the year was not updated to include the new expenditure the emergency response. Records provided for audit indicted that the County procured various Covid-19 mitigation commodities and goods, totaling KES 35,742,568 through the Framework Agreement Procurement Method instead of Open Tender or alternative methods.

In the circumstance, the validity and value for money on the expenditure incurred on Covid-19 could not be confirmed.

### **Management Response**

The County Government did a supplementary budget and included the allocation in its estimates (See Annex 12(I) 1 Extracts of Supplementary Budget 2019/2020). The procurement plan was updated to include the new expenditure associated with the pandemic and emergency response (See Annex 12(I) 2– Updated Procurement Plan 2019/2020).

The County used various procurement methods as per Section 92 of PPDA 2015. The framework agreements used were as a result of open tendering done on 17<sup>th</sup> December 2019 to cover three financial years up to the financial year 2020-2021. An extract of Supplementary Budget 2019/2020 on COVID Grant, the updated Procurement Plan 2019/2020 and Section 92 of Public Procurement and Asset Disposal Act 2015 were attached for committee consideration, review and verification.

(ii) Supplies of maize flour purchased at KES 1,823,438 on 19 June, 2020 were not supported with delivery notes, invoices and an inspection and acceptance reports from the users or the Goods Inspection Committee.

As a result of these anomalies, propriety and validity of the payments totaling KES 37,566,006 spent on Covid-19 mitigation activities could not be confirmed.

### **Management Response**

The maize flour supported of households whose businesses were disrupted by the pandemic. The deliveries were done to sub-county offices and all documentation, including registers of recipients, were provided. Delivery Notes and Inspection and Acceptance report for supplies of Maize Flour were also provided for the Committee review and verification.



### **Committee Observation**

The Committee observed that; -

1. the matter was partially addressed since the county did not provide contract documents and a register of the recipients/beneficiaries of the maize floor.
2. the county failed to provide the contract documents at the time of audit

### **Committee recommendation**

**The Committee recommends that the responsible accounting officer undertakes administrative action against the officer(s) who failed to provide the documents (contract document and a register of the recipients of the maize floor) to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within 60 days of adoption of this report.**

### **4.0 Failure to Prepare and Publish Contract Awards**

During the financial year under review, the County Executive did not prepare, publish, and publicize all contract awards and submit the information to the Public Procurement Regulatory Authority as required by Section 138(1) and 138(2) of the Public Procurement and Assets Disposal Act, 2015. Further, monthly progress reports on all procurement contracts prepared and submitted to the Accounting Officer, as prescribed in Section 152 of the Public Procurement and Assets Disposal Act, 2015, were not provided for audit.

In addition, there was no report made to the Public Procurement Regulatory Authority on procurement preferences and reservations to show the County Executive's compliance with Section 157(4) of the Public Procurement and Assets Disposal Act, 2015. The provision requires reporting by each public entity on the number of youth, women and persons with disabilities whose goods and services the entity procured in the reporting period.

### **Management Response**

The County Executive ensures compliance with all legal provisions and has been submitting all contract awards to Public Procurement Regulatory Authority. Evidence of this can be accessed through the Public Procurement Internet Portal. Extract from Public Procurement Internet Portal (PPIP). Monthly progress reports on all Procurement Contracts. All contracts awarded to AGPO groups were reported to the National Treasury. Report to PPRA on Procurement Preferences and Reservations were attached for the Committee review and verification.

### **Committee Observations**

The Committee noted that the matter was partially resolved because the monthly progress reports on all procurement contracts from the Public Procurement Regulatory Authority (PPRA) internet portal is not signed.

### **Committee Recommendations**

The Committee recommends that the County CEO undertakes administrative action against the responsible officer(s) for failure to provide documents (signed monthly progress reports on all procurement contracts from the Public Procurement Regulatory Authority (PPRA) to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within sixty (60) days from the adoption of this report.

#### **5.0 Failure to Comply with Financial Reporting Requirements**

During the financial year 2019/2020, County Executive of Murang'a did not submit to the Auditor-General quarterly financial reports and monthly bank reconciliation statements for each account held by the County as required by Regulation 90 of the Public Finance Management (County Governments) Regulations, 2015. The Accounting Officer was therefore in breach of the law.

#### **Management Response**

The County Government has been adhering to Sec. 166 (4) on submission of Quarterly Reports to the County Assembly, Controller of Budget and Commission on Revenue Allocation.

#### **Committee Observation**

The Committee that the matter was unresolved as they did not provide copies of quarterly financial reports and monthly bank reconciliation statements.

#### **Committee Recommendations**

The Committee recommends that the County CEO undertakes administrative action against the responsible officer(s) for failure to provide documents (quarterly financial reports and monthly bank reconciliation statements) to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within sixty (60) days from the adoption of this report.

#### **6.0 Failure to implement E-procurement Processes**

Executive Order No.6 of 7 May, 2015 directed all public entities in National and County Governments to fully implement end-to-end e-procurement processes within two weeks from the date of the circular. Further, Executive order No.2 of 2018 directed that by 1 January, 2019, all procuring entities were to undertake all their procurements through the Government e-procurement module.

However, review of the procurement activities of the County Executive indicated that some open tender advertisements, and all payments were done through the IFMIS system while other procurement processes were done manually outside the system.

In addition, procurement through restricted tender and direct procurement, opening of bids, tender evaluation and award of tenders were all done manually.

The County is therefore in breach of the Executive Order on implementation of e-procurement. As a result, transparency, fairness, equity, and value for money in its procurement activities could not be confirmed.



**Management Response**

The County Government carries out all its procurement processes through the IFMIS system. However, some procurement methods, such as framework agreement, restricted tenders and direct procurement, could not be conducted through the system because at that time IFMIS had not been programmed to accommodate the said procurement methods.

**Committee Observation**

The Committee noted that the matter was satisfactorily addressed.

**Committee Observation**

**The Committee recommends that the matter be marked as resolved.**

**7.0 Direct Procurement of Goods and Services****7.1 Direct Procurement of Fuel**

Disclosed under Note 12 to the financial statements on use of goods and services is expenditure totaling KES 35,555,932 incurred on purchase of fuel. The expenditure includes KES 9,058,813 paid to two service stations in the county for supply of motor vehicle fuel. However, there was no evidence indicating that the two suppliers were subjected to a competitive procurement process as required by law.

As a result, the regularity of the expenditure totaling KES 9,058,813 could not be confirmed.

**Management Response**

The County Government endeavors to source competently for least cost suppliers. National Oil Corporation is one of the cost-effective fuel suppliers. The other two, Awali Tumaini Investment Mwioto (Trading as Total Petrol Station-Murang'a) and Kenol Kobil, are only contracted when it is not practical to fuel at National Oil Corporation due to lack of fuel.

**Committee Observations**

The Committee observed that; -

1. the county purchased fuel from two companies that were not prequalified and had not been subjected to a competitive procurement process.
2. the county was in violation of provisions of the Public Procurement and Asset Disposal Act, 2015.

**Committee Recommendations**

**The County CEO undertakes administrative action against the Head of Procurement for breaching procurement laws in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report.**

**7.2 Direct Procurement of Air Tickets for Senior Management in the County**

Included in foreign travel and subsistence expenditure totaling KES 21,215,037 disclosed in Note 12 to the financial statements is KES 7,463,916 paid to a firm for bookings and air tickets for senior management who travelled to foreign countries during the year under review. However, the supplier was identified through direct procurement (single sourcing) contrary to Section 104 of the Public Procurement and Assets Disposal Act, 2015. As a result, the expenditure was irregular and value for money on the spending could not be confirmed.

#### **Management Response**

Air tickets are procured competitively.

#### **Committee Observations**

The Committee noted that; -

1. the Committee that the matter was partially resolved since the county only provided evidence for expenditure of Kshs.1.2 million on procurement of air tickets.
2. the procurement of air tickets was done through direct procurement (single sourcing) contrary to Section 104 of the Public Procurement and Assets Disposal Act, 2015.

#### **Committee Recommendations**

The Committee recommends that the County CEO undertakes administrative action against the responsible officer(s) who failed to provide relevant documents (list of prequalified air ticket service providers, tender committee minutes and evaluation report and an explanation on the balance of Kshs.5.2 million) to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within sixty (60) days from the adoption of this report.

#### **8.0 Unconfirmed Citizen Participation in Budget-Making Process**

During the year under review, the County Executive of Murang'a final approved budget of KES 5,549,938,072 and KES 3, 273, 483, 259 for recurrent and development votes, respectively. Regulation 6(2) of the Public Finance Management (County Governments) Regulations, 2015 requires County Treasuries to arrange for effective public participation during development of their annual budget estimates including in the publication of citizens' budgets which shall explain and summarize the budget proposals.

However, no document on public participation including notices of meetings, signed attendance lists of participants and feedback or reports of the outcome of such activities were presented for audit review. Further, a review of the approved budget revealed that the County Treasury prepared a Programme-based budget that contained aggregated amounts for various activities or projects without specific details or line items of the projects. As a result, interrogation of the budget by Murang'a County residents may have been curtailed and as a result they could not effectively participate in its formulation.



Consequently, County Executive may have flouted law on public participation in the budget making process.

#### **Management Response**

The budget making process is a collaborative effort between the County Executive and County Assembly and citizens are usually invited to propose, comment and prioritize the projects in the county. They are usually invited via radio announcements and newspaper adverts. The Newspaper advert on Public Participation, List of Attendance and Feedback or Reports of Public Participation List of Projects was attached for the committee review.

#### **Committee Observations**

The Committee observed that the County Executive did not initiate public participation and relied on an advertisement done by the County Assembly for public participation in budget making process.

#### **Committee Recommendations**

The Committee recommends that the County CEO undertakes administrative action against the responsible officer(s) who failed to provide relevant documents (notice of meetings for public participation, the signed list of attendance, feedback or reports of outcome of public participation and list of projects discussed during the public participation) to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor General within sixty (60) days from the adoption of this report.

#### **9.0 Irregular Implementation of Programmes under the National Government**

In the year under review, the County Executive implemented several projects costing KES.6,061,603 in respect of functions which fall under the National Government as follows:

- (i) Laying of pavement blocks (cabro) at Mugoiri Girls High School at a cost of KES3,895,860.
- (ii) Purchase of construction materials for Kiamatara Secondary Schools at a cost of KES 1,075,900.
- (iii) Completion of a dormitory block for Kaharo Girls School at a cost of KES 1,089,843.

Records on the contracts entered into between the County Executive and the Ministry of Education in relation to these expenditures were not provided for audit.

#### **Management Response**

Whilst these are national government projects, the county, through its primary and secondary school intervention Programme, stepped in to assist with a view to alleviating suffering of students.

#### **Committee Observations**

The Committee noted that; -

1. the matter was unresolved since there was no records to show communication with the line Ministry of Education on implementation of functions that fall under national government.
2. The Committee observed that the County undertook a project which falls under the National Government without an arrangement with the line Ministry, which is irregular.

**Committee Recommendations.**

**The Committee recommends that the county executive should adhere to the Public Finance Management (County Government) Regulations by ensuring that any collaboration between it and the National Government is supported by communications and agreements between the two governments, before incurring expenditure on projects and programmes under the National Government.**

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## CHAPTER NINE

### REPORT OF THE COUNTY PUBLIC ACCOUNTS COMMITTEE ON AUDITED FINANCIAL STATEMENTS OF NANDI COUNTY EXECUTIVE FOR THE FINANCIAL YEAR 2019/2020

The Governor of Nandi County Hon. Stephen Sang, EGH, appeared before the Committee on Monday, 13<sup>th</sup> February 2023 to respond (under oath) to audit queries raised in the Report of the Auditor General on Financial Statements for Nandi County Executive for the Financial Year 2019/2020.

#### Qualified Opinion

EXECUTIVE SUMMARY OF THE UNRESOLVED ISSUES				
S/NO	AUDIT QUERY	COMMITTEE RECOMMENDATION	ACTORS	TIME LINE
1.	<p><b>1.0 Inaccuracies in the Financial Statements</b></p> <p>The financial statements reflect receipts and payments figures for various account items which are at variance with Integrated Financial Management Information System, (IFMIS) Reports.</p> <p>In absence of any reconciliation, the accuracy and completeness of the figures for the items as reflected in the financial statements for the year ended 30 June, 2020 could not be confirmed.</p> <p>In the circumstance, the presentation, accuracy and completeness of exchequer releases totalling to Kshs.5,489,278,988 for</p>	<p>The Committee recommends that-</p> <p>1. The County CEO undertakes administrative action against the responsible officer(s) responsible for failure to undertake reconciliation of financial statements within the stipulated timelines in accordance with section 156 of the Public Finance Management Act, 2012.</p> <p>2. The County Executive to identify training needs of its staff serving in the Finance Department and initiate capacity building and training in conjunction with the National Treasury within 60 days of adoption of this report.</p>	<p>The County Chief Executive Officer &amp; National Treasury</p>	<p>Within 60 days from the date of adoption of this report.</p>

	the year ended 30 June, 2020 could not be confirmed.			
2.	<p><b>2.0 Unsupported Payment to Kenya Revenue Authority (KRA)</b></p> <p>As disclosed in Note 12 to the financial statements, the statements of receipts and payments reflects an expenditure of Kshs. 846,152,271 in respect of use of goods and services which include other operating expenses amounting to Kshs. 209,535,311.</p> <p>The amount constitutes a balance of Kshs. 202,895,083 which was paid to KRA. Although, bank statements showing deductions and communication between the County Executive and KRA on payment plan were seen, related payment vouchers were not provided for audit review.</p>	<p>The Committee recommends that-</p> <ol style="list-style-type: none"> <li>1. The County CEO should engage the KRA with a view to resolving the matter.</li> <li>2. The National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate and comply with Article 219 of the Constitution and Section 17(6) of the Public Finance Management Act, 2012.</li> </ol>	<ol style="list-style-type: none"> <li>1. The County Chief Executive Officer.</li> <li>2. The National Treasury</li> </ol>	<p>Within 60 days from the date of adoption of this report.</p>
<b>EMPHASIS OF MATTER</b>				
3.	<p><b>Emphasis of Matter</b></p> <p><b>1. Pending Bills</b></p> <p><b>i) Accumulation of Pending Bills</b></p> <p>Annex 2 to the financial statements shows pending accounts payables totaling to Kshs.331,085,588 as at 30 June, 2020.</p>	<p>The Committee recommends that-</p> <ol style="list-style-type: none"> <li>a) The County executive should submit to the OAG a report of pending bills in the format prescribed by the Public Sector Accounting Standards Board within</li> </ol>	<ol style="list-style-type: none"> <li>1. The County Chief Executive Officer.</li> <li>2. The Auditor General.</li> </ol>	<p>Within 60 days from the date of adoption of this report.</p>



	<p>However, the annexure does not indicate the movement of the pending bills during the financial year 2018/2019 as required under the reporting template prescribed by the Public Sector Accounting Standards Board.</p> <p>Accumulation of unpaid bills contravened National Treasury Circular Ref. AG 3/101/75 which requires Accounting Officers, to ensure prudent use of resources and avoid accumulation of pending bills.</p>	<p>sixty (60) days of adoption of this report;</p> <p>b) The Management should ensure that the Finance, Accounting and Procurement units are staffed with qualified personnel who are members of the respective professional bodies as outlined by the Public Sector Accounting Standards Board (PSASB);</p> <p>c) The Office of the Auditor-General continues to monitor the status of the county pending bills.</p>		
4.	<p><b>ii) Outstanding electricity bills owed to the Kenya Power and Lighting Company (KPLC)</b></p> <p>Further, according to The National Treasury Circular No. 17/2020 Ref. IGRF/COD/01/E/45 dated 24 August 2020, the county Executive of Nandi owed the Kenya power and Lighting Company, a total of Kshs. 2,691,929 comprising of June, 2020 bill of Kshs. 1,092,067 and arrears of Kshs. 1,599,862 as at 30 June, 2020.</p>	<p>The Committee therefore recommends that:</p> <ol style="list-style-type: none"> <li>1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time;</li> <li>2) the County Executive should disclose all pending bills in the format prescribed by the</li> </ol>	The County Chief Executive Officer.	Immediately

	<p>The amount owed to KPLC therefore, constitutes part of accounts payables but not disclosed in the financial statements for the year under audit. Management has not given any explanation for the omission or registered any dispute on the Report.</p>	<p>Public Sector Accounting Standards Board as stipulated under Section 104(1)(h) of Public Finance Management Act, 2012;</p> <ol style="list-style-type: none"> <li>3) the county executive puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.</li> <li>4) Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) for investigation proper legal action taken against those filing false claims.</li> <li>5) County Government to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending bills verification committees unconstitutional and engage Office</li> </ol>		
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		<p>of the OAG and strengthen the internal audit functions.; and</p> <p>6) All valid pending bills that have been reviewed by the Office of the Auditor General be paid and a payment plan be submitted to the county assembly for approval and progress report on implementation sent to the Senate and the Office of the Controller of Budget.</p>		
5.	<p><b>Long Outstanding Debts-Ministry of Health-</b></p> <p>In addition, during 2013/2014 financial year, the ministry of Health paid on behalf of the Nandi Government salaries totaling to Kshs. 316,123,713 which were to be recovered in the same financial year.</p> <p>Documents and information available indicate that the County Government of Nandi did not make payment to the Ministry of Health.</p> <p>The amount has remained outstanding to date but was not included as part of the</p>	<p>The Committee recommends that-</p> <ol style="list-style-type: none"> <li>1. the County Government should not pay the Ministry of Health any money for provision of medical services that were undertaken before the full transfer of the health function to Counties; and</li> <li>2. the National Treasury refunds the County Government any and all funds irregularly received ostensibly for provision of medical services that were undertaken before the full transfer of the health function to Counties.</li> </ol>	<ol style="list-style-type: none"> <li>1. The County Chief Executive Officer.</li> <li>2. The National Treasury.</li> </ol>	<p>To be reported in the next audit cycle.</p>

	pending bills as at 30 June, 2020 in the financial statements for the year then ended. Management has not given any explanation for the omission and has not disputed the liability.			
<b>OTHER MATTER</b>				
<b>6.</b>	<p><b>1.0 Budgetary Control and Performance</b></p> <p>The summary statement of appropriation: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.8,720,452,281 and Kshs.6,671,704,84 respectively resulting to an under-funding of Kshs.2,048,747,386 or 23% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.8,720,452,281 and Kshs.6,234,604,409 respectively resulting to an under-funding of Kshs.2,485,847,872 or 29% of the budget. The expenditure was limited to the amount realized. Management explained that the variances mainly occurred as a result of failure to collect Own generated receipts, low</p>	<p>The Committee therefore recommends that:</p> <p>a) The National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate and comply with Article 219 of the Constitution and Section 17(6) of the Public Finance Management Act, 2012.</p> <p>b) The County executive puts in place measures to enhance its own generated revenue in order to meet its revenue target and address revenue shortfalls.</p>	<p>1. The County Chief Executive Officer.</p> <p>2. The National Treasury.</p>	<p>To be reported in the next audit cycle.</p>



	transfers from other Government entities and delays in the disbursement of funds from the National Government. The delay has the effect of denying the residents of Nandi County the benefits accruing from the planned projects.			
7.	<p><b>2.0 Unresolved Prior Year Matters</b></p> <p>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.</p> <p>However, the Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular No. AG.4/16/3 Vol. 1(9) dated 24 June, 2020.</p>	The Committee recommends that the County executive complies with section 53 of the Public Audit Act, 2015 by taking action on the issues raised by the Auditor General and submits a report to the Auditor General within 60 days of the adoption of this report.	<p>1. The County Chief Executive Officer.</p> <p>2. The Auditor – General.</p>	Within 60 days from the date of adoption of this report.
<b>REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES</b>				
8.	<b>1. Unconfirmed County Own Generated Receipts –</b>	The Committee recommends that: 1. The County CEO undertakes	1. The County Chief	Within 60 days from the date of

	<p><b>Kiborgok Tea Proceeds</b></p> <p>As disclosed in Note 9 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.282,051,152 under county own generated receipts which constitutes an amount of Kshs.15,352,946 received from Kiborgok tea proceeds. The proceeds arise from contract agreement between the County Government of Nandi and Chebut Tea Factory signed on 2 February, 2018. Review of the contract revealed the following anomalies;</p> <p>I. The County Government has another tea estate measuring approximately 3 hectares which is managed under the factory but no contract was provided for the same.</p> <p>II. The tea factory had leased 2 tractors from the County Government but no lease agreement was provided for audit verification.</p>	<p>administrative action against the responsible officer(s) who failed to provide the documents (management service agreements and leases relating to the tea farms and equipment) to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor – General within sixty (60) days from the adoption of this report; and</p> <p>2. The Management should prepare a policy guideline to enhance effectiveness in the management of the tea estates.</p> <p>3. The Auditor General should conduct a value for money audit to establish whether the proceeds from the tea estates optimised compared to other commercial establishments.</p>	<p>Executive Officer.</p> <p>2. The Auditor – General.</p>	<p>adoption of this report.</p>
9.	<p><b>2. Non-Compliance with the Law on Fiscal Responsibility - Wage Bill</b></p>	<p>The Committee recommends that-</p> <p>1. the management should provide to</p>	<p>The County Chief</p>	<p>60 days from the date of adoption</p>



	<p>The statements of receipts and payments reflects an expenditure of Kshs.3,191,219,469 on compensation of employees representing 53% of the total receipts of Kshs.6,041,486,796. This is contrary to the provisions of Regulation 25(1) (a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which limits the County Executive's expenditure on wages and benefits to not more than 35% of the total revenue for the year. Consequently, Management is in breach of the law.</p>	<p>the Auditor General and the Senate the measures it will put in place to contain the high wage bill within sixty (60) days of the adoption of this report;</p> <p>2. the management should strictly adhere to the provision of paragraph 25(1)(b) of the PFM Act (county government) regulations, 2015 which stipulate that the county wage bill should not exceed 35 per cent of the county total revenue; and</p> <p>3. the county executive puts in place measures to enhance own source revenue collection in order to address wage bill gap.</p>	<p>Executive Officer.</p> <p>County Public Service Board</p> <p>The Auditor – General.</p>	<p>of this report.</p>
10.	<p><b>3. Non-Compliance with Law on Ethnic Composition</b></p> <p>During the year under review, the total number of employees of County Assembly was four thousand nine hundred and five (4,905) employees out of which four thousand six hundred and sixty-</p>	<p>The Committee recommends that-</p> <p>a) The county executive should work progressively towards attaining the requirement of the provisions of Section 65(1)(e) of County Government Act on ethnic inclusivity.</p>	<p>The County Chief Executive Officer.</p> <p>County Public Service Board (CPSB)</p>	<p>60 days from the date of adoption of this report.</p>

	nine (4,669) or 95% were members of the dominant ethnic community in the county.	b) The County Executive and CPSB should provide to the Auditor General a five-year strategy of measures it will put in place to ensure compliance is achieved within sixty (60) days of the adoption of this report.	The Auditor – General.	
11.	<p><b>4. Non-Compliance with the One Third of Basic Salary Rule</b></p> <p>During the year ended 30 June, 2019, review of the payroll for the months of January to June 2020 revealed that 100 employees earned a net salary of less than a third (1/3) of the basic salary.</p> <p>This is contrary to Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016 and Section 19 (3) of the Employment Act, 17 of 2007 which requires that deductions made by an employer from the wages of his employee at any one time shall not exceed two thirds of such wages.</p>	<p>The Committee therefore recommends that –</p> <p>a) The County Executive should provide to the Auditor General within sixty (60) days after the adoption of this report a plan of the measures put in place to mitigate on the issue as well as comply with the requirements of law.</p> <p>b) The county should configure their Integrated Payroll and Personnel Database (IPPD) system such that it is able to lock out commitments beyond the accepted thresholds.</p> <p>c) The Auditor General should continue monitoring the issue in subsequent financial years.</p>	<p>1. The County Chief Executive Officer.</p> <p>2. The Auditor – General.</p>	60 days from the date of adoption of this report.
12.	<p><b>5. Delayed Construction of Urban Economic and Infrastructure Project</b></p>	The Committee recommends that the responsible accounting officer undertakes administrative action	1. The County Chief Executive Officer.	For (a), 60 days from the date of adoption



	<p>As disclosed in Note 15 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.619,565,832 under Other grants and transfers which includes an amount of Kshs.101,143,935 in respect of the Kenya Urban Support Project (KUSP). The expenditure includes an amount of Kshs.52,808,618 paid to a construction company for proposed construction of urban economic and infrastructure project. However, the following unsatisfactory matters were noted;</p> <p>i. Review of the project bills of quantities revealed that a sum of Kshs.5,500,000 was provided for and paid under Certificate No. 03. However, documents were not provided to support or account for the payment made.</p> <p>ii. According to the agreement signed between the construction firm and the County Government on 14 May, 2020, the</p>	<p>against the officers who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within 60 days of adoption of this report.</p>	<p>2. The Auditor – General.</p>	<p>of this report.</p> <p>For (b), 60 days from the date of adoption of this report.</p>
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	<p>contract period was extended for 8 weeks effective 2 April, 2020 until 30 June, 2020. However, physical verification on the site revealed that the project was about 90% complete. No explanation was provided for the delayed completion of the project by the contractor despite the extension.</p> <p>iii. The Kenya Power and Lighting Company's approval for the street lighting under the project was not provided for audit while publicity boards/signage for Jua Kali shades and the street lighting projects were not erected.</p>			
13.	<p><b>6. Acquisition of Assets</b></p> <p><b>6.1 Delayed Installation and Commissioning of a Project</b></p> <p>As disclosed in Note 17 to the financial statements, the statement of receipts and payments reflects acquisition of assets expenditure amounting to Kshs.823,841,480 which includes an amount of</p>	<p>The Committee recommends that-</p> <p>1. The County Chief Executive Officer takes administrative actions against the responsible accounting officer and responsible officer(s) who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act and provides a status report</p>	<p>1. The County Chief Executive Officer.</p> <p>2. The Auditor – General.</p> <p>EACC</p>	60 days from the date of adoption of this report.



	<p>Kshs.102,190,154 paid in respect of a contract for the design, supply, delivery, installation and commissioning of Nandi Co-operative Creameries Milk Processing Plant and civil works that was signed on 14 June, 2019. Included in the latter are payments totalling Kshs.65,000,000 made to Co-operative Bank of Kenya against a letter of credit for payment to the construction company.</p>	<p>to the Office of the Auditor General within 60 days from the adoption of this report.</p> <ol style="list-style-type: none"> <li>2. The OAG keeps the matter in view in the subsequent audit cycle to monitor the implementation; especially compliance with the PFM Act, 2012 and the PPADA, 2015, in subsequent financial audits; and</li> <li>3. The Auditor General undertakes a special audit of the National Agricultural and Rural Inclusive Growth Project (NARIGP).</li> <li>4. The EACC to carry out an investigation on the propriety of the project.</li> </ol>		
14.	<p><b>6.2 Incomplete Utilization of an Enterprise Resource Planning System</b></p> <p>As disclosed in Note 17 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.823,841,480 under acquisition of assets which constitutes a balance of Kshs.19,520,560 in respect of purchase of ICT equipment and Kshs.9,494,994 in respect of acquisition of intangible assets all amounting to</p>	<p>The Committee recommends that the County executive provides an implementation status report to the Auditor General on Health Management Information Systems (HMIS) within 60 days of adoption of this report.</p>	<ol style="list-style-type: none"> <li>1. The County Chief Executive Officer.</li> <li>2. The Auditor – General.</li> </ol>	<p>60 days from the date of adoption of this report.</p>

	<p>Kshs.29,015,554.</p> <p>Verification of documents revealed that forty-nine (49) features under the ten (10) modules could not be captured and were not functioning. It was not clear whether all the features were required by the institution.</p> <p>In the circumstances, the County Executive may not have received value for money from the payment for modules that were not developed and applied.</p>			
15.	<p><b>7. Stalled Project on Construction of Nandi County Governor's Office</b></p> <p>Review of the progress on the project revealed that payments totalling Kshs.97,685,287 had been made to the contractor. However, the contractor was not on site and the project had stalled. In addition, the County budget for the year 2019/2020 provided for an allocation of Kshs.20,780,655 to the project towards its completion but the funds were not utilized. In view of the delay, no value has been obtained on payments totalling to Kshs.97,685,287 made to the contractor.</p>	<p>The Committee recommends that</p> <ol style="list-style-type: none"> <li>1. The Ethics and Anti-Corruption Commission (EACC) expedites the ongoing investigation on the project and provide a status update to the Senate within 60 days of adoption of report;</li> <li>2. OAG to monitor the issue in the subsequent audit cycles.</li> <li>3. The Controller of Budgets should not authorise further payments to this project until the county obtains the approval of the Senate Finance Committee to vary the ceilings on</li> </ol>	<p>Ethics and Anti-Corruption Commission (EACC)</p> <p>Office of the Auditor General</p>	<p>Within 90 days of adoption of this report</p>



		construction of Governors residences.		
16.	<p><b>8. Leased Medical Equipment</b></p> <p>As reported in the previous year, the County Executive signed a Memorandum of Understanding with the National Government for provision of medical equipment and related services. The equipment was to be procured by the National Government and thereafter supplied to the County in several lots as follows: Lot 1 - Theatre Equipment, Lot 2 Theatre Sterilization Equipment, Lot 5- Renal Dialysis Equipment, Lot 6 Intensive Care Unit Equipment and Lot 7- Radiology Imaging Equipment.</p> <p>Records presented for audit indicated that an amount of Kshs.131,914,894 was directly deducted by the National Treasury from the equitable share of revenue or payment for the leased equipment during the year under review, thereby bringing the total lease rental payments made by the County Executive to Kshs.522</p>	<p>The Committee recommends that</p> <ol style="list-style-type: none"> <li>1) The County CEO undertakes administrative action against the responsible officer(s) who failed to provide the requisite documentation on the contract, equipment supplied and carrying values to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within sixty (60) days from the adoption of this report;</li> <li>2) County Executive should ensure that all assets are presented in the format prescribed by the National Treasury; and</li> <li>3) the County executive provides a status report on the implementation of this project within 60 days of the adoption of this report.</li> </ol>	<ol style="list-style-type: none"> <li>1. The County Chief Executive Officer.</li> <li>2. The Auditor – General.</li> </ol>	60 days from the date of adoption of this report.

	<p>million as at 30 June, 2020.</p> <p>Further, Lot 6 - Intensive Care Unit Equipment has not delivered. As a result, Nandi County did not establish an Intensive Care Unit as expected.</p> <p>However, the values of the equipment supplied were not reflected in the County's asset records and the criteria used to charge the lease rentals could not be confirmed.</p> <p>In view of these anomalies, the valuation of the assets obtained through the Scheme and validity of the lease payments amounting to Kshs.131,914,894 for the year could not be confirmed.</p>			
17.	<p><b>9. Non-Compliance with the Public Finance Management (County Governments) Regulations, 2015</b></p> <p>During the year under review, the Nandi County Assembly had an approved budget of Kshs.674,665,357, equivalent to 10% of the total revenues of the county government of Kshs.6,671,704,894. The former exceeded the lower of seven per</p>	<p>The Committee recommends that;-</p> <ol style="list-style-type: none"> <li>1. the Senate Standing Committee on Finance and Budget to review ceilings allocated to County Assemblies in CARA to ensure county compliance with the thresholds in the Public Finance Management (County Governments)</li> </ol>	The Auditor General.	To be reported in the next audit cycle.



	<p>cent of the total revenues of the county government of Kshs.6,671,704,894 or twice the personnel emoluments of the County Assembly of Kshs.743,754,274, (which is lower).</p> <p>This is contrary to Regulation 25 (1) (f) of the Public Finance Management (County Governments) Regulations, 2015.</p>	<p>Regulations, 2015; and</p> <p>2. the Office of the Auditor General follows up on this issue in the subsequent audit cycle.</p>		
18.	<p><b>10. Delayed Completion of Projects</b></p> <p>Physical verification of projects was conducted in the December, 2020 and January, 2021. A total of forty-six (46) projects with a total budget of Kshs.733,244,090 and total payments of Kshs.411,189,931 were verified. Out of the forty six (46) projects verified, thirty-four (34) projects were complete.</p> <p>However, the twelve (12) projects with total payments of Kshs.311,578,818 were found either not complete and put into use or works were ongoing or the contractors were not on site.</p>	<p>The Committee therefore recommends that:</p> <p>1. the County Government takes immediate action to complete and/or operationalise the projects and provides a status report to Auditor-General on project status within 60 days from the date of adoption of this report;</p> <p>2. The County executive should undertake proper project conceptualization, planning and execution to ensure timely completion of the projects as well as realization of value for money; and</p> <p>3. Auditor General to follow up on this matter in its</p>	<p>1. The County Chief Executive Officer.</p> <p>2. The Auditor – General.</p>	60 days from the date of adoption of this report.

		subsequent audit cycle.		
REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT GOVERNANCE				
19.	<p><b>Basis for Conclusion</b></p> <p><b>1. Fixed Assets Register</b> Annex 5 - summary of fixed assets register to the financial statements discloses the total value of the County Executive's fixed assets as at 30 June, 2020 amounted to Kshs.6,733,309,506.</p> <p>The balance excludes assets which had been taken over from defunct local authorities which includes land, buildings, motor vehicles, computers and other office equipment. The fixed assets register was not provided for audit review.</p> <p>In the circumstances, it has not been possible to ascertain the value of the assets owned by the County Government of Nandi</p>	<p>The Committee recommends that the-</p> <p>a) County entities should update and present their Fixed Assets Register in the format prescribed by the Public Sector Accounting Standards Board;</p> <p>b) County entities should adopt and implement the report of the Inter-Governmental Technical Relations Committee (IGTRC) on assets and liabilities from defunct Local Authorities and provide a status update to the Office of the Auditor General within 90 days of adoption of this Report; and</p> <p>c) Office of the Auditor General should progressively review and report on the matter in the subsequent Financial Years.</p>	<p>1. The County Chief Executive Officer.</p> <p>2. The Auditor – General.</p> <p>3. Ethics and Anti-Corruption Commission</p>	<p>Within 90 days of adoption of this Report</p>



20.	<p><b>2. Internal Audit Function and Audit Committee</b></p> <p>During the year under review, the Internal Audit Unit was reporting both functionally and administratively to the Accounting Officer while the Audit committee members had also resigned after citing lack of goodwill from the management in discharging their duties. Whereas the Internal Audit Department is well staffed with twelve (12) officers, who are duly qualified to discharge their mandate, the function had no budgetary provision to support its activities. Consequently, internal audit function lacks operational independence and may not adequately discharge its mandate.</p>	<p>The Committee recommends that-</p> <p>The Cabinet Secretary for National Treasury and Economic Planning to propose amendments to the Public Finance Management (County Government) Regulations, 2015 to mandate county governments to provide sufficient budgetary allocations to the Audit Committee and the Internal Audit Unit.</p>	<p>1. The County Chief Executive Officer.</p> <p>2. The Auditor – General.</p> <p>3. The Cabinet Secretary, National Treasury and Economic Planning.</p>	<p>To be reported in the next audit cycle.</p>
21.	<p><b>3. Information and Communication Technology</b></p> <p>Review of the Information Technology internal controls revealed that the County Executive did not have an approved ICT Policy, IT security policy,</p>	<p>The Committee recommends that –</p> <p>The County Executive expedites the establishment of a working IT Steering Committee and formulation of an ICT policy and submit evidence to the OAG</p>	<p>1. The County Chief Executive Officer.</p> <p>2. The Auditor – General.</p>	<p>60 days from the date of adoption of this report.</p>

	<p>policy on physical access to IT environment and IT continuity and disaster recovery plan to guide ICT operations.</p> <p>The County did not have an approved IT Steering Committee which is important in performing the oversight function and formulation of policies to ensure that IT department functions properly.</p>	<p>within 60 days of the adoption of this report.</p>		
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## **BASIS FOR QUALIFIED OPINION**

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

The financial statements reflect receipts and payments figures for various account items which are at variance with Integrated Financial Management Information System, IFMIS Reports as detailed below.

<b>Details</b>	<b>Financial Statements (Ksh)</b>	<b>IFMIS Reports (Ksh)</b>	<b>Variance(Ksh)</b>
Exchequer releases	5,489,278,988	429,552,000	5,059,726,988
Transfer from other Governments	270,156,656	82,400,000	187,756,656
County own generated Receipts	282,051,152	62,562,202	219,488,950
Returned CRF Issues	630,218,098	-	630,218,098
Compensation of Employees.	3,191,219,469	3,655,472,893	(464,253,423)
Use of Goods and Services.	846,152,271	1,060,392,540	(214,240,269)
Transfer to other Government units	753,825,357	0	753,825,357
Other Grants and Transfers	619,565,832	106,105,940	499,266,040
Acquisition of Assets	823,841,480	838,594,960	(14,753,479)
Other Payments	0	471,445,408	471,445,408

In absence of any reconciliation, the accuracy and completeness of the figures for the above account items as reflected in the financial statements for the year ended 30 June, 2020 could not be confirmed.

In the circumstance, the presentation, accuracy and completeness of exchequer releases totalling to Kshs.5,489,278,988 for the year ended 30 June, 2020 could not be confirmed.

### **Management Responses**

The variance between IFMIS figures and financial statement figures arose because not all payments initiated in IFMIS make up to the final level of payment due to a number of reasons like insufficient funds, invalid bank accounts or an erroneous entry. IFMIS system captures any figure keyed in as part of payments. On the other hand, in preparing the financial statements, the actual bank statement from Internet Banking portal is used to ensure accuracy of the financial statements. This is in line with the Cash Basis form of reporting.

Ideally, all the pending transactions which do not make for payment should be voided immediately to avoid erroneous figures piling up in the system. However, the system

voiding rights is a reserve of the National Treasury. Going forward, the management recommended that these rights be granted to Counties to enable continuous voiding on need basis. Meanwhile, the management had written to The IFMIS Directorate to issue the management with temporary voiding rights to enable it start system clean-up exercise immediately. The Request letter to the Director IFMIS was attached for the committee perusal.

### **Committee Observations**

The Committee observed that;

1. the unreconciled amounts of Kshs. 5,059,726,988 was quite significant and that the County Executive ought to have undertaken reconciliations every 15<sup>th</sup> of the succeeding month as required in law
2. The accuracy of financial statements is the responsibility of the Accounting Officer of the entity in accordance with Paragraph 42 (1) (a) of the Public Finance Management (County Governments) Regulations.
3. There was lack of capacity on the part of the county staff to adequately perform in the accounting and finance units. The Committee further noted that employees who were not registered members of ICPAK were signing off financial statements contrary to Public Sector Accounting Standards Board (PSASB).

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### **Committee Recommendations**

The Committee recommends that-

- 1) The County CEO undertakes administrative action against the responsible officer(s) responsible for failure to undertake reconciliation of financial statements within the stipulated timelines.
- 2) The County Executive in liaison with the National Treasury undertakes capacity building for the responsible officer(s).

### **2.0 Unsupported Payment to Kenya Revenue Authority (KRA)**

As disclosed in Note 12 to the financial statements, the statements of receipts and payments reflects an expenditure of Kshs. 846,152,271 in respect of use of goods and services which include other operating expenses amounting to Kshs. 209,535,311. The amount constitutes a balance of Kshs. 202,895,083 which was paid to KRA. Although, bank statements showing deductions and communication between the County Executive and KRA on payment plan were seen, related payment vouchers were not provided for audit review.

In the circumstances, the accuracy, completeness and propriety of the payment



amounting to Kshs. 202,895,083 for the year ended 30 June, 2020 could not be confirmed.

### **Management Responses**

The amount of Kshs.202, 895,082.95 paid to KRA were arrears comprising of withholding tax, PAYE and VAT dating back to the FY 2014/2015/2016. After a thorough reconciliation and verification, the County Government entered into an agreement with KRA on the payment plan.

However, due to delayed disbursement of funds by the National Treasury, the County could not honor its obligations as and when it fell due. This prompted KRA to place demand notices with CBK so as to deduct funds directly from the source once the recurrent account in CBK got funded. The evidence of communication, and subsequent agreement with CBK was submitted for verification.

### **Committee Observations**

The Committee observed that;

1. the County was penalized by KRA and charged interest as a result of delay in remitting statutory payments such as PAYE, VAT and withholding tax.
2. the delay in remitting the statutory payments was occasioned by delay in release of funds by the National Treasury.

### **Committee Recommendations**

The Committee recommends that;

1. the County Executive should engage the KRA with a view to resolving the matter within sixty (60) days from the adoption of this report.
2. the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate and comply with Article 219 of the Constitution and Section 17(6) of the Public Finance Management Act, 2012.

### **3. Unsupported Scholarships and Other Educational Benefits**

As disclosed in Note 15 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.619, 565,832 in respect of other grants and transfers which includes payments for scholarships and other educational benefits amounting to Kshs. 21,251,649.

However, transfer vouchers, cash book and expenditure returns to account for the transfers made were not provided for audit verification. Consequently, the accuracy and validity of the transfers made for scholarships and other educational benefits of Kshs. 21,251,649 for the year ended 30 June, 2020 could not be confirmed.

### **Management Responses:**

The transfer of Kshs. 21,251,649 to Village Polytechnics comprised of balance brought forward from FY 2018/19 and part of the balance received in the FY 2019/20. Additional transfers were made to Vocational training centers as attached leaving the Special purpose account with a closing balance of Kshs 875,000.

All the transfer vouchers, cash book and expenditure return are herein attached. The remaining balance Kshs 16,396,649 could not be transferred before the close of the financial year since there was no budgetary allocation. However, a provision for the same was done in the FY 2019/20 and the money was transferred immediately the budget was approved. The Bank statement showing the transfer was attached for the committee perusal.

### **Committee Observation**

The Committee observed that;

1. the management did not submit all the relevant documents and information to the Auditor -General at the time of audit contrary to the Section 62 of the Public Audit Act, 2015
2. the matter has since been addressed as the County Executive has since availed the relevant records and documents supporting the incurred expenditure.

### **Committee Recommendations**

**The Committee recommends that the matter be marked as resolved.**

### **Emphasis of Matter**

#### **1. Pending Bills**

##### **i) Accumulation of Pending Bills**

Annex 2 to the financial statements shows pending accounts payables totaling to Kshs.331,085,588 as at 30 June, 2020. However, the annexure does not indicate the movement of the pending bills during the financial year 2018/2019 as required under the reporting template prescribed by the Public Sector Accounting Standards Board. Accumulation of unpaid bills contravened National Treasury Circular Ref. AG 3/101/75 which requires Accounting Officers, to ensure prudent use of resources and avoid accumulation of pending bills.

### **Management Responses**

The reduction in pending bills figure is attributed to the payment of historical pending bills as filed with COB/the National Treasury at the beginning of the financial year



under review. The outstanding balance of Kshs 331,085,588 has since been cleared and Nandi has no more historical pending bills.

### **Committee Observations**

The Committee observed that-

1. The County government had not reported its pending bills as prescribed by the Public Sector Accounting Standards Board.
2. The pending bills relate to previous years and they have not been paid. The Committee observed that the County had challenges with Capacity building.
3. The Management ought to have declared all pending bills at the close of every financial year including the movement of such bills per financial year.

### **Committee Recommendations**

The Committee therefore recommends that:

- 1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time;
- 2) the County Executive should disclose all pending bills in the format prescribed by the Public Sector Accounting Standards Board as stipulated under Section 104(1)(h) of Public Finance Management Act, 2012;
- 3) the county executive puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.
- 4) Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) for investigation proper legal action taken against those filing false claims.
- 5) County Government to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending bills verification committees unconstitutional and engage Office of the OAG and strengthen the internal audit functions.; and
- 6) All valid pending bills that have been reviewed by the Office of the Auditor General be paid and a payment plan be submitted to the county assembly for approval and progress report on implementation sent to the Senate and the Office of the Controller of Budget.

### **ii) Outstanding electricity bills owed to the Kenya Power and Lighting Company (KPLC)**

Further, according to The National Treasury Circular No. 17/2020 Ref. IGRF/COD/01/E/45 dated 24 August 2020, the county Executive of Nandi owed the Kenya power and Lighting Company, a total of Kshs. 2,691,929 comprising of June, 2020 bill of Kshs. 1,092,067 and arrears of Kshs. 1,599,862 as at 30 June, 2020.

The amount owed to KPLC therefore, constitutes part of accounts payables but not disclosed in the financial statements for the year under audit.

Management has not given any explanation for the omission or registered any dispute on the Report.

### **Management Responses**

The payment of electricity bills is continuous. However, failure to disclose the above outstanding bills as part of accounts payable was an omission on the Executive's end and the said bills had since been cleared.

### **Committee Observation**

The Committee noted that the county did not disclose pending electricity bill as required leading to understatement of the pending bills situation.

### **Committee Recommendations**

The Committee therefore recommends that:

- 1) the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate so as to enable county entities settle their obligations on time;
- 2) the County Executive should disclose all pending bills in the format prescribed by the Public Sector Accounting Standards Board as stipulated under Section 104(1)(h) of Public Finance Management Act, 2012;
- 3) the county executive puts in place measures to enhance own generated revenue in order to meet its revenue target and address revenue shortfalls that contribute to the challenge of pending bills.
- 4) Pending bills deemed ineligible should be forwarded to the Directorate of Criminal Investigation (DCI) for investigation proper legal action taken against those filing false claims.
- 5) County Government to take note of judgement in a Kitale High Court Constitutional Petition E003 of 2023 that declared formation of pending bills verification committees unconstitutional and engage Office of the OAG and strengthen the internal audit functions.; and
- 6) All valid pending bills that have been reviewed by the Office of the Auditor General be paid and a payment plan be submitted to the county assembly for approval and progress report on implementation sent to the Senate and the Office of the Controller of Budget.

### **3)Long Outstanding Debts-Ministry of Health**

In addition, during 2013/2014 financial year, the ministry of Health paid on behalf of the Nandi Government salaries totaling to Kshs. 316,123,713 which were to be



recovered in the same financial year. Documents and information available indicate that the County Government of Nandi did not make payment to the Ministry of Health. The amount has remained outstanding to date but was not included as part of the pending bills as at 30 June, 2020 in the financial statements for the year then ended. Management has not given any explanation for the omission and has not disputed the liability.

### **Management Response**

These are payments which were done before the resources related to the devolved function were transferred. At that time, all the salaries for Health workers were paid centrally by the National Government. Hence, the County Government of Nandi does not owe the Ministry of Health any debt.

### **Committee Observations**

The Committee observed that the National Government demanded payments from County governments in relation to provision of medical services that were undertaken before the full transfer of the health function to Counties. This demand was irregular as funds for the Health function had not been fully devolved and therefore budgeted in the National Government.

### **Committee Recommendations**

**The Committee recommends that-**

- 1. the County Government should not pay the Ministry of Health any money for provision of medical services that were undertaken before the full transfer of the health function to Counties; and**
- 2. the National Treasury refunds the County Government any and all funds irregularly received ostensibly for provision of medical services that were undertaken before the full transfer of the health function to Counties.**

### **Other Matter**

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

The summary statement of appropriation: recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.8,720,452,281 and Kshs.6,671,704,84 respectively resulting to an under-funding of Kshs.2,048,747,386 or 23% of the budget. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.8,720,452,281 and Kshs.6,234,604,409 respectively resulting to an under-funding of Kshs.2,485,847,872 or 29% of the budget. The expenditure was limited to the amount realized. Management explained that the variances mainly occurred as a result of failure to collect Own generated receipts, low transfers from other Government entities and delays in the disbursement of funds from the National Government. The delay has the effect of denying the residents of Nandi County the benefits accruing from the planned projects.

The underfunding and under-expenditure affected the planned activities and impacted adversely on service delivery to the residents of Nandi County.

## **Management Responses**

The under-absorption of development funds in the year under review is attributed to delays in procurement processes of works as occasioned by the covid-19 pandemic which adversely affected government operations across the board.

Apart from procurement processes, the contractors were also adversely affected by the effects of covid-19 which led to a number of them not being able to move to site within the stipulated time, this forced the County processing entity to re-tender some works due to lack of capacity by some of the initial contractors who had been awarded the tenders. This resulted to a huge amount of W.I.P of which most of them will complete in 2020/2021 F/Y.

## **Committee Observations**

The Committee observed that;

1. there was under-utilization of appropriated funds by the county executive as a result of delay in exchequer releases by the National Treasury; and
2. the county did not meet its own-source revenue targets.

## **Committee Recommendations**

The Committee therefore recommends that:

1. the National Treasury should ensure timely release of funds to county governments in line with the cash disbursement schedules approved by the Senate and comply with Article 219 of the Constitution and Section 17(6) of the Public Finance Management Act, 2012.
2. the County executive puts in place measures to enhance its own generated revenue in order to meet its revenue target and address revenue shortfalls.

## **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 nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular No. AG.4/16/3 Vol. 1(9) dated 24 June, 2020.

### **Management responses**

The issues raised in the 2018/19 audit were addressed in the management letter for that period and the management responses are provided in the report. Further, a number of the recommendations that were made by the auditors have since been acted upon as indicated against each point in the annexed prior year Audit Report.



### **Committee Observation**

The Committee observed that the County Executive did not take action on the issues raised in the Report of the Auditor General for the financial year 2018/2019.

### **Committee Recommendation**

The Committee recommends that the County executive complies with section 53 of the Public Audit Act, 2015 by taking action on the issues raised by the Auditor General and submits a report to the Auditor General within 60 days of the adoption of this report.

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

### **Basis for Conclusion**

#### **1. Unconfirmed County Own Generated Receipts – Kiborgok Tea Proceeds**

As disclosed in Note 9 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.282,051,152 under county own generated receipts which constitutes an amount of Kshs.15,352,946 received from Kiborgok tea proceeds. The proceeds arise from contract agreement between the County Government of Nandi and Chebut Tea Factory signed on 2 February, 2018. Review of the contract revealed the following anomalies;

- I. The County Government has another tea estate measuring approximately 3 hectares which is managed under the factory but no contract was provided for the same.**

The agreement was entered for the management of two tea farms, Kiborgok A being the main tea estate and Kiborgok B being the extra 3 hectares.

- II. The tea factory had leased 2 tractors from the County Government but no lease agreement was provided for audit verification.**

### **Management response**

The County Government of Nandi is treated as a grower/farmer in Chebut Tea Factory. When a grower's green leaf is transported by the factory, transportation cost is deducted from the proceeds at a rate agreed and fixed by the Factory management from time to time. Alternatively, a farmer who transports their own green leaf gets a reimbursement of the transportation cost. The tractors are therefore not hired out but they are transporting green leaf for the County. In return the County gets a reimbursement of the transport cost and forms part of the County revenues.

IV. According to the revenue schedule from Chebut Tea Factory, the County Government was paid Kshs. 229,890 for leasing out the 2 tractors during the financial year 2019/2020.

However, according to the fifteenth schedule Part 1 of Nandi County Finance Act, 2019, the tea factory should have remitted an amount of Kshs. 8,064,000 since it had the tractors throughout the financial year.

#### **Management response**

Tea transportation was based on the number of kilos transported using the tractor and not machine hours. The rate applied was the approved rate by the factory. These tractors were not leased by Chebut Tea Factory as explained above but they were transporting green leaf for Kiborgok farm and Kaimosi ATC owned by the County. Furthermore, the tractors are stationed in the County farms and not at the factory.

V. The County Government did not provide the title deeds for the 2 farms under Chebut Tea Factory to confirm ownership status of the land.

#### **Management responses**

The title deeds for the two parcels of land above were available for consideration. The documents being very crucial and valuable are kept under lock and key at the County Headquarters, copies of the same were submitted for review.

VI. According to Section 4.1 of the contract agreement, the County Government as the principal ought to have entered into agreement with the pluckers and not the agent (factory).

The Pluckers were inherited by the County Government of Nandi from the defunct local authorities with existing contracts. The plucking agents are not in contract with the agency but with the County Government of Nandi.

VII. The rates being offered by Chebut Tea Factory are decided by its directors and not according to the prevailing market rates.

#### **Management response**

The rate of payment is dictated by the prevailing market prices and is proposed by the Directors who are elected by the farmers and ratified by all the farmers during the AGM.

VIII. The Tea Factory deducts for expenses which includes farm security and new factory project from tea sale proceeds, yet the expenses are borne by the County Government but the same were not provided for in the contract.



### **Management response**

Chebut Tea Factory was owned by the farmers, County Government of Nandi being one of the farmers. The farmers then choose a board of directors to help in running the factory. The board of directors is the decision making organ of the factory. All decisions are finally ratified during the farmer's annual general meeting. Some of the decisions include new project deductions upon which the County becomes a shareholder of the new project. As a county Government of Nandi, the management was proud to participate in establishing new factories across the county to help farmers. The security expenses are part of the expenses incurred in managing the farm.

### **Committee Observation**

The Committee observed that;

1. Management did not provide documents relating to the management service agreements at the time of audit contrary to section 62 of the Public Audit Act, 2015; and
2. there were weaknesses in internal controls in the county government with respect to management of the tea estates.

### **Committee Recommendations**

The Committee recommends that:

1. The County CEO undertakes administrative action against the responsible officer(s) who failed to provide the documents (management service agreements and leases relating to the tea farms and equipment) to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Auditor – General within sixty (60) days from the adoption of this report;
2. The Management should prepare a policy guideline to enhance effectiveness in the management of the tea estates; and
3. The Auditor General should conduct a value for money audit to establish whether the proceeds from the tea estates optimised compared to other commercial establishments.

### **2..Non-Compliance with the Law on Fiscal Responsibility - Wage Bill**

The statements of receipts and payments reflects an expenditure of Kshs.3,191,219,469 on compensation of employees representing 53% of the total receipts of Kshs.6,041,486,796. This is contrary to the provisions of Regulation 25(1) (a) and (b) of the Public Finance Management (County Governments) Regulations, 2015 which limits the County Executive's expenditure on wages and benefits to not more than 35% of the total revenue for the year. Consequently, Management is in breach of the law.

### **Management response;**

During the financial year 2019/2020, the County Executive of Nandi spent an amount of Kshs 3,191,219,469 against a total revenue of Kshs. 6,633,823,568 on compensation of employees. This expenditure exceeded the ratio of 35% of revenue prescribed in PFM Act. The bulk of the staff (50%) was made of health workers which the County had to hire in order to operationalize the new health facilities that had been put up. An estimated 130 more staff had to be hired under the department of Agriculture to roll out Artificial Insemination (AI) exercise initiated by the County to help empower the dairy farmers by improving the breeds hence production.

Another contributory factor to the high percentage is the covid-19 pandemic which led to a drop in the own source revenue from a projection of Ksh 629,900,204 to an actual amount of sh. 268m which was realized.

The above notwithstanding, the County was undertaking a staff performance appraisal in a bid to achieve a lean effective and efficient workforce. Roles will be merged, others scrapped off, and a number of staff re-skilled. Other staff will also be let go in order to avail funds to fund development projects. Progressively, the County does not anticipate to increase staff numbers even as it project the equitable share to increase.

### **Committee Observation**

The Committee observed that the County Executive's wage bill during the FY-2019/20 stood at 53% of its total receipts which was above the threshold of 35%.

The high wage bill is a threat to the objects of devolution as provided for under Article 174(f) of the Constitution.

### **Committee Recommendations**

**The Committee recommends that-**

- 1) the management should provide to the Auditor General and the Senate the measures it will put in place to contain the high wage bill within sixty (60) days of the adoption of this report;
- 2) the management should strictly adhere to the provision of paragraph 25(1)(b) of the PFM Act (county government) regulations, 2015 which stipulate that the county wage bill should not exceed 35 per cent of the county total revenue; and
- 3) the county executive puts in place measures to enhance own source revenue collection in order to address wage bill gap.

### **3. Non-Compliance with Law on Ethnic Composition**

During the year under review, the total number of employees of County Assembly was four thousand nine hundred and five (4,905) employees out of which four thousand six



hundred and sixty-nine (4,669) or 95% were members of the dominant ethnic community in the county.

This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, "all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community".

Further, out of the seventy-five (75) new employees recruited by Nandi County Public service Board during the year, 97% were from the dominant community. This was Contrary to provisions of Section 65(1e) of County Governments Act, 2012 which requires that, in selecting candidates for appointment, the board shall consider the need to ensure that at least thirty percent (30%) of the vacant positions at the entry level are filled by candidates who are not from the dominant ethnic community in the County.

In addition, Management did not provide an approved Staff Establishment for audit review. In the circumstances, it could not be confirmed whether the vacancies were filled in accordance with Part B 5(2) of the County Human Resources Manual, 2013. From the foregoing, the management is in breach of the law.

### **Management responses**

Nandi County is a homogeneous county made up of almost one tribe. Non dominant communities form a small percentage of less than 2% as per the 2019 census statistics. Against this backdrop, most applications in response to a job advertisement reflect on this fact.

Recruitment guidelines require the selection of qualified candidates from the applicants which in most cases is from the dominant community. The county addresses this challenge by ensuring that equity amongst all the wards in the county is adhered to during the recruitment process.

Diversity in terms of gender, marginalized groups and Persons Living With Disabilities (PLWDs) are key consideration to address challenges occasioned by homogeneity of the county.

However, the 4669 employees who are the dominant community are not purely the residents of Nandi County but some of them come from Uasin Gishu, Trans Nzoia, Baringo, Elgeyo Marakwet and Kericho Counties where all of them share the code 23 meant for Kalenjin community.

### **Committee Observation**

The Committee observed that there was no ethnic diversity among the County Executive employees. The Committee also observed that due to the homogeneous ethnographic population in most counties, it may not be feasible for them to attain the threshold provided under Section 7(2) of the National Cohesion and Integration Act,

2008 which states that *no public establishment shall have more than one third of the staff from the same ethnic community.*

### **Committee Recommendations**

The Committee recommends that-

1. The Senate initiates an amendment to section 7(2) of the National Cohesion and Integration Act, 2008 to exempt county entities from its ambit and to further provide that county entities ensure that not more than two thirds of its staff are from the same ethnic community.
2. The county executive should work progressively towards attaining the requirement of the provisions of Section 65(1)(e) of County Government Act on ethnic inclusivity.
3. the County Executive and CPSB should provide to the Auditor General a five-year strategy of measures it will put in place to ensure compliance is achieved within sixty (60) days of the adoption of this report.

#### **4. Non-Compliance with the One Third of Basic Salary Rule**

During the year ended 30 June, 2019, review of the payroll for the months of January to June 2020 revealed that a number of employees earned a net salary of less than a third (1/3) of the basic salary as shown below

Salary month	January 2020	February 2020	March 2020	April 2020	May 2020	June 2020
Number of employees whose net salaries were less than one third of their basic salaries	29	19	34	9	5	4

This is contrary to Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016 and Section 19 (3) of the Employment Act, 17 of 2007 which requires that deductions made by an employer from the wages of his employee at any one time shall not exceed two thirds of such wages. Management has not given explanation for failure to comply with the policy.

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

### **Management response**



The County staff earning less than a third of their basic pay is attributed to the following reasons;

- a) Transfer of health workers from urban areas to rural areas and vice versa affect their extraneous and hardship allowances hence earn less than a third of their basic pay.
- b) Staff placed on interdiction are affected because they are subjected to half salary therefore earning less than a third of their basic pay
- c) Staff departmental deduction done after the employee has attained a third of their basic pay. e.g. HELB loan, Pension and Mortgage.

### **Committee Observation**

The Committee observed that some of the county staff were earning less than a third of their basic pay contrary to Section 19 (3) of the Employment Act 2007.

### **Committee Recommendations**

**The Committee therefore recommends that -**

1. The County Executive should provide to the Auditor General within sixty (60) days after the adoption of this report a plan of the measures put in place to mitigate on the issue as well as comply with the requirements of law.
2. The county should configure their Integrated Payroll and Personnel Database (IPPD) sytem such that it is able to lock out commitments beyond the accepted thresholds.
3. The Auditor General should continue monitoring the issue in subsequent financial years.

### **5. Delayed Construction of Urban Economic and Infrastructure Project**

As disclosed in Note 15 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.619,565,832 under Other grants and transfers which includes an amount of Kshs.Kshs.101,143,935 in respect of the Kenya Urban Support Project (KUSP). The expenditure includes an amount of Kshs.52,808,618 paid to a construction company for proposed construction of urban economic and infrastructure project. However, the following unsatisfactory matters were noted;

- i. Review of the project bills of quantities revealed that a sum of Kshs.5,500,000 was provided for and paid under Certificate No. 03. However, documents were not provided to support or account for the payment made.
- ii. According to the agreement signed between the construction firm and the County Government on 14 May, 2020, the contract period was extended for 8 weeks effective 2 April, 2020 until 30 June, 2020. However, physical verification on the site revealed that the project was about 90% complete. No explanation was

provided for the delayed completion of the project by the contractor despite the extension.

- iii. The Kenya Power and Lighting Company's approval for the street lighting under the project was not provided for audit while publicity boards/signage for Jua Kali shades and the street lighting projects were not erected.

In the circumstances, it has not been possible to ascertain whether public resources have been utilized effectively and value for money realized from the payments of Kshs.52,808,618 made to the contractor.

### **Management Responses**

In certificate No 03 Kshs 5,500,000 was paid to Southpole Construction Ltd. To this regard, the contractor Placed a variation of Kshs 5,000,000 which was discussed and approved by the CPCT as follows: -

The PC and provisional sums provided as Contingencies were to cover Hoarding and site clearance which were not provided for in the b/q to a total of Kshs 2,000,000 while extra Kshs 3,000,000 arising from the reinforcement of the foundation and extra works in retaining wall and expansion joint, including short fall in timber for roofing, were to be done and paid for by suspending the External works.

The reason for suspension was to allow the works in the substructure to continue and be paid for without violating the clause on Variations which could only be considered for payment after 12 months from the day of issuance of the instruction to undertake the variation.

The Kshs 500,000.00 was paid as stipulated in the b/q as project management to the project manager and the supervising team.

The payment to South pole in certificate No 05 were suspended by the Inspection and Acceptance committee until the correctional works on Jua Kali were done and inspected.

The copies for the CPCT meeting and instructions to the contractor to undertake the works listed as variations were submitted for verification.

### **Committee Observations**

The Committee noted the failure by the County executive to submit the relevant documents and information to the Auditor General during the audit exercise pursuant to Section 62 of the Public Audit Act, 2015.

### **Committee Recommendations**

**The Committee recommends that the County CEO undertakes administrative action against the responsible officer(s) who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act, 2012 and provides a status report to the Office of the Auditor General within 60 days of adoption of this report;**



## **6. Acquisition of Assets**

### **6.1 Delayed Installation and Commissioning of a Project**

As disclosed in Note 17 to the financial statements, the statement of receipts and payments reflects acquisition of assets expenditure amounting to Kshs.823,841,480 which includes an amount of Kshs.102,190,154 paid in respect of a contract for the design, supply, delivery, installation and commissioning of Nandi Co-operative Creameries Milk Processing Plant and civil works that was signed on 14 June, 2019. Included in the latter are payments totalling Kshs.65,000,000 made to Co-operative Bank of Kenya against a letter of credit for payment to the construction company.

Further, the Department of Agriculture under the National Agricultural and Rural Inclusive Growth Project (NARIGP) project made a transfer of Kshs.55,808,331 towards issuance of a letter of credit to the equipment supplier. Verification of documents provided revealed. The tender for the supply and delivery of the equipment was entered into before the main builder's works were completed and the equipment delivered are likely to lie idle over a long period of time. A site visits carried out revealed the following anomalies. The quality, efficiency and performance of the machines delivered could not be confirmed as the machines had not been put into use and inspection reports were not provided.

i) It is not clear how NARIGP came on board as no agreement with the donor to finance the project was provided for audit review.

### **Management Response**

NARIGP funded the project after approval from the National technical advisory committee (NTAC) and it was uploaded on the Systematic Tracking of Exchanges in Procurement (STEP). The Approval letter was submitted for verification.

iii) As at the time of audit, it could not be confirmed how much had been transferred to the supplier and how much was still held by the banks against the letters of credit issued due to the fact that documentary evidence relating to instructions to the banks and transfer documents to the supplier were not provided for audit review.

the Management stated that there has not been any transfer of funds from the bank to the supplier as the supplier has not yet delivered the equipment to Kibiyet. A letter from the bank indicating the balances and a copy of the Bank balance were submitted for verification.

iv.) Copies of the letters of credit issued by the banks to the Supplier were not provided for audit verification.

Copies of Letters of Credit were submitted with this response for audit purposes.

v) Inspection and acceptance committee reports giving an okay for transfers of funds to the supplier against verified deliveries were not produced.

### **Management response**

The management stated that no NARIGP equipment had been delivered to site at the time of appearance. The first container was at ICD Nairobi. Once the equipment gets to the site a detailed inspection and acceptance report will be prepared and instruction letter sent to the bank to authorize the payment if the goods will meet the minimum criteria set out in the tender document.

### **Committee Observations**

#### **The Committee observed that;**

1. Management did not provide documents relating to the contract at the time of audit contrary to section 62 of the Public Audit Act, 2015.
2. Procurement relating to the project were not in line with the Public Procurement and Disposal Act, 2015.

### **Committee Recommendations**

#### **The Committee recommends that;**

1. the accounting officer undertakes administrative actions against the responsible officer(s) who failed to provide the documents to the auditors in accordance with section 156 of the Public Finance Management Act and provides a status report to the Office of the Auditor General within 60 days from the adoption of this report.
2. the OAG keeps the matter in view in the subsequent audit cycle to monitor the implementation, especially compliance with the PFM Act, 2012 and the PPADA, 2015, in subsequent financial audits.
3. The Auditor General undertakes a special audit of the National Agricultural and Rural Inclusive Growth Project (NARIGP).

## **6.2 Incomplete Utilization of an Enterprise Resource Planning System**

As disclosed in Note 17 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.823,841,480 under acquisition of assets which constitutes a balance of Kshs.19,520,560 in respect of purchase of ICT equipment and Kshs.9,494,994 in respect of acquisition of intangible assets all amounting to