THE COUNTY GOVERNMENT OF KITUI

THE KITUI COUNTY ASSEMBLY

PUBLIC INVESTMENTS AND ACCOUNTS COMMITTEE

OMNIBUS REPORT

ON EXAMINATION OF THE REPORTS BY THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF KITUI COUNTY GOVERNMENT (COUNTY EXECUTIVE AND COUNTY ASSEMBLY) FOR THE FINANCIAL YEARS ENDED JUNE 2017 AND 2018.

Dated: MARCH, 2021

FIFTH SESSION

CLERKS CHAMBERS
ASSEMBLY BUILDINGS
KITUI

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ABBREVIATIONS

AA	Automobile Association
AP	Account Payables
BQ	Bill of Quantities
AGBO	Access To Government Procurement Opportunities
CG	County Government
CB	Controller of Budget
CRF	County Revenue Fund
DANIDA	Danish International Development Agency
CASB	County Assembly Service Board
EACC	Ethics And Anti-Corruption Commission
ECDE	Early Childhood Development Education
IBEC	Inter-Governmental Budget and Economic Council
GIS	Geographic Information System
COG	Council of Governors
CoK	Constitution of Kenya
PAYE	Pay As You Earn
CARPS	Capacity Assessment and Rationalization of the Public Service
CPSB	County Public Service Board
DCI	Directorate of Criminal Investigations
EACC	Ethics and Anti-Corruption Commission
EIA	Environmental Impact Assessment
FY	Financial Year
PN	Personal Number
CBK	Central Bank Of Kenya
CGA	County Government Act.
CRF	County Revenue Fund
CARA	County Allocation of Revenue Act
CAF	County Assembly Forum
CECM	County Executive Committee Member
FAR	Fixed Asset Register

KRCS	Kenya Red Cross Society
FRU	Financial Reporting Unit
ICT	Information Communication Technology
HRM	Human Resource Management
LTD	Limited
LIUD	Lands, Infrastructure and Urban Development
LPO	Local Purchase Order
LSO	Local Service Order
LMIS	Logistics Management Information Systems
PIAC	Public Investments and Accounts Committee
PFMA	Public Finance Management Act
PPADA	Public Procurement and Disposal Act
PPRA	Public Procurement Regulatory Authority
KEMSA	Kenya Medical Supplies Agency
NCIC	National Cohesion and Integration Commission
NEMA	National Environment Management Authority
OAG	Office of the Auditor-General
RFQ	Request For Quotation
REGS	Regulations
KRA	Kenya Revenue Authority
CO	Chief Officer
CoK	Constitution of Kenya
GAAP	Generally Accepted Accounting Principles
TSA	Treasury Single Account
GIS	Geographic Information System
NCA	National Construction Authority
MDAs	Ministries, Departments, Agencies
KCB	Kenya Commercial Bank
FS	Financial statements
FY	Financial Year

IA	Internal Audit
IFMIS	Integrated Finance Management and Information System
IFRS	International Financial Reporting Standards
ICPAK	Institute of Certified Public Accountants of Kenya
IPPD	Integrated Payroll and Personnel Database
IPSAS	International public Sector Accounting Standards
MCAs	Members of County Assembly
PFMA	Public Finance Management Act
PFMR	Public Finance Management Regulation
PPDA	Public Procurement and Disposal Act
PPDR	Public Procurement and Disposal Regulations
SRC	Salaries and Remuneration Commission

CHAIRMAN'S FORWARD

Honourable Speaker, I, the Chairman of the Public Investments and Accounts Committee (PIAC) for the period (2017-2022), having been authorized by the Committee, to present the report on their behalf, do present this report on examination of the 2016/2017 and 2017/2018 audit reports on the financial statements of the County Executive of Kitui and County Assembly of Kitui.

Public demand on accountability

Honourable Speaker, the primary and foremost stakeholders in an effective system of accountability are the people of a country. They look up to their legislative organs for holding the executive governments accountable for expenditure on public programs, collection of revenue, and management of public debt.

Tabling of the 2016/2017 and 2017/ 2018 audit reports

The 2016/2017 and 2017/ 2018 audit reports for both the County Executive and County Assembly were laid on the Table of the House on 15th July 2019 and subsequently referred to the PIAC for analysis, report writing and submission of its findings to plenary in keeping with Article 229 (7) and (8) of the Constitution of Kenya (CoK) 2010.

The Committee scrutinized the areas of expenditure, as well as the use thereof, and very importantly on how effectively, efficiently and economically the resources were appropriated and whether the funds were used for intended purposes, or otherwise, and, more importantly, whether the said funds were spent in accordance with the laid down financial regulations and procedures.

While scrutinizing the reports, the Committee noted that close to 40% of audit queries in this report were resolved by way of belated action by Accounting Officers upon being summoned by PIAC. These would

While scrutinizing the reports, the Committee noted that close to 40% of audit queries in this report were resolved by way of belated action by Accounting Officers upon being summoned by PIAC. These would most probably have never been audit queries if the accounting officers had sufficiently and promptly responded to the Auditor General's management letters. In most cases, Accounting Officers act on queries just when about to appear before PIAC or when ordered by the Committee during sittings.

In executing its function, the Committee reviewed existing financial frameworks and submission by the witnesses. It was guided by core constitutional and statutory principles on public finance management. The following were particularly reviewed; relevant articles of the Kenyan Constitution (2010), the Public Procurement and Asset Disposal Act, (PPADA), 2015 and related regulations, the Public Finance Management Act, 2012 and related regulations and other documents availed by the witnesses with whom the Committee interfaced.

Committee proceedings

While interviewing the witnesses, the committee observed traditionally established legislative procedures. For instance, reading the relevant provisions in the Constitution and the Standing Orders to accentuate the committee's legal standing, and putting the witnesses on oath to ascertain the authenticity and accuracy of their submissions to the committee, as provided for in article 195 (2) (a) of the Constitution (2010) and Standing Order No. 171.

Besides, the hearings were open to the public in line with standing order 178 (1). The records of evidence adduced, documents, and notes received by the committee form the basis of the observations and recommendations of the Committee as outlined in the report.

Technical backstopping

Prior to conducting public inquiry/hearings, the Committee meets with representatives of the Auditor-General for technical backstopping on audit findings. This is necessitated by the fact the Committee relies on the auditor-general's office for technical expertise in understanding the audit findings and framing questions to witnesses to ensure professionalism. The Members are during the sessions apprised on salient issues pertaining to audit observations. .

Thereafter, the committee, held six (6) sittings during which it interrogated Accounting Officers on issues flagged by the Auditor General. During the sessions, the auditees were given an opportunity to explain their own viewpoint on the audit queries while the Members of PIAC cross-examined them through guidance from staff of the audit service. This was observed since the PIAC is not meant to witch-hunt anybody, but to ensure that records are straightened.

The Committee proceedings were taken down verbatim by the Hansard office in recognition that for oral testimony, witness statements should be recorded and transcribed as part of the evidence provided to a Committee.

The records of evidence adduced, documents, and notes received by the Committee form the basis of the observations and recommendations of the Committee as outlined in the report and can be obtained in the Hansard reports of the Committee.

Challenges faced by the Committee included increased workload occasioned by the Committee's determination to clear a backlog of audit reports going way back to 2015/2016, 2016/2017 and 2017/2018 financial years which resulted in this omnibus report.

In execution of its function, the Committee had to keep with traditionally established practice of reviewing oral and written responses which included replying of audio recordings to retrieve facts from the Hansard. There was also review of massive documentary evidence, interviews and minutes of evidence of the hearings which heightened the work. In total, the committee attended to 114 audit queries which is not a mean task.

The Committee's work plan was also held back by budgetary constraints which saw insufficient days allocated for extensive responsibility. This forced the members and secretariat to work overdrive and at odd hours to meet deadlines.

Honourable Speaker, the situation was compounded by the outbreak of the coronavirus pandemic (covid-19) which has had detrimental effect on global healthcare systems with a ripple effect on every aspect of human life as we know it. As we are all aware, the pandemic forced this House to suspend business for nearly eight months paralyzing operations of all Committees.

Acknowledgement

In conclusion, I wish to express my profound gratitude and deep appreciation to the Speaker and Clerk of the County Assembly, all the Members of the Committee, staff of the audit service, witnesses and secretariat for their cooperation, hard work and diligence during the period under review.

This report is a demonstration of their devotion to duty and unalloyed support for the role of this Committee. I also thank all those functionaries outside precincts of the County Assembly who so delightfully co-operated with the Committee in the performance of its statutory duties and in the compilation of this report.

Mr. Speaker, Honourable Members, the Committee urges that all Committee recommendations MUST be acted upon by the responsible officers not later than three months after this report is adopted by the County Assembly.

Implementation of Committee recommendations

The Committee strongly recommends that the County Treasury should coordinate a response from each of the Government departments' concerned setting out what actions they propose to take to address the committee's and Auditor General's recommendations.

The Treasury should then write to the Committee and to the Auditor General within two months, setting out the extent to which it endorses the actions proposed by each department, and what action the Treasury proposes to take centrally to address problems that recur across government

By the same token, the Committee exhorts the County Assembly's Implementation Committee to track implementation of all the recommendations contained in this report by the concerned agencies including the Ethics and Anti-Corruption Commission (EACC) and report back to the House within a reasonable timeframe.

Honourable Speaker, I implore to report to this Honourable House to ratify /adopt this report and the recommendations there in.

These observations and recommendations, if taken into account and implemented, will enhance accountability, effectiveness, transparency, efficiency, and prudent management of public resources in our county.

....

Hon. Alexander Munuve Mbili, MCA
Chairperson, Public Investments and Accounts Committee.

ADOPTION OF THE REPORT ON THE AUDITED ACCOUNTS OF KITUI COUNTY EXECUTIVE AND KITUI COUNTY ASSEMBLY FOR THE 2016/2017 and 2017/2018 FINANCIAL YEARS

We, the Members of the Public Investments and Accounts Committee have, pursuant to Standing Order 179, adopted this report and hereby affix our signatures to affirm our approval and confirm its accuracy, validity and authenticity:-

S/No	Members	Signature
1	Hon. Alexander Munuve Mbili	
2	Hon. Beatrice Velesi Musyoka	
3	Hon. Anthony Kyusya Mbiti	
4	Hon. Alex Wambua Mwangangi	
5	Hon. Alex Mutambu Nganga	

1.0 INTRODUCTION

1.1 Establishment of the committee

The Public investments and Accounts Committee was established on Tuesday, 10 March 2020, pursuant to Standing Order 185.

1.2 Responsibility and function

The Committee is established pursuant to the provisions of Standing Order No. 185, which mandates it to inter alia to: -

- ***Examination of the accounts showing the appropriations of the sum voted by the County Assembly to meet the public expenditure and of such other accounts laid before the County Assembly as the Committee may think fit".***
- ***examination of the reports, accounts and workings of the county public investments;***
- ***examination, in the context of the autonomy and efficiency of the county public investments, whether the affairs of the county public investments, are being managed in accordance with sound financial or business principles and prudent commercial practices***

1.3 Guiding principles

In the execution of its mandate afore-stated, PIAC is guided by core constitutional and statutory principles on public finance management, as well as established customs, traditions, practices and usages. These principles include:

Constitutional Principles on Public Finance

Article 201 enacts fundamental principles that "…shall guide all aspects of public finance in the Republic…"

The principles are:

(a) There shall be openness and accountability, including public participation in financial matters;

(b) The public finance system shall promote an equitable society, and in particular—

(i) The burden of taxation shall be shared fairly;
(ii) Revenue raised nationally shall be shared equitably among national and county Governments; and
(iii) Expenditure shall promote the equitable development of the country, including by making special provision for marginalized groups and areas;

(c) The burdens and benefits of the use of resources and public borrowing shall be shared equitably between present and future generations;
(d) Public money shall be used in a prudent and responsible way; and;
(e) Financial management shall be responsible, and fiscal reporting shall be clear.

Honourable Speaker, PIAC places a premium on these principles, among others, and has been guided by them in the entire process that has culminated in this Report.

Direct Personal Liability
Article 226(5) of the Constitution provides that:-

"If the holder of a public office, including a political office, directs or approves the use of public funds contrary to law or instructions, the person is liable for any loss arising from that use and shall make good the loss, whether the person remains the holder of the office or not".

PIAC considers this Constitutional provision as the basis for holding each individual Accounting Officer and other Public Officers directly and personally liable for any loss of public funds under their watch.

The Committee has and will continue to invoke this provision in its recommendations to hold those responsible personally accountable. This is also intended to serve as a deterrent measure.

Obligations of Accounting Officers

Section 149 (1) of the Public Finance Management Act, 2012 provides, inter alia, that:

"An accounting officer is accountable to the County Assembly for ensuring that the resources of the entity for which the officer is designated are used in a way that is lawful and authorized and effective, efficient, economical and transparent."

This provision obligates all accounting officers to appear before the County Assembly's PIAC to respond to audit queries in their respective Ministries/Departments.

And Section 156 (1) of the same PFM Act stipulates that: "If an Accounting Officer reasonably believes that a public officer employed by a county government entity has engaged in improper conduct in relation to the resources of the entity, the accounting officer shall:-

(a) Take appropriate measures to discipline the public officer in accordance with regulations; or
(b) Refer the matter to be dealt in terms of statutory and other conditions of employment applicable to that public officer."

PIAC strongly holds the view that these provisions of the law were intended to be fully applied to give effect to the high principles in Article 201 of the Constitution stated hereinabove, to ensure prudent and responsible use of public funds.

The Committee has, accordingly, applied these provisions to recommend diverse disciplinary actions, investigations and surcharging of various persons found to bear responsibility for breaches of the law and/or responsible for the loss or wastage of public funds.

1.4 Committee membership

As currently constituted, the Committee consists of the following Members:

1) Hon. Alexander Munuve Mbili- Chairperson
2) Hon. Beatrice Velesi Musyoka- Vice Chairperson
3) Hon. Anthony Kyusya Mbiti- Member

4) Hon. Alex Wambua Mwangangi- Member
5) Hon. Alex Mutambu Nganga- Member

1.5 Technical staff

Honourable Speaker, the following staff of the Audit Service provided technical assistance to the Committee during the course of the hearings:

1) Francis Kiguongo- Director (Audit Service)
2) James Njuru- Deputy Director (Audit Service)
3) Patrick Muriuki- Manager (Audit Service)

1.6 Committee Secretariat

(i) Jacob Kyalo Kimanzi – First Clerk Assistant
(ii) Teddy Ray Matuku- Senior Hansard Editor.

2.0 GENERAL OBSERVATIONS AND RECOMMENDATIONS

2.1 INTRODUCTION

The Committee wishes to draw the attention of the House to the following general observations arising from the Committee proceedings, evidence taking, subsequent deliberations and findings that relate to the fiscal years under review: -

2.2 Irregular procurement procedures and processes

During the two financial years (2016/2017 and 2017/2018) contracts totaling over **Kshs. 1, 383,791,907** were awarded without due process being followed for many of them as spelt out in the Public Procurement and Asset Disposal Act, 2015, thus defeating the control purpose of competitive bidding among intending companies and sidetracking the controls put in place, through manipulation of the bidding process.

Cases of collusion, conflict of interest, influence peddling, and exclusion of qualified bidders were at play in some of the transactions, compounded by what bears all the hallmarks of a culture of impunity that routinely condone the violations. In some of the cases, it was clear that qualified or winning bidders were disqualified for unclear, questionable and flimsy reasons.

For instance, in the contract for the Chain Link Fencing and gate Construction at Voo Secondary School awarded to a contractor, two of the competing contractors (Esjovia and Redkam) had business similarities: common addresses, personnel, phone numbers, same letter from registrar of companies, and same postal address. Apparently, this was a case of a single contractor masquerading behind two shell companies to secure the contract at all costs. Collusion and bid rigging were apparently at play in this transaction.

Also, in another contract for construction of a water project line (River Athi - Kanyangi - Maluma - Mutomo - Ikutha - Kanziku Water Supply Project) at a cost of Kshs. 130,364,345 awarded to four firms namely Telina Contractor and General Suppliers, Liki Contractors and General Suppliers, Liberty Group and Quality Care Enterprises the other competing bidders were not disclosed, despite requests for the bidding documents. It is therefore contended that there was no competition for this contract which was evidently awarded to the preferred contractors without contest.

1) ***The Committee is aware that the Ethics and Anti-Corruption Commission (EACC) has investigated or is investigating some of these cases. However, the Committee exhorts the agency to be more proactive and launch forensic /full-scale investigation into all irregular procurements recorded during the period under review with a view to having suspects prosecuted if corruption, economic crimes and abuse of office is confirmed and to recover the lost amount.***

2) ***In the meantime, the Management should investigate these obvious short-circuits which appear to have solely designed to short-change the system to allow for misappropriation of public funds with a view to;***

a) Having the contractors implicated in any wrong doing debarred, blacklisted and excluded permanently from getting government contracts.

b) Identify and severely punish staff who might have collaborated, assisted or aided unscrupulous contractors in the fraudulent escapades.

This should be done in line with the measures prescribed in section 156 of the PFMA, 2012 and section 177 of the PPADA, 2015).

2.3 Poor management of public projects/contracts.

The Committee observes that the government continues to lose huge sums of money on capital projects and other contracts. Factors affecting cost overruns were financial difficulty by clients, delays in payments of completed works, variations in designs, lack of communication plans, poor feasibility and project analysis, poor financial management on site and material price fluctuations.

The cases of losses were also attributed to:

(i) Delayed releases of funds to projects resulting in the government having to pay penalties to contractors;
(ii) Poor design of structures;
(iii) Collusion of contractors and consultants;
(iv) Engaging contractors without entering into formal contracts; and
(v) Weaknesses in the selection of contractors. Some of the contractors that won tenders had no capacity to carry out the tendered for works;

For instance, the original contract sum of **Kshs. 94,849,657** for construction of County Government offices block was varied by **Kshs. 21,163,211** during the year to stand at **Kshs. 1, 160, 128, 687** due to changes in design and specifications.

The County Assembly on its part paid a contractor extra **Kshs.20, 149,255** in respect of interest charges and losses incurred due to stoppage of works occasioned by a protracted court order obtained by individuals who wanted to sabotage the project. In total, the County lost **Kshs. 41,312,466.00.**

The Committee strongly recommends that management ensures sufficient measures are instituted to ensure that project implementation is well planned and executed in line with specifications and acceptable standards and delays in completion and escalation of costs avoided.

2.4 Poor management of accounting records.

As reported previously, the Committee strongly condemns chronic weaknesses in keeping of financial and accounting records across County Ministries, Departments and Agencies (MDAS) restating that the loss of control of financial records creates opportunities for fraud, leads to loss of public funds, and impedes fiscal planning. It makes it difficult, if not impossible, to preserve an audit trail of decisions, actions, and transactions.

Missing documents included payment vouchers, tender documents, Local Purchase Order (LPO), Local Service Order (LSO), fuel chits / registers, detail orders, work tickets, invoices, and delivery notes.

The Committee strongly believes that the loss and or unavailability of supporting documents for financial / procurement transactions was not genuine but possibly intended to cover up for fraudulent activities.

To address this persistent weakness which continue to generate significant audit reservations every year, the Committee strongly recommends that the Management;

(i) ***Should be conducting periodic audits with a view to identifying Accounting Officers with poor record of maintaining records who should be sanctioned adequately by way of demotion and*** *for the worst sacked from county public service for persistent breach of trust, willful disobedience of statutory duty and neglect of official duty.*

(ii) ***Must make every effort to over-turn this ugly situation by keeping track of management of documentation in Ministries, Departments and Agencies. It is essential that arrangements are put in place to back up data and ensure that records can be maintained or recreated to ensure data security and the availability of financial information.***

The County Secretary as the head of public service in the county should take the lead in setting up a good record management and enforcing implementation of these recommendations and direct that Accounting Officers be reporting periodically to the House on progress made.

2.5 Non-compliance with financial laws and regulations.

During the year under review and as previously reported, Accounting Officers continued to violate government financial regulations and procedures with impunity.

This was indicated by the queries that repeatedly were highlighted by the Auditor-General including failure to secure accounting documents, failure to retire imprest on time, unvouched and unsupported payments, failure to account for stores, misapplication of funds, misappropriation of revenue etc.

The major reason for this is that disciplinary action is not taken against erring officers. When it is taken, it is either not stiff enough to deter others or comes too late by which time some officers would have left the public service.

Noting that non-adherence to financial regulations amounts to neglect of official duty and conspiracy to defeat justice by Accounting Officers, the Committee recommends that going forward such inattentiveness should attract severe penalties including demotion and for the worst sacking from the public service.

CONSIDERATION OF THE REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF THE COUNTY EXECUTIVE OF KITUI FOR THE YEAR ENDED 30 JUNE 2017.

(The audit queries and specific recommendations)

Basis for Disclaimer of Opinion

This is identified as occurring when there is shoddy record keeping and the auditor is unable to fully review the entity's documentation to form an opinion. This is a serious lapse in compliance and should be of major concern to oversight bodies.

1.0 Accuracy and Completeness of the Financial Statements

1.1 Variances in Opening Balances

A comparison of opening balances reflected in the financial statements for the year under review with the audited 2015/2016 financial statements closing balances indicates understatements and overstatements in the financial statements by Kshs. 250,700,000 and Kshs. 295,398,744 on 1 item and 3 items respectively, resulting to a net overstatement of Kshs. 44,698,744 as follows:

Items Description	2016/2017 Opening Balance Kshs.	2015/2016 Closing Balance Kshs.	Variance Kshs.
Exchequer release	7,267,273,063	7,517,973,063	(250,700,000)
Proceeds from Domestic and Foreign Grants	83,985,266	0.00	83,985,266
Transfers from other Government entities	166,714,746	0.00	166,714,746
Construction of civil works	1,616,590,374	1,571,891,642	44,698,732
TOTAL	**9,134,563,449**	**9,089,864,705**	**44,689,744**

The understatement of Kshs. 250,700,000 and overstatement of Kshs. 295,398,744 have not been explained or reconciled to date.

Mr. Enock Nguthu, the Chief Officer-County Ministry of Finance accompanied by Samuel Mwangi-Deputy Director-Internal Audit appeared before the Committee on 7th October and 26th November, 2019 and 20th February 2020, to adduce evidence on the audited Financial Statements for the County Executive for the 2016/2017 Financial Year and submitted as follows;

Management Response

In reply, the Chief Officer explained that;

The amount of Kshs 7,517,973,063 reported in the financial period 2015/16 included grants from foreign governments as well as transfers from other national government entities.

These figures included Kshs 83,985,266 comprising of grants from DANIDA (Kshs 36,990,000) and the World Bank (Kshs 46,995,266), and Kshs 166,714,746 comprising of Road maintenance fuel levy (Kshs 92,318, 535), Maternity fees (Kshs 50,790,000), and User fees (Kshs. 23,606,211).

These figures were in the 2015/16 Financial Report not disclosed separately and for comparison purposes, it was deemed necessary to pull them out in order to report each item as required by the notes to the financial statements used to report revenue in 2016/17. This did not however affect the reported figure of revenue since it was just a reclassification.

The Chief Officer submitted documents showing that the difference in the closing and opening balances for the 2015-2016 and 2016-2017 FY respectively was occasioned by a change in the financial reporting framework. The Documents were verified by the Committee and auditors as correct.

The Committee, therefore, recommends that the matter be closed. However, the Committee counseled Management to inculcate the

practice of addressing issues before they are flagged up by external auditors.

1.2 Unsupported Current Year Balances

A comparison of balances reflected in the financial statements for the year under review with the balances indicated in the respective supporting schedules reflected an understatement and an overstatement of the financial statements on various items all netting of to Kshs. 631,041,560 as follows:

Items Description	**Financial Statement Balance Kshs.**	**Supporting Schedules Balances Kshs.**	**Variance Kshs.**
	Use of goods and services		
Routine maintenance - Vehicles and other transport equipment	47,742,933	24,976,620	22,766,31
Rentals of produced assets	12,611,790	9,130,953	3,480,837
Utilities, supplies and services	152,193,741	46,463,382	105,730,3
Office and general supplies and services	49,239,750	36,409,280	12,830,47
Printing, Advertising and Information supplies and services	142,580,710	109,111,534	33,469,17
Training Expenses	99,423,467	42,123,327	57,300,14
Specialized Materials and Services	437,627,989	231,650,120	205,977,8
Other Operating Expenses	138,159,596	80,876,278	57,283,31
Communication Supplies and Services	24,209,116	17,268,100	6,941,016
Hospitality, Supplies and Services	91,398,942	54,338,447	37,060,49
Insurance	91,968,088	80,582,837	11,385,25
TOTAL	1,287,156,122	732,930,878	554,225,2

	Acquisition of Assets		
Purchase of vehicles and other transport Equipment	51,971,637	21,934,492	30,037,145
Purchase of Certified Seeds, Breeding stock and live Animals	26,936,009	24,383,601	2,542,408
Construction and Civil Works	1,585,520,205	1.556,624,271	28,895,933
Construction of Roads	537,193,066	357,679,461	179,513,60
Construction of Buildings	617,927,764	617,152,923	774,841
Purchase of ICT Equipment	13,983,917	13,208,717	775,200
Research, Studies, Project Preparation, Design and Supervision	227,091,764	109,376,510	117,715,25
Acquisition of Land	6,788,374	7,680,400	(892,026)
Acquisition of Intangible Assets	7,852,066	6,658,812	1,193,254
Total	3,075,254,802	2,714,699,187	360,555,61
	Compensation of Employees		
Basic Salaries of Permanent Employees	2,165,391,409	2,064,698,872	(100,692,25
Basic Wages of Temporary Employees	406,426,666	251,033,890	(155,392,77
Personal Allowances Paid as part of salary	64,382,829	34,151,803	(30,231,026
Social Benefit Schemes outside government	9,065,899	9,063,499	(2,400)
Total	2,645,266,803	2,358,948,064	(285,318,74
Outstanding Imprests	15,548,112	13,968,672	1,579,440
TOTAL	**5,737,358,873**	**5,820,546,801**	**631,041,56**

Management Response

In reply, the Chief Officer informed the Committee that;

- The Financial statements were prepared from reconciled expenditure on accrual basis thus ensuring that the balances in the statements and reports reflected the supporting schedules. The basis of the said difference of Kshs. 631,041,560 is therefore not clear to us.
- The errors, omissions and gaps identified within the financial statements for the period under review reinforce the view on Lack of a proper plan for IPSAS Implementation with the overarching issue being the quality of the planning towards proper implementation of IPSAS.
- In particular, there was initially no consideration of transitional arrangements for IPSAS Implementation as permitted by the standards for first-time adopters. This would be one of the earliest and most important considerations for a well-planned implementation process, as it sets out how to implement IPSAS over a three-year time frame. A high quality IPSAS Implementation Plan is required.
- All Accounting Officers should be instructed to take full responsibility for IPSAS implementation at their MDAs and produce IPSAS compliant Financial Statements.

Committee observations

The Committee observes that the unexplained differences in the financial statements could have been a warning of fraud or cooking of books of accounts to conceal malpractices.

Committee recommendations

The Committee recommends that;

(i) ***The Management should provide a reconciliation of the two conflicting figures or amend the financial statements to ensure they are correctly stated. This should be done not later than 30 days after adoption of this report by the House.***

(ii) ***The Committee invites the Ethics and Anti-Corruption Commission (EACC) and the Directorate of Criminal Investigation (DCI) to carry out further investigation into this matter and take appropriate legal action against suspects if theft of public funds is confirmed and recover the lost amount.***

1.3 Non-Preparation of Trial Balance

The County Executive did not prepare a trial balance and as a result the reported balances in the financial statements as at 30th June, 2017 could not be ascertained.

Management response

The Chief Officer explained that the reporting template provided by the National Treasury for financial reporting either in-year or end-year did not require inclusion of a trial balance either as an annex or part of the financial statements.

The Committee heard from the Auditor General that this matter remained unresolved as the Accounting Officer had not yet produced documentary evidence (a trial balance) to support the balances reported in the financial statements. The audit maintained that requirement for a trial balance is prescribed by the Accounting Standards Board.

Committee observations

The Committee observes that a trial balance forms the basis of preparation of financial statements in that a trial balance;

(i) ***Is an essential tool to check the arithmetical accuracy of posting of ledger accounts, assist accountants in preparing financial statements, and rectify accounting errors and to proceed with required audit adjustments.***

(ii) ***Helps accounting personnel to balance or check both debit and credit items of income, expenses, assets, and liabilities are correctly recorded or posted.***

(iii) *Without a trial balance the financial statements remained incomplete and unreliable as the balances reflected therein could not be ascertained.*

(iv) *The Committee attributed failure to prepare the trial balance to either poor record keeping, incompetence on the part of the accounting personnel or deliberate manipulation to enshroud fraudulent activities.*

Committee recommendations

The Committee recommends that the Management should;

(i) *Ensure that a proper trial balance is prepared to support the balances in the financial statements. This should be done within 30 days after adoption of this report by the House.*

(ii) *Institute disciplinary action against the accounting officer for neglecting a reporting obligation.*

(iii) *The Committee invites the EACC/DCI to carry out further investigation into this matter with a view to holding suspects accountable if theft of public funds is confirmed and recover the lost amount.*

1.4 Fund balance Brought Forward

Note 24 to the financial statements reflects fund balance brought forward of Kshs. 1,838,663,167 whereas the statement of cash flow indicates a balance of Kshs. 1,888,105,086 resulting in an unexplained difference of Kshs. 49,441,919. Further, the statement of assets reflects a cash and cash equivalents brought forward balance of Kshs. 1,996,050,310 leading to an unexplained variance of Kshs. 157,945,224 between the two sets of figures that should be the same.

Management response

The Chief Officer explained that the fund balance brought forward as per note 24 to the financial statements was reported as Kshs 1,838,663,167 and the same was reflected in the statement of assets and liabilities column for 2015/16 comparative figure (Kshs 1,996,050,310) adjusted for accounts receivable of Kshs 11,785,435 and accounts payable of Kshs 169,172,578) making Kshs 1,838,663,167.

The Committee heard from the Auditor General that this response as insufficient for the reason that the management only explained /reconciled the difference between the statement of assets and liabilities cash and cash equivalent and the note 22 balance. The matter, therefore remains unresolved.

Committee observations

The Committee observes that;

1) **The errors in calculation of the figures in question undermined the usefulness of the Financial Statements and limited the scope of the audit exercise.**

2) **The errors indicated a risk of misstatement of the financial statements ostensibly due to poor bookkeeping comprising;**

   - **Accounting errors that refer to no entry of financial data,**
   - **Inconsistent usage of accounting method,**
   - **Lack of reconciliation of books with bank statements,**
   - **Incomplete or lack of inventory, and**
   - **Lack of accurate records and poor filing system).**

Committee recommendations

The Committee recommends that the Management;

1) **Should revisit calculations for the figures in question and make appropriate corrections and disclosures for the purpose of making the financial statements complete and accurate. Always ensure that public funds are accurately disclosed in the financial statements.**

2) **Along with those who have responsibility for oversight of the financial reporting process, (such as the audit committees) should set the proper tone; create and maintain a culture of honesty and high ethical standards; and establish appropriate controls to prevent, deter, and detect fraud.**

3) **The EACC/DCI should dig deeper into this matter and fix accountability if established that manipulation of the figures, relevant documents and creative accounting practices were employed to circumvent accountability.**

1.5 Unsupported Prior Year Adjustments

The statement of financial assets reflects a prior year adjustment of Kshs. 107,945,225 (2016: Kshs. 63,435,604) that are not explained or supported as note 25 of the financial statements shows only the comparative balance only.

Management response

The Chief Officer responded that;

- The prior year adjustments of kshs 63,435,604 and kshs.107, 945,225 in 2016 and 2017 respectively related to changes in the accounts payables (that is the movement of retention money deducted and held by the county government on behalf of the contractor) for contracts on provision of works and other related services.
- Note 23 to the Financial Statements provide the reconciled closing balances for the 2015/2016 and 2016/2017 financial year.

The Committee heard from the Auditor General that this matter remained unresolved as the Accounting Officer had not yet produced documentary evidence supporting the Prior Year Adjustments.

Movement schedules, creditors' ledger, and control accounts could have assisted in proving that the prior year adjustments of Kshs 63,435,604 and Kshs 107,945,225 related to the changes in the accounts payable.

Committee observations

The Committee concluded that;

1) ***Lack of supporting documents for the prior year adjustment of Kshs.107, 945,225 and 63,435,604 in respect to the changes in accounts payable was an indication that financial malpractices could have been committed.***

2) ***The mysterious adjustments indicated a risk of financial misstatement resulting from either intentional, deliberate, misstatement, or omission of material facts, or accounting data.***

Committee recommendations

The Committee recommends that the Management should;

1) ***Sort out the matter by explaining details of the prior year adjustments by submitting the required documents for audit verification. This should be done not later than 30 days after adoption of this report by the House.***

2) ***Adopt sound accounting policies, establish and maintain internal control that will, among other things, initiate, record, process, and report transactions consistent with the management's assertions embodied in financial statements.***

3) ***The Committee invites the EACC/DCI to undertake further investigation into the matter and take appropriate legal action against suspects if established that manipulation of the figures, relevant documents and creative accounting practices were employed to circumvent accountability.***

1.6 Non – Reconciling of IFMIS Records and Financial Statements Balances

The IFMIS vote book status report and the financial statements for the year under review reflected a total expenditure of Kshs.

8,638,357,012 and Kshs. 9,047,468,389 respectively resulting into an unexplained and unreconciled variance of Kshs. 409,111,377 as at 30th June 2017. In view of the foregoing circumstances, the accuracy, completeness and presentation of the financial statements as at 30th June, 2017 could not be confirmed.

Management response

The Chief Officer explained that;

- The IFMIS generated report explained the expenditures incurred by county entities excluding those for health facilities which spend their allocations outside the system for lack of connectivity. The expenditures processed off the system were consolidated with those routed through IFMIS to aid in preparation of Financial Statements.
- Disbursements to the health facilities included grants from donors, user fees forgone, maternity fees and other operational disbursals to level IV hospitals.

The Committee/audit noted that the Management should have submitted a schedule providing details on the Kshs 409,111,377 spent off the IFMIS system for audit verification. The response, is therefore insufficient due to the missing documentation.

Committee observations

The Committee observes that;

1) ***The loss of control of financial records creates opportunities for fraud, leads to loss of public funds, and impedes fiscal planning.***
2) ***There is possibility that non-availability of the supporting documents was masterminded to cover up for fraudulent activities.***

Committee recommendations

The Committee;

1) ***Invites the EACC/DCI to undertake further investigation into this matter and fix accountability if theft of public funds is confirmed and recover the lost amount.***

Meanwhile, the Management should;

2) ***Put in place a well-structured record keeping system that will guarantee identification, classification, storage and protection, receipt and transmission, retention and disposal of records required for preparation of financial statements.***

3) ***Ensure the differences between the figures in the financial statements and those derived by the auditors are reconciled to make the records complete and accurate. This should be done not later than 30 days after adoption of this report by the House.***

4) ***The County treasury should ensure that all MDAs are fully on the IFMIS platform and that no payment is made without passing through the platform. The use of manual payment vouchers should be abolished.***

2.0 Cash and Cash Equivalents

2.1 Irregular Bank Accounts

Note 21 A to the financial statements show that Kitui County Executive operated Twenty (20) bank accounts with a total bank balance of Kshs. 1,551,663,328 as at 30th June, 2017. Out of the twenty (20) bank accounts, six (6) were in the Central Bank of Kenya (CBK), while the remaining fourteen (14) with a total balance of Kshs. 79,617,074 were in various Commercial Banks. However, the fourteen (14) bank accounts held in commercial banks were opened contrary to Section 82 (1) (b) of the Public Financial Management (County Government) Regulations, 2015 which stipulates that all County Government bank accounts should be opened at the Central Bank of Kenya except for imprest account for petty cash. In the circumstances, the County Executive did not comply with the PFM Act, 2012

Management response

The Accounting Officer responded that the Management will;

- Regularise the bank accounts to comply with the law.
- Ensure prevailing regulations guide the opening of new bank accounts.
- The questioned bank accounts catered for the revenue collected including from health facilities which did not have a bank account at the Central Bank of Kenya (CBK) for operating outside the IFMIS system due to lack of connectivity.

The Committee emphasized that a unified structure of government bank accounts via a Treasury Single Account (TSA) system is an essential tool in managing and controlling Government's cash resources.

Committee observations

The Committee expresses concern that;

1) ***Operating multiple bank accounts occasioned multiplication of bank fees and service charges leading to wasteful expenditure of public funds.***

2) ***While these expenses appear to be small, they add up over time and put unnecessary pressure on budgets.***

3) ***The amount spent on the service charges annually was significant and uneconomical if it was allowed to continue.***

4) ***This arrangement violated the law. Regulations. 82(1) (b) and 82(2) of the Public Finance Management (County Governments) Regulations 2015 states that;***

   "all county government bank accounts shall be opened at the central bank of Kenya except for imprest bank accounts for petty cash".

Committee recommendations

The Committee exhorts the Management to;

1) ***Close all unnecessary bank accounts in order to comply with the law and trim the unnecessary spending on bank fees and service charges.***

2) ***Ensure residual funds in the terminated accounts are rolled/swiped to the county consolidated revenue account at the central bank for the sake of accountability.***

2.2 Non – Provision of Bank Reconciliation for Fourteen (14) Bank Accounts

The bank reconciliation statements for the fourteen bank accounts and bank balance certificate for all the bank accounts were not availed for audit verification.

Management response

In reply, the Chief Officer conceded to the audit observation and submitted the bank reconciliation statements and bank balance certificates for audit verification. The official informed the Committee that some adjustments had been done to the records.

For the benefit of non-technical readers-the bank reconciliation- the process of comparing transactions in an entities internal accounting system to actual bank statements- ensures accuracy of transactions and provides a way to detect potential errors and some types of fraud in the bank's records.

Committee observations

The Committee observes that;

1) ***Banking transactions are computerized and retrieval of the bank reconciliation statements and the bank balance certificates could have been done at the touch of a button. The Committee, therefore does not understand why documents were not ready or could not be traced at the time of the audit.***

2) The belated action by the Management (submission of the documents way out of the audit cycle) was testimony that regular reconciliation of the books of accounts with the bank statements was not been performed regularly and this may have paved way for fraudulent activities to thrive.

Committee recommendations

The Committee recommends that the Management must;

1) *Ensure proper supervision and review are employed to ensure that monthly reconciliations of accounts are carried out and that transactions recorded in the books of accounts are accurate and complete, and are supported by the relevant documentary evidence.*

2) *At all times comply with the audit timelines as specified in Section 68(k) of the PFM Act 2012 and take appropriate measures to resolve issues arising from audit which might be outstanding as required by Section 68(l) of the PFM Act 2012.*

3) *Failure to comply, Accounting Officers should be held personally liable and the Management ensure they are surcharged for the delay in submitting documents for audit inspection.*

2.3 Unsupported Debits in Revenue Bank Account

The Kitui County Executive operated the Kitui County Government Revenue Collection Account Number 1140752855 with the Kenya Commercial Bank (KCB). A review of this account's bank statements for the period July, 2016 to June, 2017 revealed that a total of Kshs. 3,207,517 was withdrawn on various dates as follows;

Date	Amount (Kshs.)	Details

04-04-2017	5,000	Cash withdrawal
14-03-2017	476,267	Cash withdrawal
04-04-2017	5,000	Cash withdrawal
26-01-2017	2,721,250	Cash withdrawal
Totals	**3,207,517**	**Cash withdrawal**

The withdrawals are against Section 80 of the Public Finance Management (County Governments Regulations). Further, the purpose for the cash withdrawals was not explained as no payment documents was made available to support how the funds were utilized.

As a result, it was not possible to confirm the propriety of the cash withdrawal of Kshs. 3,207,517. In the circumstances, the cash and cash equivalents balance of Kshs. 1,551,668,328 could not be confirmed.

Management response

The Chief Officer explained as follows;

- Reported cash withdrawals without supporting documents: This resulted from a mistake committed by the bank by debiting the revenue account which lacked a cheque book. The amounts in question should have been debited to the Kitui County standing imprest account for it is the one whose cheques are indicated in this audit query.
- Similar incidences have been responded to in the past with the management writing to the bank to correct the miss postings of the cheques. A file containing the relevant communication is hereby submitted for audit verification.

- Unpaid cheques: The unpaid cheques were for payments made to our account by clients for business permits and other levies payable to the County Government.

- The cheques were not honoured by the bank (returned unpaid) due to problems relating to the bank accounts of the merchants and not for the county government.
- The merchants were instructed to pay in cash and the bounced cheques returned to them.

Committee observation

The Committee;

Observes that response to this query was insufficient for the reason that the management did not provide correspondences with the bank in which the bank acknowledged the wrong debits as claimed by the management

Committee recommendations

The Committee recommends that the Management;

1) ***Should properly explain the circumstances occasioning these suspicious cash withdrawals. In addition payment vouchers relating to these withdrawals should be provided for audit verification.***

2) ***Failure to justify the withdrawals, the EACC/DCI should take up the matter and hold suspects accountable if theft of public funds is confirmed and recover the lost amount.***

3.0 Unsupported Expenditures

3.1 Pro – Poor Funds

During the financial year under review, a total of Kshs. 49,600,000 was transferred to the Pro-Poor Account number 1149645113 in Kenya Commercial Bank. However, other than the bank statement for the account, no other documents including the Pro-Poor cash book, Bank reconciliations and funds disbursement files were made available to show the ~~finds~~ accountability.

Consequently, the propriety and validity of the Kshs. 49,600,000 Pro-Poor funds expenditure could not be confirmed.

Management response

The Accounting Officer responded that;

- The County Treasury transferred Kshs. 49,600,000 to facilitate disbursement of bursaries to needy students under the Kitui pro-poor support programme. The funds were transferred to account No. 119645113 held at the KCB. This was done on 6th January 2017. The initiative was started in 2014 under the office of the governor which oversees its implementation.
- The funds are disbursed twice every financial with the first tranche in January and the second in May.
- Every financial year a total of kshs. 68,000,000 is equitably shared to all the 40 wards in Kitui with each getting kshs. 1,700,000.
- The funds were utilized prudently as per given criteria. This is supported by the minutes of meetings of ward development committees and lists of the beneficiaries who were identified during public participation forums held in each of the 247 villages in the county and guidelines for the pro-poor fees support programme.

Committee observations

The Committee;

1) ***Takes note of the explanation by the accounting officer but restates observation in its previous reports that weak and inadequate maintenance of accounting records affects the audit cycle as verification of documents in support of transactions is made impossible.***

2) ***Re-emphasizes that the documents in question should have been provided to the auditors on or before the verification exercise.***

Committee recommendation

The Committee restates recommendations in its previous reports that the management must;

1) ***At all times comply with the audit timelines as specified in section 68(k) of the PFM act 2012 and take appropriate measures to resolve any issues arising from audit which remains outstanding as required by section 68(l) of the PFM act 2012.***

2) ***Failure to comply, the appointing authority is prevailed upon to discipline the errant accounting officers, which could include revoking their appointment on the basis of persistent negligence of duty.***

3.2 Construction of Roads and Rehabilitation of Civil Works

During the year under review, the County Government spent Kshs. 537,193,066 and Kshs. 10,572,126 in relation to construction of roads and rehabilitation of civil works respectively both totaling to Kshs. 547,765,192. However, no tender documents were made available for audit verification to confirm that the procurement was fair, equitable, transparent, competitive and cost effective as required by Article 227 of the Constitution.

As a result, it was not possible to ascertain that the County Executive got value for money in the expenditure of Kshs. 547,765,195.

Management response

In his response, the Accounting Officer informed the committee that the management requires details of the specific road construction/rehabilitation works in order to retrieve the relevant procurement documents.

The Committee heard from the Auditor General that this matter remained unresolved as the Accounting Officer had not yet produced documentary evidence supporting the expenditures on construction of roads and rehabilitation of civil works of kshs.537, 193,066 & kshs.10, 572,126 respectively.

The Committee restates observations and recommendations in its previous reports that;

1) ***The loss of control of financial records creates opportunities for fraud, leads to loss of public funds, and impedes fiscal***

planning. It makes it difficult, if not impossible, to preserve an audit trail of decisions, actions, and transactions.

2) ***There is possibility that non-availability of the supporting documents was masterminded to cover up for fraudulent activities.***

Committee recommendations

The Committee;

1) ***Strongly recommends that the Accounting Officer should provide the relevant supporting documents for audit inspection; and warns that if those issues reappear in future Audit Reports, the Accounting Officer would be held responsible for perjury.***

2) ***Invites the EACC to vary out further investigation into this matter with a view to holding suspects accountable if theft of public funds is confirmed and recover the lost amount.***

3.3 unsupported Provisions in the Contracts

During the year under review, the County Executive of Kitui entered into a contract worth Kshs. 347,657,108 with various contractors for construction of roads and drifts and Kshs. 15,470,000 was paid in respect to administration and preliminary provisions. However, no documentary evidence in relation to Kshs. 15,470,000 was made available for audit review. In consequence. The validity and propriety of the Kshs. 15,470,000 expenditure could not be confirmed as at 30th June 2017.

Management response

In reply, the Accounting Officer submitted documents explaining the basis for which the figure in question (kshs. 15,470,000) was included in the BQ and how the funds were utilized.

The documents were analyzed by the Committee and verified as correct. In that regard, the Committee recommends that the matter be closed.

However, the Committee counseled Management to inculcate the practice of addressing issues before they are flagged up by external auditors.

3.4 Unsupported Fuel Expenditure

During the year under review, the County Executive paid Kshs. 29,424,998 to various suppliers of fuel, oil and lubricants. However, no documentary evidence in support of the expenditure in terms of details of how fuel was consumed, the vehicles fueled, the local purchase orders issued, delivery notes for fuel supplied and work tickets of the vehicles using the fuel were made available for audit review.

In the circumstances, it was not possible to confirm the propriety and authenticity of the expenditure of Kshs. 29,424,998.

Management response

These were the words of the accounting officer;

- The issues raised by the auditor-general have been noted.
- During the 2015/16 FY county' budget for fuel was kshs. 84,823,416 out of which Kshs. 66,161,534 was spent procedurally through service providers who were on frame work contracts.
- The amount flagged by the auditor-general (kshs. 29,424,998) requires a further breakdown for the management to provide a detailed response to each expenditure. The is because there are petrol stations all over the county serving different departments.

Committee observation

1) ***Missing documentation signifies that the management was not following any policy/procedure for the distribution and usage of fuel and other lubricants.***

2) ***In addition, there were no control mechanisms in the form of fuel chits and fuel register to monitor and reconcile the distribution and usage of fuel.***

3) ***As a result of those weaknesses, the executive could not properly account for fuel allocation of Kshs. 29,424,998 that was made to them during the period under review.***

Committee recommendations

The Committee recommends that;

1) ***The Management should ensure that a policy is followed to guide and control the distribution and usage of fuel. In addition, the use of a fuel register and fuel chits must be introduced to help monitor and reconcile the distribution and usage of fuel.***

2) ***Furthermore, the Accounting Officer should forward a detailed breakdown together with the relevant documentary evidence on how the amount of kshs. 29,424,998 was utilized on fuel, within 30 days after adoption of this report by house; otherwise, the full amount must be refunded.***

3) ***Requisitions must be raised for all fuel issued out in an appropriate format, stating the name, reasons and vehicle number of the staff requesting and also the name and authorizing signature of the manager in charge.***

4) ***With possibility of malpractices having been committed, the Committee invites the EACC to carry out further investigation into this matter and take appropriate legal action against suspects if theft of fuel is confirmed.***

3.5 unsupported Repairs of Motor Vehicles

The financial statements reflect use of goods and services expenditure of Kshs. 1,813,556,941 which includes Kshs. 47,742,933 in respect to routine maintenance vehicles and other transport equipment. However, included in this expenditure was Kshs. 9,493,621 in relation to motor vehicles repairs and purchase of spares which was not supported with necessary and relevant documents including pre-inspection and post-inspection report and stores records. In view of the foregoing, the propriety and value for money on the expenditure of the Kshs. 9,493,621 could not be ascertained.

Management response

The Accounting Officer explained that;

- The county's budget for routine maintenance of motor vehicles and other transport equipment was kshs. 64,249,413.
- A total of kshs. 49,954,232 was procedurally spent through prequalified service providers on frame work contracts.
- The amount flagged by the Auditor-General (Kshs. 9,493,621) requires a further breakdown for the Management to provide detailed responses to the specific expenditures.

The recommendation above (sub-paragraph 3.2) in respect of unavailability of documents be revisited and implemented.

3.6 Other Unsupported Expenditure

During the financial year under review, a total of Kshs. 3,014,303,287 was spent on six items. However, included in this expenditure is an amount of Kshs. 382,797,870 tabulated below which was not supported by relevant documents.

ITEM	**Total Amount Spent (Kshs.)**	**Amount not Supported (Kshs.)**
Other Infrastructure of Civil Works	1,585,520,205	207,508,907
Other Operating Expenses	138,162,596	15,772,338
Scholarship and Other Educational Benefits	216,375,964	16,902,295
Training Expenses	99,423,467	8,893,260
Specialized Materials	437,627,989	9,990,935
Construction of Roads	537,193,066	123,730,135

Total	**3,014,303,287**	**382,797,870**

In the circumstances, it was not possible to confirm that the Kshs. 382,797,870 expenditure was a proper charge to public funds.

Management response

The Accounting Officer informed the Committee that schedules in respect of the expenditure totaling to kshs.382, 797,870 were availed for audit review.

The recommendation above (sub-paragraph 3.2) in respect of the missing documents be revisited and implemented.

4.0 Reallocation of Funds

During the year under review, the County Executive allocated Kshs. 1,260,777, Kshs. 3,724,500 and Kshs. 917,510 all totaling to Kshs. 5,902,787 from routine maintenance, purchase of information communication and technology (ICT) and research, studies, project preparation, design and supervision to utilities (Electricity), purchase of equipment and refurbishment of building respectively. However, there was no authority or approval for reallocations in the supplementary budget.

Management response

In his response, the Accounting officer explained that;

- Re-allocation of funds is done through supplementary budget-the tool used to align what has been spent prior to parliamentary approval. It is through mini-budgets that budget realignments are done and which enable Accounting Officers to review approved allocations in favour of activities and events that were unforeseen during preparation of the main budget.
- Once the County Executive prepares supplementary budgets, they are presented to the County Assembly for approval which is deemed final.
- During the year under review, the County Government prepared two supplementary budgets and presented them to the County

Assembly which were approved and uploaded in the IFMIS. Thus, the transfer of funds to the health facilities was based on a supplementary budget approved by the County Assembly. As per law, Accounting Officers have no means of re-apportioning approved allocations except through the legislative organ.

Committee observations

The Committee;

1) ***Recognizes that situations arise within the fiscal year that are unanticipated and thusly unbudgeted. Nevertheless, that does not warrant spending agencies to incur unauthorized expenditures.***

2) ***Expressed concern over internal control violations. These violations, the Committee noted, expounded the risks of misappropriation of cash through fraud, theft, pilferage, cash rolling and other schemes.***

Committee recommendations

1) ***The County Government should avail for audit review copies of the approved supplementary budget and memos requesting for such reallocations. This should be done not later than 30 days after adoption of this report by the house.***

2) ***The Management must always ensure that budgets are executed in accordance with appropriations and rules to prevent cases of unauthorized expenditures and theft of public funds.***

5.0 Pending Accounts Payable

5.1 Trade Payables (Pending Bills)

Annexes 1 and 2 of the annexes to the financial statements reflects pending bills for accounts payables and staff payables of Kshs. 1,216,292,048 and Kshs. 2,690,763 respectively all totaling Kshs. 1,218,982,811. However, the respective supporting documents such as contacts, local purchase / service orders, delivery notes, invoices and supplier statements were not made available for audit verification.

Management response

The Accounting Officer stated that;

- The summary of accounts payables annexed to the financial statement shows details of the debts categorised into four classes i.e. construction of buildings, construction of civil works, supply of goods and supply of services.
- The summary also provides details of the original contract amount, when contracted, amount paid to date and the outstanding balance (both invoiced and not invoiced).
- Pending staff payables comprised of claims made by the staff for expenses incurred while performing official duty but were never paid as at the closure of financial year. The claims were returned to respective departments of the staff together with the other unpaid vouchers after they were recorded.
- Even though the list of pending bills paid during the 2016/17 financial year were not separately tabulated, all payable bills carried over to the 2016/17 FY were settled except the ones for drifts and other works whose documents were taken away by the EACC for investigation.

The Committee expressed concern that County Government may have paid fictitious bills due to lack of credible documents supporting validity of the pending bills.

The recommendation above (sub-paragraph 3.2) in respect of missing documents be revisited and implemented.

5.2 Deposits Payables

Note 23 to the financial statements reflected accounts payable in respect to deposits of Kshs. 277,115,001 as at 30th June 2017. However, the respective supporting documents were not made available foe audit verification.

In the circumstances, the accuracy, validity and existence of account payables and deposits balance of Kshs. 1,218,982,811 and Kshs. 277,115,001 respectively could not be confirmed as at 30th June 2017.

Management response

The Accounting Officer delivered response similar to the one under sub-paragraph 5.1 above except for the additional explanation that;

- Accounts payable relating to deposits by the contractors were separately banked at the Central Bank of Kenya (CBK).
- Records regarding the amount available at the bank (Kshs 277,115,001) were prepared and tabulated indicating to whom the money belonged to. Documents relating to the transactions are hereby submitted for audit verification.

The recommendations above (sub-paragraph 3.2) in respect of the missing documents be revisited and implemented.

6.0 Revenue

6.1 Under Collection of Own Generated Revenue

During the year under review, the County Executive had budgeted for own generated revenues totaling to Kshs. 668,610,000. However, only Kshs. 315,347,363 or 47% of this revenue was collected while Kshs. 353,262,637 (53%) remained uncollected.
In addition, a review of the trend analysis for the past two financial years revealed a decline in revenue collection as follows;

Financial Year	Amounts (Kshs.)	% Variance
2014-2015	434,268,204	
2015-2016	416,188,728	-4%
2016-2017	315,347,363	-27%

The County Executive did not therefore institute effective revenue collection mechanisms during the year under review and the Kshs. 353,262,637 revenue under collection translated to non-provision of planned, budgeted and promised services to Kitui County residents.

Management response

The Accounting Officer attributed the drop in revenue collection to;

- Political interference during the period under review (2016/17 FY). This, he said, affected revenue collection as some people incited the locals against honouring their tax obligations.
- Revenue target for the relevant period was increased by only 5% due to the fact that the target for previous year (2015/16) was not met partly due to low collection by the ministry of health on account of prolonged doctors' and nurses' strike and the dry spell which resulted in unavailability of cereals limiting collection of cess and market fees.

The official highlighted the measures taken to address the decline on revenue performance. He stated as follows;

- the County was in the process of restructuring revenue collection, with the following measures being considered to address the shortfall;
  - ✓ Employment of director of revenue.
  - ✓ Automation of revenue collection process in an effort to reduce leakages where they exist.
  - ✓ Review of revenue enhancement plan to take into account all new revenue sources.
  - ✓ Formation of liquor licensing committee for management of liquor licenses.
- He said it is worth noting that the county government during the 2017/2018 FY slapped a ban on both charcoal trade and sand harvesting significantly impacting on revenue collection.
- The two activities, he said, previously used to rake in about 25 million per annum. The measures being implemented are expected to yield higher revenues in the future.

Committee observations

The Committee observes that;

1) ***An efficient county revenue collection system will be the hub of the administrative system and the cornerstone of sound fiscal***

management. It will enable the county government to finance its budget deficits from domestic sources, thus dissuading recourse to off-shore sourcing.

2) *Under-collection of revenue surpluses by the revenue generating agencies affects financial liquidity of the county government and reduces government's efforts to adequately fund its annual budget. It may lead to increase in government's internal and external borrowing, thereby increasing the government's debt burden.*

Further, the Committee took note of the explanation by the accounting officer but attributed the disparity in revenue collected visa-a-vis the projected revenue to either;

3) *Misappropriation of collected revenue due to weak accountability systems.*

4) *In-effective debt collection mechanisms and negligence by revenue collection unit.*

5) *Over-ambitious budgeting, emanating from the use of unrealistic basis of budgeting.*

Committee recommendations

1) *The revenue administration should increase its efforts to properly implement the tax laws and regulations, build its capacity of revenue collection, periodically evaluate and follow up the tax system and its performance,*

2) *The County Government needs to properly identify all rate-able properties and compile a comprehensive list of debtors for tracking to improve on revenue collection.*

3) *The Committee invites the EACC/DCI to undertake thorough investigation of the revenue underperformance and fix*

accountability if cases of fraud, corruption or other financial improprieties are established.

6.2 Non-Budgeted Revenue Sources

A review of the trend analysis report made available for audit review revealed that out of Kshs. 315,347,365 internally generated revenues, Kshs. 50,499,235 was from unbudgeted items.

In the circumstances, the 2016/2017 revenue budget could not be confirmed as fully inclusive of all the revenue sources available in Kitui County.

Management response

The Chief Officer submitted that;

- Setting revenue targets is guided by the revenue streams available in the county and once revenue is received, it is appropriately accounted for.
- The template provided by the national treasury for reporting on own county revenue had not been customized to accommodate all the revenues collected by different county departments.
- Some revenue streams emerged after preparation of the main budget. Collections pertaining to such streams were therefore not factored in the main budget. For instance, the administration may today impose a ban on charcoal cess and lifted lift the embargo after several months. This leads to unbudgeted collections.

Committee observations

The Committee takes note of the explanation by the Accounting Officer but observes that overall the county expenditure budget was not realistic and the management did not contain its expenditure within the approved budget.

Committee recommendations

The County Government should ensure that;

1) ***Monitoring and supervision of revenue collection is enhanced to ensure that all revenue generated is brought to account and seek legislative approval for revenue generated without a budget as provided in Section 132 of the PFMA, 2012.***

2) ***County departments should ensure that budgets are rationalized and expenditure maintained within budgetary provisions.***

6.3 Arrears of Revenue

Records made available reflected revenue arrears totaling to Kshs. 266,286,615 as at 30th June, 2017as follows;

ITEM	AMOUNT
Property Rates	Kshs. 246,416,020
House and Stalls Rent	Kshs. 6,038,725
Free Maternity	Kshs. 10,845,000
NHIF Rebates	Kshs. 2,986,870
Totals	**Kshs. 266,286,615**

In the circumstances, the County Executive did not institute effective debt collection mechanisms during the year under review and Kshs. 266,286,615 revenue arrears translated to and equivalent promised but undelivered service to Kitui County residents.

Management response

In his response, the Accounting Officer stated that;

- The revenue arrears (relating to land rates, house and stalls rent) were inherited from the defunct local authorities of Kitui and Mwingi.
- In an effort to encourage payments, the county has since 2014 been issuing waivers but the effort has not delivered desired results due to unknown landlords and duplication of ownership of plots.
- The rates/rents are not fully collectable due to the afore-stated reasons and as such the rates were not factored as income pending a valuation roll exercise to identify the numbers and owners of the

plots and correct location of the properties. It is only after the exercise that accurate income will be reported.

The Committee heard from the Auditor General that majority of these debts relates to inherited land rates and rents against properties from the defunct local authorities which seemed uncollectable.

The Committee took note of the explanation by the accounting officer but;

1) ***Observes that realizing the full potential of property rates in the county will require complete reconstruction of the fiscal cadastre - a public register showing the details of ownership and value of land; made for the purpose of taxation.***

2) ***Lamented that the substantial arrears (of Kshs.266, 286,615) denied the County Government the scarce financial resources that it needed to undertake its development programmes and projects.***

3) ***Further lamented that the County has been losing millions of shillings due to outdated records and counselled that updating the valuation roll will translate into collection of more revenue by the County Government.***

Committee recommendations

The Committee exhorts the management to;

1) ***Ensure that more monthly reviews of status of debtors is carried out and any difficult cases of default should be reported to the appropriate authorities for necessary action.***

2) ***Speed up the development of a valuation roll and map all rateable properties through use of Geographic Information System (GIS). Once that is done, it will become easier to identify rate-able properties and applicable rates.***

7.0 Procurement of Goods and Services

7.1 The Ultra-Modern Resource Centre at Manyenyoni

The County Executive contracted Emjay Wakie Enterprises on 06 June, 2016 at a contract sum of Kshs. 106,209,000 at a contract period of twenty-four (24) months to construct Ultra- Modern Resource Centre. However, a physical verification on 15 January, 2018 almost eighteen (18) months after the lapse of the contract period, revealed that the project had stalled at the foundation level and the contractor was not on the site. The project was therefore, behind schedule and the contactor may not deliver in the agreed time cost.

Further, the bills of quantity reflected Kshs. 200,000 and Kshs. 50,000 for NEMA certificate, insurance and signboard respectively. However, no NEMA certificate and insurance policy was made available for audit verification and no signboard was on the site. In the circumstances, it was not possible to ascertain that the contractor will deliver a quality and quantity project at the agreed contract price and in time.

Management response

The Accounting Officer mentioned that;

- Planning and budgeting for the project was done during the 2014-2015 FY. The project was to be done in three phases spreading over two financial years since the contract period was 24 months.
- Lack of serialization /pagination of the tender documents was a requirement but failure to do so resulted from an oversight and the anomaly was later addressed.
- Admittedly, score cards for each evaluator were missing in the evaluation report but were later attached for audit verification.
- Regret letters to the unsuccessful bidders were sent through registered mail. A copy of receipt from the post office is attached for perusal.
- Disqualification of Lister Company ltd from the bid was due to the fact its AGPO certificate had expired. It is worth to note that had the certificate been valid, the firm would have been allowed to participate in the tendering process even without a bid bond as per the law.

- All bidders eligible for the tender but preference was given to the special groups on account that they ordinarily are exempted from bid bond but their registration must be valid.

The Committee heard from the Auditor-General that the response was irrelevant as it not address the issues raised by the Auditor-General.

Committee observations

The Committee;

1) ***Observes that implementation of the project was marred by poor planning, budgeting and monitoring which gave the contractor leeway to demobilize and leave the site leading to stalling of the project and denying the public the intended benefits.***

2) ***Believes that the loss and or unavailability of supporting documents in respect of the kshs. 200,000 and kshs. 50,000 paid for the NEMA certificate insurance policy and erection of a signboard was not genuine but intended to cover up for financial misconduct.***

3) ***Emphasized the importance of proper record keeping as institutions' memory, essential for retrieval of information, evidence on official transactions, financial reporting, proper accountability, and prevention of dishonesty, embezzlement, and misuse of public resources.***

Committee recommendations

The Committee recommends that the County Government should;

1) ***Explain the reasons for the delay in construction of the resource centre and submit the requested documents for audit inspection not later than 30 days after adoption of this report by the House.***

2) ***Institute measures to ensure that project implementation is closely monitored to ensure that projects are executed in line with specifications and standards, completed in time and cost overruns avoided or minimized.***

3) ***The Committee, in view of the absence of Accountability on how implementation of this project was managed, invites the EACC to carry out further investigation with a view to having suspects prosecuted if corruption, economic crimes and abuse of office is confirmed and to recover the lost amount.***

7.2 Chain Link Fencing and gate Construction at Voo Secondary School

During the financial year under review, Esjovia Contractors Ltd were awarded a contract in respect of a Chain Link Fencing and Gate construction at Voo Secondary School and at a contract sum of Kshs. 2,692,955. However, the firm submitted two National Construction Authority (NCA) certificates, on certifying them as building works contractor and the other as Water works contractor but both certificates had the same number 002960 with all the details being the same except the purpose for which they were issued. In addition, the firm submitted a letter referenced CR12 C101361 dated 18th September, 2014 which was allegedly issued by the Assistant Registrar of Companies confirming the directorship of the company. However, the same letter was used by a completing and unsuccessful bidder Redkam Contractors Ltd raising doubts as to whether the two firms were not related. Further, the postal addresses indicated in the tax compliance certificate of the winning bidder (Esjovia Contractors Ltd) - P.O Box 38 - 90200 and that submitted by Redkam Contractors were similar.

The two companies' responsiveness is questionable. Further, the Bill of Quantities indicated that 14-gauge chain link was to be fixed, however, on physical verification it was confirmed that 16 gauge was fixed. In addition, 6 strands of 12.5 gauge barbed wire was to be fixed but 2 strands of 16 gauge were fixed. Records made available showed that the firm had been paid the total contract sum through certificate number 1 of 25th January, 2017. The procurement did not comply with Article 227 of the constitution on being fair, equitable, transparent, competitive and cost effective.

In the circumstances, the fencing works were not done as per the bill of quantities hence compromising on quality and raising doubt as to whether the County Executive received value for money in the Kshs. 2,692,955 expenditure.

Management response

In his response, the Accounting Officer informed the committee that;

- During invitation for request for quotations from the five firms, each of them collected bid documents and signed for receipt of the documents as different and independent companies.
- While submitting the bids for consideration, there was no indication of collusion by the two firms, Esjovia & Redkam.
- During evaluation, the Committee did not notice that the two companies shared same postal and a forged NCA certificate.
- The anomaly came to light during the audit exercise. The Management resolved to take action against the two firms and recommended that they be blacklisted and debarred from future government contracts.
- The Management concedes to audit observation that as implementation of the project was underway extra strands of barbed wire were added to reinforce the lighter gauge wire. This was done to achieve the required structural strength and deliver value for money. The decision is however regretted and action had been to avert such occurrence in future.

Committee observations

The Committee observes as follows;

1) ***While the stated objectives (construction of a chain link and gate at the school) were noble, the real intentions of this flawed procurement seemed to have been no more than a poorly constructed scheme to fleece tax-payers.***

2) *Contract was awarded without following due process as spelt out in the public procurement and asset disposal act, 2015, thus defeating the control purpose of competitive bidding among intending companies and sidetracking the controls put in place, through collusion and bid rigging.*

   This is indicated by the business similarities between the bidders (Esjovia and Redkam): common addresses, personnel, phone numbers, same letter from registrar of companies, and same postal address.

3) *It was not a coincidence that two of the competing contractors ((Esjovia and Redkam) were situated at the same address and had same telephone number. apparently, this was a case of a single contractor masquerading behind two shell companies to secure the contract at all costs.*

4) *Weaknesses in contract award and contract management might have led to loss of public funds as residents did not get value for money spent by the County Government.*

Committee recommendations

The Committee recommends that the Management should;

1) *Investigate these obvious short-circuits which were solely designed to short-change the system and identify the collaborating staff who assisted or aided the contractors in the fraudulent escapades for severe disciplinary action including demotion and dismissal from the public service.*

2) *Always ensure suppliers who shortchange the procurement system must be debarred and blacklisted to ensure they do not secure government contracts in future.*

3) *Further, the Committee recommends that the EACC / DCI should investigate the flawed procurement and fix accountability if theft of public funds is confirmed and recover the lost amount.*

7.3 Supply of Specialized Survey Equipment

During the year under review, Measurement Systems Ltd was awarded a contract to supply Survey Equipment through restricted tendering, at a contract sum of Kshs. 9,190,680. However, the choice of the procurement method was not supported by a justification of its choice contrary to Section 91 of the public procurement and Asset Disposal Act 2015 which recognizes open tender as the preferred procurement method.

In addition, the tender opening minutes, evaluation report, letter of notification of award and letter of acceptance were not made available for audit.

It is therefore not possible to ascertain that the Executive got value for money in the Kshs. 9,190,680 expenditure.

Further, the funds were sourced from two different votes namely 3111402 - purchase of survey equipment Kshs. 5,000,000 and 3111114 - Non Residential Buildings Kshs. 4,000,000. The later amount was therefore charged in the wrong account resulting to an unauthorized reallocation of Kshs. 4,000,000 meant for non-residential buildings.

This was contrary to Section 53 (8) which require the accounting Officer not commence any procurement proceeding until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in its approved budget estimates.

Management response

The Accounting Officer responded that;

- The user's requisition indicates justification for the use of limited tendering and forms are attached with this report for audit verification.
- Ten suppliers were issued with quotations forms after which they signed the tender register as per section 54(4) of the public procurement & disposal regulations 2006.
- The relevant documents (tender opening and evaluation reports, letters of award and regrets were issued to the successful and

unsuccessful bidders respectively and copies are attached to this report for audit verification.

- The regret letters were sent by post. This procurement was planned and budgeted for during the 2015-2016 FY. However, the plan did not show the specifics but consolidated items that were unbundled during implementation.

The Committee points out that the underlying objectives of procurement and tendering are concerned with ensuring competition, which is viewed as a key factor in achieving the twin objectives of: accountability in the spending of public money; and transparency in the steps of the decision-making processes.

Committee observations

The Committee observes as follows;

1) ***Failure to provide for open and competitive bidding denied the tax payer best bargains, compromised value for money and robbed the public the benefits of competition.***

2) ***Single-sourcing deals, often, tend to distort the price of goods and services with the cost being exaggerated many times above what the buyer - in this case the government - could have paid in the open market.***

3) ***Failure to follow due process might have given room for corruption and diversion of public funds for private uses.***

4) ***The Management violated Section 53 (8) of the (PPADA), 2015 which "states that accounting officers should not commence any procurement until satisfied that sufficient funds to meet the obligations of the resulting contract are reflected in its approved budget estimates".***

Committee recommendations

The Committee recommends as follows;

1) ***The EACC/DCI investigates this suspicious procurement and hold suspects accountable if theft of public funds is confirmed and recover the lost amount.***

2) ***The County Treasury directs the activation of the procurement module of IFMIS for use across all MDAs to forestall procurement malpractices. This should be properly followed up to ensure compliance especially through non-release of funds except for certified procurements.***

3) ***The CECM finance should also give directives to enable the IFMIS audit module and give access to the audit service for proper monitoring of procurement activities.***

4) ***Departments should ensure that budgets are rationalized and expenditure maintained within budgetary provisions.***

7.4 River Athi – Kanyangi – Maluma – Mutomo – Ikutha – Kanziku Water Supply Project

7.4.1 During the year under review, four firms were contracted to construct a water project line at a total contract sum of Kshs. 130,364,345 as follows;

Line/Phase	Description	Contract Amount (Kshs.)	Contractor	Tender Numb
3.6 KM	Gravity Line from Treatment Works towards Mutomo and Branch line to Kamutei Hill.	12,971,485	Telina Contractor and General Suplliers	CGoKTI/283/2 2017
10 KM	Mutomo Gravity Line Lot II	56,866,655	Liki Contractors and General Suppliers	CGoKTI/266/2 2016
11.5 KM	Mutomo Gravity Line Lot I	42,533,211	Liberty Group	CGoKTI/265/2 2016

13.45 (As per BQ)	Main Gravity Line from Kyoani Beacon - Ikutha Market	17,992,994	Quality Care Enterprises	CGoKTI/289/ 2017
Total		**130,364,345**		

However, the procurement records including the tender advert, tender opening minutes and bidders' documents were not made available for audit scrutiny. Further, the evaluation report for the tender numbers CGoKTI/283/2016-2017 and CGoKTI/289/2016-2017 were also not made available. It is therefore not possible to confirm that the County Executive got value for money in respect to the Kshs. 130,364,345 procurements as required by Article 227 of the Constitution.

Management response

The Accounting Officer stated that;

- Out of the Kshs. 130,364,345 due to the four contractors, a retention of Kshs. 1,297,148.50 was deducted and was to be released to the contractors upon certification of practical completion of the works. That meant once the pipeline stabilized and given a clean bill of health by specialists, technicians and relevant government officials (from the finance and procurement departments).
- The payments were effected through payment voucher No.13469. There was no hassle with testing of the pipeline because the contractor had stored all the required fittings.
- The County Government did one section of the pipeline and World-Vision-Kenya the other section. This resulted in a mistake in connecting the two sections of the pipeline. Instructions were therefore issued to the contractors to connect the line to the existing one, install associated fittings, and have administrative expenses (fees and project management costs) shared to facilitate supervision of the project.
- A letter is hereby attached showing the contractors how the contingency and admnistration amounts were expended. the procurement records (tender advert, tender opening minutes,

tender evaluation report and letters of offer and bidding documents are also attached for audit inspection. the regret letters were sent by post.

Committee observations

There is a tendency of rogue public servants to create shell companies to secure government contracts and facilitate fraudulent payments. Shell companies that actually exist as mere business names at the registrar of companies and not as active entities in the market place.

Consequently, there is need to ascertain whether all the bidders were legitimate or shell corporations which are used for tax evasion, tax avoidance, and money laundering.

Committee recommendation

The EACC/DCI should investigate whether all parties involved in the implementation of this project acted in the best interest of the public with a view to taking appropriate legal action against the culpable and recommending the blacklisting of the contractors from being awarded government contracts if negligence, incompetence and malpractices are established against them

7.4.2 In addition, records made available showed that Telina Contractor and General Suppliers was paid the full contract price of Kshs. 12,971,485. However, included in this payment was Kshs. 180,000 for test running of the pipeline which was not done and a further Kshs. 200,000 and Kshs. 317,486 unsupported supervision and contingencies provisions respectively all totaling to Kshs. 697,488.

In the circumstances, it was not possible to confirm that the provisions totaling Kshs. 697,488 were a proper charge to public funds.

Management response.

In his response the accounting officer submitted the tender documents for audit verification.

Committee observations

The committee observes that;

1) ***Section 14(7) of The Government Financial Regulations and Procedures provide that payments to contractors should be made on the basis of signed contracts and a payment voucher prepared that is supported by certified delivery of goods, works and/or services.***

2) ***Paying the contractor upfront and without supporting documents to show authorization and execution of claimed project (test running of the pipeline) at the time was manifestly an act of collusion, conflict of interest, and influence peddling which most likely led to loss of public funds.***

Committee recommendation

The Committee recommends that the EACC/ DCI should carry out further investigation into this matter with a view to having suspects held accountable if theft of public funds is confirmed and recover the lost amount.

7.4.3 Although the bills of quantities for Lot II were not availed, physical verification of the project revealed that the line had been done to completion. However, the testing and commissioning of the pipeline had not been done despite the contractor having been paid Kshs. 48,336,657.

In the circumstances, it was not possible to confirm that any provisions made have been accounted for properly. It was also noted that a completion certificate for the works was issued to Liberty Group on 29th May, 2017. However, the 11.5 KM pipeline had not been tested and commissioned.

In the circumstances, the completion certificate was irregularly issued.

Management response

In his response the Accounting Officer stated that;

- Issuance of completion certificate for the 11.5 kilometres of the pipeline was based on practical completion of the contracted works which involved excavation, pipe lying and associated fittings.
- The completion certificates attached to the contract documents were for partial payments as the contractor requested.
- The pipeline was linked to component part (intake, rising main treatment and a portion of gravity line). The section undertaken by the world vision had not been operationalized at the time the auditors visited the project.
- The contractor was to be paid a retention of kshs. 2,126,660.55 after the pipeline was tested. This had already been done at the time the auditors' visited the project.

Committee observations

The Committee observes as follows;

1) ***A completion certificate is a legal document that attests to the fact that a project has been constructed in line with construction norms. The certificate ensures that the developer undertakes projects according to the approved layout plan and no violations are made.***

2) ***Premature award of completion certificate to the contractor without due diligence may have been an act of collusion which might have resulted in loss of public funds.***

Committee recommendation

The Committee recommends that the EACC/DCI should carry out further investigation into this matter with a view to taking appropriate legal action against suspects if theft of public funds is confirmed and recover the lost amount.

7.4.4 Further, although no procurement documents were availed for the Line from Kyoani Beacon to Ikutha market, a physical verification done on 13th June, 2018 revealed that although a completion certificate was issued on 13th June, 2017 and Kshs. 16,193,896 paid, approximately 2.3 KM of the pipeline was not done and the contractor had left the site. The project had also not been tested and commissioned.

It was not possible to establish how the contractor was awarded a completion certificate while there were incomplete works for the pipeline.

A physical measurement of the pipeline from Kyoani beacon to the Ikutha Hospital where the pipeline was ending gave a distance of 12 KM and not 13.45 KM reflected in the bill of quantities creating a difference of 1.45 KM. this, effectively, could have resulted to irregularly overpricing of the BQ by Kshs. (Kshs. 17,992,994.95/13.45KMs X 1.45KMs) 1,939,765.

In the foregoing circumstances, the County Executive could have lost the Kshs. 1,939,765 through non-existent works.

Management response

The Accounting Officer responded that;

- Profiling and engineering survey were undertaken using an accurate measurement equipment called real time kinematics. The BQ and the profile are attached to this report for audit verification.
- Physical measurement done previously confirmed that the distance from Kyoani beacon to the end of the pipeline at Ikutha hospital was exactly 13.45 km.
- The contractor was not paid the full amount since the works were yet to be completed and tested.
- Completion certificate for the final works had not been issued at the time of audit since some works covering 2.3km and evaluated at kshs. 1,799,099.20 were still pending.
- The contractor was to be paid his retention of kshs. 1,619,389.56 upon practical completion and testing of the pipeline.
- Kshs. 632,605.00 had not been spent at the time of the audit but was to be paid after the completion of the project.

The Committee heard from the Auditor General that this matter remained unresolved as the Accounting Officer had not yet produced documentary evidence to rebuff the irregularities in question.

Committee observations

The Committee observes that;

1) ***The irregularities surrounding implementation of this project were tell-tale signs for fraudulent activities.***

2) ***Red flags for corruption and hurried/impulsive spending of public funds included;***
   - ***Paying the contractor upfront and issuing completion certificate for incomplete works,***
   - ***Effecting the payments without proper/credible documents explaining and supporting the genuineness of the payments and,***
   - ***Overpricing of the BQ by Kshs. 1,939,765.***

Committee recommendations

1) ***The Committee observes that the implementation of this project raised serious integrity issues and recommends that the EACC/DCI should investigate this matter with a view to having suspects held accountable.***

2) ***The Management should justify the exaggerated BQs and the officers responsible for the possible loss of the kshs. 1,939,765 as a result of the exaggeration should be held accountable.***

7.5 Upgrading to Bitumen Standard of Kitui School – Ithookwe Show Grounds – Kitui Airstrip Road

During the year under review, Maangi Construction and General Suppliers was awarded a contract to upgrade Kitui School - Ithookwe Showground - Kitui Airstrip road (4.0 KM) at a contract sum of Kshs. 133,451,699 and a contract period of 9 months commencing 5th December, 2016. As at 30th Jun, 2017, a total of Kshs. 54,366,585 had been paid to the Contractor. However, physical measurement of the road gave a distance of 3.5 Km and not the 4 KM reflected in the bill of quantities resulting into unexplained increase of 500 meters which translated into an increase of the project cost by Kshs. (133,451,698.60/4KM X 0.5KM) 16,681,462. In the circumstance, the distance to be upgraded was therefore doubtful, further, although the contract was incomplete, the Contractor had demobilized and left the site. In the circumstances, it was not possible to ascertain that the project would be completed within the project time and price.

Further, the Contractor raised certificate number 1 on office administration and preliminaries, and Earth works at Kshs. 6,338,585 and Kshs. 5,524,894 respectively. However, included in the Kshs. 6,338,585 was an unsupported expenditure of Kshs. 4,800,000, Kshs. 347,900, Kshs.100,000 and Kshs. 190,000 in respect to training, engineering miscellaneous, insurance and quality control test respectively all totaling to Kshs. 5,437,900. In the circumstance, the propriety of the Kshs. 5,437,900 expenditure as at 30th June, 2017 could not be confirmed.

In addition, included in the above Kshs. 5,524,894 earthworks, was Kshs. 4,738,600 in respect to "Spoil excess material from side drains excavations" quantities of 2000 cubic meters. However, the quantities paid for were 5510 cubic meters, therefore exceeding the BQ quantities by 3510 cubic meters.

In the circumstances the expenditure of Kshs. 3,018,600 could not be confirmed as at 30th June, 2017.

Management responses

In his response, the Accounting officer submitted supporting documents for audit review.

The Committee heard evidence from the Auditor-General the matter remained unresolved as the Accounting Officer did not address the pertinent issues in the audit query especially in relation to the exaggerated BQS (distance of the road)

The recommendations above (sub-paragraph 7.4.4) be revisited and implemented.

The recommendations relate to overpricing of the project by Kshs.16, 681,462, withdrawal of the contractor from site before completing the works and unavailability supporting documents for payments made.

7.6 Supply and Delivery of Various Equipment to Kitui Referral Hospital

During the year under review, Total Hospital Solutions was awarded a Kshs. 5,773,000 contract to supply and deliver various equipment to Kitui Referral Hospital. However, even though the contract was above the Kshs. 4,000,000 thresholds matric for quotations as set by the Public Procurement Regulations, 2006, quotation method of procurement was used instead of open tender, further, the respective procurement documents showing how the supplier was identified were not made available for audit review.

In the circumstances, the propriety of the Kshs. 5,773,000 expenditure as at 30th June, 2017 could not be ascertained.

Management responses

Maximum level of expenditure under request for quotations (RFQ) in respect of procurement of goods is Kshs. 2,000,000.00 per item. None of the equipment purchased exceeded the stated threshold.

Committee observation

The Committee observes as follows;

1) ***The use of RFQ was irregular as the tender amount qualified for open tender which is fair, equitable, transparent, competitive and cost effective.***

2) ***Further, no evidence was provided to prove that the circumstances pertaining at the time warranted the use of RFQ which is suitable under emergency situations.***

3) ***RFQ method is prone to conflict of interest as the choice of the service provider is left at the discretion of procurement managers who can easily manipulate award of tenders for their benefit.***

Committee recommendations

Cognizant of the fact that officials involved in corruption and fear for the security of their jobs are unlikely to want to keep records, the Committee invites the EACC/DCI to carry out further investigation into this matter with a view to taking appropriate legal action against suspects if theft of public funds is confirmed and recover the lost amount.

7.7 Variation Order for County Government Staff Office Block

The County executive awarded Kitho Civil and Engineering Co. Ltd a contract dated 18th July, 2014 to construct County Government Offices at a contract sum of Kshs. 94,849,657 with a contract period of 12 months ending 17th July, 2017. However, physical inspection done on 17th January, 2018 revealed that the office block was still under construction even though the contract period had expired.

Further, a variation evaluation committee recommended a contract variation of Kshs. 21,163,211 which was 22.31% of the original contract price due to changes in design and specifications. However, documents in support of these changes were not made available for audit review.

In the circumstances, it has not been possible to confirm that the contract will be completed within the contract period and price and that the variation was fairly arrived at.

Management responses

The Accounting Officer admitted that construction of the office block continued after expiry of the contract period and submitted documents confirming extension of time and request and approval for the contract sum variation by kshs. 21,163,211. He also summited the original BQ for audit inspection.

The Committee heard evidence from the Auditor-General that the response to this was insufficient for the reason that extension for the works were allowed up to 30 July 2016 but the works were not concluded by then according to inspection carried out in 2018.

Committee observations

The Committee understands that this project was finally completed, commissioned and put into use.

Nevertheless, the Committee expresses concern that;

1) ***The implementation of this project was not well planned leading to variations and extension of contract period;***

2) ***Variation of the project resulted in delays in implementation and escalated project costs which was not in the best interest of the public;***

Committee recommendation

The Committee recommends that the County Government should take necessary steps to ensure project implementation is well planned and executed to avoid unnecessary delays and variations which escalate project costs.

7.8 Opening up of Road from Bavaria Junction – Mutuni Road through Kamangu Stream and Kalundu River

The County Executive contracted Rene Industries Ltd to open up a road from Bavaria Junction to Mutuni Road through Kamangu Stream and Kalundu River (4.5KM) at a contract sum of Kshs. 26,482,891. However, the tender advert, opening, evaluation documents and contract documents were not made available for audit review.

Further, documents made available showed that the contractor had been paid Kshs. 22,521,184 as at 30th June, 2017 which included Kshs. 16,043,366 in respect to culverts and drainage works. However, a physical inspection showed that there were no culverts and the contractor had demobilized.

In the circumstances the propriety of Kshs. 22,521,184 expenditure as at 30th June, 2017 including attainment of value for money in the contract sum could not be confirmed.

Management response

The Accounting Officer responded that;

- The road was rendered impassable by heavy rains and flooding. The County Government had to act speedily to reopen the road from Bavaria junction – Mutuni road through Kamangu stream and Kalundu River to avert a crisis.
- To safe on time and costs, the Management opted for restricted tendering as provided under section 102 of PPADA 2015.
- The tender processing documents were forwarded to the EACC which at the time of the audit was investigating the matter. The documents are still under the custody of the EACC.

The recommendations above (sub-paragraph 7.4.4) in respect of failure by the Management to avail the tender documents for audit inspection and paying the contractor Kshs. 16,043,366 for work not done (installation of culverts) be revisited and implemented.

Further, the Committee recommends that the Accounting Officer must immediately take personal interest in this matter and liaise with EACC with a view to obtaining the original documents or certified copies for audit inspection.

7.9 Extension of Street Lighting: Nzeeu River to Kwa Kinyai Shopping Centre

During the financial year under review, Destiny Building and General Contractors was awarded a Kshs. 10,338,896 contract for the extension of street lights from Nzelu River to Kwa Kinyai shopping center which was signed on 24th June, 2016. However, the respective procurement records including tender advert, opening minutes and bidders' documents were not made available for audit review. Further, the LSO 1185270 was committed after 31st May, of each year.

Management response

The Accounting Officer submitted the relevant documents (procurement records tender advert, tender opening minutes, tender evaluation report and letters of offer and bidding documents) for audit verification.

The Committee heard from the Auditor-General that although the method of procurement used was restricted tender, a contract ought to have been signed between the parties involved as was envisioned by the Kitui town administrator vide a memo dated 14.06.2016 and as provided by condition No. 1 at the back of the LSO and an advert done to comply with Section 102(1) (d) of the Public Procurement and Asset Disposal Act (PPADA), 2015.

The Committee restates its observations and recommendations under sub-paragraph 7.4.4 above in respect of failure by the Management to submit the tender documents for audit examination.

7.10 Storied Maternity Ward at Kitui Referral Hospital

During the financial year under review, Rene Industries Ltd was awarded a contract for the construction of a storey maternity ward at Kitui Referral Hospital at a contract sum of Kshs. 242,782,653. However, tender opening minutes, evaluation report, contract document and the bid documents were not made available for audit review.

Further, the unsuccessful bidders were not given regret letters contrary to Section 74 Public Procurement and Disposal (PPAD) Act 2015 and the contract award was not published and publicized contrary to Section 138(1) of the PPAD Act 2015.

In the circumstance, the executive was in breach of the Public Procurement and Asset Disposal Act, 2015 and it was not possible to ascertain that value for money equivalent to Kshs. 242,782,653 was received in line with Article 227 of the Constitution.

Management response

- In reply, the Accounting Officer stated that the procurement records (tender advert, tender opening minutes, tender evaluation report and letters of offer and bidding documents) were available for audit review.
- He said no circular was issued stopping commitment of LPOs and LSOs in the vote books and that the IFMIS system remained active until closure of the financial year.

Committee observations

The Committee observes that;

1) *Withholding critical details of expenditure from audit inspection was tell-tale sign that something was wrong, or that this transaction was possibly corrupt, collusive, fraudulent, or otherwise illicit. Award of the tender was tailor-made to benefit a particular favoured contractor at the expense of other qualified contractors.*

2) *Reiterates that the practice of late submission of documents to the auditors undermines the credibility and authenticity of such documents, provides an opportunity for manipulation of documents, and encourages 'creative' accounting practices in the public service.*

Committee recommendations

The Committee;

1) ***Invites the EACC / DCI to carry out further investigation into this matter with a view to holding suspects accountable if theft of public funds is confirmed and recover the lost amount.***

2) ***Recommends that the Management must always ensure that complete documentation is maintained in respect of all procurement activities and for contracts and agreements entered into.***

7.11 Doubtful Procurement of Non Pharms for Kitui Referral Hospital

During the financial year under review, assorted pharmaceuticals and non-pharmaceuticals worth Kshs. 151,317,786 were procured from the Kenya Medical Supplies Authority which included unsupported no-pharms worth Kshs. 20,480,589.

In the circumstance, the propriety of Kshs. 20,480,589 unsupported expenditure as at 30th June, 2017 could not be confirmed.

Management response

The Accounting Officer submitted that;

- The process of procuring non- pharmaceuticals is initiated by health facilities according to their needs. The facilities place requests to the sub county pharmacist based on their drawing rights.
- At the sub county level, all requests made are consolidated and forwarded to the county level. The county pharmacist then uploads the requests into the logistics management information systems (LMIS) software. This is done to enable KEMSA confirm availability of the drugs.
- KEMSA then issues a pro forma invoice which enables the county to generate an LPO. Once the LPO is issued, KEMSA supplies the drugs to the respective health facilities. It then forwards an invoice together with the delivery notes to enable the county initiate payments.
- In case the invoice amount is less than the LPO amount, the county generates a back order for KEMSA to supply the remaining quantities. For this reason KEMSA is paid the quantities supplied, hence the allegations of unsupported expenditure is untrue.

The Committee heard evidence from the Auditor-General that this matter remained unresolved as the Accounting Officer only described the procedures followed in buying the drugs but did not corroborate the explanation with any records such as deliveries, LPOs, from the Kenya Medical Supplies Authority to support the expenditure incurred on procurement of the drugs during the period.

Committee observation and recommendation

The Committee restates its observations and recommendations under sub-paragraph 7.4.4 above in respect of the unsupported non-pharmaceuticals worth Kshs. 20,480,589.

7.12 Construction of a Maternity Block at Mbitini

During the financial year under review, Millenium Stores Ltd was contracted to construct a Maternity block at Mbitini at a contract sum of Kshs. 9,989,600 and a contract period of 16 weeks ending 6th April, 2017. However, the respective procurement records including the tender advert, opening minutes, evaluation report and the full form of contract were not made available for audit review. In addition, a physical verification done on 9th January, 2018 revealed that the plumbing works had not been done and the washrooms were not completed nine months after the elapse of the contract period.

In the circumstance, it was not possible to ascertain that the Kshs. 9,989,600 had value for money and that it would be completed within the agreed contract time and price.

Management response

In reply, the Accounting Officer mentioned that;

- The relevant documents (tender advert, tender opening minutes, tender evaluation report and letters of offer and bidding documents) were available for audit review.
- The project was complete and plans were underway to equip and commission it for use.

The Auditor-General stated that the documents submitted for audit verification were irrelevant as they did not relate millennium stores limited but were evaluation reports for different tenders.

Committee recommendation

The Committee restates its recommendations under sub-paragraph 7.7 above in respect of the missing documents and delay in completion of the project.

7.13 Pipeline Distribution Line, Supply of Materials, and Trench Excavations for Kangu Kangu, Kanyongonyo, Kiseuni

During the financial year under review, Marolta Construction Co. Ltd was contracted to undertake Pipeline distribution line, supply of materials and trench excavations at Kanukangu, Kanyongonyo, and Kiseuni at a contract price of Kshs. 42,382,484. However, the procurement records including tender advert, opening minutes, evaluation and the contract document were not made available for audit review. In addition, except for one paid certificate dated 28th June, 2016 for Kshs. 17,000,000 no other payment records were availed to show how much had been paid in respect to the contract as at 30th June, 2017.

Further, a physical verification revealed although the contractor had left sites that the pipeline distribution line was incomplete and the 3 completed water kiosks had no water flows.

In the circumstances, it was not possible to ascertain that the County Executive got value for money in the Kshs. 42,382,484 contract and the project would be completed within the contract period and price.

Management response

The Accounting Officer explained that;

- The tender was advertised in the Daily Nation of Wednesday 23rd December, 2015 and copies of the advert, minutes and report of the evaluation committee were available for audit inspection.
- The contractor was paid Kshs. 17,000,000. This was done in October, 2016 after the systems were re-opened. No other payment records were availed for audit review because the financial year had been closed. An additional payment of Kshs. 23,763,350 was made on 15th may, 2017.
- At the time of audit, distribution of the line had not been tested despite the fact the county government and the world vision had completed their components of works.
- Out of the ten water kiosks constructed, the audit team visited only three which are served by storage tanks with a capacity of 10,000 litres.
- The contractor was to be paid a retention of Kshs. 4,238,483.81 after testing of the pipeline.

The Committee heard from the Auditor-General that the required documents (extract of the daily nation containing the tender advert and copies of the opening minutes and tender evaluation report) were not attached for audit verification.

The Committee reiterates its concerns and recommendations under sub-paragraph 7.1 of this report in respect of the missing documents, the contractor paid upfront for incomplete works and failure by the contractor to complete the works within the contract period

7.14 Construction of Lot II Drifts on B7 Kisasi – Mbitini – Yongela – Voo

During the financial year under review, Jomeg Contractors was contracted to construct Lot II drifts on B7 Kisasi – Mbitini – Yongela – Voo at a contract price of Kshs. 13,927,068. Records made available showed that Kshs. 11,790,378 had been paid for certified work as at 30th June, 2017. However, the procurement records including tender advert, opening minutes, bibbers' documents, evaluation, notification of award of the contract and the contract document were not made available for audit review. Further, there was no recorded deliveries of the regret letters, if any, to the unsuccessful tenderers contrary to Section 74 of the PPAD Act 2015. In addition, the contract award was not published and publicized as required by Section 138(1) of the PPAD Act 2015.

In the circumstances, the County Executive was in breach of Public Procurement and Disposal (PPAD) Act 2015 and it was not possible to ascertain that value for money was attained in the Kshs. 13,927,068 contract.

Management Response

- The road (B7 Kisasi - Mbitini - Yongela - Voo) was rendered impassable by heavy rains and flooding forcing the county government to fast-track its rehabilitation through construction of lot ii drifts to ease transport crisis.
- To safe on time and costs, the management opted for restricted tender. Use of this method had been approved and is allowed under section 102 of PPADA 2015. The contract was executed before closure of the 2016/2017 financial year. A supplementary budget was prepared in line with the procurement plans.

- The tender processing documents were taken away by the EACC which was investigating the matter. An inventory of the missing files is hereby attached for audit verification.
- The works were not complete at the time audit as the project had stalled. However, the contract had to be reviewed to ensure completion of the project. The contractor was paid upon practical completion of the project.

The Committee heard evidence from the Auditor-General that the matter remained unresolved as no documentary evidence was submitted for audit verification.

The Committee restates its observations and recommendations under sub-paragraph 7.10 above in respect of the missing documents, failure to publicize award of the contract and issue regret letters to the unsuccessful bidders.

Further, the Committee recommends that the Accounting Officer must immediately take personal interest in this matter and liaise with EACC with a view to obtaining the original documents or certified copies for audit inspection.

7.15 Renovations of Buildings at Kitui Level IV Hospital

The County Executive awarded a contract to renovate 19 buildings at Kitui level IV hospital to two contractors namely; Timax Building and General Contractors Limited and Afriserve Interventions Ltd, at a total contract sum of Kshs. 39,760,426. However, a physical inspection revealed that a contraction of a new walkway from Nyayo ward via Theatre to Maternity and execution of other works at a cost of Kshs. 330,000 and Kshs. 4,104,040 respectively which was included in the BQs and paid for was not constructed.

Committee observation

The Committee observes that;

1) The Management did not response to this audit query and therefore violated Section 31 (4) of the Public Audit Act (PAA), 2015 which states that: "the accounting officer shall within fourteen days from the date of the draft management letter,

submit a response to the auditor-general including remedial actions that have been undertaken to address any qualifications in the draft management letter".

2) *Execution of this project raised serious ethical, integrity and accountability issues which are tell-tale signs that this transaction was possibly corrupt, collusive, fraudulent, or otherwise illicit.*

Committee recommendation

On account of the doubts surrounding implementation of the project, the committee recommends that the Ethics and Anti-Corruption Commission (EACC) should investigate this matter with a view to taking appropriate legal action against suspects if theft of public funds is confirmed and recover the lost amount.

7.16 Road Construction of Enziu – Kamulewa – Kalitini Road Project

During the financial year under review, Jeti General Constructors Ltd Kitui was awarded a Kshs. 18,879,370 contract to construct Enziu – Kamulewa – Kalitini. However, the tender documents, opening minutes, evaluation minutes, the award minutes and the appointment letters to the various committee were not made available for audit verification.

In addition, no supporting documents in respect to provisions totaling to Kshs. 390,000 reflected in the BQ were made available for audit review.

In the circumstances, the propriety of Kshs. 18,879,370 total contract price could not be confirmed as at 30th June, 2017.

Management response

- The road (Enziu – Kamulewa – Kalitini) was rendered impassable by heavy rains and floods forcing the county government to fast-track its rehabilitation to address transport crisis.

- To safe on time and costs, the management opted for restricted tendering. Use of the method had been approved and is allowed under section 102 of PPADA 2015.
- The project was undertaken before closure of the 2016/2017 financial year. Funds for the project were sourced from a supplementary budget prepared in line with the county's procurement plans for the relevant period.
- The tender documents were taken away by the EACC which was investigating the matter. An inventory of the missing files is attached to this report for audit verification.

The Committee heard from evidence from the auditor-general that the matter remained unresolved for the reason that except the inventory on the missing files, no other information/ documents relating to the contract and the provisions of Kshs. 390,000 reflected in the BQ were made available for audit inspection.

The Committee recommends that if the documents are still with the EACC, the Accounting Officer must immediately take personal interest in this matter and liaise with the EACC with a view to obtaining the original documents or certified copies for audit inspection.

Based on the forgoing, the Committee advised the auditors to make follow-up on the issue in the subsequent audit. By the same token, the Committee promised to take an unfriendly decision against all those concerned if the issue is reported again.

7.17 Street Lighting of Kitui Town Mjini Road

During the financial year under review, M/S. Tryphosa Agencies Ltd was awarded a Kshs. 35,950,637 contract for road construction and street lighting of Kitui town Mjini road through tender number CGOKTI/303/2014-2015.

However, the tender documents, the tender processing documents like tender opening minutes, evaluation minutes, the award minutes and the appointment letters to the various committees were not made available for audit verification.

In addition, included in the contract sum of Kshs. 35,950,637 was an unsupported general office administration and preliminaries provision of Kshs. 1,423,000.

In the circumstances, it was not possible to ascertain the propriety of the Kshs. 39,950,637 totaling contract sum as at 30th June, 2017.

Management response

In response, the C.O referred the Committee to supporting documents (tender documents) attached to his report for audit inspection.

Upon review the documents, the Committee noted that except for the tender advert, no other information/documents were attached for audit examination.

The Committee reiterates its observations and recommendations under sub-paragraph 7.16 above in respect of lack of credible documents explaining and substantiating the genuineness of this transaction.

7.18 Construction of Nguni River Drift

During the financial year under review, M/S. Nariana was contracted to construct Ngini river drift at a contract sum of Kshs. 69,889,710. However, the tender document and the tender processing documents were not provided for audit verification. Further, included in the Kshs. 69,889,710 contract sum was an unsupported expenditure of Kshs. 8,977,000 in respect to general office administration and miscellaneous and HIV/AIDs advocacy program. In the circumstances, the propriety of the Kshs. 69,889,710 total contract sum as at 30Th June, 2017 could not be ascertained.

Management response

In response, the C.O said all the tender documents were available for audit review.

According to audit verification report by the PIAC, this issue has been laid to rest with the accounting officer providing documents relating to the above query for audit review and were verified as correct.

7.19 Non Provision of Procurement Documents

The County Executive contracted twenty-one (21) firms to supply goods, works and services totaling to Kshs. 210,630,473 during the year under review. However, the procurement documents including initiation of the procurement process, opening, evaluation and award minutes and contract documents were not made available for audit verification.

In the circumstances, the propriety and value for money in respect to the Kshs. 210,630,473 expenditure could not be confirmed as at 30th June, 2017.

Management response

In response, the C.O explained that during the time of audit, the audit team were informed that the under-listed documents were forwarded to the EACC for investigation and others submitted to them for verification.

S/N	TENDER NUMBER	AMOUNT	RESPONSE
1	Tender NO. CGOKTI/826/2014-2015	69,889,710.00	Evaluation Report & tender minutes provided
2	Tender NO. CGOKTI/524/2015-2016	23,130,439.10	All documents including bid documents regarding this tender were submitted to EACC (H/Qs) during investigation of various tenders, an inventory of all the said documents was provided.
3	Tender NO. CGOKTI/781/2014-2015	13,077,565.52	Bid document for Dajo Engineering submitted for your reference

4	Tender NO. CGOKTI/339/2015-2016	18,520,091.22	All documents including bid documents regarding this tender were submitted to EACC (H/Qs) during investigation of various tenders, an inventory of all the said documents was provided.
5	Tender NO. CGOKTI/355/2015-2016	10,015,999.99	All documen including bid documents regarding this tender were submitted to EACC (H/Qs) during investigation of various tenders, an inventory of all the said documents was provided.
6	Tender NO. CGOKTI/336/2015-2016	19,100,000.00	All documents including bid documents regarding this tender were submitted to EACC (H/Qs) during investigation of various tenders, an inventory of all the said documents was provided.
7	Tender NO. CGOKTI/363/2015-2016	13,187,709.13	All documents including bid documents regarding this tender were submitted to EACC (H/Qs) during

			investigation of various tenders, an inventory of all the said documents was provided.
8	Tender NO. CGOKTI/815/2015-2016	2,247,697.20	Evaluation Report & tender minutes provided
9	Tender NO. CGOKTI/371/2015-2016	9,022,255.83	All documents including bid documents regarding this tender were submitted to EACC (H/Qs) during investigation of various tenders, an inventory of all the said documents was provided.
10	Tender NO. CGOKTI/73/2015-2016	14,207,767.29	Tender committee minutes & Evaluation report provided for your reference. Tender register 2015-2016 submitted to EACC (H/Qs) as per the inventory provided.
11	Tender NO. CGOKTI/361/2015-2016	6,876,325.58	All documents including bid documents regarding this tender were submitted to EACC (H/Qs) during investigation of various tenders, an inventory of all the said documents was provided.

12	Tender NO. CGOKTI/357/2015-2016	5,849,624.92	All documents including bid documents regarding this tender were submitted to EACC (H/Qs) during investigation of various tenders, an inventory of all the said documents was provided.
13	Tender NO. CGOKTI/810/2015-2016	12,412,236.67	Evaluation Report tender minutes provided
14	Tender NO. CGOKTI/342/2015-2016	17,363,104.61	All documents including bid documents regarding this tender were submitted to EACC (H/Qs) during investigation of various tenders, an inventory of all the said documents was provided.
15	Tender NO. CGOKTI/359/2015-2016	6,172,602.44	All documents including bid documents regarding this tender were submitted to EACC (H/Qs) during investigation of various tenders, an inventory of all the said documents was provided.
16	Tender NO. CGOKTI/362/2015-2016	18,879,370.14	All documents including bid documents regarding

			this tender were submitted to EACC (H/Qs) during investigation of various tenders, an inventory of all the said documents was provided.
17	Tender NO. CGOKTI/365/2015-2016	8,344,719.46	All documents including bid documents regarding this tender were submitted to EACC (H/Qs) during investigation of various tenders, an inventory of all the said documents was provided.
18	Tender NO. CGOKTI/89/2015-2016	3,280,300.20	Evaluation Report & tender minutes provided
19	Tender NO. CGOKTI/795/2014-2015	8,757,983.73	Bid document for Lead serve provided for your reference
20	Quotation No. CGOKTI/Q003/2016-2017	2,854,075.40	Complete file with bid documents provided for your reference.
21	Quotation No. CGOKTI/Q572/2016-2017	2,065,440.00	Complete file with bid documents provided for your reference.
	TOTAL	**210,630,473**	

The Committee observes that this matter remains unresolved due to the missing documents. Further, the Management adduced no

evidence to prove that the said documents were under the custody of the EACC.

If the documents are still with the EACC, the Committee recommends that the Accounting Officer must immediately take personal interest in this matter and liaise with EACC with a view to obtaining the original documents or certified copies for audit review.

8.0 Human Resources Management

8.1 Organization Structure and Staff Establishment

The June payroll for the year under review reflected a total staff strength of 5303 both in the IPPD and manual payrolls. However, the County Executive lacked an approved organization structure that depicts the various offices, holders of these offices and their technical and support staff. Their lines of authority were not clearly defined. Further, it was not possible to ascertain stations and department where some officers worked. In addition, the County Executive did not have an approved staff establishment that would show the positions of employment in the Executive, the numbers filled and any under/over establishments including planning for the same.

In the circumstances, it was not possible to ascertain how the 5303 staff were held accountable for their jobs and whether there was over or under establishment.

Management response

The Accounting Officer (CECM-Treasury Mr. Ben Katungi) who appeared before the Committee on 19th October, 2020, explained that;

- All county Ministries and Departments have organizational structures implemented under the Capacity Assessment and Rationalization of the Public Service (CARPS) programme.
- Meanwhile, the County Public Service Board (CPSB) is in the process of developing an approved staff establishment for county employees clearly showing the positions of employment within the Executive.

Committee observations

The Committee applauded Management's efforts in terms of addressing the organizational structure, but counseled that;

1) ***Without an approved staff establishment which has persisted for several years, the county executive continues to employ staff without a proper plan which could lead to overstaffing in certain areas while limiting critical areas that require more personnel.***

2) ***With lack of staff establishment framework, the county public service board (CPSB) is unable to demonstrate how they deal with variances in staff ranking and over/ under staff establishment. As a result, the board cannot ascertain appropriate use of the human capital available.***

Committee recommendations

The CPSB should;

1) ***As a matter of urgency develop a human resource policy that clearly stipulates how each category of employee will be recruited into the service of the county government. Recruitment and placement of staff should also adhere to the requirements of article 10 and 232 of the Constitution of Kenya (2010).***

2) ***Develop human resource and training policies so as to effectively manage the human resource function.***

8.2 Employees Sharing Same Bank Account Numbers

A review of the June, 2017 IPPD payroll revealed that six employees shared three bank account numbers with each account being shared by two employees as follows;

Name	Personal Number	Account Number	Monthly Gross Salary (Kshs.)
Mulindah Pius Samuel	1983060136	68127025556	98,660
Mulindah Everlyne Kavengi	1986020193	68127025556	25,971
Munyoki Janetor Mueni	20160082495	10000050556	26,223
Kimaku Joel Vundi	20160082708	10000050556	26,223

Kyavoa Bernard Ndisya	1987077606	590199510663	63,880
Kyavoa Pauline Jeruto	1987079810	590199510663	63,880
			304,837

No explanation was given as to why two different employees with different personal numbers were sharing the same bank account.

Further, a review of the June, 2017 payroll revealed that two employees namely Mutua Joseph – ID Number 27640687 and Muthui Stephen Mati – ID number 29603720 who appearing in the manual and IPPD payrolls respectively shared the same KRA pin number A007398585R. The two were paid a total gross salary of Kshs. 61,190 in the month of June, 2017.

In the circumstances, it was not possible to ascertain the propriety of the Kshs. 304,837 and Kshs. 61,190 paid to the six and two staff members sharing bank account / KRA pin number respectively.

Management response

The Management explained that;

- Mulindah Pius Samuel and Everlyne Kavengi Mulindah and Bernard Ndisya Kyavoa and Pauline Jeruto Kyavoa are spouses all of them work for the County Government. Pius and Kavengi are deployed at the Ministry of Health and Sanitation while Ndisya and Jeruto work at the Ministry of Agriculture, Water and Irrigation. Being married and working at the same Ministries, they operated joint bank accounts which they used as their salary account.
- For the case of Janetor Mueni Munyoki and Joel Vundi Kimaku records revealed that they were allocated the same account number- 10000050556 by Mwingi Mwalimu SACCO. The matter was referred to the human resource department to rectify the anomaly.
- Mutua Joseph-Agricultural Officer II- was in juke, 2017 paid through the manual payroll. This is because the Management had by then not allocated him a Personal Number.
- The reported sharing of KRA pin between Mutua and Muthui must have resulted from a wrong entry because Mutua was in July, 2017

allocated a Personal Number 20170018973 and his correct KRA pin captured in the system as A005571314E.

The Committee noting with conviction the explanation and documentary evidence provided by the Accounting Officer, recommends that this matter be closed.

Nevertheless, the Committee strongly recommends that the Human Resource Management Office should keep an eye on this matter and institute necessary measures to sanitise the payroll system.

8.3 Employees whose Age was Over 60 Years

A review of the June, 2017 IPPD payroll revealed that 8 employees, earning a monthly gross pay of Kshs. 556,455 were aged over 60 years as follows;

Payroll Num	ID No.	Name	Designation	Date of birth	Age	Monthly Pay
1979098282	16000241	Kubora Charles Musyimi	Agricultural Assistant (1)	01/07/1956	61 yrs	
19811086924	998366	Kisinzi Mbusya Richard	Senior Assistant Occupational Terapist	07/06/1957	60 yrs	
1981110545	6420171	Bernard Kitheka M	Advisor - Economic (County)	01/05/1953	64 yrs	1
1984068739	5476135	Munyoki Agnes Mwende	Cleaning Supervisor (2a)	17/10/1955	62 yrs	
20140001047	1895575	Muli Patrick Kivaa	Public Relations Assistant (3)	15/08/1951	66 yrs	
20140005849	1238476	Kimoli Fredrick William Kiema	Chief of Staff (County)	01/07/1952	65 yrs	1

20140095683	576864	Mutei David Mwandia	Chief Driver	01/07/1943	74 yrs	
20160061441	998342	Mbai Richard Mutua	Radiographer (3)	01/07/1955	62 yrs	55891

In the circumstance, the Kshs. 556,455 monthly pay for the 8 employees who were past the retirement age was irregular and contrary to Government Regulations.

Management response

The Management explained that;

- Kubora Charles Musyimi (P/N 1979098282) and Munyoki Agnes Mwende (P/N 1984068739) are employees of the county government. They will retire at 65 years because they disabled.
- The retirement date for Kisinzi Mbusya Richard (P/N 1981086924) was 7th June, 2017. This is because he was born on 7th June 1957. It is for this reason that he was paid for only six days in June 2017.
- The rest-Bernard Kitheka M. (P/N1981110545), Muli Patrick Kivaa (P/N 20140001047), Kimoli Fredrick William Kiema (P/N 20140005849), Mutei David Mwandia (P/N 20140095683) and Mbai Richard Mutua (P/N 20160061441) were engaged on local contract.

The Committee noting with conviction the explanation and documentary evidence provided by the Accounting Officer, recommends that this matter be closed.

8.4 Over Commitment of Salaries

A review of the Executive payroll for the year under review, revealed that the net pays of forty one (41) employees were below one third of their basic pay contrary to Section G (21) of the code of regulations (COR) (revised 2006) and Section 19 (3) of the Employment Act 2007.

In the circumstances, the County Executive was in breach of the code of regulations (revised 2006) and the Employment Act, 2017.

Management response

The Management explained that the 41 officers were earning below one third of their basic salary due to the following factors;

- Recovery of imprests,
- Surcharges,
- Commitment of their salaries to bank/SACCO loans,
- Implementation of the contributory county pension scheme and,
- Interdiction which saw some officers earning half of their basic salary

PNO	NAME	REASON FOR SALARY OVERCOMMITMENT
20140000924	Kimanga Fredrick Kisonge	Imprest Recovery
20140027158	Kitundu Joshua Muimi	Implementation of the Contributory County Pension Scheme – by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20140027256	Muimi Boniface Kaseve	Imprest recovery
1978068179	Atswere Bonface Olenyo	Imprest recovery
20140001056	Muli Fredrick Martin	Overpayment recovery
20140000157	Peter Penninah Nzambi, Nzile	Implementation of the Contributory County Pension Scheme – by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20140015381	Muvinga Solomon Kitheka	Implementation of the Contributory County Pension Scheme – by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.

20140000086	Mutua Jacob Mwandikwa	Officer was erroneously over recovered 31 % GoK Pension contribution in the month of June 2017.
20140023187	Makau John Kimwele	Implementation of the Contributory County Pension Scheme - by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20140000219	Kimanzi Grace Kalungwa	Implementation of the Contributory County Pension Scheme - by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20140000166	Njiru Penninah Njoki	Implementation of the Contributory County Pension Scheme - by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20140015434	Malombe Festus Nzuki	Implementation of the Contributory County Pension Scheme - by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
19960001923	Charles Annah Mwikali	Surcharge
20150004130	Mulyungi Mumo	Imprest recovery
20140015443	Sanganyi Julie Moraa	Implementation of the Contributory County Pension Scheme - by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20140026991	Ndambuki Annah Wambui	Implementation of the Contributory County Pension Scheme - by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20140027201	Mwendwa Solomon Mulandi	Implementation of the Contributory County Pension Scheme - by the time the scheme was implemented, some

		employees had committed their salaries to bank/sacco loans.
20150003124	Mutinya Ruth Katongu	Implementation of the Contributory County Pension Scheme – by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
2010015324	Sila Samuel Mwaniki	Officer was on interdiction hence earning half of his basic salary
20130042312	Wambua Timothy Musyoka	Implementation of the Contributory County Pension Scheme – by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20130042554	Mwangangi Mutambuki	Implementation of the Contributory County Pension Scheme – by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
2010109319	Muema Eddah Mutenyo	Implementation of the Contributory County Pension Scheme – by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20130042456	Ali Abdi Mohammed	Implementation of the Contributory County Pension Scheme – by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
19870007800	Lendi Elizabeth Koli	Implementation of the Contributory County Pension Scheme – by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
2012009257	Kathengi Peter Nzia	Implementation of the Contributory County Pension Scheme – by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.

20140001985	Mang'ondu Redempta Nzisa	Implementation of the Contributory County Pension Scheme - by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20150025415	Ishmael Florence Kawee	Implementation of the Contributory County Pension Scheme - by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20140095647	James David Kilonzi	Implementation of the Contributory County Pension Scheme - by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20140023374	Muithya Japheth Kathoka	Implementation of the Contributory County Pension Scheme - by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
19970015859	Kithendu Gedeon Muthuku	Implementation of the Contributory County Pension Scheme - by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20140095567	Katheke Winfred Nzisa	Implementation of the Contributory County Pension Scheme - by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20130042492	Kanati Job	Implementation of the Contributory County Pension Scheme - by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20140000479	Yoana Shadrack Mbuvi	Implementation of the Contributory County Pension Scheme - by the time the scheme was implemented, some

		employees had committed their salaries to bank/sacco loans.
20130042607	Ngii Joshua Musyoka	Implementation of the Contributory County Pension Scheme – by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20140068793	Mulwa Esther Stella	Implementation of the Contributory County Pension Scheme – by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20150003660	Katungi Catherine Kathini	Implementation of the Contributory County Pension Scheme – by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20150003562	Mwela Bernard Kimanzi	Implementation of the Contributory County Pension Scheme – by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
19860001369	Mwangangi Samuel Mati	Implementation of the Contributory County Pension Scheme – by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
19900008031	Mwanza Lazarus Ndunda	Implementation of the Contributory County Pension Scheme – by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20000003743	Malonza Nguthu	Implementation of the Contributory County Pension Scheme – by the time the scheme was implemented, some employees had committed their salaries to bank/sacco loans.
20150004069	Musyoka Michael Kiminza	Implementation of the Contributory County Pension Scheme – by the time the

		scheme was implemented, some employees had committed their salaries to bank/sacco loans.

The Committee noting with conviction the explanation and documentary evidence provided by the Accounting Officer, recommends that this matter be closed.

8.5 Ethnicity

An ethnic analysis of the 2289 employees working directly under the County Executive using the IPPD staff register as at 30th June, 2017 revealed that the largest represented ethnic community (Kamba) was at 81% while the lowest was at 0% as follows;

Ethnic Name	Number	Percentage
Kamba	1856	81.08%
Kikuyu	173	7.56%
Meru	76	3.32%
Embu	42	1.83%
Luhya	29	1.27%
Luo	27	1.18%
Kisii	22	0.96%
Mbeere	16	0.70%
Tharaka	9	0.39%
Mijikenda	7	0.31%
Kalenjin	7	0.31%
Swahili-Shurazi	4	0.17%
Taita	4	0.17%
Pokomo	2	0.09%
Masai	2	0.09%
Somali-SO-State	2	0.09%
Kenyan Asian	2	0.09%
Kenya Arab	2	0.09%
Bajun	1	0.04%
Kuria	1	0.04%
Taveta	1	0.04%
Teso	1	0.04%
Dorobo	1	0.04%

Boran	1	0.04%
Other Kenyan	1	0.04%
	2289	

Further, the majority of the recruits were from the same community (Kamba) at 96% contrary to the provision of the County Government Act, 2012.

In the view of the foregoing, the County Executive was in breach of Section 65 of the County Government Act, 2012.

Management response

The Management explained that;

Since inception, Kitui County Public Service Board has endeavoured to hire people from all over Kenya. This is why when vacancies are declared in the public service they are always advertised in the national newspapers and other forums with nationwide outreach. This is done so that interested Kenyans can apply for the jobs. However, the following factors continue to mitigate against county's efforts to build a public service with a national outlook.

1) Departure of non- indigenous employees who were inherited by the county government from the defunct local authorities and the national government after dome functions were devolved but later opted to work in their home counties.
2) Negative perception that Kitui is a hardship area. This makes many people shy away from working here which gives the locals advantage when vacancies are declared in the public service.

Citing this as a recurring issue, the Committee observes that;

1) ***This issue is not unique to Kitui as other counties in Kenya continue to hire their ethnic kinsmen in blatant violation of prevailing legislations.***
    - ***Part 111, 7(1) and (2) of the National Cohesion and Integration Act No. 12 of 2008, states that 'all public***

establishments shall seek to represent the diversity of the people of Kenya in the employment of staff, and that 'no public establishment shall have more than one third of its staff from the same ethnic community.

2) It is feared the National Cohesion and Integration Commission (NCIC) has not done enough to end discrimination in the counties. The committee views the requirement that certain positions in the counties such as village and ward administrators can only be held by the locals as a reality but a serious setback to ending discrimination in the devolved units.

Committee recommendations

County Public Service Boards across the country should going forward, comply with the law and ensure at least 30 per cent of entry-level posts are filled by candidates who are not from the dominant ethnic communities.

9.0 Budget and Budgetary Controls

9.1 Budget Process

A review of the County Executive's Fiscal Strategy Paper for 2016/2017 dated February, 2016 revealed that although it was presented to the County Assembly on 26th February, 2016 it was not subsequently published and publicized as required by Section 117 of the Public Finance Management Act, 2012.

In the circumstance, the County Executive was in breach of the Public Finance Management Act, 2012.

Further, the combined summary statement of Appropriation reflected total receipts of Kshs. 10,970,406,015 and a similar expenditure for the year under review. However, except for notification made in one newspaper, no other supporting documents including the list of participants, minutes and reports were made available to ascertain that the budget was taken through public participation.

In the circumstances, it was not possible to confirm that the public participation was conducted as required by Law.

Management response

In response, the Accounting Officer submitted documents showing that the budget was taken through public participation.

The Committee recommends that the matter be closed.

9.2 Expenditure Budget

(i) The approved total budget for the year under review was Kshs. 10,970,406,014 which comprised Kshs. 5,750,303,233 recurrent budget and Kshs. 5,220,102,781 development budget. However, the actual expenditure was Kshs. 5,185,700 and Kshs. 3,862,217,415 in respect to recurrent and development respectively both totaling to Kshs. 9,047,918,389 resulting into an under expenditure of Kshs. 1,922,487,626.

In the circumstances, the residents of Kitui County did not get promised and expected services equivalent to the under - expenditure of Kshs. 1,922,487,626.

(ii) The total development budget of Kshs. 5,220,102,781 did not have a breakdown of the specific proposed projects to be undertaken in each department.

In the circumstance, it was not possible to confirm that the projects implemented during the year were the actual budgeted projects.

(iii) A comparison of the budgeted expenditure with the actual expenditure as per the financial statements revealed that the following 5 items with a total budget of Kshs. 762,490,416 had a total expenditure of Kshs. 823,749,271 resulting to an unapproved over expenditure of Kshs. 61,258,855 as follows;

Title and Details	**Sum of Approved Estimates (Net) - Classified (Kshs.)**	**Financial Statements (Kshs.)**	**variance Budget Less Financial Statement Actuals (Kshs.)**

Domestic Travel and Subs	302,302,427	349,463,826	47,161,399
Foreign Travel and Subsistence	22,221,577	24,618,030	2,396,453
Specialized Materials	429,032,770	437,627,989	- 8,595,219
Other Capital Grants and Trans	-	1,467,300	- 1,467,300
Rehabilitation of Civil Works	8,933,642	10,572,126	- 1,638,484
	762,490,416	**823,749,271**	**- 61,258,855**

No approval was sought for the over-expenditure through a supplementary budget.

In the circumstance, the appropriation of the Kshs. 61,258,855 was contrary to the provisions of the Public Finance Management Act, 2012

Management response

In his reply, the Accounting Officer submitted that;

- Different results can occur financial statements are prepared on cash basis and accrual basis. The financial statements for the year under review were prepared on cash basis hence the reported under absorption of kshs. 1,922,487,626 which reflected the true position.
- The unspent balance: this involved pending bills and monies that were committed in the vote book to cater for projects that were being undertaken at the time. The County had unpaid bills totaling to Kshs. 888,932,982 as reported in the financial statements.
- In- house training for county staff who prepare financial statements was conducted. The training was organized by the county in collaboration with the national treasury through its financial reporting unit (FRU). As a result of the training, the staff improved on financial reporting and were able to prepare accurate accounting supporting schedules using the data and information

generated from the IFMIS. The personnel are able to pass journals to correct anomalies such as over-commitment in certain budget lines.

The Committee heard evidence from the Auditor-General that this matter remains unresolved for reasons that the unapproved over expenditure of Kshs. 61,258,855 was not explained and that no breakdown of the proposed projects in each department was submitted for audit verification.

Committee observation

The Committee attributed the budget overruns (unauthorised expenditure of Kshs. 61,258,855) and under-expenditure of Kshs. 1,922,487,626 to;

1) ***Preparation of unrealistic budgets and lack of monitoring mechanism to enforce appropriate spending.***

2) ***Non-adherence to the spending maximum defined in the approved budgets for which the Accounting Officer violated Regulations 31(e) (ii), 43 (2), 112, and 114 of the Public Finance Management (County Governments) Regulations, 2015 which are reproduced below;***
   - ***31(e) (ii) -total budget revenue shall cover total budget expenditure and therefore appropriation shall be for a specific purpose or a specific programme or item of expenditure;***
   - ***43 (2) – states that "county government entities shall execute their approved budgets based on the annual appropriation legislation, and the approved annual cash flow plan with the exception of unforeseen and unavoidable spending dealt with through the county emergency fund, or supplementary estimates.***
   - ***112 - If an accounting officer finds, after appropriation accounts are completed, that he or she has spent more than the total vote, that accounting officer shall seek county assembly approval through the county executive committee member for that excess vote.***

- ***114- goods, works and suppliers, including capital investments, shall be procured according to an approved procurement plan***

3) ***The Committee concurs with audit observation that under - expenditure of Kshs. 1,922,487,626 denied Kitui residents promised and expected services from the county government equivalent to the amount.***

Committee recommendations

The Committee exhorts the Management to ensure;

1) ***Continuous reconsideration of budgets is enforced to serve as an early warning signs for possible under spending and to avert financial stress in the course of implementation of budgets.***

2) ***The spending agencies are be able to assess the adequacy of their own budgetary systems to avoid financial stress in the course of implementation of budgets and check on overspending and under-spending.***

3) ***They seek additional funds through supplementary budgets and seek approval of excess-vote from county treasury.***

10.0 Non Reconciling Financial Reports

10.1 Unsupported Fixed Assets

Annex 4 of the annexes to the financial statements reflected fixed asset totaling Kshs. 6,962,440,643 as at 30th June, 2017. However, the respective supporting schedules were not availed for audit review.

Further, during the year under review, the County Executive did not maintain a fixed assets register as required by Section 149 of the Public Finance Management Act, 2012.

In the circumstances, the accuracy, existence and security of the fixed assets balance of Kshs. 6,962,440,643 as at 30th June, 2017 could not be confirmed.

Management response

In his reply, the Accounting Officer mentioned that;

- The County is in the process of preparing a Fixed Assets Register containing a list of all the fixed assets owned by the government.
- Analysis of the assets acquired since the 2013/2014 financial year is underway and will help in identifying and tagging all the public assets to guarantee their security.

Committee observations

The Committee;

1) ***Strongly condemns management's inattentiveness in developing a comprehensive / a well-organized Fixed Asset Register making the county assets susceptible to loss, theft and misuse.***

   The Committee described the heedlessness as worrisome for the reason that the matter has been pending for several years with the County Government risking losing sight of its valuable assets and open the floodgates for looting of public property. .

2) ***Observes that maintaining a Fixed Asset Register, cannot be overemphasized for it enables public entities to know at a glance, date of purchase of asset, make of the asset, source of acquisition, depreciation, residual value and location of asset.***

Committee recommendations

Contingent upon the above, the committee recommends that;

1) ***Regulations 132 (1) (b) and 136 (1) of the PFM (CG) Regulations 2015 require public managers to safeguard public assets by maintaining a comprehensive Fixed Asset Register. Thus, it is the responsibility of the controlling officers to meet this custodial obligation.***

2) ***All County Departments/Agencies must ensure that a verifiable asset register; which contains asset descriptions, dates on which they were acquired, as well as serial numbers; is created and updated on monthly basis to safeguard and maintain assets.***

3) Failure to comply, the Appointing Authority should apply severe disciplinary measures against non-performing officers who continue to abdicate their custodial obligation with impunity. The sanctions should include demotion and /or sacking from the public service for persistent negligence of statutory duty.

11.0 Prior Year Audit Issues

Prior year audit issues raised in the 2015/2016 audit report have not been addressed by the County Executive as shown in Note XIII on follow progress. No reason(s) have been given for this anomaly as at 30th June, 2017.

Management response

The Accounting Officer responded that the prior year audit issues raised in the 2015/2016 audit report were acted upon and a file submitted to the auditors for review and further advice.

The Committee takes note of the explanation by the Accounting Officer but recommends that the management should in future ensure that issues raised by the auditor general are expeditiously addressed as soon as the management letter is received.

CONSIDERATION OF THE REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF THE COUNTY ASSEMBLY OF KITUI FOR THE YEAR ENDED 30 JUNE 2017.

(Components of the audit report and the Committee's specific recommendations)

Basis for qualified opinion

1.0 Accuracy and Completeness of the Financial Statements

The statement of financial assets and liabilities as at 30 June 2017 reflects a cash and cash equivalents balance of Kshs.25, 287,067 which differs with the surplus of Ksh.31, 549,579 reflected in the statement of receipts and payments by an unexplained variance of Kshs.6, 262,513. Further, the IFMIS ledger reflects total expenditure of Kshs.696, 397,070 while the statement of receipts and payments for the year under review reflects an expenditure of Kshs.750, 200,187 resulting to an unexplained variance of Kshs.53, 803,118.

In the circumstances, the accuracy and completeness of the financial statement balances as at 30 June 2017 cannot be confirmed.

Management Response

The Accounting Officer mentioned that;

- The variance of Kshs.6, 262,513 was a balance brought forward from the previous financial year. Section 136 of the public finance management act 2012, require that any unspent funds are transferred to the county revenue fund at the end of the financial year.
- County Assemblies prepare their financial statements using the cash basis and therefore cash and cash equivalents at the beginning of the financial year should have stood at zero.
- Expenditures outside the IFMIS were occasioned by cash payments of ward operation imprest, payments in cheques forward office rent and poor network connectivity. Payments for ward offices rent

in cheques was authorized by the County Assembly Service Board (CASB) because the same could not be paid through IFMIS for the reason that some landlords/landladies were not recognized by the system.

- For the ward operation fund, money could not be transferred from the central bank because ward offices lacked bank accounts at the time.

The Committee takes note of the explanation by the Accounting Officer but counsels that;

1) ***In future he address the Auditor-General's management letter expeditiously and avail all the required audit documents for verification in time to avoid unnecessary and time wasting audit queries.***

2) ***Always ensure that financial statements and other information included in the annual reports are checked and reviewed for completeness and accuracy prior to audit. All amendments to financial statements and information should be done before the annual audit commences.***

3) ***They always maintain accurate records including general ledger from which the trial balance and schedules can be extracted and ensure review of the ledger and trial balance is done regularly so as to detect and correct any errors in a timely manner.***

2.0 Ward Operating Expenses

The financial statements for the year under review indicate Use of Goods and Services balance of Kshs.288, 452,987 which includes Other Operating Expenses balance of Kshs.37, 583,458. Included in the later balance are ward operating expenses of Kshs.30, 732,000 paid at Kshs.60, 000 per month per ward. The initial monthly allocation to the wards was Kshs.15, 000 which gradually increased to Kshs.25, 000, then Kshs.40, 000 and finally to the sum of Kshs.60, 000 payable as at 30 June 2017. However, no documents or explanations have been made available by management to explain the increased monthly allocations.

Further, the County Assembly did not pass regulations for the management of the ward operations fund. In the absence of a regulatory framework the operations of the fund are irregular and prone to abuse.

An analysis of the major expenditures incurred in the wards in the year under review revealed that they related to hire of tents, chairs, public address systems, and purchase of milk, bread, beverages and newspapers. However, the cost of each of these items was found to be constant for each ward over the year which cast doubt as to the validity of the expenditures

In addition, the delivery receipts supporting the expenditures reflected consecutive serial numbers which raised doubt on the authenticity of the payments.

In the circumstances, the propriety and value- for- money of the expenditure of Kshs.30, 732,000 as at 30 June 2017 cannot be confirmed.

Management Response

In reply, the Accounting Officer explained that;

- To ensure the ward offices operated smoothly, it became necessary to allocate funds to cater for running of the offices. The allocation started at kshs. 15,000 but with time the reality played out and the amount had to be gradually increased to kshs.25, 000, then kshs.40, 000 and finally kshs.60, 000 during the period under review. The money caters for the involving roles of the members of the county assembly as they serve the electorate and perform other related duties including representation, legislation and oversight. The allocations were done through the normal budgeting process.
- Regulations guidelines for management of the ward operations fund were prepared and approved by the CASB.
- The MCAs attend plenary sessions from Tuesday to Thursday which leaves them with little time to attend to the electorate. This role is delegated to the ward offices. This explains why hire of tents, chairs, public address systems, and purchase of milk, bread, beverages and newspapers attracted high expenditure.

- Invitation for public barazas is not uniform. In some wards the public are notified orally and others through announcements at public events in the wards. The issue relating to constant expenditure is addressed in the regulations.
- The ward offices are visited by many people hence the high allocation for beverages and newspapers to promote hospitality.
- For delivery receipts bearing consecutive serial numbers, the management wishes to point out that this was an oversight and the matter has since been addressed.
- The management undertakes surprise visits to the ward offices to ensure funds allocated are utilized prudently.

Committee observations

The Committee takes note of the explanation by the Accounting Officer but strongly condemns the practice of late submission of documents to auditors, maintaining that it undermines the credibility and authenticity of such documents, provides an opportunity for manipulation of documents, and encourages 'creative' accounting practices in the public service. .

Committee recommendations

The Committee;

1) ***Endorses its previous recommendation that the Accounting Officer must always ensure all transactions, from inception to completion, should be supported by the relevant documentations and these should be numbered and cross referenced, so that in cases of missing documents, such documents can be easily traced.***

2) ***Further, recommends that the CASB should facilitate training of ward office attendants and accounts clerks to improve on financial reporting and ensure prudent management of funds allocated for ward operation expenses.***

3.0 Renovation of County Assembly Chambers

The County Assembly of Kitui on 4 May 2015 contracted Centurion Engineers and Builders Ltd to renovate the County Assembly Chambers at a contract sum of Kshs.247, 827,105 executable over a contract period of 281 days commencing 23 May 2015 to 27 February 2016. The County Assembly Public Service Board approved an extension of the contract period to 3 December 2016. However, as at 30 June 2017, the project had not been completed, meaning the contract period had been exceeded by over seven (7) months without any approval for an additional extension.

Further, certificates numbers 1-8 (eight certificates) totaling to Kshs234,145,075 were certified by the consultant, out of which those valued at Kshs.186,602,678 were paid to the contractor leaving an unpaid balance of Kshs.39, 026,742. Included in the outstanding payments in certificate No. 8 was Kshs.3,652,255 and Kshs16,497,000 both totaling Kshs.20,149,255 paid in respect of interest charges and losses due to stoppage of works respectively.. Management did not explain why the County Assembly delayed payments to the contractor resulting to the interest charges and the reason for the stoppage of work that resulted to the claim on related losses.

In the circumstances, the expenditure totaling Kshs.20, 149,255 may have been avoided to prevent waste of public funds.

Management response

In his response, the Accounting Officer attributed the delay in completion of the project and interest charges to;

- Stoppage of work on 17th June, 2015 through a court order. This caused the project to lag behind for several months.
- Delayed payment of certified claims by the contractor resulting from delay by the county treasury in disbursing funds for the project. Further, the contractor could not be paid on time since the case had not been determined by the court.
- The case was settled on 2nd February, 2016 paving way resumption of works after a delay of 165 days.

The Accounting Officer further explained as follows;

- The previous County Assembly Service Board was dissolved before approving the interest charges but the current board is deliberating on the matter.

- The Assembly incurred a loss of kshs. 16,497,000.00 as a result of stoppage of the works through the court orders. Claims by the contractor on related losses involved the following;
  - Labour
  - Security
  - Housing
  - Machinery on site
  - Head office expenses (administration cost)
  - Material on site
- The claims are still being negotiated for subsequent approval by the board.

Based on the documents reviewed (court order/letter from the instructing the contractor to vacate the construction site), record of interview with the Accounting Officer, and evidence submitted, the Committee did indeed find that;

- *The delay in completion of the work was occasioned by a court case filed at Machakos high court by individuals who wanted to stop implementation of the project. The case dragged on for several months forcing the contractor to withdrawal from site which resulted in interest cost paid as penalty on account of delayed settlement of contractual obligations.*
- *Renovation works were marred by a protracted court case filed at Machakos high court. The court case dragged on for 1 year and 8 months leading to slow progress of works, escalated project costs and adversely affecting the project's lifespan as the petitioners sought to suspend implementation of the project.*

- *The works commenced on May 2015 and was to be completed by December 2016 a period of 12 months but it took a little longer following stoppage of work for 18 months to pave way for determination of the case and also due to budgetary constraints.*
- *General conditions of the contract provided that the Management was supposed to hand over the site to the contractor without any encumbrance but the contractor could not access the site for the 18 months due to the court case. As a result extra charges were invoiced by the contractor and paid for demobilization and*

subsequent mobilization of equipment, labour and other overhead costs incurred by the contractor during the period.

The Committee recommends that the Accounting Officer must;

1) ***Must institute sufficient measures to ensure that project implementation is well planned and executed in line with specifications and acceptable standards and delays and costs overruns voided.***

2) ***Particularly develop a mechanism with Treasury to harmonize exchequer releases with capital projects cash flows to ensure availability of funds for project implementation;***

4.0 Irregularities in Domestic Travel and Subsistence Allowances

Note 5 to the financial statements reflects a balance of Kshs.128, 335,538 in respect of domestic travel and subsistence as at 30 June 2017. Included in this amount were domestic travel and accommodation allowances totaling to Kshs.17, 206,692 paid to Members of the County Assembly (MCAs) for official duties to various towns including Mombasa, Nairobi, Kilifi and Kwale. However, no supporting documents including work tickets, bus tickets, attendance registers, and imprest warrants were made available for audit verification. Further, the amounts were expensed without being accounted for through the imprest system as provided for in government financial regulations.

In addition, the County Assembly paid a total of Kshs.4, 404,000 as transport allowances at a rate of Kshs.20, 000 for Mombasa and Kshs.10, 000 for Nairobi per member. However, no documents were provided to confirm the validity of the expenditure.

Under the circumstances, the propriety of the accommodation allowance and transport allowance both totaling to Kshs.21, 610,692 cannot be confirmed.

Management response

The Committee heard from the accounting officer that;

- Supporting documents in respect of the expenditures incurred on the trips includes attendance registers for the hotels which hosted the delegations and back to office reports attached with this report for audit verification.
- Moreover, imprest warrants were issued to support the payments relating to transport and the imprests were duly surrendered. Copies are available for audit inspection.
- The transport rates of Kshs. 20,000 and Kshs. 10,000 for Mombasa and Nairobi were determined by CASB after comparing the same with the AA Government rates which are almost double the amounts recommended by the board. The CASB rates, should therefore, be deemed as modest and reasonable.

Committee observations

The committee;

1) ***Express concern that close to 40% of audit queries in this report have been resolved by way of belated action by Accounting Officers upon being summoned by PIAC. These would most probably have never been audit queries if the Accounting Officers had sufficiently and promptly responded to the auditor general's management letters. In most cases, accounting officers act on queries just when about to appear before PIAC or when ordered by the committee during sittings.***

2) ***Further notes that despite its directives to Accounting Officers to take certain specific actions on audit queries, especially as regards resolving accounting matters after appearance, some accounting officers still fail to oblige.***

Committee recommendations

1) ***Contingent upon the above, the County Assembly administration should going forward be taking the audit process seriously and ensure prompt action on the Auditor-General's management letters to forestall unnecessarily audit queries.***

The committee counsels the administration to inculcate the practice of addressing issues before they are flagged up by external auditors.

2) ***Management must ensure a well-structured record keeping system which is a key component for effective and efficient delivery of services and a foundation of an accountable and transparent administration is put in place to ease retrieval of accounting records/documents.***

5.0 Unsupported Payments to the County Assembly Forum

During the year under review, the County Assembly paid Kshs.2, 700,000 to the County Assemblies Forum being subscriptions for the members of County Assembly for the year 2016/2017. However, no acknowledgement receipts for the payments made and evidence of attendance of the forum by the members of the County Assembly were availed for audit verification.

Consequently, the propriety of the Kshs.2, 700,000 expenditure incurred on the subscriptions cannot be confirmed.

Management response

In his response, the Accounting Officer submitted that;

- Supporting documents (acknowledgement receipts) for the payments made are available for audit examination.
- The members attended the forum but attendance registers under the custody of CAF.

The Committee reiterates its observations and recommendations under paragraph 4.0 above in respect of the inordinate delay in submitting documents for audit verification.

6.0 Human Resource Management.

6.1 Staff Establishment

The County Assembly of Kitui Integrated Personnel and Payments Database (IPPD) for the Month of June 2017 reflected a total staff strength of 148. However, the County Assembly did not have an approved staff establishment that would show the positions of employment in the Assembly, the numbers filled and under or over establishments, if any, and plans to address these. In view of these discrepancies, it was not possible to ascertain how the 148 staff were held accountable for their jobs and whether the staffing was optimal.

Management response

The Accounting Officer explained that staff establishment is normally guided by approval by CASB on a need basis.

Committee observations

1) ***The Committee noted that employing staff without a proper plan might have led to overstaffing in certain areas while limiting critical areas that needs more staff.***

2) ***In the absence of a staff establishment framework, the County Assembly Service Board is unable to demonstrate how they deal with variances in staff ranking.***

Committee recommendations

The Committee recommends that the County Assembly Service Board should;

1) ***Develop a human resource policy that clearly stipulates how each category of employee will be recruited into the service of the County Assembly.***

2) ***Ensure recruitment and placement of staff adhere to the requirements of article 10 and 232 of the constitution of Kenya 2010.***

3) ***Develop human resource and training policies so as to effectively manage the human resource function.***

6.2 Ward Office Holders

During the year under review, the County Assembly paid Kshs.31, 670,108 as salaries to various ward office holders who included ward assistants, personal assistants, and messengers with each of the 40 wards having one staff member in each of these categories of office holders. Further, each of the 14 nominated members of the County Assembly had a personal assistant and a messenger without operating offices. Included in the Kshs.31, 670,108 expenditure was Kshs.3, 024,000 (Kshs.18, 000X14 X 12 Months) paid to the messengers appointed to serve the 14 nominated members of County Assembly. However, the recruitment of these officers, could not be confirmed due to lack of recruitment documents including advertisement, short listing, and interview records which situation therefore cast doubt on the regularity of the recruitment process.

Further, the salaries paid to these employees could not be confirmed to have been appropriately approved as no Salaries Remuneration Commission circular or advice was made available to support the payments.

Management response

The Accounting Officer mentioned that;

- Employment of personal assistants and messengers for the nominated MCAS was approved by the County Assembly Service Board and it is the reason they are remunerated accordingly.
- The responsibility of identifying and hiring ward office staffs is vested with MCAs because the staffs are partisan. The role of the board in this matter is to ensure the recommended persons meet the minimum set educational standards.
- Salary rates for the staffs were determined by CASB based on the prevailing rates for similar office holders in the public service.

Based on the documents reviewed (copy of board minutes) record of interview with the accounting officer, and other evidence submitted, the committee takes the Accounting Officer by his word that CASB had given the green light for employment of the messengers and personal assistants for each of the 14 nominated members.

The Committee also took note of the explanation by the accounting officer that responsibility of identifying ward office holders is vested with members of the County Assembly since the employees are partisan.

The Committee, therefore, recommends that this matter be closed.

Other Matter

1.0 Budget and Budgetary Control

1.1 Over-expenditure

During the year under review, actual expenditure on six (6) items with an aggregate budget of Kshs.11, 731,100 totaled Kshs.13, 614,447 resulting to an over-expenditure of Kshs. 1,883,347. No supplementary budget covering the over expenditure was provided for audit review. In the circumstances, the County Assembly did not contain its expenditure within the approved budget contrary to the Section 53 of the Public Finance Management (County Government) Regulations, 2015.

Management response

These were the words of the Accounting Officer;

- Reported over-expenditure under of Kshs. 126,952n under maintenance of office furniture and equipment. This resulted from frequent breakdown of a photocopying machine at the clerk's office. Repairs cost kshs. 172,920 surpassing the approved sum of Kshs. 150,000 by kshs. 126,952.
- Membership fees, dues and subscriptions to professional bodies. This item, is reported to have been over spent by kshs. 1,568,386. But the item was overstated in the financial statement. In the IB system, the payment was captured as kshs 1, 300,000 and kshs. 400,000 but reflected twice in the financial statements. This anomaly had been adjusted accordingly.
- Reported over-expenditure of kshs. 610,900 in respect of allowances for the board. This resulted from wrong postings in the system. some expenditures incurred under this vote belonged to other vote heads as follows;

Mileage	Kshs. 18,600

Accommodation allowances	Kshs. 223,800
Accommodation allowances	Kshs. 173, 600
Accommodation allowances	Kshs. 110,000
Accommodation allowances	Kshs. 160,000
Total	**Kshs. 686, 000**

- Payment vouchers supporting the above payments are available for audit inspection.

- Reported over-expenditure of kshs. 1,4,11,798 under catering services. This was erroneous because some expenses belonged to other vote heads as follows;

PAYE on salaries June 2016	Kshs. 659, 550
conference facilities	Kshs. 244, 976
conference facilities	Kshs. 110,948
conference facilities	Kshs. 36,983
conference facilities	Kshs. 28,448
conference facilities	Kshs. 110,948
MCAs accommodation allowances	Kshs. 145,500
Staff accommodation allowances	Kshs. 42,000
MCAs	Kshs. 18, 400
staff accommodation allowance	Kshs. 14,000
Total	**Kshs. 1, 411,753**

- Payment vouchers supporting the above expenditures are available for audit verification.
- Reported over expenditure of Kshs. 592,813 in respect of attendance allowance. A payment related to PAYE on June 2016 salaries was erroneously expensed to this vote resulting to the

reported over expenditure. Payment voucher supporting this expenditure is available for audit verification.

The recommendation above (sub-paragraph 9.2 (2016-2017 audit report) (County Executive) be revisited and implemented.

1.2 Unutilized Funds

The combined statement of comparison of budget and actual amounts for the year under review reflected payments totaling to Kshs.750, 200,187 as at 30 June 2017 against budgeted expenditure of Kshs.914, 512,167 resulting into an under-expenditure of Kshs.164, 311,980 representing 18% of the total budget. Further, the combined statement of comparison of budget and actual amounts reflected budgeted receipts of Kshs.914, 572,167 and actual receipts of Kshs.781, 749,766 resulting to a revenue shortfall of Kshs.132, 762,401. In addition, out of the Kshs.781, 749,766 received during the year, only Kshs.750, 200,187 was spent resulting into an under-expenditure of Kshs.31, 549,579.
As a result, the residents of Kitui County did not obtain expected services equivalent to the revenue shortfall and under-expenditure of Kshs.132,762,401 and Kshs.31,549,579 respectively both totaling to Kshs.164,311,980 during the year under review.

Management response

The Accounting Officer mentioned that;

- The County Assembly sought to implement all the budgeted programmes but the plan was curtailed by underfunding by the county treasury.
- Requisitions for funds including unremitted amounts were made to the county treasury as at 30th June 2017. Copies of requisitions are available for audit verification.

Committee observations

The Committee;

While noting inability by the assembly to keep up with its own budgetary ambitions due to absorptive capacity constraints, laments that failure to spend kshs.164, 311,980 deprived Kitui residents of essential public goods and services.

Committee recommendations

The Committee;

1) *Strongly recommends that the County Treasury must always ensure timely exchequer releases to the County Assembly to enable the legislature meet their financial obligations in time.*

2) *The County Assembly administration on the other hand must ensure that funds allocated to them are utilized optimally and in time.*

3) *Both the County Executive and County Assembly must always ensure preparation and passing of supplementary budgets is done on time to give spending agencies ample time in utilizing the allocations and check on underspending.*

REPORT ON THE EXAMINATION OF THE REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF COUNTY EXECUTIVE OF KITUI FOR THE YEAR ENDED 30TH JUNE 2018.

(Components of the audit report and Committee's specific recommendations)

Basis for Qualified Opinion

1.0 Lack of trial balance

The financial statements availed for audit review had not been supported by trial balance as the management failed to submit the same.

Consequently, it has not been possible to ascertain the validity of balances in the financial statements.

Management response

The Accounting Officer mentioned that preparation of the financial statements for the year under review was based on a trial balance which is available for audit verification.

Committee observations

The recommendation above sub-paragraph 1.3 (under the 2016-2017 audit report, County Executive) on non-preparation of a trial balance) be revisited and implemented.

2.0 Inaccuracies in the financial statements

2.1 Variances between Financial Statements and Supporting Schedules Balances

The statement of receipts and payments for the year under review reflect total actual payments of Kshs. 9,715,648,143 as at 30 June 2018. However, comparison of balances reflected in the financial statements for the year under review with the balances reflected in the respective supporting schedules reflected unexplained and unreconciled expenditure understatement of Kshs. 68,969,179 on three items and an overstatement of Kshs. 13,728,214 on two items as follows;

Items Description	Note	Financial statement balance (Kshs)	Supporting Schedules (Kshs	Variance understated overstated(Kshs)	
Domestic Travel and Subsistence, and Other Transportation Costs	12	445,802,386	444,973,622		828,764
Other Operating Expenses	12	218,761,581	219,410,842	649,261	
Construction of Roads	17	444,825,833	431,926,383		12,899,450
Rehabilitation of Civil Works	17	30,580,070	63,877,181	33,297,111	
Scholarships and other educational benefits	15	151,863,077	186,885,884	35,022,807	
Net Total		**1,291,832,947**	**1,347,073,912**	**68,969,179**	**13,728,214**

Management response

In his response, the Accounting Officer explained that supporting schedules in respect of all figures appearing in the financial statements and in relation to the understated and overstated items were prepared and are attached to my report for audit review.

The Committee heard evidence that this matter had been resolved as the Accounting Officer had acted on the anomalies in question to the satisfaction of the Auditor-General

2.2 Variances between the Financial Statements and Vote Book Balances

The statement of receipts and payments for the year under review reflected total actual payments of Kshs. 9,715,648,143 as at 30 June 2018. However, the respective IFMIS vote book status report reflected a total actual expenditure of Kshs. 8,645,103,760 resulting into an unreconciled and unexplained difference of Kshs 1,070,544,383.

In addition, the statement of appropriation, recurrent and development combined reflected a total final budget of Kshs. 11, 243,352,815. However, the IFMIS final approved budget reflected a total of kshs. 9, 909,662,623 resulting to an unexplained and unreconciled variance of kshs. 1,333,690,192.

In the circumstance, the accuracy and completeness of the reported final budget in the statement of appropriation combined could not be confirmed as at 30 June 2018.

Management response

The Accounting Officer attributed the differences of balances in financial statements and vote book to;

- Transfer of funds to other departments. The transfers were usually done below the line because the amounts disbursed were usually lump-sum. the disbursements were made to the County Assembly and various health facilities as follows;
  - ✓ Kshs 811,034,003 (county assembly).
  - ✓ Kshs 173,591,228 (hospital facilities)
  - ✓ Kshs 163,917,569 (dispensaries and health centres)
- Failure to at the closure of the financial year transfer payments which were fully processed in in the vote book ledgers to the bank accounts of the payees/recipients.
- Although the transactions were fully processed in the IFMIS, they could not form part of the expenditures incurred and were

therefore excluded from the expenditures reported in the financial statements.

- The County Assembly does its financial reporting separately outlining how transfers received from the County Treasury are applied and submits its report to the County Treasury.
- However, hospitals and other lower level health facilities do not prepare separate accounts but prepare and submit analyzed expenditure reports which are incorporated into executive financial reports before being consolidated with that of the county assembly.
- The responsibility of reconciling County Revenue Fund account and reporting on all receipts and payments is vested with the county treasury which explains why the transfer of kshs 811,034,003 from this account (CRF) to the County Assembly was disclosed in the financial statements.

The analysis for the figures as reported in the financial statement is as follows:

EXPENDITURE AS PER THE VOTE BOOK:	KSHS. 8,645,103,760
LESS UNTRANSMITTED TRANSACTIONS:	KSHS. (77,998,417)
ADJUSTED VOTE BOOK EXPENDITURE:	KSHS.8,567,105,343
ADD TRANSFERS:	KSHS.1,148,542,800
REPORTED EXPENDITURE:	KSHS.9,715,649,143

KITUI COUNTY GOVERNMENT	
SUMMARIZED ANALYSIS OF EXPENDITURE FOR FY 2017/2018	
Expenditure reported in the Financial Statements	9,715,648,143.00
Expenditure as per IFMIS Vote book	8,645,103,760.00
Variance (A)	1,070,544,383.00
Transfers to County Assembly	811,034,003.00
Transfers to dispensaries	163,917,569.00

Hospital Expenditure off the system	173,591,228.00
Total (B)	1,148,542,800.00
B-A (Difference)	77,998,417.00
Expenditure From bank reconciliations-Cash Basis	
Recurrent Account	4,526,676,933.00
Development Account	2,549,691,199.00
Taxes	185,041,806.00
Retention	133,342,765.00
KCB Imprest Account	827,323,949.00
RMFL	275,852,008.00
KDSP	46,073,268.00
NARGIP	6,085,415.00
THSUCP	17,022,000.00
Total Reconciled Expenditure from IFMIS (C)	8,567,109,343.00
Total Vote book Expenditure (D)	8,645,103,760.00
Difference (D-C); Unpaid Invoices at Close of FY	**77,994,417.00**

COUNTY GOVERNMENT OF KITUI				
TRANSFERS TO THE COUNTY ASSEMBLY FOR THE FY 2017/18				
GPAY NO.	SOURCE	PAYEE	DATE	AMOUNT
1012244	Ministry HQ Recurrent Bank A/C	Kitui County Assembly	03-08-17	31,4
1012597	Ministry HQ Recurrent Bank A/C	Kitui County Assembly	11-09-17	13,6
1012623	Ministry HQ Recurrent Bank A/C	Kitui County Assembly	19-09-17	25,6
1012624	Ministry HQ Recurrent Bank A/C	Kitui County Assembly	19-09-17	11,2
1012671	Ministry HQ Recurrent Bank A/C	Kitui County Assembly	02-10-17	25,0
1013398	Ministry HQ Recurrent Bank A/C	Kitui County Assembly	31-10-17	53,6

1013447	Ministry HQ Recurrent Bank A/C	Kitui County Assembly	02-11-17	10,00
1013455	Ministry HQ Recurrent Bank A/C	Kitui County Assembly	06-11-17	21,09
1013504	Ministry HQ Recurrent Bank A/C	Kitui County Assembly	08-11-17	20,00
1013609	Ministry HQ Recurrent Bank A/C	Kitui County Assembly	16-11-17	22,00
1013907	Ministry HQ Recurrent Bank A/C	Kitui County Assembly	01-12-17	10,00
1014083	Ministry HQ Recurrent Bank A/C	Kitui County Assembly	11-12-17	20,72
1014190	Ministry HQ Recurrent Bank A/C	Kitui County Assembly	15-12-17	15,00
1014507	Ministry HQ Recurrent Bank A/C	Kitui County Assembly	29-12-17	23,06
1014638	Ministry HQ Recurrent Bank A/C	Kitui County Assembly	05-01-18	20,00
58	County Revenue Fund	Kitui County Assembly	02-02-18	24,43
81	County Revenue Fund	Kitui County Assembly	06-03-18	25,09
82	County Revenue Fund	Kitui County Assembly	06-03-18	36,64
87	County Revenue Fund	Kitui County Assembly	14-03-18	10,25
100	County Revenue Fund	Kitui County Assembly	26-03-18	10,66
103	County Revenue Fund	Kitui County Assembly	29-03-18	30,91
120	County Revenue Fund	Kitui County Assembly	19-04-18	26,17
128	County Revenue Fund	Kitui County Assembly	25-04-18	32,25
134	County Revenue Fund	Kitui County Assembly	04-05-18	26,56

156	County Revenue Fund	Kitui County Assembly	24-05-18	17,7
161	County Revenue Fund	Kitui County Assembly	28-05-18	25,6
179	County Revenue Fund	Kitui County Assembly	18-06-18	17,6
186	County Revenue Fund	Kitui County Assembly	21-06-18	11,2
193	County Revenue Fund	Kitui County Assembly	26-06-18	43,4
197	County Revenue Fund	Kitui County Assembly	28-06-18	9,9
8	County Revenue Fund	Kitui County Assembly	04-07-18	139,8
				811,03

The Committee heard evidence from the Auditor-General that the matter remains unresolved due to lack of detailed analysis of Kshs.77, 994,417 representing unpaid invoices in the financial statements and exclusion in the statements of Kshs.173, 591,228 showed as transfer payment to hospital facilities.

Committee observations

The Committee observes that;

1) ***The financial statements should be relevant for the purpose for which they are prepared. Unnecessary and confusing disclosures should be avoided and all those that are relevant and material should be reported to the public.***

2) ***The statements should convey full and accurate information about the performance, position, progress and prospects of an enterprise. It is also important that those who prepare and present the financial statements should not allow their personal prejudices to distort the facts.***

3) ***Users of the financial statements have so much confidence in the contents of these statements, especially, when they are examined by auditors. But this confidence seems to be eroded by the nefarious activities of management to, in most cases, intentionally misrepresents the fact. This leads to varying degrees of frauds and misstatements in the financial statements.***

4) ***Attributed non- disclosure and recognition in the financial statements of the kshs.77, 994,417 in respect to the unpaid invoices and Kshs.173, 591,228 in respect to transfers to health facilities to either intentional omission and or deliberate effort to underplay liabilities, expenses, and losses in a bid to cover up theft or financial losses.***

Committee recommendations

The Committee;

1) ***Advises the Accounting Officer to be conducting regular reconciliations so as to detect and correct any errors in a timely manner.***

2) ***Taking cognizant of the fact that misstatements in financial statements, exist fraudulently or otherwise, the committee invites the EACC/DCI to undertake further investigation into this matter and fix accountability if malpractices are established.***

3.0 Cash and Bank Equivalents

3.1 Bank Reconciliation Statements

The financial statements reflected a cash and cash equivalent balance of Kshs. 1,503,758,730 as at 30 June 2018, comprising of Kshs. 1,502,249,441 bank balance and Kshs 1,509,289 cash balances. However, the respective bank reconciliation statements and board of survey reports reflected a bank balance of Kshs. 763,969,130 and a cash in hand balance of Kshs.1,298,594 resulting into an unexplained and unreconciled variance of Kshs.738,280,312 and

Kshs.210,695 for the bank balance and cash in hand balance respectively both totaling to Kshs.738,491,006.35.

In the circumstance the accuracy of the cash and cash equivalents balance of Kshs. 1,503,758,730 reflected in the financial statements as at 30 June 2018 could not be ascertained as at 30 June 2018.

Management response

The Accounting Officer explained as follows;

- All the bank balances and reconciliations were as reported in the financial statements for the relevant period. The only exception was the CRF account which retained a balance of kshs 743,464,251.95 after year-end because operations continued up to 13th July 2018.
- While the financial year-end time line was 30th June, by which time financial obligations ought to have been fulfilled, the national treasury allowed entities to continue spending to facilitate absorption of funds that were disbursed late by the national treasury and the Danish International Development Agency (DANIDA). The money included equity share of kshs 1,384,368,000 from the national treasury and a grant of kshs 11,540,187 from DANIDA which was released after 30th June 2018.
- With the financial year remaining open, the county realised revenue amounting to kshs 20,415,143.95. To match the revenues, related payments were made occasioning a balance of Kshs 855,875,675.15 which is stated in the financial statements.

The Auditor-General concurred that the bank reconciliation dated July was in agreement with the financial statements but took issue with the management for failure to observe year end cut-off on its books of accounts to ensure that transactions and events were recorded in the correct accounting period.

The Committee pointed out that cut-off errors are common and it is important that public entities avoid them, particularly at year end when one fiscal year is closed and finalized for the external audit or as a precursor to starting the new fiscal year.

Committee observations

The Committee observes as follows, that;

1) ***What appears to be a simple concept (fiscal year-end cut-off procedures on books of accounts) is the source of many accounting errors and misstatements, particularly in components like accounts receivable, accounts payable (AP), and inventories.***

2) ***Cut-off errors occur much more frequently than is imagined and tend to be material. Cut-off errors mean that financial statements fail to embody essential characteristics or assertions which they should, including:***
   - ***Completeness – financial statements are incomplete if transactions are erroneously reflected in the financial statements; and***
   - ***Accuracy – financial statements are inaccurate if transactions are reflected in the wrong accounting period.***

Committee recommendations

The Management; must always;

1) **Ensure fiscal year-end cut-off procedures on books of accounts are observed to ensure that financial transactions and events are appropriately and accurately accounted for in the correct accounting period.**

   As an example, proper cut-off for the year ended 30th June 2017, means that accounting transactions and events related to 2018 could not be recorded in the financial statements for 2018, and transactions related to 2018 are accurately included in the 2018 financial statements.

2) ***Avoid cut-off errors by:***

   - ***Training departmental heads: it is helpful if department heads understand the concept of cut-off. If they do, they will understand the importance of submitting invoices, expense*** *claims and other documents to the accounting department in a timely manner, so that they can be entered in the correct accounting period.*

- ***Training accounting staff:*** *Members of the accounting team may not fully understand the challenges that improper cut-off can cause, may not know how to identify common cut-off traps, or how to implement effective mitigating strategies. Accounting managers and supervisors should ensure that their team members understand the cut-off risks relevant to their areas of responsibility.*

3.2 County Government Standing Imprest bank account

Note 21A of the notes to the financial statements showed that included in the bank balances of Kshs.1,502,249,441 as at 30 June 2018 was a balance of Kshs. 3,866,969 in relation to Kitui County Government standing imprest account number 1140752995. However, the respective June 2018 bank reconciliation statement reflected a bank balance of Kshs.5, 637,035 resulting to unexplained variance of Kshs.1, 770,066

In the circumstances, the accuracy of the cash and bank balance of Kshs.1, 502,249,441 reflected in the financial statements as at 30 June 2018 could not be confirmed.

Management response

The Accounting Officer responded that;

- The cashbook balance reported in the financial statement was Kshs. 3,866,969.
- The closure of the financial year on 30th June 2018 did not affect transactions because the National Treasury allowed government entities to continue spending to fulfill their financial obligations for the year under review. Thus, it is important to note this because it had a bearing on disclosures in the financial statements for the year under review.

- The bank balance reported in the financial statements reflected the same figure as at 13th July 2018 when the county closed transactions at year-end.

The Committee heard evidence from the Auditor-General that reconciliation of the two sets of figures occasioned by mis-posting had been performed and the Accounting Officer had corrected the error in the final ledger.

The Committee attributed the audit query to carelessness and negligence on the part of the ministry's accounts staff.

Committee recommendations

The Committee recommends that the Management;

1) ***Should institute stern measures to ensure that that accounting personnel always adhere to high standards of accounting to avoid errors leading to unnecessary audit queries.***

2) ***Must always ensure controls over recording and reporting of financial transactions should be adequate. in addition, proper supervision and review should be employed to ensure that monthly reconciliations are carried out and that transactions recorded in the books of accounts are accurate and complete, and are supported by the relevant documentary evidence;***

3.3 County Revenue Fund

Note 21A of the notes to the financial statements reflected a County Revenue Fund balance of Kshs.855,875,675 as at 30 June 2018. However, the respective bank reconciliation and bank confirmation certificate reflected a balance of Kshs.112,411,423 resulting to unexplained or unreconciled balance of Kshs.743,464,252.

In the circumstances, the accuracy of the Kitui County Revenue Fund balance of Kshs. 855,875,675 reported in the financial statements as at 30 June 2018 could not be ascertained.

Management response.

The Accounting Officer mentioned that;

- As at 30th June 2018, the CRF's bank balance certificate was kshs 112,411,423 as reflected in the financial statements.
- There was a delay in disbursement of funds by the exchequer during the year under review which affected most counties. The National Treasury released the funds after June 30th 2018.
- Kitui County received Kshs 1,384,368,000 in July 2018 being its equitable share from the national treasury. This was for the months of May and June.
- Since the year was still open, receipts from local revenue amounted to Kshs 20,415,143.95. Another exchequer of Kshs. 11,540,187 was received from DANIDA making receipts total to Kshs. 1,416,323,330.95.
- After year-end, payments continued to be effected through the IFMIS as directed by the national treasury which occasioned reduction of the bank balances.
- Payments made totaled Kshs. 672,859,079. This reduced the overall balance to Kshs 855,875,675.15 as at 10th July 2018 and this was the amount reported in the financial statements. Further explanation is here-in-after or below.

KITUI COUNTY REVENUE FUND ACCOUNT NO. 10001711111 TRANSACTIONS FROM 1ST- 10TH JULY 2018				
DATE	DETAILS	RECEIPTS	PAYMENTS	
30-Jun-18	CRF BALANCE			112,411,423.00
4-Jul-18	Exchequer issue-DANIDA Funds	11,540,187.00		
4-Jul-18	Exchequer issue-equitable share	692,184,000.00		
5-Jul-18	Exchequer issue-equitable share	692,184,000.00		
	Local Revenue	20,415,143.95		
	Less total receipts from 1st to July 10th 2018			1,416,323,330.95

2-Jul-18	Development exchequer request		1,475,375.00	
2-Jul-18	village polytechnic grant account		16,894,159.00	
2-Jul-18	Development exchequer request		72,059,275.00	
4-Jul-18	Fuel levy exchequer transfer		55,076,398.00	
4-Jul-18	Development exchequer request		130,834,299.00	
4-Jul-18	Development exchequer request		139,899,759.00	
4-Jul-18	Development exchequer request		148,471,069.00	
5-Jul-18	Development exchequer request		67,719,654.00	
6-Jul-18	Transfer of DANIDA funds to the Health special purpose account		11,540,187.00	
10-Jul-18	Development exchequer request		28,888,904.00	
	Less total payments from 1st to July 10th 2018			(672,859,079.00)

	County revenue fund balance as 10th July 2018			855,875,675.15

The audit concurred that reconciliation was performed to address the variance but took issue with the Management for failure to observe year end cut-off on its books as required.

The recommendation above (sub-paragraph 3.1) (regarding failure to observe year end cut-off on its books) be revisited and implemented.

4.0 Statement of Cash Flows

The statement of cash flows as at 30 June 2018 reflected cash and cash equivalents at end of the year of Kshs 1,503,758,730. However, a recasting of the figures in the cash flows statement gave a total of Kshs. 1,464,807,876 resulting into an unexplained variance of Kshs. 38,950,854. Further, the statement reflected a changes in receivables of Kshs.3,814,166 while the respective supporting documents reflected a balance of Kshs.3,974,784 resulting into an unexplained variance of Kshs.159,618.

Management response

The Accounting Officer stated that after recasting, the statement of cash flows reflected cash and cash equivalents of Kshs 1,503,758,730 the same amount reflected in the balance sheet.

The Committee heard evidence from the Auditor-General that the issue of casting error of Kshs.38, 950,854 was resolved. However, the Auditor-general stated that the matter was not fully resolved because the Management did not properly cast the cash flow statement and support the changes in receivables nor did they explain the variance of Kshs.159, 618 on receivables in the financial statements.

Committee observations

The Committee observes that;

The unsubstantiated variance of Kshs. 159,618 on receivables indicated a risk of financial misstatement which exemplifies the nefarious activities of management to, in most cases, intentionally misrepresents the facts to circumvent accountability. This leads to varying degrees of frauds in the public service.

Committee recommendations

The Committee recommends that the Management;

1) *Is required to revisit the calculations for the balances in question, make appropriate corrections to make the financial statement complete and accurate and ensure that going forward public funds are accurately disclosed in the financial statements for the sake of transparency and accountability.*

2) *Recognizing the fact that misstatements in financial statements, exist fraudulently or otherwise, the committee invites the EACC/DCI to undertake further investigation into this matter and fix accountability if theft of public funds is established and recover the lost amount.*

5.0 Prior year matter

As reported in the previous year, the audited financial statements for the financial year 2016/17 reflected variances between various expenditure balances in the financial statements and the respective accounting schedules balances resulting into an understatement of the expenditure in the financial statements by Kshs. 630,041,560 as follows:

Items description	Supporting schedules Kshs	financial statements balances Kshs	Variance
Use of goods and services	1,287,156,122	732,930,878	554,225,244
Acquisition of assets	3,075,254,802	2,714,699,187	360,555,615
Compensation of employees	2,358,948,064.30	2,645,266,803	(286,318,739)

Outstanding imprest	15,548,112	13,968,672	1,579,440
Total	**6,736,907,100**	**6,106,865,540**	**630,041,560**

The Kshs. 630,041,560 understatement had not been rectified as at 30 June 2018. In the circumstances, the accuracy of the financial statements opening balances as at 1 July 2018 could not be ascertained.

Management response

The Accounting Officer restated that;

- Staff who prepare financial statements underwent training on financial reporting. The training was organized by the county government in collaboration with the national treasury's Financial Reporting Unit (FRU).
- The training has enabled the personnel to prepare accurate accounting supporting schedules relying on data and information generated from the IFMIS, a situation which applied during the year under review.

The Committee heard evidence from the auditor-general that the matter remained unresolved due to failure by the Management to rectify the understated expenditure of kshs.630, 041,560 in the previous financial year (2016-2017).

Committee observations

The Committee observes that;

1) ***The Management would long have resolved the issue if the understatement of Kshs. 630,041,560 in the financial statements had been genuine/ and or resulted from actual accounting errors. Failure to resolve the prior year issue might have been a deliberate scheme to enshroud fraudulent activities.***

2) ***It is also a tell-tale sign that regular reconciliations of accounts was not being performed for various reasons including willful omission to undermine transparency and accountability.***

Committee recommendations

The Committee recommends that;

1) ***Management must always ensure proper reconciliation of accounts is done before the financial statements are finalized and submitted for audit review. This will ensure the statements are presented fairly in all material respect.***

2) ***The EACC/DCI should carry out further investigation into this matter and hold suspects accountable if financial malpractices are established.***

6.0 Statement of Receipt and Payments

The statement of receipts and payments reflected total receipts of Kshs. 9,571,591,356 as at 30 June 2018. However, the receipts were understated by revoted funds (returned County Revenue Fund) of Kshs. 1,318,085,375 which was unspent balances as at the end of 30 June 2017. No explanations were given for non-inclusion of returned CRF issues as part of the receipts for the year ended 30 June 2018. In addition, the combined summary statement of appropriation; reflected total receipts of Kshs.10,889,676,731 which differed with the total receipts of Kshs. 9,571,591,356 reflected in the statement of receipts and payments by unexplained variance of Kshs. 1,318,085,375.

Further, the combined summary statement of appropriation reflected proceeds from domestic and foreign grants and transfer from other government entities of Kshs. 251,387,743 and Kshs. 332,781,148 respectively which differed with the amount reflected in the statement of receipts and payments of Kshs. 183,811,098 and Kshs.400,257,784 by an explained variance of Kshs.67,576,645 and Kshs. 67,476,636 respectively.
In the circumstance, the accuracy of total receipts of Kshs.9, 571,591,356 reflected in the statement of receipts and payments as at 30 June 2018 could not be ascertained.

Management response

The Accounting Officer explained that;

- The un-utilised/revolted funds returned to the CRF account could not be reflected under receipts and payments statements for the year under review because doing so would have occasioned overstatement of the receipts. The variance of kshs 1,318,085,375 reflected the unutilized funds.
- The reporting format used by counties as recommended by the public sector accounting board does not allow for opening fund balances. However, opening balances in a cash-based accounting is a source of funds.
- The treatment by the county for the opening balance is consistent with cash flow reporting. The receipts in CRF account only related to the relevant year as per the carra approvals. See attached '/disbursement schedule.
- The management noticed that a grant for village polytechnics from national government is misclassified in the statement of receipts and payments as transfers from other government entities as opposed to domestic and foreign grants which would reconcile with the receipts in the combined appropriations report.
- The anomaly will be corrected during the 2018/19 comparatives as it does not affect the related expenditure. The overall receipts figure from these two categories either way was kshs.584, 168,882 and has no effect on the receipts report as well.

The Committee heard evidence from the auditor-general that the matter remained unresolved due to understatement of receipts for the year and surplus from operations by the same amount.

Further, the Committee heard evidence that the template provided by PSASB requires CRF issues to be included in the financial statements as part of receipts.

Committee observations

The Committee observes that;

1) ***The unexplained or mysterious discrepancies in the financial statements might have been a warning of fraud or cooking of***

the books of accounts to disguise malpractices. The misstatement might have arisen due to arithmetical error, poor estimates, carelessness or fraud.

2) ***The financial statements should be properly reviewed after preparation to ensure that there is consistency between the management commentary and disclosures made in the accounts;***

Committee recommendations

The Committee;

1) ***Recommends that the management should provide a reconciliation of the two conflicting figures or amend the financial statements to ensure they are correctly stated.***

2) ***Invites the EACC/DCI to undertake further investigation and hold suspects accountable if theft of public funds is confirmed and to recover lost amount.***

7.0 Use of Goods and services-Domestic Travel and Subsistence

Note 12 to the financial statements reflects Kshs.445,802,386 in respect to domestic travel and daily subsistence allowances and other transport costs which included Kshs.2,150,000 paid while carrying out a survey by department of environment and natural resources with South Eastern Kenya University. However, no supporting documents including minute's resolution on the role and responsibility of each party to the survey were made available for audit review.

In addition, a signed list of the payments of allowance paid to the County Executive employees, 16 contracted field assistants and enumerators of Kshs.1, 084,000, Kshs.480,000 and Kshs.96,000 respectively were not availed for audit review.

Further, Kshs.715, 680 was spent by the department of Trade, Cooperatives and Investment in paying per diem and stationery cost while training 16 enterprises from 3rd to 13th October, 2017. However, no supporting documents including correspondences between the department and the suppliers, signed list of participants and travelling documents to the venue of training were availed for audit review.

In the circumstances, the accountability and validity of the Kshs.2, 865,680 expenditures being the sum of Kshs.2, 150,000 and Kshs.715, 680 as at June 2018 could not be confirmed.

Management response

The Accounting Officer explained that;

- The payments made (Kshs 2,150,000 and Kshs 715,000 in respect of travelling expenses and training costs respectively were processed through two payment vouchers.
- The allowances paid of kshs.108, 400, Kshs.480, 000 and kshs.96, 000 were processed through a payment voucher of Kshs.2, 150,000. The payments were valid and official and the relevant documents are attached with this report for audit verification.

The Committee considered and verified the advice of the Auditor-General that copies of the supporting documents were provided and verified as correct save for taxi receipts which did not describe the journeys travelled indicating a possibility criminal falsification

The Committee observation

The Committee does not rule out criminal falsification of the documents used to process the payments. This is illustrated by some receipts bearing same serial numbers and others not describing the journeys travelled.

Committee recommendation

The Committee recommends that the EACC/DCI conducts further investigation into this matter and fix accountability if theft of public funds is confirmed and recover the lost amount.

8.0 Pending Bills (Accounts Payable)

Note 5.10 of other important disclosures in the notes to financial statements reflected pending bills for accounts payables, staff payables and other pending payables of Kshs. 1,052,087,373, Kshs. 23,752,648 and Kshs. 91,835,472 respectively all totaling to Kshs. 1,167,675,493.

However, the respective supporting documents including invoices, delivery notes, certificate for work completed and nature of debt were not made available for audit verification. In the circumstances, the accuracy and existence of the pending payables of Kshs. 1,167,675,373 as at 30 June 2018 could not be confirmed

Management response

In reply, the Accounting Officer stated that;

- The Management acknowledges Auditor-General's concern on the pending bills (accounts, staff and pending payables and explained that all receipts and payments of public monies are normally supported by pre-numbered receipts and vouchers which are properly authorized and required documentations attached as provided under Regulation 104(1) of PFM (County Governments) Regulations 2015. A detailed schedule on afore-stated documentation is available for audit review.
- All documents pertaining to the pending bills are available for audit verification. These include invoices, delivery notes, evaluation reports, certificates for works done including agreements entered into and payments made to suppliers previously. In addition, the cited documents were all during the audit submitted to the auditors for verification.

The Committee heard from the Auditor-General that the matter remained unresolved due to Management's failure to submit proper/credible documents explaining and supporting the genuineness and existence of the pending payables totalling to Kshs. 1,167,675,373.

The Committee observed that the County risked paying for fraudulent/fictitious bills due to unavailability of proper/credible

documents explaining and supporting the genuineness and existence of the pending bills.

The recommendation above (sub-paragraph 5.1-2016/2017 audit report-County Executive) be revisited and implemented.

9.0 Acquisition of Assets-motor vehicles

The summary of fixed assets register at annex 5 to the financial statements reflects assets additions during the year totalling Kshs 3,026,026,893 which include kshs 69,408,261 spent on procuring sixteen (16) motor vehicles from various suppliers. However, the ownership documents including log books were not availed for audit verifications.

In the circumstances, it was not possible to ascertain ownership and security of the motor vehicles totalling to kshs 69,408,261 as at 30 June 2018.

Management response

In reply, the Accounting Officer explained that;

- When motor vehicles are purchased from merchants, the Management is provided with delivery notes, invoices and motor vehicle inspection reports since processing of log books takes long.
- With time the Management secured log books for thirteen (13) motor vehicles which are available for audit review. Delivery notes for the other three (3) motor vehicles are annexed to this report for audit examination.

The audit stated that the matter was not fully resolved as only 10 log books were submitted for audit inspection leaving out logbooks for 6 vehicles whose ownership could not be confirmed at the time.

Committee observations

The Committee;

1) ***Concurs that vehicle log books act as proof of ownership and are used to ensure a nationwide record is kept of every vehicle***

and it's registered keeper. Thus, without logbooks the six motors vehicles were exposed to possible loss.

2) *Observes that the logbook features all the most important information used to identify a vehicle and its owner. Thus, without logbooks the six motors vehicles were susceptible to theft or loss. This amounted to negligence of duty on the part of the Management.*

Committee recommendations

The Committee recommends that;

1) *If the matter is still pending, the Management should as a matter of urgency secure logbooks for the remaining six vehicles to guarantee their security.*

2) *The Management must ensure the evidence is forwarded to the committee and Auditor-General for verification. This should be done not later than 30 days after adoption of this report by the House.*

Other matter.

1.0 Budgetary controls and performance

1.1 Comparison of approved expenditure budget and the IFMIS budget

During the year under review, the County Assembly approved a program based budget for County Executive amounting to Kshs.10,253,583,217 to be shared among thirteen departments comprising of nine ministries, two town administration, County Public Service Board and office of the Governor. However, analysis of the Integrated Financial Management Information System (IFMIS) budget reflected a total budget of Kshs. 10,036,589,627 resulting to unexplained and unreconciled variance of Kshs.216,993,590.

Management response

The Accounting Officer explained that;

- During the 2017-18 financial year, the County Assembly approved a programme based budget for county executive amounting to kshs 10,253,583,217. The IFMIS budget also reflected the same total budget of Kshs 10,253,583,217 as shown in the table 2 below.
- Therefore, the unexplained or unreconciled variance of Kshs 216,993,590 as reflected in the audit report does not exist.
- In a nutshell, the total IFMIS budget for county executive was kshs 10,253,583,217 and the budget for county assembly budget was kshs 989,769,598 raising the total IFMIS budget to kshs 11,243,352,815. This is also reflected in IFMIS expenditure vote book as at 30th June 2018 as shown in the summary below. the actual IFMIS report is hereto annexed

TABLE 2: IFMIS BUDGET SUMMARY FOR 2017-18 FY (COUNTY EXECUTIVE)

Spending Entity	Recurrent Budget Estimates 2017/18	Development Budget Estimates 2017/18	Total
Office of the Governor	790,283,955	574,630,288	1,364,914,243
Ministry of Administration and Coordination County Affairs	440,101,991	13,778,933	453,880,924
Ministry of Agriculture, Water & Livestock Development	500,637,949	1,080,088,405	1,580,726,354
Ministry of Basic Education, ICT & Youth Development	485,580,141	275,536,965	761,117,106
Ministry of Lands, Infrastructure, Housing & Urban Development	308,006,115	591,826,285	899,832,400
Ministry of Health & Sanitation	2,283,313,166	737,670,784	3,020,983,950
Ministry of Trade, Cooperatives & Investment	143,505,763	372,837,209	516,342,972

Ministry of Environment & Natural Resources	106,019,052	197,129,687	303,148,739
Ministry of Tourism, Sports & Culture	156,460,236	144,512,243	300,972,479
The County Treasury	442,423,480	128,665,066	571,088,546
County Public Service Board	70,306,664	0	70,306,664
Kitui Town Administration (County Headquarters)	93,668,249	169,913,665	263,581,914
Mwingi Town Administration	54,919,748	91,767,178	146,686,926
TOTAL	**5,875,226,509**	**4,378,356,708**	**10,253,583,217**

The audit explained that although the Management enumerated a budget summary that agrees with the IFMIS budget, by submitting both recurrent and development votes figures, the audit query referred to the IFMIS budget versus the budget approved by the County Assembly.

Committee observation

The Committee observes that;

The unexplained and unreconciled variance of Kshs.216, 993,590 in the financial statements was testimony that regular reconciliations of accounts was not being performed. This amounted to negligence of duty on the part of the Management.

Committee recommendations

The Committee recommends that;

1) ***All necessary adjustments should be made to the financial statements so that the statements are presented fairly in all material respect.***

2) ***Proper supervision and review should be employed to ensure that monthly reconciliations are carried out and that transactions recorded in the books of accounts are accurate and complete, and are supported by the relevant documentary evidence.***

1.2 Under Collection of Own Generated Revenue

During the year under review, the County had budgeted for own generated revenues totaling to Kshs.528, 413,076. However, only Kshs. 335,122,474 or 63% of this revenue was collected while Kshs. 193,290,602 (37%) remained uncollected.

In addition, a review of the trend analysis for the past 3 financial years revealed that the current revenue collection has gradually declined compared to the collections in the 2014/2015 and 2015/2016 financial years as shown below:

Financial year	Budgeted amount (Kshs.)	Actual amount (Kshs.)	Variance (Kshs.)	%
2014-2015	650,000,000	434,268,204.00	215,731,796	33
2015-2016	608,200,000	416,188,728	192,011,272	32
2017-2017	668,610,000	315,347,363	353,262,637	53
2017-2018	528,413,075	335,122,474	193,290,601	37

Revenue collection went down by 4% in 2015/2016 compared to the collections in 2014/2015. Further, in 2016/2017 the collections went down by 27% compared to the 2014/2015 financial year, and by 23% in the year under review.

The County Executive did not therefore institute effective revenue collection mechanisms during the year under review and the Kshs. 193,290,602 revenues under collection translated to a denial of similar promised services to Kitui residents.

Management response

In reply, the Accounting Officer admitted that;

- Revenue collection went down by 4% in 2015/2016 compared to the collections in 2014/2015. Further, in 2016/2017 the collections went down by 27% compared to the 2014/2015 financial year, and by 23% in the year under review.

He further explained that;

- Revenue target for the year under review was set based on the thriving charcoal trade which unfortunately was banned during the 2nd quarter paralyzing collections. The Management aimed at Kshs 88,037,723 but ended up collecting only Kshs 18,108,395 occasioning a shortfall of Kshs 69,929,328.
- the county government will implement the following measures to revamp revenue collection;
  - ✓ Preparation of valuation roll.
  - ✓ Formation of liquor licensing committee for management of liquor licenses.
  - ✓ Recruitment of a director of revenue to head revenue management.
  - ✓ Automation of revenue collection process in an effort to reduce losses.

Committee observations

The Committee;

1) ***Considered management's response as insufficient arguing that the County Government had not demonstrated improved revenue collection from the afore-stated measures. Further, noted that charcoal cess was not the only revenue source where the targeted revenue was not realized.***

2) ***Concurred with audit observation that Kshs. 193,290,602 revenues under collection translated to a denial of similar promised services to residents of Kitui.***

3) ***Attributed the downward performance on revenue collection to either laxity by the county government in enforcing settlement of tax obligation by tax payers and misappropriation of revenue proceeds due to weak accountability systems.***

Committee recommendations

To achieve efficiency in revenue collection and optimize on management, the county government should ensure that;

1) ***Monitoring and supervision of revenue collection is enhanced to ensure that all revenue generated is brought to account to curb corruption.***

2) ***An assessment for a revenue mobilization and drive is done to help to create a database for all own-source revenue streams and facilitate preparation of realistic budgets.***

3) ***The committee invites the EACC /DCI to carry out further investigation into the revenue collection underperformance and hold suspects accountable if theft of public funds is confirmed and recover the lost amount.***

1.3 Budgetary performance

The summary statement of appropriation-recurrent and development combined reflects approved final budgeted receipts of kshs. 11, 243, 352, 815 and actual receipts of kshs. 10,889,676,731 resulting to under collection of revenue of kshs. 353,676, 084 or 3 %.

Further, the summary statement of appropriation reflects approved final expenditure budget of kshs. 11,243,352,815 and actual expenditure of kshs. 9,715,648,143 resulting to under absorption of kshs. 1,527,704,672 or 14 % as detailed below;

Item	Final budget (Kshs)	Actual receipts (Kshs.)	Under/over receipts (Kshs)	%
Exchequer releases	8,652,300,000	8,652,300,000	0	100

Proceeds from domestic and foreign grants	412,418,308	251,387,734	161,030,574	39
Transfers from other government entities	322,136,056	332,781,148	645,092	0.19 4
County Own Generated Revenue	528,413,076	335,122,474	193,290,602	37
Returned CRF issues	1,318,085,375	1,318,085,375	0	100
Total receipts	11,243,352,81 5	10,889,676,73 1	353,676,084	3
Analysis of expenditure				
Item	Final budget (Kshs.)	Actual expenditure ((Kshs.)	Under/over expenditure (Kshs.)	%
Compensation of employees	3,422,968,505	3,321,990,916	100,977,589	3
Use of goods and services	2,568,006,216	2,216,121,882	351,884,334	14
Transfers to other government units	989,769, 598	974,951,572	14,818,026	1
Other grants and transfers	225,699,424	166,500,777	59,198,647	26
Social security benefits	10,500,000	10,056,102	443,898	4
Acquisition of assets	4,026,409,072	3,026,026,893	1,000,382,17 9	25

Total expenditure	**11,243,352,815**	**9,715,648,143**	**1,527,704,672**	**14**

The under absorption of kshs. 1,527,704,672 or 14 %, especially on use of goods and services, other grants and transfers and acquisition of assets may have negatively impacted on the delivery of services to the citizens of Kitui County.

In the circumstances, the residents of Kitui County may have missed out on the benefits equivalent to the kshs. 1,527,704,672 appropriated but not expended during the year.

Management response

The Accounting Officer;

- Attributed the unutilized funds to late disbursements of funds from the National Treasury and under collection of own generated revenue.
- He gave a breakdown of the Kshs. 353,676,084 indicated as under collection of revenue as follows;

	Budget	**Actual received**	**Difference**
Conditional grants	744,554,364	584,168,883	160,385,482
Add; own revenue	528,413,076	335,122,474	193,290,602
Total deficit			Kshs. 353,676,084

He further explained that during the period under review, the County did not get the conditional grants from the National Treasury with the Management having no means to enforce the disbursements from the National Government.

The official attributed poor revenue collection to;

✓ Delay in formation of liquor licensing committee. However, the Kitui County Alcoholic Drinks Act, 2014 had been passed and provides structures up to the grassroots level for controlling of alcoholic businesses and revenue generated from the venture.

The process of establishing the committee is underway and will be completed soon.

- ✓ Under collection of land rates because most plots are not valued. However, the county is in the process of preparing valuation roll to address the challenge.
- ✓ Persistent insecurity along Kitui and Tana-River counties which hampers collection of market fees.

The Accounting Officer further explained that;

- ✓ The reported under absorption of the budget by Kshs. 1,527,704,672 reflected the financial position when financial statements are prepared on cash basis as opposed to accrual basis.
- ✓ The unspent balance involved funds that were committed for ongoing works and the same matched with the pending payables. The county had unpaid bills totaling to Kshs. 1,167,675,493 as reported in the financial statements.

Committee observations

The Committee;

1) ***Noted inability by the executive to keep up with their own budgetary ambitions due to absorptive capacity constraints but lamented that failure to spend Kshs.1, 527,704,672 deprived Kitui residents of essential public goods and services.***

2) ***Noted that realizing the full potential of property rates will require complete reconstruction of the fiscal cadastre- a public register showing the details of ownership and value of land; made for the purpose of taxation.***

3) ***Noted that the County has been losing millions of shillings due to outdated records. The updating of the valuation roll will translate into more revenue for the county.***

Committee recommendations

The Committee recommends that the Management should;

1) ***Be more proactive and robust in collection of local tax by addressing challenges which impact negatively on revenue collection. this includes introduction a valuation roll which contains information on all rateable properties in the county***

2) ***Enhance strategy to leverage on the digitization of rates to make it easier for customers to obtain bills and pay online.***

3) ***Hasten issuance of title deeds to residents with the aim of attracting more landowners on board to pay rates.***

Further, the Committee exhorts;

4) ***The County Government to review their revenue projection and if possible employ the services of a valuator within the shortest possible time. That will assist in achieving efficiency in revenue collection and optimize on management.***

5) ***The National Government should ensure timely exchequer releases to counties to enable ministries and departments meet their financial obligations in time. County ministries and departments on the other hand must ensure that funds allocated to them are utilized optimally and in time.***

REPORT ON LAWFULNESS & EFFECTIVENE USE OF PUBLIC RESOURCES

1.0 Non preparation of Cash Flow Projections

Section 127 of the PFM Act 2012 requires county government to prepare cash flow projections by 15 June for the next financial year. The projection is to be submitted to the Controller of Budget with copies to the Intergovernmental Budget and Economic Council and the National Treasury. The PFM County Government regulation 43 provides on the requirement of the accounting officer to provide the county treasury with the cash flow projections. However, no supporting documents showing that cash flow projection was submitted by the Executive to the controller of Budget contrary to the law.

In the circumstance, the County Executive is in breach of the law.

Management response

Cash flow projections for the 2017/18 financial year were prepared and submitted to the relevant authorities. Copy of the estimates is hereby attached for audit verification.

Upon perusal of the documents, the Auditor-General stated that no evidence of submission of cash flow projections for the 2017/18 financial year was availed for audit review.

Committee observations

The Committee observes that;

1) ***The pros of creating a cash flow projection is to give a glimpse into financial future /health of organizations.***

2) ***Cash flow projection is important because if an entity runs out of cash and is not able to obtain new finance, it becomes insolvent. As a result, it is essential that a forecast of what is going to happen to cash flow is done to make sure the entity has sufficient funds to survive.***

3) ***Failure to make cash flow projections and submit to the Controller of Budget with copies to the Intergovernmental Budget and Economic Council and the National Treasury violated Regulation 43 of the PFM (CG) Regulations, 2015.***

4) ***Non-compliance with laws and regulations comprises acts of omissions or commission, intentional or unintentional committed by those charged with governance by management.***

5) ***It is the responsibility of the management, with the oversight of those charged with governance to ensure that activities are conducted in accordance with laws and regulations.***

Committee recommendations

The Committee;

1) ***Encourages each Accounting Officer to take time to read and acquaint themselves with the Public Finance Management Act (PFM), 2012, and subsidiary Public Finance Management (County Governments) Regulations, 2015 as well as the relevant sections of the constitution dealing with public finance to get a broader picture of what is key in exercising their mandates to avert frequent violation of extant rules and regulations.***

2) ***Recommends that accounting officers should become familiar with all laws and regulations applicable to public finance, as such laws and regulations relate to daily work requirements and professional responsibilities.***

3) ***Cautions that flagrant disregard for financial regulations is a precursor for dismissal of errant public servants. Public officers are therefore enjoined to become familiar with the regulations and other related laws dealing with public finance for proper guidance, more so as ignorance is not an excuse.***

4) ***Exhorts the Management to take appropriate action to rectify, remediate or mitigate the consequences of non-compliance with applicable laws and regulations.***

2.0 Monthly Reporting Obligations by Accounting Officers

The PFM County Government Regulations 2015, regulation 54 require that accounting officers to prepare every 10 of each month, a monthly financial and non-financial budgetary report for the activities for the preceding month, and copies of the report forwarded to the controller of budget and the Auditor General. However, during the year under review, there was no evidence that the reports were prepared and submitted as required by the PFM County Government Regulation 54.

In the circumstance, the County Executive is in breach of the law.

Management response

In reply, the Accounting Officer informed the Committee that the County has been preparing timely quarterly reports which are submitted to the concerned authorities. He submitted documentary evidence (stamped letters) showing that the reports were actually forward to the controller of budget, auditor-general, commission on revenue allocation, county assembly and national treasury.

The Committee recommends that the matter be closed.

3.0 Revenue Arrears

A Local Authority Integrated Financial Operation Management System (LAIFOMS) outstanding balances report made available for audit review reflected revenue arrears totaling of Kshs. 306,204,522 as at 30 June 2018. However, the revenue arrears were not disclosed in the financial statements contrary to International Public Sector Accounting Standards (IPSAS) financial reporting under cash basis of accounting (final pronouncement, November 2017) section 1.2.2 which requires in part that notes to the financial statements may provide additional information about liabilities, such as non-cash assets such as receivables.

In the circumstance, the County Executive is in breach of the law.

Management response

In reply, the Accounting Officer described this as a perennial problem inherited from the defunct local authorities which will be resolved through proper property identification. An exercise on property mapping through use of a Geographic Information system (GIS) and development of valuation roll is underway. This will identify the validity of reported plots for rates & rent related revenue. As it is now, the Management cannot say with certainty how much of the rent/rates as indicated is collectible.

The Committee expressed concern that no evidence of the said mapping process and current position on revenue arrears was given.

Committee observations

The Committee restates that;

1) ***The county has been losing millions of shillings due to outdated records. The updating of the valuation roll will translate into more revenue for the county.***

2) ***Realising the full potential of property rates will require complete reconstruction of the fiscal cadastre- a public register showing the details of ownership and value of land; made for the purpose of taxation.***

Committee recommendation

The committee recommends that;

The County Government should introduce a valuation roll which contains information on all rateable properties in the county. The roll should be updated every 5 years in order for government to be able to update land taxes, to plan future tariffs and provide access to sanitation and safe water.

4.0 Compensation of Employees

4.1 Staff Establishment

According to the County Government Act 2012, Section 5(2)(f) one of the responsibilities of the County Government shall be to establish and staff its public service as contemplated under Article 235 of the Constitution. However, the County Executive did not have an approved staff establishment that would show the establishment status including, the numbers filled and any under/ over establishments.

In addition, the County Executive had not undertaken an employee head count exercise that would confirm the employees of County Executive, the deployment of staff, and skill analysis.

In the circumstances, it was not possible to ascertain how the staff were held accountable for their jobs and whether there were over and under establishment during the year under review.

Management response

These were the words of the Accounting Officer;

- Staff audit was undertaken to obtain employees' level of education and professional skills in a bid to aid in preparation of county staff establishment an exercise which is already underway.
- Recently, the report on the audit exercise was presented to the county executive for consideration and once approved will define staff establishment based on service delivery to the public.
- As the county works on staff establishment, urgent recruitments are done on a need basis to fill prevailing gaps in the public service.

The recommendation above (sub-paragraph 8.1-2016/2017 audit report, County Executive) on lack of approved staff establishment and failure to by the management to undertake employees head count exercise to confirm the number, deployment of staff, and skill analysis be revisited and implemented.

4.2 Unauthorized Engagement of Casuals.

Note 11 of the notes to the financial statements reflects an expenditure of Kshs.455,233,308 in respect to basic wages of temporary employees which further include Kshs.5,486,293 spent on payments of casuals engaged by the County Executive.

However, the respective supporting documents including the authority from the County Public Service Board to engage the casuals, the engagement letters and copies of the identity cards were not availed for audit review. In addition, the casuals were paid in cash, making it impossible to establish the authenticity of the payments.

In the circumstances, the validity of Kshs.5,486,293 as at 30 June 2018 could not be confirmed.

Management response

The Accounting Officer responded that;

- The support staff are hired for temporary activities and where capacity for the normal establishment is overstretched. This is done at ministerial/departmental level and with the approval of the board as per section 74 of the county government act 2012.

- To ensure fairness and inclusivity in hiring of the temporary workers, the Management is guided by the following criteria;

  - ✓ The positions are filled competitively with local residents given priority and the names of those hired put in public domain for accountability purpose.
  - ✓ The workers are optimally assigned duties to avert idleness and are paid based on wage rates recommended by the national government (Ministry of labour) and that their hiring conforms to the existing labour laws/regulations.

- Attached with this report are copies of letters from the county public service board authorizing employment of the support staff.

The Committee verified the letter from CPSB authorizing hiring of the casuals but stated that the matter was not fully resolved as no explanation was given as to why the casuals were being paid in cash while copies of their identity cards were not availed for audit examination.

Committee observations

The Committee concurred with audit observation that validity of the payees and the expenditure incurred (Kshs.5, 486,293) remains a mirage without proper / credible documents explaining and supporting legitimacy of the payees and payments made.

Committee recommendations

The Committee;

1) ***Recommends that the Management should treat this matter with the seriousness it deserves and urgently make necessary arrangements to resolve the issues raised to finality and forward all relevant supporting documents to the Auditor-General for verification not later than 30 days after adoption of this report by the House.***

2) ***Opines that it is essential that Accounting Officers who delegate authority for employment of casuals are aware of the employment guidelines, policies and regulations and comply with them failure to which the labor laws which mediates the relationship between workers, employing entities, trade unions and the government are invoked.***

3) ***Invites the EACC/DCI dig deeper into this matter and take appropriate legal action against suspects if management of the casuals payroll was manipulated leading to misappropriation of public funds.***

5.0 Use of Good and Services

5.1 Procurement of Pesticides

Note 12 of notes to the financial statements reflects use of goods and services balance of Kshs.2,216, 121,882 as at 30 June 2018 which include specialized materials and services balance of Kshs.610,091,832 which further include Kshs.48,342,983 for the procurement of pesticides. The procurement method used was request for quotations and a total of 26 suppliers were given the contract to supply various quantity of pesticides. However, this amount was above the prescribed value of Kshs.2,000,000 which is the allowable limit for the request of quotations. Instead the procurement was split into smaller procurements amounts to ensure it did not go beyond the Kshs.2,000,000 mark. This is against the provision of Section 54 of the Public Procurement and Asset Disposal (PPAD) Act, 2015 which states that no procuring entity may structure procurement as two or more procurements for the purpose of avoiding the use of a procurement procedure except where prescribed. The method adopted was request for quotations and no justification was given as to why the method was preferred to open tender.

In the circumstance, the County Executive was in breach of Section 54 of the PPAD Act, 2015

Management response

In his response, the Accounting Officer explained that;

- The pesticides were sourced from each of the 40 wards in the county. For this reason the procurement had to be unbundled/ split to ensure maximum participation of bidders. this decision was based on section 19(1) of public procurement and disposal (preference and reservations) (amendment) regulations, 2013 which states that ''for the purpose of ensuring maximum participation of citizen contractors , disadvantaged groups, small and micro enterprises, in public procurement, procuring entities may unbundle goods, works and services in practicle quantities pursuant to section 31 (7) of the act.
- Further, engaging one supplier to distribute the chemicals in all the 40 wards would have been more expensive than contracting local agro-vets to do the work.
- The successful bidder confirmed the order by signing and stamping both the original and duplicate copies of the contract.

The committee observes that often in corruption or fraudulent schemes the perpetrators endeavor to avoid higher level review or competitive bidding. To this effect, they often tailor a contract to fall just under the procurement threshold, or seemingly arbitrarily split a contract into several smaller contracts to accomplish that purpose and circumvent requirements of the law.

The recommendation above sub-paragraph 7.6 (2016-2017 audit report, County Executive) the irregular use of RFQ and contract splitting,) be revisited and implemented.

5.2 Installation of PS Outdoor Digital Bill Board

Note 12 to the financial statements reflects printing, advertising and information supplies and services balance of Kshs. 121,080, 125 as at 30 June 2018 which include Kshs.3,070,000 for setting up and installation of an outdoor billboard at the main bus station. However, the successful tenderer was notified on 1 December 2017 and accepted the offer on 4 December 2017 and a contract was signed on 8 December 2017, only eight (8) days after the date of notification.

This was in contravention of Section 135(3) of the Public Procurement and Assets Disposal Act, 2015, which requires the contract to be entered into within the period specified in the notification but not before expiry of 14 days following the date of notification.

Consequently, the County Executive was in breach of the law.

Management response

The Accounting Officer explained that;

- In executing the procedure relating to request for quotations method, the Management was guided by section 105 and 106 of the PPADA act 2015.
- This transaction having been executed through RFQ method, application of the mandatory 14 days waiting period after award of the contract was not tenable as is the case for open tender.

The recommendation above sub-paragraph 7.6 (2016-2017 audit report, County Executive) the irregular use of RFQ and contract splitting,) be revisited and implemented.

5.3 Procurement of Booklets

Note 12 to the financial statements reflects printing, advertising and information supplies and services balance of Kshs.121,080, 125 as at 30 June 2018 which include Kshs .37, 456,400 for printing and s lpply of 42,000 copies of booklets to celebrate three (3) years of devolution. The method of procurement used was restricted tendering. However, 110 documents or explanation were provided to justify that the goods were complex and specialized in nature, or time and cost required to examine and evaluate a large number of tenders would be disproportionate to the value of good to be procured and evidence to the Effect that there were only few known suppliers of the said goods.
As a result, the County Executive was in breach of Section 102(1) of the Public Procurement and Assets Disposal (PPAD) Act, 2015 which stipulate the condition for use of restricted tendering method of procurement.

Management response

The Accounting Officer explained as follows;

- The booklets were printed as part of efforts to showcase the success of devolution as a new model of development and public participation in the county.
- Unique copies of the booklets were printed for each ward showing specific projects and programmes undertaken by the county government in the wards.
- The booklets were procured through Request For Quotations. This method was applied due to the following reasons
  - ✓ There was element of specialization as printing of the booklets required accurate artworks and designs.
  - ✓ The tender documents were large hence the cost and time required to evaluate the documents would have been disproportionate to the value of the services that were procured.
  - ✓ A market survey conducted showed that only a few suppliers were available to carry out the specialized works. The Management, was therefore, within the law to use the RFQ method.

Section 102(1) of the PPADA, 2015 states in part that "an accounting officer of a procuring entity may use restricted tendering if any of the following conditions are satisfied —

(a) Competition for contract, because of the complex or specialized nature of the goods, works or services is restricted to prequalified tenderers resulting from the procedure under section 94;

(b) The time and cost required to examine and evaluate a large number of tenders would be disproportionate to the value of the goods, works or services to be procured; or

(c) If there is evidence to the effect that there are only a few known suppliers of the whole market of the goods, works or services". The recommended procedure for processing of the restricted tendering method was used in accordance with regulation 54(3) of the public procurement & disposal regulations, 2006.

The Regulation states that "(3) where restricted tendering is used pursuant to section 73(2) (b) of the act, the procuring entity shall invite tenders from at least ten persons selected from the prequalified list."

- Documents supporting the procurement process including the requisition are available for audit inspection.

The Committee heard from the Auditor-General that that printing services are generic and do not qualify for restricted tender. The Committee also heard that a copy of the requisition was not attached to the management's report as the Accounting Officer claimed in his submission.

Committee observation

The Committee observes that;

The irregularities surrounding this transaction offers insight into the risk of corrupt, collusive, fraudulent, or otherwise illicit behavior in execution of the contract and signal troubling patterns across the procurement system worthy of further investigation.

Committee recommendation

The Committee, invites the EACC/DCI to conduct a full scale investigation and fix accountability if theft of public funds is confirmed and to recover the lost amount.

5.4 Procurement of Goods Used During Mining Awareness Conference

Note 12 to the financial statements reflects printing, advertising and information supplies and services balance of Kshs.121,080,125 as at 30 June 2018 which included Kshs.5,080,000 for supply of shirts, round neck T-shirts, calendars and brochures including printing of mining Act, 1000 copies in each items. However, the opening, evaluation and award of tender was done by the same composition of committee members contrary to Section 78(b) of the PPAD Act, 2015, which requires that at least one of the tender opening committee members should not participate in the tender evaluation process. Further, the quotation submitted for consideration were opened, evaluated, awarded and local purchase order raised on the same date. This was in contravention of Section 135(3) of the Public Procurement and Assets Disposal Act, 2015, which requires the contract to be entered into within the period specified in the notification but not before expiry of 14 days following the date of notification.

In the circumstances, the County Executive was in breach the law.

Management response

The Accounting Officer explained as follows;

- Section 78(b) of the PPAD Act 2015 provides for administration of open tender. However, RFQ was used for this procurement instead of open tender. Use of the method is provide under Section 106 of the PPAD Act 2015.
- This Section provides guidance on procedure of administering quotations including opening, evaluation and award.
- RFQ does not have set timelines for opening, evaluation, award and issuance of local purchase order nor are there limitations on composition of tender opening and evaluation committee members. This is provided under section 106 of the PPAD Act 2015 which is reproduced below;

"106(2) an accounting officer of a procuring entity shall deal with the request for quotations in accordance with the following —

(a) The accounting officer of a procuring entity shall give the request to such persons as are registered by the procuring entity;

(b) The request shall be given to as many persons as necessary to ensure effective competition and shall be given to at least three persons, unless that is not possible;

(c) The accounting officer of a procuring entity shall give the request to each person early enough so that the person has adequate time to prepare a quotation;

(d) At least three persons shall submit their quotations prior to evaluation.

Section 106(3), 106 (4) and 106(5) are also reproduced below;

The successful quotation shall be the quotation with the lowest price that meets the requirements set out in the request for quotations.

106(4) where the lowest price is above the prevailing market rates, the request for quotations shall be cancelled or terminated in accordance with the cancellation and termination procedures set out in this act.

106 (5) the following shall apply with respect to the contract resulting from a procurement by a request for quotations —

(a) The procuring entity shall place a purchase order with the person submitting the successful quotation;

(b) The person submitting the successful quotation shall confirm the purchase order in writing; and

(c) An accounting officer shall consider recommendations for award arising from a contract under procurement by a request for quotations for approval or rejection.

- For use of RFQ, procurement lead-time is significantly reduced as the method does not require the preparation of tender documents and advertisement of requirements to the same extent as open tendering, request for proposals or two-stage tendering.
- For sake of convenience and timely delivery of service, the procurement process was finalized within a day.
- Regarding the requirement to enter into contract, this is only applicable under open tender.
- Requirement that parties shall enter into written contract within the period specified in the notification but not before 14 days have elapsed. This is applicable under open tender but not request for quotation.

Committee observations

The Committee observes that the above irregularities and more so that opening, evaluation and award of the tender being done by the same people;

1) Created room for manipulation of the contracting phases and steering of the process to a particular favoured bidder.

2) ***Posed a risk of unbalanced bidding - under this scheme a favoured bidder might have been provided with "inside information" not available to other bidders which invariably gave the bidder an unfair advantage over other bidders by allowing the bidder to lower pricing or otherwise tailor its bid to defeat its uninformed competitors.***

3) ***The payment made to the contractor was not made in the best interest of the public since all the relevant supporting documents were not provided for audit.***

Committee recommendation

The EACC/DCI should dig deeper into this matter and fix accountability if theft of public funds is confirmed and recover the lost amount.

5.5 Payment to Council of Governors

Note 1 2 to the financial statements reflects other operating expenses of Kshs.218, 761,581 which included Kshs.5, 625,000 paid to the council of governors. However, the payment was in contravention of the Section 37 of the intergovernmental Relation Act, 2012 which states that the operational expenses in respect of the structures and institutions established in this Act shall be provided for in the annual estimates of the revenue and expenditure of the National government to cater for; the Summit, the Council of County Governors, the Technical Committee, Secretariat and the sectoral working group established by the Technical Committee and the sectoral working groups established by the Council.

As a result, the County was in breach of the law and the propriety of the expenditure of Kshs.5,625,000 for the year ended 30 June 2018 and value for money could not be confirmed.

Management response

The Accounting Officer conceded to the audit observation and explained that;

- The County Government remitted Kshs. 3,125,000 as contribution to Inter-Governmental Relations Kitty and Kshs. 2,100,000 to cater for participation fees for the county delegation which attended the 5th annual devolution conference held in Kakamega County. The participation fee catered for the Governor, the Deputy Governor and Members of the County Assembly who attended the event. Supporting documents for the payments (receipts and payment vouchers) are available for audit inspection.
- Part of the budget allocated for the office of the governor caters for council of governors activities (inter-governmental relations contributions) and this was clearly stipulated in the budget notes for the 2017/2018 financial year.
- Documentary evidence (attendance registers) are available to proof the Kitui county participated in conference. other documents attached for audit verification includes;
  - ✓ Back to office report
  - ✓ A letter from COG requesting the county to chip in with kshs. 2 million to facilitate activities of the devolution conference.
  - ✓ Invitation letter and list of delegates who attended the conference
  - ✓ Letter on exhibition booths
  - ✓ Minutes of planning meetings and signed list of participants during the meetings.
  - ✓ Certified schedules for payment of allowances to 24 officers who were assigned duties during the conference. The schedules were presented to the county treasury as the officers surrendered the imprest taken to cater for the expenses.

Committee observations

Citing this as a recurring and cross-cutting issue affecting all the 47 counties, the Committee observes that;

1) The COG budget is funded by the national government. Therefore, annual payments to cog by counties constitutes nugatory expenditure.

2) The operational expenses of COG should be provided for in the annual estimates of the revenue expenditure of the national

government. Hence the unaccounted money was paid contrary to section 37 of the Inter-Governmental Relations Act 2012.

3) ***The Auditor-General has raised queries on books of various devolved units on their decisions to send the COG millions of shillings despite being funded by the exchequer.***

Committee recommendation

The Committee recommends that County Governments should liaise with the National Government with a view to finding a solution on the annual contributions made by the counties without legal backing.

5.6 Insurance Cost

Note 12 to the financial statements reflects an expenditure on Insurance cost totaling to Kshs.80,912,517 paid to various insurance companies. However, no supporting documentary evidence including procurement documents: opening, evaluation and award minutes were availed for audit verification contrary to Section 68(2) of Public Procurement and Assets Disposal Act, 2015 which stipulated the procurement records an accounting officer should keep.

In the circumstances, it was not possible to ascertain the propriety and value for money for the Kshs. 80,912,517 expenditures as at 30 June 2018.

Management response

The Accounting Officer mentioned that copies of documentary evidence were available for audit inspection. The audit verified the documents but pointed out that the original documents were missing.

Committee observation

The Committee observes that failure to follow due process / weaknesses in contract award and contract management might have given room for corruption and diversion of public funds.

Committee recommendations

The EACC/DCI should carry out further investigation into this matter and take appropriate legal action against supports if theft of public funds is confirmed and recover the lost amount.

6.0 Acquisition of Assets

6.1 Renovation and Completion of Various Works at Kyangunga Dispensary

Note 17 to the financial statements reflects construction of buildings balance of Kshs.348,570,301 as at 30 June 2018 which include Kshs.9,509, 149 paid to a contractor for renovation and completion of various works in Kyangunga Dispensary. The County Executive entered into a contract with the contractor on 13 October 2016 at a contract sum of Kshs.11, 829,044. The letter of notification of award was issued on 06 October, 2016, and accepted on 07 October, 2016. As at 30 June 2018, the contractor had been paid a total of Kshs.9,509,149 being certificate number 1 dated 13 February, 2017 of Kshs.4,220,061 and certificate number 2 dated 20/12/2017 of Kshs.5,289,087.

However, approved requisition, tender advert including the specifications, tender opening minutes, the bill of quantities and the formal contract document were not made available for audit review.

Further, the Minutes for site inspection and meeting held on 14 December, 2017 indicated that contract commencement date was 25 November, 2016 to be completed after 20 weeks on 14 March, 2017. However, during physical verification on 11 October, 2018, it was observed that the works had not been completed and the contractor was not on side.

In the circumstances, the procurement process could not be confirmed to have been true and fair. Further, the delayed completion of the project has led to delayed benefits to the target beneficiaries and there was no indication of value for money.

Management response

- Funding for the project was factored in the Ministry of Health and Sanitation 2016/2017 budget. Renovation of the facility was factored in the Ministry's procurement plan.
- The procurement department has been instructed to search for the relevant documents to be submitted for audit review.
- The County Government, had through the department of Lands, Infrastructure & Urban Development (LIUD) initiated the process of termination the contract due to inability by the contractor to honor the contractual obligations.

The recommendation above sub-paragraph 7.1 (2016-2017 audit report, County Executive) regarding missing documents, delay in completion of the project and non-adherence to audit timelines be revisited and implemented.

6.2 Construction of Outpatient at Mwingi Level 4 Hospital

Note 17 of notes to the financial statements reflects construction of buildings balance of Kshs.348,570,301 as at 30 June 2018 which include Kshs.3,825,000 paid to a contractor for the construction of a modern outpatient department block at Mwingi level 4 hospital. The contract sum was Kshs.59, 418,911 and was to take a period of 8 weeks (242 days) starting 12 February, 2015 as per the contract. The accumulated amount paid to the contractor as per certificate number 8 was Kshs.56, 905,553. A physical verification on 11 October 2018 revealed that the contractor was on the ground doing final finishing to the building resulting to 1337 days lapsed from the completion date. This was against clause 6 of the contract which stated that unless agreed by both parties the contract should be performed within the contract duration as stipulated and any delays shall result to penalties for failure to complete the project in time. However, no documents were made available to show that the contractor had been penalized for the delayed completion.

In the circumstances, the delayed completion of the project has led to delayed benefits to the target beneficiaries and no value for money have been realized for the Kshs.56,905,553 expenditure as at 30 June 2018.

Management response

- The project had practically been completed. However, the contractor is undertaking correction of minor defects as per the liability period.
- The project will be commissioned for use within two months. The ministry has already procured furniture and other required equipment. Further, additional furniture and equipment will purchased in the current financial year.

Committee observations

The Committee observes that;

1) ***Delays in completing a construction project (or a portion thereof) can have significant financial impact on the owner and the contractor.***

   Sometimes the parties are able to resolve disputes arising out of delays, but, as is often the case, it may fall to the courts or arbitrators to determine which party or parties, if any, are responsible for the delay and which party or parties, if any, must bear the increased costs caused by the delay.

2) ***Examination of documents showed that specific clauses in the contract generally backed up the county government in an attempt to hold the contractor for breach, violations and damages.***

Committee recommendations

Stating that the effects of project failure are found to be loss of revenue to the state; project cost overruns; loss of revenue by citizens; substandard infrastructure and low empowerment to community, the Committee recommends that the Management should;

1) ***Always ensure that project implementation is closely monitored to ensure that projects are executed in line with specifications and standards, completed in time and cost overruns avoided or minimized.***

2) ***In the instance of an inexcusable delays by contractor, the County Government should have demanded that the contractor accelerate its performance to meet the schedule, recover actual or liquidated damages from the contractor and, in extreme cases, terminate the contract based on the contractor's default.***

3) ***The Management should therefore liaise with a view to recovering the actual or liquidated damages from the contractor for the interest of the taxpayer.***

6.3 Construction of Mortuary at Mwingi Level 4 Hospital

Note 17 to the financial statements reflects construction of buildings balance of Kshs.348,570,301 as at 30 June 2018 which included Kshs 4,1nl,44:i for the construction of a mortuary at Mwingi Level 4 Hospital whose total contract sum was Kshs.20,523,600. The letter of notification of award was dated 24 January 2017 and accepted on 25 January 2017. The contract agreement was dated 14 February 2017. This contract agreement indicated in clause 4 that the contract duration was one (1) month starting 08 February 2017. However, a review of documentation made available for audit and Physical verification carried out on 11 October 2018 revealed the following issues:

i. The procurement of the project could not be traced in both the annual budget and procurement plan made available for audit review. In the circumstance, it could not be confirmed that the procurement was properly planned for as required by Section 53 of the Public Procurement and Assets Disposal Act 2015.

ii. The approved requisition, tender advert including the specifications, tender opening minutes, the bill of quantities and the regret letters were not made available for audit review.

iii. The tender evaluation report was not as per the regulation stated above as it lacked the scores awarded by each evaluator.

iv. Further, there was no recorded deliveries of the regret letters, if any, to the unsuccessful tenderers contrary to Section 74 of the PPAD Act 2015.

v. During the physical verification on 11 October 2018, it was observed that the building had been done to roofing and some windows had not been fixed but the contractor was not on site an indication that the works had stalled.

In the circumstances, the delayed completion of the project had led to delayed benefits to the target beneficiaries and no value for money was realized.

Management response

- Funding for the project under the Ministry of Health and Sanitation was factored during the 2016/2017 budget. It was funded courtesy of the forensic and diagnostics sub programme in the curative division.
- The ministry has put in place measure to complete the project so that it can be fully operational.
- Documents supporting the tender process were submitted for audit verification.

Committee observation

The Committee restates its previous observation that the irregularities surrounding this transaction were tell-tale signs for risk of corruption, collusive, fraudulent, or otherwise illicit behavior in execution of the contract and signal troubling patterns across the procurement system in the County Government worthy of further investigation.

Committee recommendation

The Committee invites the EACC/DCI to conduct a full scale investigation into this matter and fix accountability if theft of public funds is confirmed and recover the lost amount.

6.4 Construction of Amenity Block at Kitui Referral Hospital

Note 17 of notes to the financial statements reflects construction of buildings balance of Kshs.348,570,301 as at 30 June 2018 which include Kshs.23, 705,000 for construction of an amenity ward at Kitui Referral Hospital. This amount was part of the contract sum of Kshs.144, 775,000.

The works had been advertised in the dailies on 05 April 2017 and three bidders responded. The tenders were evaluated on 26 April 2017 and one of the contractors was recommended for award. The notification for award was issued on 27 April 2017 and accepted on the same date. The contract agreement was signed on 11 May 2017. However, audit review of the documentation made available and physical verification on 11 October 2018 revealed the following issues:

The tender opening minutes, bid documents, regret letters and site hand over minutes were not made available for audit review. The procurement process therefore, could not be confirmed to have been true and fair.

ii. The tender evaluation report made available for audit indicated that the tender was opened on 19 April 2017. This was the 19 day after the advert which is less than provided by regulation 40 of the public procurement and disposal regulations 2006 which provides for a minimum period of 21 days.

iii. The physical verification revealed that the project had stalled at almost slab level. The contractor was not at site and appeared not to have been at the site for some time. The project duration was 24 months and as at the time of the verification 18 months had lapsed. Considering that only 16.4% of the works had been certified complete, and that the contractor was not at the site, there was a high likelihood that the contractor was not going to deliver within the remaining 6 months as at the time of audit.

In the circumstances, the delayed completion of the project had led to delayed benefits to the target beneficiaries and there was no value for money for the expenditure total Kshs.23, 705,000.

Management response

- Funding for the project was factored during the 2016/2017 budget. Construction of the amenity block was included in the procurement plans for the Ministry of Health and Sanitation for the period under review.
- Supporting documents in respect of the contract were handed over to the auditors for verification.

The recommendation(s) above (sub-paragraph 6.3) 2017/2018 audit report (County Executive) be revisited and implemented.

6.5 Stalled Construction of Outpatient Block at Kitui Referral Hospital

Note 17 to the financial statements reflects construction of buildings balance of Kshs 348,570,301 as at 30 June 2018 which include Kshs.8,795,001 paid to a contractor for the construction of a modern outpatient block at Kitui Referral Hospital. The contractor had been contracted for the works at a contract sum of Kshs 43,975,009, out of which Kshs 41,661,642 has been certified and paid as per the 3rd valuation certificate dated 8 December 2017. The contract notification was issued on 24 January 2017 and accepted on 25 January 2017. The contract agreement was signed on 08 February 2017. A review of the documentation made available for audit review and physical verification revealed the following issues:

i. The tender opening minutes, bid documents, regret letters and site hand over minutes were not made available for audit review.

ii. The physical verification revealed that the completion of the building had stalled as the contractor was not on site and had demobilized. Some internal finishes including doors and tiling had not been done. The works had therefore not been completed 583 days after the expiration of the agreed contract period on 07 March 2017. Clause 6 of the contract required unless otherwise agreed by both parties, the contract shall be performed within the contract duration as stipulated and any delays shall result in penalties for failure to complete the project in time and shall be followed by a notification to the contractor of termination proceedings of the contract. No action has been taken by the County Executive to actualize the clause.

In the circumstances, the delayed completion of the project led to delayed benefits lo the target beneficiaries.

Management response

- All the necessary documentations were submitted to the auditors for verification.

- The Ministry of Health and Sanitation has put in place measure to complete the project so that it becomes fully operational.

The recommendation(s) above (sub-paragraph 6.2) 2017/2018 (County Executive be revisited and implemented.

6.6 Construction of Outpatient Block at Mutomo Kitui South Sub County

Note 17 to the financial statements reflects construction of buildings balance of Kshs.348,570,301 as at 30 June 2018 which include Kshs.4, 148,320 for construction of an outpatient block at Mutomo Kitui South Sub County. The procurement process had been done in the year 2016/2017. The letter of notification of award was issued on

24 January 2017 and accepted on 25 January 2017. The contract agreement was signed on 08 February 2017 and was to take 16 weeks commencing 10 April 2017 and ending on

10 August 2017. However, the approved requisition, tender advert, tender opening minutes, appointment letters to the ad-hoc committees, and the bid documents were not made available for audit. Further, physical verification revealed that the project construction stalled at barely the foundation level. The construction was just 2 courses above the ground and the floor slab had not been done. The contractor had demobilized and the site appeared abandoned for quite some time. The Executive did not invoke clause 6 of the contract agreement and Section 104 of the PPAD Act, 2015 which stipulate the liquated damages for delayed performance of contract.

In the circumstances, the delayed completion of the project led to delayed benefits to the target beneficiaries.

Management response

- The procurement department has been directed to search for the relevant documents and avail them for audit inspection. This will be done in due course.
- The Ministry of Health and Sanitation has put in place measures to ensure the project is completed operationalized.

- The County Government, through the department of Lands, Infrastructure and Urban Development (LIUD) had initiated the process of terminating the contract.

The recommendation(s) above (sub-paragraph 6.2) 2017/2018 audit (County Executive) be revisited and implemented.

6.7 Construction of Theatre at Ikutha Health Centre

Note 17 to the financial statements reflects construction of buildings balance of Kshs. 348,570,301 as at 30 June 2018 which include Kshs. 5,242, 750 paid to a contractor for construction of theatre at Ikutha Health Centre. The amount was part of the contract sum of Kshs. 6,879,150. The procurement process was started in 2016/2017 financial year. A review of the audit documentation and physical verification on 10 October, 2018revealed the following issues:

(i) The recorded deliveries showing that bids were invited from 10 bidders were not made available for audit review. Section 74 of the PPAD Act 2015 require that all tender documents are sent out on recorded deliveries.

(ii) The tender opening minutes, letters of appointment to the ad-hoc committees, recorded delivery of regret letters and bid documents were not made available for audit review.

(iii)As at the time of the audit verification on 10 October 2018 the theatre was not yet at a usable state. The works were incomplete, as drainage works, electrical works, and other finer finishing had not been done. In addition, the building had developed visible cracks running on the wall and floor. The contractor was not on the site and had demobilized as no visible equipment were at the site.

In the circumstances, the delayed completion of the project has led to delayed benefits to the target beneficiaries and no value for money was realized.

Management response

- The procurement department has been instructed to search for the relevant documents and submit them for audit inspection. This will be done in due course.
- The ministry of Health and Sanitation has put in place measures to ensure the remaining works which are minor are completed.

Funds for this purpose are factored in this year's supplementary budget.

- Furniture and other required equipment have already been procured to ensure the project is put into use probably within two months.
- Additional furniture and equipment will also be purchased to have the project commissioned.

The recommendation(s) above (sub-paragraph 6.2) 2017/2018 audit (County Executive) be revisited and implemented.

6.8 Storied Maternity Ward at Kitui Referral Hospital

As reported in the previous year, the County Executive entered into a contract with a contractor for the construction of a storey maternity ward at a contract sum of Kshs.242, 782,653. The letter of award was issued on 27 April 2017 and the contractor accepted on 28 April 2017. The contract form was signed on 11 May 2017. The following observations were made:

(i) The project could not be traced in the annual procurement plan, and annual budget for the year. It was therefore possible that the project may not have been planned appropriately.

(ii) During the year under review, Kshs.35,281,850 was paid to the contractor vide payment voucher number 18694 dated 09 February 2018. However, the payment voucher together with the supporting documents and certificates were not made available for audit review.

(iii) Physical verification revealed that the project had stalled and the contractor was not at the site. The completion of the project was therefore doubtful.

In the circumstances, the management was in breach of the law and the Executive may not have obtained value for money on the money spent on me ward.

Management response

- The project was a multi-year project currently the construction works are at the superstructure level.
- The ministry has put in place measures to ensure the project is completed as soon as possible and commissioned for use.

- Funding for the project was factored during the 2016/17, 2017/18 and 2018/19 budgets.

Committee observations

The Committee;

1) ***Observes that implementation of the project was marred by poor planning and monitoring which gave the contractor leeway to demobilize and leave the site leading to stalling of the project and denying the public the intended benefits.***

2) ***Further observes that among scenarios that play out in identifying a looming or existing contractor fraud are when a contractor is paid upfront for a service or product yet to be rendered or delivered without a written agreement.***

3) ***Believes that the loss and or unavailability of supporting documents in respect of the Kshs.35, 281,850 paid to the contractor might not have been genuine but intended to cover up for financial misconduct.***

Committee recommendations

1) ***The Committee recommends that the County Government should institute measures to ensure that project implementation is closely monitored to ensure that projects are executed in line with specifications and standards, completed in time and cost overruns avoided or minimized.***

2) ***In the absence of accountability on how implementation of the project was managed, the Committee invites the EACC to carry out further investigation with a view to having suspects prosecuted if corruption, economic crimes and abuse of office is confirmed and to recover the lost amount.***

6.9 Procurements of Works and Services for Kanyoonyoo Sand Yard

Note 17 to the financial statements reflects construction of buildings balance of Kshs.348,570,301 as at 30 June 2018 which included Kshs.3,972, 110 and Kshs.3,984, 168 paid to two contractors for construction of office, gate house and pit latrine and for fencing and putting a gate at Kanyonyoo sand yard respectively. A review of the documentation made available for audit review and physical verification carried out on 09 October 2018 revealed the following issues:

(i) The two projects files lacked the tender opening minutes, the contract document and or the LSO issued, and the regret letters sent out to the losing bidders.

(ii) In both tenders, five quotations were received for each. It was however observed that there were no letters of appointment of the three officers who opened the quotations.

(iii) For both tenders it was observed that the officers who opened the quotations were the same officers who did the evaluation contrary to Section 78(1) (b) of the PPAD Act 2015 which require that at least one of the members involved in the tender opening not to be involved in the tender processing or evaluation. It was also noted that the same officers participated in the tender opening and evaluation of both tenders, contrary to section 46(4) (b) which calls for rotation of the members of the tender evaluation committee.

(iv) The deadline for tender number 0009 was indicated as 08 January 2018. The quotations were opened on 15 February 2018. This is contrary to Section 78(3) which require that tenders are opened immediately after the deadline for the submission of the tenders.

In the circumstances, the management was in breach of the law and the citizen of Kitui may not have obtained value for money of Kshs.3, 972, 110 and Kshs.3, 984, 168 contract.

Management response

In his reply, the accounting officer stated that;

- The county used request for quotation method of procurement. The corrected closing date was actually 15/02/2018 when the quotations were opened.
- All the four bidders were invited on 07/02/2018. The cancellation on 14/02/2018 was meant to rectify the error to read the invitation date of 07/02/2018. The BQs were done independently,
- Fencing was meant to protect assets and ongoing works. Procurement was executed through RFQ, and therefore there was no need of;

  ✓ A contract document.
  ✓ Issuing appointment letters to the three officers who opened the quotations
  ✓ Sending notifications to the bidders
  ✓ Minutes on opening of the quotations

Committee observations

The Committee observes that;

1) ***The above irregularities and more so that opening, evaluation and award of the tender being done by the same people created room for manipulation of the contracting phases and steering of the process to a favoured bidder.***

2) ***This posed a risk of unbalanced bidding - under this scheme a favoured bidder might have been provided with "inside information" not available to other bidders which invariably gave the bidder an unfair advantage over other bidders by allowing the bidder to lower pricing or otherwise tailor its bid to defeat its uninformed competitors.***

Committee recommendation

Noting that the payment(s) made in respect of this transaction were not in the best interest of the public since all the relevant supporting documents were not provided for audit, the Committee

invites the EACC/DCI to dig deeper into this matter and fix accountability if theft of public funds is confirmed and recover the lost amount.

6.10 Construction of Go-down at Syongila

Note 17 to the financial statements reflects construction of buildings balance of Kshs.348,570,301 as at 30 June 2018 which include Kshs.21,363, 786 for the construction of the proposed Go-Down at Syongila Polytechnic. However, audit review of the documentation made available and physical verification on 08 October, 2018 revealed the following issues:

(i) The tender opening minutes, letters appointing the tender opening, tender evaluation and inspection and acceptance committees were not availed for audit review.
(ii) Section 106(5) (b) of the PPAD Act require the successful bidder to confirm the order in writing. However, this provision was not adhered to in the tenders as no such confirmations were availed for audit review.

In the circumstances, the management was in breach of the law and the citizen of Kitui may not have obtained value for money for the resources spent on the Go- down.

Management response

- The appointment letters for different officers who opened and evaluated the quotations are attached for audit review.
- Inspection and acceptance is given by engineers when the final payment is made. During the time of review, final inspection and acceptance had not been made. For all go-down projects this was adhered to and therefore, compliance to section 106(5) (b).

Committee observation

The Committee observes that;

The irregularities surrounding this transaction (missing documentation, failure to open the tenders immediately after the deadline and failure to confirm the order in writing were tell-tale

signs that something was wrong, or that this transaction was possibly corrupt, collusive, fraudulent, or otherwise illicit.

Committee recommendation

The Committee invites the EACC/DCI to carry out further investigation into this matter and fix accountability if theft of public funds is confirmed and recover the lost amount.

6.11 Construction and Maintenance of Roads

Note 17 to the financial statements reflects construction of roads balance of Kshs.444,825,833 as at 30 June 2018 which include Kshs.9,347,614, Kshs.5,381,084 and Kshs.11,812,921 all totaling to Kshs.26,541,619 paid to various contractors for construction and maintenance of roads including; Mataka- llamba- Murangeni road, Kalala-Mutia- Makoli road and Upgrading to Bitumen standard on Garissa Stage-Musila Garden Road respectively. However, the following anomalies were noted in all the three contracts:

a) The procurement could not be traced in the annual procurement plan made available for audit review. In the circumstance, it could not be confirmed that the procurement was properly planned for as required by Section 53 of the PPAD Act 2015.

b) The invitation to tender did not have a requirement that the bidders serializes all the pages in the submitted bids. This was contrary to Section 74 (1) stated.

c) The regret letters sent out to the un-successful bidders did not indicate the winning bid as is required by Section 87(3) of the procurement law. Further, there was no recorded deliveries of the regret letters contrary to the Section 74 of the PPAD Act, 2015

d) The contract award was not published and publicized as is required by the Section 138 (1) of the Public Procurement and Asset Disposal Act, 2015.

e) Technical report on the reserve price of the three contracts were not provided contrary to Section 164(3) of the PPAD Act 2015.

f) The advertisement was done on only one (1) daily newspaper contrary to Section 96(2) of the above Act.

In the circumstances, the Executive was in breach of the law and value for money may not have been obtained by the citizen of Kitui County on the resources spent on construction and maintenance roads.

Management response

In reply, the Accounting Officer mentioned that;

Project was funded through a grant from the Kenya Roads Board (KRB). The funds were granted on condition that the county submitted work plans and estimates for the targeted projects. A copy of the approved work plan is attached for audit review.

The invitation to tender did not have a requirement that the bidders serializes all the pages in the submitted bids. The tender notice did not have this requirement. Thus, a criteria not factored in the tender document could not have been applied during evaluation of the bids. This, therefore, did not affect the fairness of the evaluation process.

However, of late pagination / serialization of tender documents is quite often enforced. This requirement is included in all tender notices.

Bidders are notified of the bid evaluation results after the bid evaluation process has been completed and all approvals have been obtained. This is done through letters of offer and regret to the winning and unsuccessful bidders respectively. The letters are usually dispatched through post.

In keeping with the procurement monitoring framework, all tenders awarded by the county government during the relevant period were captured in the procurement quarterly reports which are forwarded to the public procurement regulatory authority (PPRA). A copy of such reports is hereby attached for verification.

The BQ for projects implemented remained under the custody of the principal engineer but was submitted for audit inspection. A copy of the document is attached for audit review.

The tenders were advertised in a local daily with nationwide circulation, Kitui county website and sub-county offices. Copies of the adverts are hereby attached for perusal.

Committee observation

The Committee observes that the myriad of irregularities involved in this transaction suggests that something was wrong, or that this transaction was possibly corrupt, collusive, fraudulent, or otherwise illicit.

Committee recommendation

The Committee invites the EACC to carry out further investigation into this matter with a view to holding suspects accountable if theft of public funds is confirmed and recover the lost amount.

6.12 Supply, Delivery, Installation and Commissioning of Stationary Stone Crusher Plant

Note 17 to the financial statements reflects purchase of specialized plant, equipment and machinery balance of Kshs.202,246,459 as at 30 June 2018 which included Kshs.17,061,098 paid to a contractor as 20% of the contract price of Kshs.85,305,490 for supply, installation and commissioning of stationary stone crusher plant. The agreement indicated that 20% was to be paid upon signing the contract, 50% upon delivery and ::SU% upon successful commissioning. The contract was signed on 25 May 2018 and 20% of the contract price was paid during the year under review. However, the item was not in the procurement plan contrary to Section 53(2) of PPAD Act,2015, no tender evaluation report was availed, particulars of the persons who submitted tenders or their representatives who attended the opening of tenders was not provided contrary to Section 78(10) (b) of the PPAD Act, 2015, regrets letters to unsuccessful bidders were not provided for audit review contrary to Section 87(3) of PPAD Act, 2015. Further, the geological survey report on suitability and viability of the project was not availed.

In the circumstances, the Executive was in breach of the law and there was no certainty that the County residents [illegible] get value for money for the Kshs. 17, 061,098 expended as at 30 June 2018

Management response

In reply, the Accounting Officer stated that;

- The crusher is classified as a heavy machine- budgeted/planned in vote line for specialized, plants, machinery and equipment. Crusher not shown in plan but is categorized under the machines.
- Individual evaluators scored independently before sharing their results and then soring commonly; their individual score cards have been submitted for your reference.
- Bidders/representatives who attended the opening of tenders were captured in opening register which is attached for verification.
- Regret letters to unsuccessful bidders were sent through registered mail the bidders collected the register for bids upon payment of ksh.1000. The relevant documents are hereby attached for perusal.
- Environmental Impact Assessment (EIA) report-areas are generally approved for such installations.
- Geological Survey Report on suitability and viability of the project is available for audit verification and department of LIUD will avail the report to the Committee in due course.

Committee observations

The Committee observes that procurement of the Kshs. 85.3 million Yatta-based plant was;

1) ***Marred by serious irregularities which are tell-tale signs that the transaction was possibly corrupt, collusive, fraudulent, or otherwise illicit.***

2) ***Further, the procurement was marred by claims of nepotism and overpricing in the award of the tender for the stone crusher.***

3) ***Further, the contract was apparently awarded without following due process as spelt out in the PPADA, 2015, thus defeating the control purpose of competitive bidding among intending companies and sidetracking the controls put in place, through collusion and bid rigging.***

Committee recommendation

The Committee exhorts the EACC to hasten investigations into this matter with a view to holding suspects accountable if theft of public funds is confirmed and recover the lost amount.

6.13 Green Grams (Ndengu) Revolution.

Note 17 to the financial statements reflects purchase of certified seeds, breeding stock and live animals balance of Kshs.81,312,438 as at 30 June 2018 which include Kshs.49,620,373 paid to various suppliers for procuring certified green gram seeds. During the financial year under review, Kitui Executive initiated a Ndengu Revolution program whose aim was to acquire certified green gram seeds from accredited suppliers for planting by deserving Kitui County people with the objective of achieving Food Security, Income Generation and Wealth Creation.

The farmers were to be supported with certified seeds of two varieties namely KS20 and N26 to be procured, supplied delivered and distributed separately by the Red Cross Society of Kenya and the County Executive of Kitui. A total of 240 households were targeted though with a predetermined vetting identification exercise set. A total of Kshs.49, 620,373 was incurred by the Executive in procuring the certified green gram seeds.

However, it was noted that the Ndengu Revolution objectives were substantially not realized. First, on food security, the revolution was supposed to transform the whole activity into a cash crop farming so that farmers could use the proceeds to buy other preferred food stuffs such as maize. On income generation, the green grams were anticipated to attract Kshs.100 per kilogram upon harvest only to retail at Kshs. 30 per kilogram just as before. On wealth creation, a proposal to establish "The first community Bank" where by green gram farmers would make their savings and there after borrow for possible investments has not been actualized to date. Further, it could not be confirmed the role of the Red Cross and that of the Executive on Ndengu Revolution distribution as some farmers confirmed receiving seeds from both parties.

Consequently, it was not possible to ascertain that the Kshs.49,620,373 expenditure achieved its intended objective and it has not been possible to ascertain if value for money was received on the project by the citizens of Kitui County.

Management response

In reply, the Accounting Officer explained that;

- The seeds were acquired from different suppliers who delivered them simultaneously.
- Distribution of the seeds had to be done speedily because the rainy season had started while there were inadequate storage facilities at the delivery points (wards and sub-sub-county levels).
- For accountability purpose, the list of farmers who benefited is attached to this report for audit verification.
- The ndengu revolution was meant to increase production of green grams, improve on food security and household incomes.
- Through the project implemented during the 2017/2018 financial year, Ndengu production increased to 49,400 metric tonnes (mt) from the 16,700 mt recorded during the 2016/2017 financial year. This marked a growth of a growth of about 200%.

Committee observations on the botched ndengu revolution

The Committee observes that;

1) *The County Government seems to have started on wrong footing after one of its key initiatives dubbed ndengu revolution failed flat on its face.*

2) *The much hyped Kitui 'ndengu revolution' turned into a disappointment as despite high yields, farmers stuck with piles of the crop after the promised lucrative market turned out to be just that; a promise.*

3) *The project, a partnership between the county government and the Kenya Red Cross Society (KRCS) was to promote green grams as the ideal cash crop for the semi-arid county while tapping into the profitable and ready market for the pulses.*

   However, as time passed anguish visited the farmers after it became clear that there was no ready market for green grams despite mass production. What is worse, unlike in previous years, the prices of the affected season plummeted, hitting a low of Kshs. 30 per kilo from an average Kshs. 80 previously.

4) *County Government invested hundreds of millions in the 'ndengu revolution' project, noting that with the poor prices, it was evident the money invested was not realised. It certainly was a populist investment with no value for money.*

5) *The project which reportedly failed due to poor consultation and erratic rains, drew upwards of Kshs. 49 million from public coffers through buying ploughing equipment, seeds and pesticides as well as creation of awareness in line with the governor's manifesto of creating wealth to the locals.*

Committee recommendation

With possibility that public funds might have been embezzled, the Committee invites the EACC/DCI to conduct a full scale investigation and prosecute suspects if corruption, economic

crimes and abuse of office are established and recover the lost amount.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1. **Early Childhood Development Education (ECDE) Teachers with Same Bank Account**

A review of the payroll for the year under review indicated that a total of twenty (20) bank accounts were each shared by two (2) Early Childhood Development Education (ECDE) teachers resulting to forty (40) ECDE teachers sharing various bank accounts.

It was not explained how the forty (40) teachers can share various bank accounts and how they operated the shared bank accounts.

Management response

In reply, the accounting officer stated that'

- The responsibility of recruiting ECDE teachers and processing their documents was vested with the county department of education, ICT and youth development. After this was done, the list of successful candidates was forwarded to the human resource department for processing of their emoluments.
- The anomaly cited by the audit was detected by the management and referred to the HRM department for rectification. Subsequently, remunerations for the affected teachers were stopped.

Committee observations

The Committee observed that;

1) No evidence was adduced to prove that the County had put in place effective internal control measures to manage the risk of fraud that may have arisen from double payments especially where employees share bank account numbers.

2) *Joint bank accounts are a big commitment and there are a few potential risks that account holder(s) need to be wary of when considering them. they include the following, that;*

- *Whomever the concerned parties, open a joint account with will have as much right to the money in their account as they do, and they are unlikely to be able to control or restrict this.*

- *Opening a joint bank account creates an association with the other account holder(s) in the parties' credit report - and this means that if they have poor credit rating, theirs may suffer as a result. If the accounts were to be overdrawn because other account holders have mismanaged the account, all account holders are liable for this.*

- *Joint bank accounts look just like regular checking and savings accounts, but there's one caveat — multiple people have equal access to the money in the account. This can present problems when it comes to succession and wealth planning if one of the account holders dies.*

Committee recommendation

If the matter is still pending, the Committee strongly recommends that the Human Resource Management Office should get proactive on this matter and institute necessary measures to sanitise the payroll system to protect the affected teachers from the possibility of being defrauded.

2. Sharing of Tax Personal Identification Numbers (PIN)

A review of the July 2017 manual payroll revealed that three hundred and twelve (312) Kenya Revenue Authority Personal Identification Numbers (PINs), each were shared by two ECDE teachers resulting to six hundred and twenty-four (624) ECDE teachers sharing various personal identification numbers. In addition, comparison of the Manual payroll for ECDE teachers for the month of June 2018 with the Integrated Personnel Payroll Data(IPPD) payroll for the month of June 2018, revealed that fifteen (15) personnel were sharing similar KRA Tax pins. No explanations were given in regard to this irregularity.

Management response

In reply, the Accounting Officer reiterated that;

- The process of recruiting ECDE teachers and processing their employment documents was vested with the county Department of Education, ICT and Youth Development.
- After hiring, the list of successful candidates is forwarded to the human resource department for processing of their emoluments.
- 312 employs had their KRA pins shared by two ECDE teachers resulting to 624 ECDE teachers sharing various personal identification numbers. This anomaly was detected and referred to the Human Resource Management department for rectification. The anomaly was detected during filling of I-tax returns and might have resulted from an error during compilation of the list of the affected teachers at the departmental level.

Committee observations

The Committee observes that;

1) ***This irregularity indicated failure by the county executive to control data entry operations and perform periodical payroll cleansing.***

2) ***Sharing of tax pin by the 40 teachers exposed the county to risk of fraud and loss of funds with the result that the audit of payroll and reconciliation became difficult.***

Committee recommendation

The Committee recommends that if the matter is still pending, the Human Resource Management Office should get proactive and institute necessary measures to sanitise the payroll system to protect the affected teachers from the risk of being defrauded.

3. Lack of Documented Risk Management Policy and Reports

The Public Finance Management (County Governments) Regulations, 2015, Section 153 (1) (b) states that internal auditors shall have a duty to give reasonable assurance through the audit committee on the state of risk management, control and governance within the organization.

However, audit assessment of the internal controls on the risk management processes revealed that the County Executive of Kitui internal audit section did not have a risk management policy. Further, there was no documented formal risk assessment during the financial year 2017/2018. It was therefore not clear how risks were identified, their significance estimated and likelihood of their occurrence determined. Further, it could not be established how the risks were controlled and monitored to ensure correction/mitigation measures were effective in the absence of documentation and reports on the same..

Consequently, without risk management policy in the Executive, it was not possible to ascertain how risks were identified and mitigated during the year under review.

Management response

County Government of Kitui is in the process of developing a Risk Management Policy that will contain internal control systems to mitigate various organizational risks

Committee observation

The Committee concurs with audit observation that failure to have a risk management policy and a documented formal risk assessment exposed the county to risk of fraud and loss of funds with the result that the audit of payroll and reconciliation became difficult.

It could not be established how the risks were controlled and monitored to ensure correction/mitigation measures were

effective in the absence of documentation and reports on the same.

Committee recommendation

If the matter is still unresolved, the Management should institute immediate measures to design and develop a risk plan and a risk management policy that will contain internal control systems to mitigate various organizational risks.

4. Non Sequential Numbering of Payment Vouchers

The PFM (County Government) Regulations, 2015 regulation number 104(1) requires that receipt and payment vouchers of public money to be properly supported by pre-numbered receipt and payment vouchers. However, analysis of County Executive's payment vouchers revealed that there was existence or a gap in sequential numbering of payment vouchers which the management failed to explained or justify.

Management response

In reply, the accounting officer mentioned that;

- County Ministries prepare payment vouchers and forward the same to county treasury for approval and processing.
- Details in the payment vouchers are registered and sequentially recorded for reference in line with the month and year of transaction. The registers are hereby attached with this response for audit verification.

Committee observation

The Committee observes that although a copy of extract of the registers was made availed for audit inspection, the gap in sequential numbering of the payment vouchers in the cash book was not properly explained or justified.

Committee recommendation

The Committee recommends that the Management must ensure that the matter is urgently resolved by updating the cashbook

records and submit the same for audit verification not later than 30 days after adoption of this report by the House.

5. Poor Maintenance of Cash Books

The cash books for Kitui County Executive standing imprest, Kitui County Revenue collection account and Kitui Pro-Poor Account for the year under review were not properly maintained as the cash book balances were not counter checked by senior officer as part of internal control policy mechanism.

Further, the cash book for revenue collection account was partly maintained; only transactions relating to receipts were captured while the transfers from revenue collection account to county revenue fund account and other payments were not accounted for Consequently, the accuracy of the financial statements balances of Kshs.3,866,969, Kshs.8,551,909 and Kshs.39,032,399 for standing imprest, revenue collection account and Kitui Pro-Poor Account respectively as reflected in note 21A to the financial statement could not be confirmed as at 30 June 2018

Management response

In reply, the accounting officer mentioned that;

- Cashbook for revenue collection account was properly maintained and it depicted all transactions from receipts, payments and transfers.
- Cashbooks for standing imprests and pro poor accounts were frequently being counter checked and signed and the documents are available for audit review.

Committee observations

The Committee observes that;

The basic accounting practices require that books of accounts are written in the double entry system and that government financial regulations and procedures require that a cash book should have

daily summaries and analysis of transactions and that it be examined by a senior accounting officer.

Committee recommendation

The Committee recommends that;

The Management ensures that proper records of transactions are always kept in line with government financial regulation and procedures and be enhanced with establishing strong internal control systems.

REPORT ON EXAMANIATION OF THE REPORT BY THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF COUNTY ASSEMBLY OF KITUI FOR THE YEAR ENDED 30 JUNE 2018

Basis for Adverse Opinion

1.0 Accuracy of the Financial statements

1.1 Variances Between Integrated Financial Management Information System (IFMIS) Vote Book Balances and Financial Statements

The statement of receipts and payments reflected a total payment of Kshs.810, 128,635 for the year under review while the respective IFMIS vote book balances reflects an expenditure of Kshs.725, 568,641 resulting to an explained variance of Kshs.84,559,994.

In the circumstances, it was not possible to ascertain the accuracy of the Kshs.810, 128,635 payments reflected in the receipts and payments for the year ended 30 June 2018.

Management response

The Accounting Officer attributed the variances between IFMIS vote book balances and financial statements to payments made outside the IFMIS due to the following reasons;

Cash payments of ward operation imprests;

Up until April 2019, ward office assistants were being paid cash which stopped after the County Assembly Service Board resolved to open bank accounts for all the wards thus minimizing cash payments.

Cheques payments of ward office rent;

Ward office rent could not be paid through the IFMIS for the reason that landlords/ landladies were not mapped into the system due to lack of the Personal Identification Numbers issued by the Kenya Revenue Authority (KRA). Most landlords/landladies were not aware of this requirement considering that Kitui is a rural County. However, the Management will engage the landlords/landladies to acquire pin numbers in order to minimize transactions outside the IFMIS system.

Poor network connectivity.

Payments outside the IFMIS were also occasioned by poor network connectivity, a challenge which the Management wants to address through installation of FAIBA.

Committee observations

1) ***While noting the explanation by the Accounting Officer, the Committee observes that IFMIS is designed to collect accurate, timely, complete, reliable and consistent information on all public financial events. Hence failure to capture financial transactions in the system makes public funds susceptible to theft.***

2) ***The incomplete disclosure of budgeted figures affected the usefulness of the information in the financial statements for the year under review.***

Committee recommendations

The Committee recommends that the management should;

1) ***Ensure all future transactions are captured in IFMIS to ensure accurate financial reporting and that if possible all necessary adjustments are made so that the financial statements for the period under review reflect fairly in all material respect.***

2) ***Invest in applications that will result in swift and high-quality financial reporting. That will also help in mitigating risk and speed up the reporting cycle.***

1.2 Cash and Cash Equivalents

The statement of financial assets and liabilities reflected cash and cash equivalents of Kshs.910, 368 as at 30 June 2018. However, the statement of cash flows reflected a cash and cash equivalents of

Kshs.27, 897,435 resulting to unexplained variance of Kshs.26, 987,067.

In the circumstances, the accuracy and completeness of the reported cash and cash equivalents reflected in the statement of cash flows of Kshs.27, 897,435 could not be confirmed as at 30 June 2018.

Management response

The Accounting Officer responded as follows;

- Section 136 of the PFM Act 2012 require that all unspent funds should be remitted to the County Revenue Fund (CRF) account at the end of each financial year.
- The variance of Kshs. 26,987,067 stood for unspent money as at 30th June 2018 and which should have been credited to the CRF account but instead was captured as balance brought forward instead of zero as required when accounting in cash basis.

Committee observations

The Committee;

1) ***Takes note of the explanation by the Accounting Officer but observes that the Accounting Officer is saddled with the responsibility of improving the financial reporting system to make it relevant, faithfully represented, understandable, reliable and comparable.***

2) ***Reckons that a first step in getting reports one can trust is making sure the persons entering the data are fully trained and capable of supplying accurate financial reporting. This starts with hiring experienced bookkeepers and accountants to ensure the books are accurate.***

Committee recommendations

1) ***The financial statements should be adjusted accordingly to address the variance of Kshs.26, 987,067 in the records under review.***

2) ***There should be an on-going training program for accounting personnel in such areas as financial reporting, performance measurement, performance reporting, ethics and accountability obligations. The training should be imparted to all levels of management and refreshed periodically.***

1.3 Fund Balance Brought Forward

The statement of the financial assets and liabilities for the year under review reflected a nil balance of a fund balance brought forward. However, the audited 2016-2017 financial statements reflected a net financial position of Kshs.26, 987,067 resulting to understatement of the net financial position for the year under review by Kshs.26, 987,067. The resultant difference has not been explained or reconciled.

In the circumstances, the accuracy and completeness of the statement of financial assets and liabilities as at 30 June, 2018 could not be confirmed.

Management response

The Accounting Officer restated the response under sub-paragraph 1.2 above.

The recommendation(s) above (sub-paragraph 1.2) 2017/2018 audit report (County Assembly) in respect of understating the net financial position for the year under review by Kshs.26, 987,067 and failure to explain or reconcile the difference be revisited and implemented.

2.0 Doubtful Expenditure on Foreign Travel

Note 5 of the notes to the financial statements reflected a use of goods and services balance of Kshs.322, 172,555 as at 30 June 2018 which included Kshs.27, 841,641 spent on foreign travel and subsistence. However, included in this amount is Kshs.20, 850,316 spent on foreign travel by MCAs to various countries including Italy, Israel, Sweden, Dubai and Malaysia for various training as indicated below:

Destination	No. of Participants	Period	Details	Amount (Kshs)
Italy	7	24 June-1 July 2018	Study visit to International Training centre of the ILO(IRCILO) on operations and to explore areas of cooperation	2,834,685
Israel	4	8 - 14 MAY 2018	Attend conference on Agriculture Technology	3,890,285
Sweden	7	11-17 June 2018	Health care studies	2,571,840
Malaysia (Singapore)	7	8 - 16 June 2018	To attend conference on Best practices in public investment and Accounting	3,571,986
Dubai	7	22 - 29 June 2018	Public budgeting and fiscal management	4,501,595
Dubai	7	23 - 30 June 2018	Conference on public expenditure management and financial accountability	3,479,925
	Grand total			**20,850,316**

However, no documentary evidences on how the institutions were identified and vetted, training needs assessment, back to office reports and any economical reason of not conducting the same trainings in the readily available institutions in Kenya were availed for audit review. Further, there was no evidence availed for audit review that one of the MCAs traveled to Dubai but was paid Kshs.416,455.

In the circumstances, the propriety and value for money of Kshs.20,850,316 expenditures as at 30 June 2018 could not be confirmed.

Management response

The Accounting Officer explained that;

- Committees make independent decisions on their training/benchmarking needs. Once they identify their areas of interest they communicate to the office of the clerk for approval and facilitation.
- Sometimes national and international institutions make offers for various trainings and if they satisfy the needs of relevant committees, the clerk engages the institutions on behalf of the respective committees for logistics and travel arrangements.
- The training needs of all the committees are factored in their annual work plans which informs their local and foreign trips.
- The trainings both local and international are conducted by well-established and reputable institutions.
- While the management acknowledges that some trainings could have been conducted in Kenya at a lower cost, the international trainings were necessary as the countries chosen offer the best practices and exposure in respective fields. Sweden is well known for the best health care program, Dubai for the best practices in public accounting and investments while Israel is known for its unrivalled techniques in desert farming.
- The MCA who did not undertake the training has offered to refund the money paid to him.

Committee observations

The committee observed as follows;

1) ***Benchmarking is a common practice and sensible exercise to establish baselines, define best practices, identify improvement opportunities and create a competitive environment within organizations.***

2) ***The Committees in question were able to clearly identify specific areas of opportunity and were able to validate assumptions, prioritize improvement opportunities and set performance expectations. They also gained an independent perspective about how international systems work compared to Kenya.***

3) ***Benchmarking is one of the most efficient tools democratic legislatures and organizations such as parliaments can adopt with specific focus on identifying, analyzing and adopting best practices and implementing the best results to improve their operations and performance.***

Committee recommendations

Kitui County Assembly should integrate benchmarking (both local and international) into its established norms/practices in order to keep it in tune with the transformation process now evident in most parliamentary jurisdictions.

Other Matter

1.0 Budgetary Control and Performance

The statement of comparison of budget and actual amounts - recurrent and development combined reflects approved final expenditure budget of Kshs.989,769,598 and actual expenditure of Kshs.810,128,635 resulting to under absorption of Kshs.179,640,963 or 18%. Further, the statement of comparison of budget and actual amounts reflects approved final budgeted receipts of Kshs.989,769,598 and actual receipts of Kshs.811,039,003 resulting to an exchequer of Kshs.178,730,595 or 18% not received as at 30 June 2018 as detailed below:

Item	Budget (Kshs)	Actual (Kshs)	Under (Kshs)	% Under/ over

Receipts analysis				
Exchequer Release	989,769,598	811,034,003	178,730,595	18
Other Receipts		5,000		
Total	989,769,598	811,039,003	178,730,595	18
Expenditure Analysis				
Compensation of employees	341,704,501	303,361,903	38,342,598	11
Use of goods and services	350,860,340	322,172,555	28,687,785	8
Social security Benefits	5,000,000	1,415,936	3,584,064	72
Acquisition of Assets	196,304,757	183,162,276	13,142,481	7
Finance costs	100,000	15,965	84,035	84
Other payments	95,800,000	0	95,800,000	100
TOTAL	**989,769,598**	**810,128,635**	**179,640,963**	**18**

The under absorption of Kshs.179,640,963 or 18%, especially on other payments, social security benefits and compensation of employees may have negatively impacted on goods and service delivery by the County Assembly. As a result, there is need for the County Assembly to evaluate its budget making mechanism with a view of allocating resources to priority areas for higher positive impact and utilization of the budget.

Management Response.

These were the words of the accounting officer in response to the finding:

- The County Assembly sought to implement all the budgeted programmes but the plan was curtailed by underfunding by the county treasury.
- Requisitions for funds including unremitted amounts were forwarded to the County Treasury and copies of requisitions are available for verification.

The recommendation(s) above (sub-paragraph 1.2) (2016-2017 audit report) (County Assembly) in respect of the unutilized funds be revisited and implemented.

2.0 Ward Operation Expenses

Note 5 of the notes to the financial statements reflected a use of goods and services expenditure of Kshs.322, 172,555 as at 30 June 2018 which included other operating expenses balance of Kshs.41, 607,277. However, included in this balance is Kshs.29, 840,000 paid as ward operation expenses to forty (40) legislative wards in the county translating to Kshs.746, 000 per ward. The initial monthly allocation to wards was Kshs.15, 000 which gradually increased to Kshs.25, 000, Kshs.40, 000, Kshs.60, 000 and finally to Kshs.100, 000. However, no documentary evidence or explanations were made available by management to explain the unjustifiable increased in monthly allocation to wards.

Further, an analysis of the major monthly expenditures incurred in six sampled wards revealed that most of the expenditure related to hire of tents, chairs, public address systems and purchase milk, beverage and newspapers as shown;

Items	**Total (Kshs)**
PA System	203,750

Refreshments	746,565
Tent and chairs	885,280
Transport and accommodation	381,010

Further, the delivery receipts supporting the surrender of the expenditures reflected consecutive serial numbers which raised doubt on the authenticity of the payments.

In the circumstances, the propriety and value for money of the Kshs.29, 840,000 ward operations expenditure as at 30 June 2018 could not be ascertained.

Management Response.

The Accounting Officer told the Committee as follows;

- Kitui is the 6th largest county in the country. Majority of the wards are equally expansive and require substantial resources to run them in terms of interaction between the MCAs and the electorate. For instance, mobilizing people for public participation which is a constitutional obligation involves significant expense. This explains the increase in monthly allocation to wards from Kshs.15, 000 to Kshs.100, 000.
- Most of the expenditure related to hire of tents, chairs, public address systems and purchase milk, beverage and newspapers due to the representation role of the MCAs. the internal audit department is working on other issues highlighted by the auditor-general
- CASB is also keen to resolve the issues fearlessly and is in the process of activating the audit committee to strengthen internal controls and curb such challenges in future.

Committee observation.

The Committee observes that to allow for effective discharge of duties by ward members, they require adequate office space and assistance.

Committee recommendations

The Committee recommends as follows;

1) ***Ward office assistants must ensure that the money available to the offices is spent prudently and in conformity with existing government financial regulations to facilitate quick, efficient and effective delivery of services.***

2) ***To streamline operations in the ward offices and curb financial mismanagement and maladministration, the management considers coming up with a bill providing for the establishment of the Kitui County Assembly service ward offices, the procedure for the management thereof, recruitment of ward offices employees, financial procedures, guidelines on how expenditure should be managed and elaborate system for reporting and accountability.***

3) ***Management be more proactive in streamlining disbursements for the ward offices operation costs and enforcing accountability and expenditure controls through formulation of appropriate guidelines to curb financial mismanagement and maladministration at the wards.***

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1.0 Compensation of Employees

1.1 Un authorized Overpayment of Committee Sitting Allowances

Note 4 of the notes to the financial statements for the year under review reflected a compensation of employees' balance of Kshs.303, 361,903 which included Kshs.18, 552,432 being personal allowances paid as part of salary. However, included in this amount was Kshs.1, 284,100 paid to Members of the County Assembly (MCAs) in respect of committee sittings which were based on the Salaries and Remuneration Commission circular number SRC/TS/CGOVT/3/16 of 27 November 2013 which provided payment of Kshs.6, 500 and Kshs.3, 900 for Chairman and members respectively. However, this was against the revised payable sitting allowances for the committee sittings as per the Kenya gazette notice number 6518 which set the rates at Kshs.5, 000 and Kshs.3, 000 for the chairman and members respectively.

Had the allowances been paid using the rates in the current circular, a total of Kshs.1,105,300 would have been paid instead of the Kshs.1,284,100. The Members of County Assembly were therefore overpaid by Kshs.178,800.

Consequently, the Kshs.178,800 sitting allowance expenditure as at 30 June 2018 was irregular and not a proper charge to public funds.

Management Response.

The Accounting Officer;

- Referred the committee to the high court order (judicial review no. 5 of 2018) of 8th January, 2018 by hon. lady justice J.V. Odunga, which quashed SRC'S 2017 remuneration rates leaving the management with no option but to implement the 2013 orders that following an advisory note from County Assemblies forum (CAF) to all speakers of all county assemblies referenced CAFS/speakers/326 of February 2018.
- Stated that the note advised county assemblies to revert to the 2013-circular a position supported by the members during a 'Kamukunji' meeting.
- Copies of the high court order and advisory note are available for verification. .

Committee observation,

The Committee recalled that Justice George Odunga, while reinstating the allowances, faulted the SRC, saying it failed to study

the labour market and conduct a comprehensive job evaluation one year before the pay review as the law demands.

The Committee, therefore, recommends that the matter be closed.

1.2 Irregular Payment of Plenary Sitting Allowances

Note 4 of the notes to the financial statements reflected an expenditure of Kshs.303, 361,903 which included Kshs.18, 552,432 spent on personal allowances paid as part of salary. However, included in this amount was Kshs.7, 038,200 paid to MCAs in relation to plenary sittings during the year under review which was contrary to the Kenya Gazette notice number 6518 which abolished plenary sitting allowances.

In the circumstance, the County Assembly was in breach of the law and the expenditure of Kshs.7, 038,200 remained irregular and not a proper charge to public funds as at 30 June 2018.

Management Response.

The Accounting Officer restated the response under sub-paragraph 1.1 above in respect of the Kshs.7, 038,200 paid to MCAs in relation to plenary sittings

The recommendation above (sub-paragraph 1.1) (2017/2018 audit report) (County Assembly) in respect of the irregular expenditure of Kshs.7, 038,200 be revisited and implemented.

2.0 Non-compliance with Public Sector Accounting Standards Board Guidelines

The Public Sector Accounting Standards Board revised template of June 2018, requires the Chief Finance Officer (CFO), to sign and indicate their ICPAK membership number in the financial statements. However, during the year under review, the Principal Finance Officer's ICPAK membership number was not included in all the signed financial statements. Therefore, the CFO has contravened the law.

Management Response

The Accounting Officer conceded to the audit observation and promised to address the anomaly.

Committee observation,

1) ***Without ICPAK membership, the principal finance officer fell short of ICPAK standards of promoting and implementing quality standards in financial reporting, audit and other areas relevant to the accountancy profession***

2) ***While to be in "good standing"' with ICPAK primarily refers to adhering to the membership rules of the accounting body, it is the disciplinary element that comes with the membership and the ability to weed out unqualified personnel that stands out as a thorny issue.***

Committee recommendations

The Management should ensure that preparation of the financial statements is done in line with the format recommended by the Public Sector Accounting Board.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1.0 Ineffectiveness of Audit Committee

The County Assembly of Kitui appointed an audit committee of three (3) members on 4 January, 2017. However, there was no evidence availed for audit review that the audit committee convened a meeting since it was constituted contrary to Regulation 168 and 172(1) of Public Finance Management (County Governments) Regulation 2015 which stipulate the function of the audit committee and the frequency of committee meetings respectively.

As a result, it was not possible to ascertain the assurance of risks, control and governance in the County Assembly's operation for the year ended 30 June 2018.

Management Response

The Accounting Officer conceded to the audit observation and explained that;

- The people appointed as members of the Committee turned down the offer on account that the allowances offered were very little.
- Nevertheless, CASB is making effort to convince the appointees to take up the positions.

Committee observation

The Committee observes as follows;

1) ***Independent Audit Committees are tasked with the responsibility of approving the work plans, reviewing reports and monitoring implementation of recommendations of the internal audit departments.***

2) ***Lack of the committee explains the lethargy, inefficiency and ineptness of the county assembly's internal audit department which is crucial in undertaking objective appraisal of systems to improve on effectiveness of risk management and operations. These include assisting the management to comply with laws and regulations, and maintain prudent policies and procedures and reliability of financial and management reporting.***

Committee recommendations

1) ***The County Assembly administration should benchmark in other County Assemblies where the audit committees had been operationalized with a view to initiating the process for reconstituting the committee to regulate the internal audit function including approval of its work plans and enhance internal controls.***

   This will ensure the administration complies with the law (PFM Regulation 167 (1) of 2015).

2) ***CAF should prevail upon the SRC to consider increasing the allowances from Kshs. 2000 per sitting to about Kshs. 5, 0000 to make the positions attractive to potential candidates.***

2.0 Independence and Effectiveness of Internal Audit Department

Review of the organization's governance structure revealed that internal audit was not fully independent in the absence of an audit committee where the department should be functionally reporting. During the year under review, the audit department was both reporting functionally and administratively to the accounting officer. This was contrary to regulation 155(1) of Public Finance Management (County Governments) Regulations 2015 which requires head of internal audit to functionally report to audit committee and administratively to accounting officer

In the circumstances, the independence of internal audit unit could not be confirmed as at 30 June, 2018.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Management Response.

The Accounting Officer responded as follows, that;

- With absence of the Audit Committee, the Internal Audit Department reports to CASB as the highest decision- making body in the County Assembly. This was the arrangement even before the public PFM (CG) Regulations, 2015 were enacted.
- This reporting structure has not in any way interfered with the independence of the Internal Audit Department due to the diverse expertise of the Members of CASB.
- Previous recommendations by the Internal Audit Department have been implemented under supervision of the Board. This is

testimony that the Board does not interfere with the functioning of the department.

- The Board will fast- track operationalization of the Audit Committee in order to comply with the law (Regulation 167 (1) of the PFM (CG) Regulations, 2015.
- The Internal Audit Department is adequately facilitated by the Management in order to perform its duties effectively.

Committee observations

The committee restates observations and recommendations in its previous reports that;

1) ***The independence and objectivity of the internal audit department are achieved through organizational placement and reporting lines of the unit.***

2) ***The contribution of the activity of internal audit is potentially of major importance as an effective internal audit system leads to improved accountability, ethical and professional practices, and effective risk management, improves quality of output and supports decision making and performance tracking.***

3) ***By reporting to the Accounting Officer, the Internal Audit Department rendered itself ineffective and impotent. It couldn't function effectively due to conflict of interest, lack of objectivity and independence. This arrangement violated Regulations 155(1) (2) and (5), 163 (1) and (2) of the PFM (cg) Regulations 2015 which "states that the head of internal audit unit in a county government shall enjoy operational independence through the reporting structure by reporting administratively to the Accounting Officer and functionally to the Audit Committee".***

4) ***Specifically, the department should report to executive management for assistance in establishing direction, support, and administrative interface; and typically to the audit committee for strategic direction, reinforcement, and accountability.***

The Committee recommends that the Management should as a matter of urgency ensure that;

1) *The Audit Committee is immediately reconstituted to effectively aid the work of the internal auditors through approving the department's work-plans and monitoring implementation of all internal audit recommendations by the management. In this regard, the accounting officer is entreated to ensure a friendly working environment for all parties within their departments.*

2) *The Department is free of inappropriate influence from management that prevents it from providing the management with an honest assessment of management's processes and controls for managing risks to the achievement of objectives.*

3) *Management should accept internal auditors as partners in promoting prudent financial management, transparency and accountability and for that reason cultivate a friendly working environment not only for auditors but all parties within their jurisdictions to improve operations.*

This being a recurring issue, the Committee, therefore, awaits progress report on implementation of these recommendations by the Management not later than 30 days after adoption of this report by the House in order to put the matter at rest.

MINUTES OF THE PUBLIC INVESTMENTS & ACCOUNTS COMMITTEE MEETING HELD IN THE CONCORD HOTEL, NAIROBI ON 28TH FEBRUARY, 2021 AT 3.00 PM

MEMBERS PRESENT:

1) Hon Alexander Munuve Mbili - Chairman
2) Hon Beatrice Velesi Musyoka- Vice Chair
3) Hon Anthony Kyusya Mbiti - Member
4) Hon. Alex Wambua Mwangangi - Member
5) Hon Alex Mutambu Nganga - Member

IN ATTENDANCE:

1) Jacob Kimanzi - First Clerk Assistant
2) Teddy Matuku – Senior Hansard Editor

MIN (PIAC) 01/2021: PRAYER

The meeting started at 9:00 AM with a word of prayer led by Hon. Anthony K. Mbiti.

MIN (PIAC) 02/2021: COMMUNICATION FROM THE CHAIR

The Chair once more thanked members for the resilience manifested in dealing with both the KICOTEC report and the County Government of Kitui omnibus report on audited accounts for the Financial Years 2016-17 & 2017-18. He described the task so far accomplished by members as great and underscored the importance of the same being adopted by the committee, to pave way for the endorsing of the two (2) reports for subsequent laying on the table of the House.

MIN (PIAC) 03/2021: ADOPTION OF THE COMMITTEE REPORTS

Members having successfully gone through the KICOTEC report and the County Government of Kitui omnibus report on audited accounts for the Financial Years 2016-17 & 2017-18 and made some adjustments as they deemed appropriate, thereafter **unanimously adopted the said two (2) reports**.

There being no more business to transact, the chair declared the meeting closed at 4:33 PM

JACOB K. KIMANZI
FOR: CLERK OF ASSEMBLY

CONFIRMED: ______________
HON.ALEXANDER MUNUVE MBILI
CHAIR,COMMITTEE ON PUBLIC INVESTMENTS AND ACCOUNTS

DATE: ___________