ANALYSIS OF THE

AUDITOR-GENERAL'S REPORTS

ON THE FINANCIAL STATEMENTS

OF KITUI COUNTY EXECUTIVE

(2015/16-2017/18)

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Acronyms & Abbreviations

PLWD	People Living With Disability
PFM	Public Finance Management
PPADA	Public Procurement and Asset Disposal Act
IPSAS	International Public Sector Accounting Standards
OAG	Office of the Auditor-general
HRM	Human Resource Management
IFMIS	Integrated Financial Management Information System
YISEP	Youth Infrastructure Saving and Enterprise Programme
CRF	County Revenue Fund
CSOs	Civil Society Organizations
SRC	Salaries and Remunerations Commission
CPSB	County Public Service Board
DPP	Director of Public Prosecution
EACC	Ethics and Anti-Corruption Commission
PAC	Public Accounts Committee
NEMA	National Environmental Management Authority
SRC	Salaries and Remunerations Commission

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Purpose of the report

This report is intended to provide the various stakeholders with a clear and succinct summary of the Auditor-General's reports for the financial years 2015/16, 2016/17 and 2017/18 for the Kitui County Executive. Salient issues have been identified by the Auditor General that curtail successful implementation of the county development programmes to improve the livelihoods of the people. These must be fixed to address the economic development needs of the Kitui County populace.

The quest for accountability on the part of duty bearers/Public Office holders by the public requires audit reports to be simpler clearer and easier to understand. This makes it possible for the public to consume these reports and highlight areas of systemic weaknesses for effective accountability environment in the management of public resources.

[1]This report will therefore lead to empowerment of the public through dissemination of reliable financial information, in line with Article 35 of the Constitution and [2]Access to Information Act, 2016. The result will be a better-informed public and increased public participation in financial accountability.

[1]Article 35 of the Constitution; Every citizen has a right to access information required for the protection or exercise of any right
[2]Access to Information Act, 2016

Executive Summary

The aim of the audit process is to confirm whether public money has been applied lawfully and in an effective way. County Government expenditure should be reflective of the quality of service rendered to the people. PFM mainly strives to ensure both fiscal efficiency and discipline in the use of public finances for the betterment of the Kenyan people.

Audit reports support the governance responsibility of oversight by addressing whether government and public entities are doing what they are supposed to do and serve to detect and deter public corruption. This is further supported by the [3]principles of Public Finance Management outlined in Article 201 of the Constitution of Kenya.

Public expenditure requires promoting an equitable society by ensuring that the revenue raised nationally is shared equitably among national and county governments. The disbursed resources are to be used in an open and accountable manner by including public participation in all financial matters. Further, the public resources are to be used in a prudent and responsible way through responsive mechanisms of financial management and a clear fiscal reporting.

The Analysis of the Auditor-General's report reveal that despite the immense expenditures evident, fiscal discipline is still a challenge in Kitui County in comparison to the quality of service delivery in different sectors. Most of the limitations identified are not necessarily because of resource constraints but lack of proper financial control and the guiding legal frameworks for best practice.

This report examines the findings of the Auditor General with respect to the published financial audit reports for Kitui County Executive for the financial years 2015/16, 2016/17 and 2017/18. The tool shall give a clear picture of how the public resources are being spent and delineate the accuracy and adherence to the existing policy and legal frameworks to help in the follow-up of the recommendations by the Auditor General.

The findings reveal that the reports have been awarded qualified and disclaimer of Opinion for the years under review. The Opinions expressed are a testament that Kitui County Executive renders accounts that flout procurement procedures, presents irregular recruitment procedures, poor budgetary control and performance. Further, other justifications for the Opinions include lack of annual work plans, unsupported expenditures, lack of accounting documents, issues of single sourcing in procurement, lack of employment manuals and documentation of collected revenue into the system.

These consistent and persistent gaps imply that the County fails to meet the Constitutional threshold of accountability in the management of public finances. Therefore, this report highlights these weaknesses and proposes recommendations that would be used to compel the accounting officers and institutions to use public resources lawfully and in an effective manner. It also calls to action the members of the public and CSOs in holding public office holders (duty bearers) to account to receive value for money.

[3]*Article 201 of the Constitution- Principles of Public Finance Management; prudent and responsible use of public money.*

1.0 Introduction

According to the PFM Act, after the auditor general finalizes the audit report, it is subjected to the Public Accounts Committees (PAC) for accounts of State and County Corporations. After discussions are complete, the County Assembly committees with the assistance of the Office of the Auditor-General give recommendations where the entities concerned should implement these recommendations.

In fixing some of the identified gaps, the County Chief Officer responsible for finance is required to report suspected offences to relevant law enforcement authorities. The public Officers are personally liable for losses incurred by county government as a result of their fraudulent, corrupt or negligent acts. Reluctance to execute this has led to increasing misuse of public resources and as reviewed in the reports, there are several recurrent audit queries in the three financial years that are raising red flags and alarms for action. More so, this is a clear indication on the questionable consumption of the auditor general's reports by the oversight authorities and how seriously the reports are taken. Also, this puts at stake the awareness levels of the service beneficiaries on the responsibilities of OAG and the reports in improving the quality of service delivery to the residents of Kitui County.

This introduces a new concept of auditing, requiring the Auditor-General not only to look at the fiscal and managerial accountability aspects, but also to confirm whether or not the programmes implemented lead to results and outcomes that positively transform the lives of our people.

1.1 Background to the study

It is worth noting that Kenya has achieved significant milestone in formulating policies and legal frameworks that enhance transparency and accountability in Public Finance Management. However, the Auditor General's reports point out material pervasiveness and flagrant violations of these financial laws.

It is therefore imperative that the public is effectively sensitized on the losses occasioned by these financial laws violations and the attendant opportunity costs. Accountability institutions and other stakeholders also need capacity building in enhancing robust policy frameworks that will safeguard public interest. This tool will be significant in raising awareness and instigating action.

1.2 Significance of the Study

The Constitution requires the Auditor General to regularly publish and publicize his reports. Given the very technical nature of these reports, Civil Society Organizations (CSOs) can play an intermediary role by reviewing and simplifying the reports.

This forms the basis of developing a simplified advocacy tool on utilization of the Auditor General's report in Kitui County. The study seeks to bring Kitui County issues home by engaging everyone in the financial management process especially oversight thus promoting transparency and accountability in managing public resources;

It is also meant to check whether Kitui County Government has systems to safeguard its internal operations and determine whether there are mechanisms to mitigate financial risks; engage in awareness creation for the stakeholders to check whether resources are being utilized well by relating the audit issues to the public since, if the raised issues are not addressed, there is a likelihood of human rights violation.

This research has analyzed the reports of the Auditor-General on the financial statements of Kitui County Executive for the financial years 2015/16, 2016/17 and 2017/18. It has delved deeper to unearth the queried amounts with respect to expenditure and established a trend analysis. It has also highlighted the weaknesses identified and proposed recommendations that should be adopted in protecting public interest.

1.3 Methodology

The study analyzed the reports of the Auditor-General on the financial statements of Kitui County Executive for the financial years 2015/16, 2016/17 and 2017/18. It relied on the Controller of Budget and Auditor-General's reports for Kitui County. The analysis involved classification of the audit queries into the categories outlined in table 2. Summary and presentation of findings were done through descriptive statistics and visualizations.

Table 1: Bases for audit qualifications

Unqualified	Qualified		Disclaimer of Opinion
A clean opinion expressed when the auditor concludes that the financial statements give a true and fair view in accordance with the identified financial reporting framework.	The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements	The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.	The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion and concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

Source: Auditor General's explanations for the basis of Audit qualification

2. 0 Summary of Audit Opinion and basis

[4]The Constitution of Kenya under Article 229 obligates the Auditor-General to examine the books of accounts and all other financial statements of government entities to ascertain whether public resources have been applied lawfully and in an effective manner. It is further supported by other statutes such as PFM Act, Public Audit Act in line with the International Standards of Supreme Audit.

The Auditor General executed this mandate by examining the financial documents for Kitui County Executive and gave Audit Opinions for 2015/16, 2016/17 &2017/18 supported by the facts illustrated in the table below;

[4]*The Constitution of Kenya, Article 229 establishes the Office of the Auditor-General*

Table 2: Classification of Audit Issues

	Classification of the audit Issues	Audit Opinion	Basis for the Audit Opinion	Amount queried (Kshs)
			2015/2016	
1.	Violation of financial regulations	Disclaimer of Opinion	*a. Unbudgeted expenditure was incurred on purchase of land which could not be confirmed.*	7,496,000
			b. The propriety of the expenditure could not be confirmed. It was reallocated without evidence of approval in the supplementary budget.	4,484,581
			c. Expenditure could have been avoided if the County Executive had paid taxes on time as per the Income Tax Act.	108,230,996
			d. There was expenditure on 5 items which had unapproved over-expenditure contrary to PFM Act.	61,258,855
2.	Long outstanding balances		*a. Recoverability of imprests could not be confirmed.*	11,785,435
3.	Lack of supporting documents		*a. No supporting documents have been availed to ascertain the nature of receipts making it difficult to confirm the expenditure of*	22,816,736
			b. Recovery of amounts lost through financial fraud cannot be confirmed.	29,243,501
4	Lack of supporting documents and fixed assets register		*a. Validity and accuracy of the fixed assets additions and ownership of assets reportedly bought could not be ascertained.*	3,374,965,468
5	Violation of procurement procedures and guidelines		*a. there was no value for money for expenditure incurred on construction of drifts.*	1,397,015,159
			b. The propriety of the expenditure incurred on procurement of Air Ticketing could not be confirmed.	3,233,326
			c. There was no value for money for the expenditure incurred on the media coverage services.	2,122,800
			d. Expenditure incurred on the insurance services for motor vehicles but could not be confirmed	11,509,770
			e. Expenditure incurred on procurement of ECD desks could not be confirmed.	901,000
			f. Expenditure incurred on purchase of Specialized Plant, Equipment and Machinery could not be confirmed.	36,259,959
			g. Propriety and value for money for the expenditure on street lighting infrastructure could not be confirmed.	24,144,221

	Classification of the audit Issues	Audit Opinion	Basis for the Audit Opinion	Amount queried (Kshs)
			2015/2016	
			h. Expenditure incurred on purchase of double decker beds could not be confirmed.	4,394,803
			i. Expenditure incurred on the renovation works and fencing of Mutitu Youth Polytechnic could not be confirmed.	3,178,600
			j. Expenditure incurred on the repair of Grader could not be confirmed.	503,445
			TOTAL AMOUNTS QUERIED	**5,103,544,655**
			2016/2017	
1.	Lack of supporting documents		*a. Unsupported fuel expenditure*	29,424,998
			b. Unsupported current balances totaling to	631, 041,560
			c. Unauthorized reallocation of charged in the wrong account.	4000,000
			d. Propriety and validity of pro-poor funds could not be confirmed.	49,600,000
			e. Unsupported expenditure of in the Street Lighting of Kitui Town Mjini Road	39,950,637
			f. Propriety could not be confirmed for the construction of Ngini River Drift.	69,889,710
			g. Irregular expenditure on 6 items including scholarship and other educational benefits could not be confirmed.	382,797,870
			h. Reallocation of funds without approval or authority in the supplementary budget	5,902,787
2.	Unsupported expenditures		*a. Unsupported provisions in the contract expenditure*	15,470,000.
			b. A sum paid for NEMA certificate and insurance, but no document was provided.	450,000
			c. Propriety of expenditure could not be confirmed for the Road Construction of Enziu-Kamulewa-Kalitini project.	18,879,370
			d. Irregular expenditure paid as a variation order for County Government Staff Office Block.	21,163,211
			e. No supporting documents were availed for provisions for renovations of buildings at Kitui Level iv Hospital.	39,760,426

	Classification of the audit Issues	Audit Opinion	Basis for the Audit Opinion	Amount queried (Kshs)
			2016/2017	
3	Violation of procurement procedures and guidelines		*a. It was not possible to ascertain whether the County Executive got value for money in the expenditure amounts*	547,765,195
			b. Propriety of expenditure in the supply of various Equipment to Kitui Referral Hospital could not be confirmed.	5,773,000
			c. It was not possible to ascertain the value for money for tenders awarded to Rene Industries Ltd.	242,782,653
			d. No procurement supporting documents were provided to support the expenditure of in the River Athi-Kanyangi -Malu- ma-Mutomo -Ikutha-Kanziku water supply project.	1,939,765
			e. Propriety of unsupported expenditure could not be confirmed for the procurement of Non-Pharms for Kitui Referral Hospital	20,480,589
			f. No procurement documents provided for the supply of goods, works and services totaling to	210,630,473
4	No Value for Money		*a. Expenditure on repairs of motor vehicles could not be supported.*	9,493,621
			b. A sum was paid for construction of Ultra-Modern Resource Centre at Manyenyoni but stalled.	106,209,000
			c. The County Executive breached Public Procurement and Asset Disposal Act, 2015 in the construction of Lot 11Drifts on B7 Kisasi-Mbiti-ni-Yongela-Voo	13,927,068
			d. Construction of a maternity Block at Mbi-tini could not be completed on time and there was no value for money for the expenditure.	9,989,600
			e. The County Executive never got value for money for the expenditure on the pipeline distribu-tion line, supply of materials, trench excavations for Kangukangu, Kanyongonyo, Kiseuni	25,382,484
			f. A contractor was paid for the opening up of a Road from Bavaria junction -Mutuni Road through Kamangu Stream and Kalundu River but demobilized.	22,521,184
			g. There was no value for money in the expenditure on specialized survey equipment.	9,190,680
			h. Expenditure in the upgrading to bitumen Standard of Kitui School-Ithookwe Show Ground Air-strip Road could not be confirmed	3,018,600
			i. Chain Link Fencing and Gate Construction at VOO Secondary school had questionable docu-ments and expenditure could not be confirmed.	2,692,955

	Classification of the audit Issues	Audit Opinion	Basis for the Audit Opinion	Amount queried (Kshs)
			2016/2017	
5	Violation of County Government Regulations		*a. Funds amounting to were committed to a contractor for extension of street lighting after 31 May*	10,338,896
			TOTAL AMOUNTS QUERIED	***1,919,424,772***
			2017/2018	
1	Outstanding Imprests	Qualified Opinion	*a. Unreconciled imprests accounts- there is a variance between the financial statements and the imprest account amounting to*	1,770,066
2	Unauthorized expenditure		*a. Accountability and validity of expenditures could not be confirmed in the use of goods and services.*	5,625,000
3	Lack of supporting documents		*a. Accountability and validity of expenditures could not be confirmed in the use of goods and services.*	2,865,680
			b. No supporting documents were provided to justify the expenditure for insurance costs.	80,912,517
			c. A sum was paid for the storeyed maternity ward at Kitui Referral Hospital, but no vouchers were provided for audit.	35,251,850
4	Lack of Fixed Assets Register		*a. [5]It was not possible to ascertain the security and ownership of the motor vehicles*	69,408,261.
5	Violation of procurement procedures		*a. Section 28 (3) of PPAD Act was breached in the expenditure of in the procurement of works and services for Kanyoonyoo sand yard.*	7,956,278
			b. [6]Section 106 (5) (b) of PPAD Act was breached in the expenditure for the construction of Go-Down at Syongila.	21,363,786
6	No Value for Money		*a. A contractor was paid for renovation and completion at Kyangunga dispensary, yet the work was not completed.*	9,509,149
			b. The delayed completion of the construction of modern outpatient facility at Mwingi Level 1v hospital led to an expenditure whose value for money could not be ascertained.	56,905,553
			c. [7]There was no value for money for the expenditure incurred in the Green Grams (Dengu) Revolution amounting to	49,620,373
			d. There was no value for money for the supply, delivery, installation and commissioning of the stationery stone crusher plant amounting to	17,061,098
			e. There was no value for money in the expenditure for the construction and maintenance of roads.	26,541,619
			f. There was no value for money for the Construction stalled outpatient block at Kitui Referral Hospital amounting to	8,795,001

	Classification of the audit Issues	Audit Opinion	Basis for the Audit Opinion	Amount queried (Kshs)
			2017/2018	
7	Violation of Human Resource Guidelines		*g. There was no value for money for the Construction of outpatient block at Mutomo Kitui South sub-county amounting to*	4,148,320
			h. There was no value for money in the expenditure of in the construction of Amenity Block at Kitui Referral Hospital.	23,705,000
			a. The county Executive lacks an approved staff establishment making it difficult to hold staff accountable for their jobs.	5,486,293
			b. Employees were paid in cash making it difficult to ascertain the authenticity of a sum totaling to	
			TOTAL AMOUNTS QUERIED	***426,925,844***

Source: Author's compilation of Auditor General reports- various audit issues

As illustrated above, the audit opinions expressed were pegged on the material financial violations of procurement procedures, lack of supporting documents for various expenditures incurred, violation of human resource guidelines and lack of fixed assets register as required by the law.

[5]*Section 28 (3) of PPAD Act. Section 33 specifies the roles and responsibilities of County Government with respect to public procurement and asset disposal.*

[6]*Section 106 (5) (b) of PPAD Act*

[7]*Green Grams (Dengu) Revolution was touted as a venture that would greatly improve the lives of Kitui County residents. However, the Auditor-General has raised audit issues that the validity, completeness and value for money amounting to 49,620,373 could not be confirmed.*

2.1 Summary of Budgetary performance (Kitui County Executive)

Table 3: Summary of budgetary performance

2015/16							
Vote	Approved Budget (Kshs) a	Actual Expenditure (Kshs) b	Variance (Kshs) c = (a-b)	Absorption Rate % d =(b/a)100	Queried amount e	Queried amount as % of expenditure f = (e/b)100	Audit Opinion g
Recurrent	3,408,889,903	3,458,895,137	(50,005,234)	101	5,103,544,655	72.75	Disclaimer of Opinion
Development	4,793,363,287	3,556,120,356	1,237,242,931	74			
Total	8,202,253,190	7,015,015,493	1,187,237,697	88			
2016/17							
Recurrent	5,750,303,223	5,185,700,974	564,602,249	94	1,919,424,772	21.21	Disclaimer of Opinion
Development	5,220,102,781	3,862,217,415	1,357,885,366	74			
Total	10,970,406,014	9,047,918,389	1,922,487,615	82.5			
2017/18							
Recurrent					426,925,844	4.39	Qualified
Development							
Total	11,243,352,815	9,715,648,143	1,527,704,672	86.41			

Source: Report of the Auditor-General on the financial statements of County Executive of Kitui for the years 2015/16-2017/18

2.2 Trends in total queried amount FY 2015/16-2017/18

Table 4: Queried amount trends

	2015/16	2016/17	2017/18
Expenditure (Kshs.)	7,015,015,493	9,047,918,389	9,715,648,143
Queried amount (Kshs.)	5,103,544,655	1,919,424,772	426,925,844
% of expenditure	72.75	21.21	4.39

Source: Auditor-General's report 2015/16-2017/18

From the above trend, it can be deduced that Kitui County has been impressively improving in terms of expenditures. The amount of expenditure queried in 2015/16 was high but has drastically reduced between 2016/17 and 2017/18 leading to a qualified opinion in 2017/18. Should the County Executive continue in the same trajectory, it is possible to achieve a clean audit opinion. However, the recurrent issues should be addressed so as to improve in the management of public resources.

2.3 Budget and expenditure trends

Table 5: Budget and Expenditure trends for the last three years

	2015/16	2016/17	2017/18
Budget (Kshs)	**8,202,253,190**	**10,970,406,014**	**11,243,352,815**
Expenditure (Kshs)	**7,015,015,493**	**9,047,918,389**	**9,715,648,143**

Source: Auditor-General's reports

It is evident that both the budget and expenditure for Kitui County executive have been increasing over the three years reviewed. Factually, this should translate into a more economically empowered county with improved service delivery to the residents. However, the audit reports paint a different picture. Substantial violations that have been recorded significantly stifle the economic growth prospects. Accountability institutions must be diligent to pursue these violations to conclusion and punish those found culpable.

2.4 Top three violations

Table 6: Top three audit repot violations

No.	2015/16	Total Amount queried (Kshs.)	2016/17	Total Amount queried (Kshs.)	2017/18	Total Amount queried (Kshs.)
1	Lack of supporting documents and fixed assets register	66.13	Violation of procurement procedures	53.63	No value for money	45.98
2	Violation of procurement procedures	29.06	Lack of supporting documents	30.30	Lack of supporting documents	27.89
3	Violation of financial regulations	3.56	No value for money	10.55	Lack of fixed asset register	16.26

Source: Author's compilation from the Auditor General's reports

2.5 Share distribution of the queried amounts by audit issues

Table 7: Share distribution of the queried amounts by audit issues

FY	Audit Issue		% of the queried amount
2015/16	1.	Violation of financial regulations	3.56
	2.	Long outstanding balances	0.23
	3.	Lack of supporting documents	1.02
	4.	Lack of supporting documents and fixed assets register	66.13
	5.	Violation of procurement procedures and guidelines	29.06
2016/17	1.	Lack of supporting documents	30.30
	2.	Unsupported expenditures	4.99
	3.	Violation of procurement procedures and guidelines	53.63
	4.	No value for money	10.55
	5.	Violation of County Government Regulations	0.54
2017/18	1.	Long outstanding imprests	0.41
	2.	Unauthorized expenditures	1.32
	3.	Lack of supporting documents	27.89
	4.	Lack of Fixed Assets Register	16.26
	5.	Violation of procurement procedures and guidelines	6.87
	6.	No Value for Money	45.98
	7.	Violation of HR Guidelines	1.29

Source: Author's compilation from the Auditor General's reports- various issues

From the table, it is observed that the leading audit issues were lack of supporting documents, failure to reconcile books of accounts and violation of procurement procedures and guidelines. These are issues of compliance with the

3.0 Implications of Audit Issues on Youth

[8]In the Kitui County Government budget for 2017/18, the allocations for the department of Youth Training and Skills Development and revitalization of youth polytechnics and support to women and PLWD are as follows;

Table 8: Kitui County Budget Implementation Review Report (selected items)

FY	Total estimates 2017/18	Projected estimates 2018/19	Projected estimates 2019/20
Department of Youth Training and Skills Development and revitalization of youth polytechnics	**38,093,599**	**41,765,177**	**45,797,025**
Agricultural materials supply and small equipment (support to marginalized groups, women, youth and PLWD with equipment, supplies and materials)	**17,769,501**	**19,482,180**	**21,362,914**

Source: Kitui County Budget Implementation Review Report, 2017/18

[8]*Kitui County Budget 2018*

It is highly probable that Pro-poor fund allocations that could have benefited the youth were not properly utilized. In the FY 2016/17, Kshs. 49,600,000 could not be confirmed as the pro-poor cash books, bank reconciliations and funds disbursement files were lacking. This was among the funds that could directly be linked to programmes that benefit the youth.

In the same year, expenditure on Scholarship and other Educational Benefits was not supported by relevant documents. The amount spent was Kshs. 216,375,964 but only Kshs. 16,902,295 was supported. This leaves a variance of Kshs. 199,473,669 which could not be accounted for. There is high possibility that the more deserving students did not benefit yet its purpose was to support bright and needy students within the county. Taking average fees for a day school student at Kshs. 13,000 per year, this money was enough to pay a whole year's school fees for 15,344 students.

The 14% shortfall in the expenditure amounting to Kshs. 1,527,704,672 could have been used to facilitate the welfare programs for the youth such as: social protection programs. More cash should have been availed to strengthen the social safety net that was rolled out in 2015/16. These include providing bursaries to the needy students and boosting the Youth Infrastructure Saving and Enterprise Programme (YISEP) to benefit over 398 youth groups with over 9,914 members.

3.1 Recurring Issues

The Auditor-General has identified numerous issues that were recurring in all the three financial years under review;

1. Failure to reconcile books of account; Comparison of financial statements and other supporting schedules revealed a net understatement and the financial accuracy of the statements could not be confirmed; 2015/2016 –Kshs. 187,512,964; 2016/2017 - Kshs. 44,698,744; 2017/2018- Kshs. 82,697,393
2. Reallocation of funds- This is consistently done without authority or approval for reallocations in the supplementary budgets; 2015/16 -Kshs. 4,484,581; 2016/17- Kshs. 5,902,787; 2017/18- Kshs. 69,408,261
3. Violation of human resource guidelines- Lack of approved organization structure and unclear lines of authority making it difficult to ascertain stations and departments where some officers work. Other recurrent issues include overcommitment of salaries against Section G. 21 (7) of the Code of Regulations, recruitment of excess staff and lack of segregation of duties. This has been highlighted for all the three financial years under review.
4. Violation of procurement procedures- The report has documented consistent violation of procurement procedures for goods and services. These include unsupported provisions in the various contracts within the County that compromise value for money and makes the County Government to incur extra expenses to the detriment of the residents.
5. Lack of fixed assets register- Lack of fixed assets register and unsupported acquisition of fixed assets has been reported across the years against Section 149 of the PFM Act, 2012.
6. Outstanding imprests- Non-surrender of imprests is an issue that violates the financial rules and regulations. It is a matter that is recurrent in Kitui County Executive; 2015/16-Kshs. 1,770,066; 2017/18- Kshs. 11,785,435
7. Pending bills- The Audit Reports over the years reveals that there were consistent pending bills that had not been cleared by the Kitui County Executive. These pending bills strain the relationship between the suppliers and the County Government. They also have the potential to make the SMEs sectors involved in the supply of goods and services to collapse; 2015/16- Kshs. 893,426,633; 2016/17- Kshs. 1,218,982,811; 2017/18- Kshs. 1,167,675,493
8. Domestic and foreign travels- The audit report reveals that domestic and foreign trips inflates the county expenditure by huge margins. Funds spent under this vote lacked supporting documents making the propriety and veracity difficult to ascertain; 2015/16- Kshs. 3,233,326 2017/18 - 2,865,680

3.2 Opportunity cost

Financial fraud committed in the FY 2015/16 was discovered totaling to Kshs. 93,487,989. However, Ksh. 29,343,501 was not recovered. This amount is enough to increase water tanks to ECDE schools, public health centres, market centres, drilling of boreholes and construction of earth dams to address the perennial water scarcity for domestic and agricultural production.

Most of the projects that were stalled did not meet the threshold for value for money. For instance, according to the [9]Controller Budget report on budget implementation, construction of ultra-modern resource centre at Manyenyoni had an annual budget of Kshs. 106,209,000 but expenditure was Kshs. 16,526,113 representing an absorption rate of 15.6%. This was also queried by the Auditor-General in the 2016/17 audit report.

Maternal Health is one of the key sectors that require massive resources. A scan of the 2017/18 programme based budget reveals that the estimates for 2018/19 under 040100 P.3 Preventive & Promotive Health Services required Kshs. 106,743,910 to actualize. This means that the queried amount is enough to cater for the budget under that sub-programme to give the residents value for money.

Agriculture is one of the vital sectors of Kenya's economy and currently plays an important role in actualizing the Big Four Agenda pillar on food security. To align the county programmes with this national blueprint, there is need to allocate more resources and prudently use the allocations to achieve the objectives of a food secure county. However, in the FY 20117/18, there was no value for money for Green Gram (Dengu) revolution amounting to Kshs. 49,620,373. This could be used to offer credit facilities to the farmers and also buy fertilizers and certified seeds to boost agricultural production for food security.

4.0 Major Findings

1. Flagrant Noncompliance and Adherence to Relevant Laws: The Auditor General identified instances where the County Executive of Kitui County breached legislation on PFM Act, PPDA and other laws such as the Public Finance Management (County Governments) Regulations, 2015, the County Governments Acts, various circulars from statutory bodies such as Salaries and Remuneration Commission, the Income Tax Act providing guidance on how County Government funds should be managed. ie FY 2017/18 cash withdrawal of Kshs. 3,207,517 was against [10]section 80 of PFM (County Government Regulations).
2. Pending Bills: During the periods under review, the County Executive did not settle bills amounting to Kshs 1,218,982,811 in FY 2016/17, Kshs 1,167,675,493 in FY 2017/18. These pending bills may cost the county good reputation among the suppliers and is a hotbed for litigation.
3. Irregular Procurement of Goods and Services; The Auditor General identified recurring issues of non-compliance with the legislations, policies rules and regulations that guide procurement of goods and services within the devolved units. This was a consistent issue of concern in all the three financial years reviewed.
4. Delayed implementation of projects: This denies citizens public service delivery. It also leads to projects costs escalation due to inflation factors and eventually the County Government may have to incur additional expenditures on the projects. Delay in implementing projects as per project cycle/plan affects the implementation of subsequent year's adversely. Several projects in Kitui County were started but stalled.
5. Lack [11] of Assets and Liabilities Register: Lack of updated registers for the immoveable assets and liabilities inherited and those that are newly acquired are lacking. For instance, FY 2015/16, assets worth Kshs. 3,374,965,468 and 69,408,261 FY 2017/18 lacked supporting documents.

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[10]*Section 80 of the PFM Act (County Government Regulations)*

6 Weak Budgetary Control and Performance: The Auditor General pointed out instances where the funds were diverted and used for purposes for which they were not budgeted for without approval in the supplementary budget. This transfers funds earmarked for development to recurrent costs; 2016/17, Kshs. 4,000,000 and 5,902,787 were reallocated without approval.

7 Irregularities in Compensation to Employees: Cases of irregular payments and allowances not complying with SRC were noted; FY 2017/18, violation of human resource guidelines made it difficult to confirm the authenticity of Kshs. 5,486,293.

5.0 Conclusion

Evidently, the Auditor-General has identified numerous cases of financial violations leading to corresponding huge amounts queried. Notably, all the audit issues classified have received queries leading to unfavorable audit opinions; disclaimer of opinion for 2015/16, 2016/17 and qualified opinion for 2017/18.

Most of the audit issues identified revolve around non-compliance with procurement procedures, violation of financial regulations, long outstanding balances, lack of supporting documents, lack of adequate revenue collection mechanisms and unreconciled financial accounts among others.

The key audit issues and the total queried amounts indicate that significant proportion of the total expenditures for the three years under review had audit issues.

It is worth noting that the audit queries compromise the quality of goods delivered and services rendered to the residents of Kitui which consequently fail to meet the value for money thresholds. It is therefore imperative that compliance with the existing PFM laws and the Constitution of Kenya in the management of public resources must be enhanced to achieve the goals and objectives of county socio-economic development.

The fact that there is no unqualified opinion means that the Auditor General was not satisfied with the financial reporting with regards to adherence to financial rules and regulations. The examination of the books of accounts, supporting documents and disclosures did not reflect a reasonable assurance that the financial statements are free from material misstatements leading to the unfavorable audit opinions expressed. This is an indictment on the Kitui County Executive and deliberate commitment must be demonstrated in fixing the issues identified to manage the public finances lawfully and in an effective manner.

6.0 Recommendations

The following are the areas that the County Executive of Kitui should improve on;

1. Improvement in compliance with procurement procedures

IFMIS should be strengthened with the requisite controls and IPSAS accruals fully implemented. These will ensure that controls are inbuilt in the procurement and accounting system and thus help deter any financial malpractices. Pending bills should also be managed by aligning procurement plans to cash flow plans.

2. Human Resources

a. Staff rationalization for all the categories in accordance with the new scheme of service developed by SRC for the counties should be done.

b. Staffing plan should be informed by a Capacity Building assessment / functional and

[11] *PFM Act under section 104 obligates the County Treasury as the custodian of the inventory of the County Government assets which is headed by the CEC -Finance. Part xii is on asset management and the accounting officer of the county government entity to take full responsibility and ensure that proper control systems exist for assets.*

organizational assessment and approved organizational structure to meet the annual targets and make employees account for their work.

c. The County Public Service Board should also ensure all employees are paid within the Integrated Personnel Payroll Data to avoid violation of HR policies and guidelines.

d. Support performance improvement through training, short courses, workshops, conferences for better service delivery to Kitui residents.

3. Up-to-date assets register and inventory

The County Government should put in place an asset management policy that enables asset management strategy and plans to be produced. CGA,2012- Section 108 (4) requires county integrated development plan to include a financial strategy that addresses asset management strategies. Physical inspection and verificatio n of assets should be done annually.

4. Legislative scrutiny of audit reports and follow-up

Since some of the financial violations identified by the Auditor-General are criminal in nature, PAC should determine which matters are still outstanding and ensure appropriate action to rectify them. If the matters arising from PAC process confirm fraud, corruption or misappropriation, the police, the Director of Public Prosecution, the Ethics and Anti-Corruption Commission and any other relevant bodies should take up the matter and pursue it to logical conclusion.

5. Reporting and accounting in accordance with PSASB guidelines

The County Executive to ensure that Accounting Officers prepare financial statements in the formats prescribed by Section 194 of the PFMA, IPSAS and templates by the PSASB to curb cases of failure to reconcile books of accounts and other financial violations.

6. Projects implemented according to cost estimates

Budget estimates for all the projects that the county Government implements should be availed and strictly adhered to. Mostly, the comparison between the actual cost of completed projects with the original budget costs in the ADP/budget reveal huge discrepancies compromising value for money for residents of Kitui County.

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[12] *PFM Act under section 104 obligates the County Treasury as the custodian of the inventory of the County Government assets which is headed by the CEC -Finance. Part xii is on asset management and the accounting officer of the county government entity to take full responsibility and ensure that proper control systems exist for assets.*

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The Constitution of Kenya 2010

Glossary

Audit Query	An explanation/clarification sought by the Auditor-General on specific issues to gather information to make a conclusion in the audit process.
Emphasis of Matter	Refers to a paragraph included by the Auditor-General in the report, to highlight an issue of importance that is fundamental to user's understanding of the financial statements. It can accompany both an unqualified or modified opinion.
Excess expenditure	This refers to spending beyond what was approved or appropriated by the National or County Assembly.
Imprest	Form of cash advance or a float which may be issued to officers who are required to make payments which cannot be conveniently made through the cash office of the Government entity or bank account
Nugatory expenditure	Wasteful expenditure.
Pending bills	Refers to bills not settled or paid by the entity during the reporting period or the financial year under audit.
Unsupported expenditure	Expenditure without proper records and documentation leading to inability of the Auditor-General to determine whether the expenditure is valid and follows the procedure or not.
Value for money	The determination whether something is worth the money spent on it