REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF ELGEYO MARAKWET

FOR THE YEAR ENDED 30 JUNE 2015

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COUNTY GOVERNMENT OF ELGEYO MARAKWET FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Elgeyo Marakwet set out on pages 6 to 47, which comprise the statement of assets as at 30 June 2015, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation: recurrent and development for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 8 of the Public Audit Act, 2003.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 4 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 9 of Public Audit Act, 2003 and submit the report in compliance with Article 229 (7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments,

the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County Government's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, I am not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

1.0 Unreconciled Deficit

The statement of receipts and payments reflects a deficit of Kshs.494,962,937. However, the sources of funding of Kshs.494,962,937 reflected in the statement of receipts and payments for the year ended 30 June 2015 was not explained. In the circumstances the validity and accuracy of the deficit figure of Kshs.494,962,937 for the year ended 30 June 2015 could not be ascertained.

2.0 Mortgage and Car Loan Fund Accounts

Note 17 to the financial statements reflect transfers to other government units amounting to Kshs.130,000,000 which was in respect of transfer to car and mortgage fund. A review of the County Government records revealed that an amount of Kshs.70,000,000 was transferred to the County Executive fund account and Kshs.60,000,000 to the County Assembly fund account for purposes of car and mortgage loans to members of the County Executive and County Assembly respectively. The County Government advanced Kshs.56,000,000 to the County Executive Committee Members (CECM) from the fund during the year. However, as at 30 June 2015, the members had only repaid Kshs.3,034,242 resulting to an outstanding loan balance of Kshs.52,965,758. Loan repayments were noted to be too low ranging from Kshs.38,878 to Kshs.145,416 per month per member raising the risk of default at the end of loanee's term. The loans, had also not been properly secured since there was no evidence that the land and motor vehicles had been valued to ascertain their current market value as security for the loans. Further, the title deeds and log books were not charged as required by Elgeyo Marakwet County Executive and Assembly Car Loan and Mortgage Acts and no signed loan agreements were availed for audit review.

Consequently, the full recovery of the loan balance of Kshs.52,965,758 at the end of the County Executive term is doubtful and no explanation has been provided for not securing the loans as appropriate.

3.0 Variances between IFMIS Budget Execution Report and Figures in the Financial Statements

Information available reflected differences between the budget execution reports extracted from IFMIS and the summary statement of appropriation presented in the financial statements. On Development expenditure budget, the budgeted amount as per the financial statement reflected Kshs.1,495,425,163 whereas the figure as per IFMIS extracts report was Kshs.1,465,854,711 resulting in an unreconciled variance of Kshs.29,570,452.Further,the actual total development expenditure as per the financial statement was indicated as Kshs.1,298,644,280 whereas the extract reports from IFMIS had a figure of Kshs.1,446,832,845 resulting in unreconciled negative variance of Kshs.148,188,565. On recurrent expenditure budget, the actual expenditure budget as per the financial statement reflected Kshs.2,285,501,047 whereas the extract reports from IFMIS had a figure of Kshs.2,277,649,957 again resulting in a variance of Kshs.7,851,090. Further, the actual total recurrent expenditure as per the financial statement was indicated as Kshs.2,187,189,933 whereas the extract reports from IFMIS had a figure of Kshs.2,289,451,234 resulting in unreconciled negative variance of Kshs.102,261,301. The management failed to explain the discrepancies between the two sets of information as summarized below:-

Development Budget	**Budget (Kshs.)**	**Actual Expenditure (Kshs.)**	**Budget and Actual Variance (Kshs)**
As per financial statements	1,495,425,163	1,298,644,280	**196,780,883**
As per extracted report from IFMIS	1,465,854,711	1,446,832,845	**19,021,866**
Statements Variance	**29,570,452**	**(148,188,565)**	
Recurrent Budget	**Budget (Kshs.)**	**Actual Expenditure (Kshs.)**	**Budget and Actual Variance(Kshs)**
As per financial statements	2,285,501,047	2,187,189,933	**98,311,114**
As per extracted report from IFMIS	2,277,649,957	2,289,451,234	**(11,801,277)**
Statements Variance	**7,851,090**	**(102,261,301)**	

In the circumstances, the accuracy and completeness of these financial statements could not be confirmed for the year ended 30 June 2015.

4.0 Acquisition of Assets

Note 20 to the financial statements reflect acquisition of assets of Kshs.1,052,597,464 which is at variance with balances in the summary of fixed asset register of

Kshs.778,712,578 as detailed under Annex 4 to the financial statements resulting to unexplained variance of Kshs.273,884,886.

Consequently, the completeness, existence and accuracy of the acquisition of assets figure of Kshs.1,052,597,464 for the year ended 30 June 2015 could not be confirmed.

5.0 Handing Over of Assets and Liabilities from Defunct Local Authorities

Annex 4 to the financial statements reflect value of assets amounting to Kshs.778,712,578 as at 30 June 2015. However, it is not clear and the management has not explained why the assets and liabilities from former local Authorities such as land, buildings, motor vehicles, computers and other equipment were not included in the County's fixed assets register.

Consequently, the completeness and accuracy of the assets figure of Kshs.778,712,578 as at 30 June 2015 could not be confirmed.

6.0 Pending Accounts Payable

Annex 1 to the financial statement revealed that the County Government had accumulated pending bills amounting to Kshs.274,095,153 as at 30 June 2015. However, the pending bill schedule provided for audit review did not indicate the ageing analysis and therefore it was not possible to ascertain how long the debts had been outstanding. Also the supporting documents such as invoices, demand notices or suppliers' statements were not availed for audit verification. Further, the management did not comply with Treasury Circular Ref: AG3/101/ (7S) which require accounting officers to institute stringent financial controls and maintain financial discipline in order to achieve efficient utilization of resources and ensure strict adherence to financial regulation and procedures to curb accumulation of pending bills.

Consequently, the completeness and accuracy of the pending bills figure of Kshs.274,095,153.40 as at 30 June 2015 could not be confirmed.

7.0 Outstanding Imprest

The statement of assets and the records examined revealed that the County Government outstanding imprest for the year ended 30 June 2015 was Kshs.16,574,209. However, the schedules availed for audit indicated that the management granted imprest to officers who had not surrendered previous imprests totalling to Kshs.12,164,624 contrary to Chapter 5.6.6 of the Government Financial Regulations and Procedures which require that no second imprest should be issued to any officer before the first imprest is surrendered or recovered in full from his/her salary. No reason was provided for non-recovery of these long outstanding imprests.

Consequently, the County Government was in breach of the law.

8.0 Translocation of Wildlife Species to Rimoi National Reserve

Included in the use of goods and services figure of Kshs.436,592,810 reflected in the statement of receipts and payments was a payment of Kshs.5,021,400 to Kenya Wildlife Service (KWS) for the translocation of 40 Impalas, 30 Water Backs, 20 Gazelles, 50 Zebras, and 4 Giraffes all from Naivasha and 30 Buffalos from Nakuru to Rimoi National Reserve. The payment was made on 20 May 2015.The Agreement between the County Government and KWS was signed on the 28 day of December 2015, seven (7) months after payment had been made. A field visit to the reserve in January 2016 revealed that the animals had not been translocated. The County therefore failed to realize the expected stocking of animals in the National Reserve. Consequently, the propriety of Kshs.5,021,400 spent on the project could not be confirmed for the year ended 30 June 2015

9.0 Spatial Plan for Iten Town

Included in the use of goods and services figure of Kshs.436,592,810 reflected in the statement of receipts and payments was a payment of Kshs.37,474,920 to a consultant firm. The County Government contracted a firm to do spatial plan for Iten town on 27 August 2014 at a contract price of Kshs.36, 000,000. According to the terms of the contract, the consultant was to do and submit a duly printed spatial plan with relevant topographical digital maps within six (6) months upon signing the contract agreement. Works commenced on 24 September 2014. The consultant was paid Kshs.37,474,920 which was above the contract sum by Kshs.1,474,920 before the spatial plan had been presented, approved and adopted by the County Assembly.

Consequently, the propriety of Kshs.1,474,920 spent on the project could not be confirmed.

10.0 Compensation of Employees

The statement of receipts and payments reflected of Kshs.1,542,763,334 which is 51.58% of the total revenue of Kshs.2,990,871,276 thereby exceeding the recommended percentage of 35% stipulated in Section 25(1b) of the Public Finance Management (County Governments) Regulations,2015.The County therefore contravened the law regarding personnel costs.

11.0 Payment to Sport Personnel for Field Supervision

Included in the use of goods and services figure of Kshs.436,592,810 is a payment of Kshs.2,213,400 to the County Government officers who supervised the levelling and upgrading of various school fields within the County in form of lunch allowance and per diems. However, the schedule of lunch allowance and per diems paid was not availed for audit verification. Consequently, the propriety of Kshs.2,213,400 spent on the project could not be confirmed for the year ended 30 June 2015.

12.0 General Account of Vote (GAV) Balance

Note XI to the financial statement reflect a GAV balance of Kshs.289,609,757. However, the bank balance exchequer under issue reflected under note 4 to the financial statements amounted to Kshs.256,817,328. The resultant difference of Kshs.32,792,429 was not reconciled or explained. In the circumstances, the accuracy of the GAV provisioning of Kshs.289,609,757 for the year ended 30 June 2015 could not be confirmed.

13.0 Budget Control and Performance

13.1 Budget Performance Analysis

Summary statements of appropriation indicated that the final approved and supplementary budgets for County Government was Kshs.3,780,926,210 consisting of Recurrent Expenditure of Kshs.2,285,501,041 and Development expenditure of Kshs.1,495,425,163 as follows:

Item	Actual 2014/2015	Budgeted Allocation 2014/2015	Absorption rate %	% of Total Expenditure
Development Expenditure for 2015	1,298,644,280	1,495,425,163	86.80%	37.25%
Recurrent Expenditure for 2015	2,187,189,933	2,285,501,047	95.70%	62.75%
Total	**3,485,834,213**	**3,780,926,210**		**100%**

Examination of the budget performance shows that the County Government spent Kshs.1,298,644,280 on development expenditure which is 37.25% of total expenditure. This is in line with Section 107 (2) b of PFM Act, 2012 which requires that over the medium term, a minimum of thirty (30) percent of the County Government's budget shall be allocated to development expenditure.

13.2 Under/Over Expenditure Analysis

The specific analysis of the County Government expenditure is as shown below:

Item	Budget 2014-2015	Actuals 2014-2015	Over Expenditure	Under Expenditure
Compensation of employees	1,550,997,963	1,542,763,334	-	8,234,629
Use of goods and services	526,669,295	436,592,810	-	90,076,485
Transfer to other governments	77,833,789	77,833,789	0	0

units				
Other grants and transfers	130,000,000	130,000,000	0	0
Social security benefits	-	-	-	-
Acquisition of assets	1,207,901,884	1,052,597,464	-	155,304,420
Finance costs, including loan interest	-	-	-	-
Other payments	287,523,279	246,046,816	-	41,476,463
Total	**5,780,926,210**	**3,485,834,213**	-	**295,091,997**

The analysis reflect that the County Government under spent by Kshs.295,091,997 on all expenditure heads as shown above. Consequently, the under spending may impact negatively on the service delivery and provision of facilities to the citizens of Elgeyo Marakwet County.

13.3 Development Expenditure.

13.3.1 IFMIS Implementation status

A total of Kshs.1,465,854,711 was allocated to twelve (12) departments during the year to finance various projects in the financial year ended 30 June 2015. However, the implementation of these projects were slightly behind schedule by 30 June 2015 whereby Kshs.19,021,866 had not been spent on the projects by 30 June 2015 as shown below:

	Department	Approved Estimates	Total Expenditure	Variance	% Variance
1	Ministry of Agriculture, Livestock and Fisheries	94,210,852.00	94,111,774.00	99,078.00.00	0%
2	Ministry of Finance and Economic Planning	19,823,213.00	18,450,745.00	1,372,468.00	7%
3	Office of Governor	70,684,932.00	69,198,573.00	1,486,359.00	2%
4	Ministry of Education, Science and Technology	175,373,970.00	169,022,699.00	6,351,271.00	4%
5	Ministry of Environment, Water and Natural Resources	169,940,603.00	166,869,570.00	3,071,033.00	2%
6	ICT and Public Service	14,627,075.00	14,627,075.00	-	0%
7	Ministry of Youth, Sport Culture and Gender	97,107,414.00	96,707,414.00	400,000.00	0%

8	Ministry of Trade, Tourism, Co-operative Development and Energy	56,405,090.00	56,405,089.00	1.00	0%
9	Ministry of Roads, Public Works and Transport	439,779,964.00	437,929,099.00	1,850,865.00	0%
10	Ministry of Lands, Housing and Physical Planning	63,200,860.00	62,352,472.00	848,388.00	1%
11	Ministry of Health	209,507,473.00	209,507,471.00	2.00	0%
12	County Assembly	55,193,265.00	51,650,864.00	3,542,401.00	6%
	Total	**1,465,854,711.00**	**1,446,832,845.00**	**19,021,866.00**	1%

These projects were not implemented in the budget period but were posted to the IFMIS vote book as outstanding commitments.

Consequently, the delayed implementation of projects may deny the citizens of Elgeyo Marakwet facilities and services they deserve hence affecting the citizens standards of living.

14.0 Governor's Office

Out of a total approved estimate of Kshs.1,465,854,711.00, the governor's office budgeted figure amounted to Kshs.70,684,932 against an actual of Kshs.69,198,573 leading to an under expenditure of Kshs.1,486,359.00 or 2% of the total office budget. These idle funds may impact negatively on delivery of services for citizens of Elgeyo Marakwet County.

15.0 Revenue Analysis

During the financial year 2014/15, the County Government had budgeted to collect total revenue of Kshs.908,980,331 from the other receipts. However, it managed to collect Kshs.89,808,839.25 thereby achieving 98 % as follows:

	Budget	**Actuals**		
Item	**2014-2015 (Kshs)**	**2014-2015 (Kshs)**	**Over (Kshs)**	**Under (Kshs)**
Other receipts	908,980,331	889,808,839.25	-	19,171,491.75
Other Receipts	**908,980,331**	**889,808,839.25**		19,171,491.75

Consequently, the County Government did not achieve revenue targets and this may impact negatively on service delivery to the citizens.

16.0 Retention of Employees on Probationary and Temporary Terms of Service

A review of the county payroll for June 2015 showed that one hundred and seventy (170) employees who are on probationary terms included are one hundred and twenty seven (127) employees who had remained on probation terms of service beyond the stipulated period of one (1) year contrary to Sections E.17 (1) of the Revised Code of Regulations 2006 which state that an officer appointed to the Service in a pensionable post will be confirmed in appointment and admitted into the permanent and pensionable establishment on completion of probationary period of one year satisfactory service on probation, provided that he has clearly demonstrated his suitability for the permanent appointment and recommended by his Head of Department. Consequently, the county retained employees on probationary and temporary terms in contravention of the law.

17.0 Failure to Observe One Third Staff Establishment

Audit review of the payroll for the month of June 2015 showed that the County Government had a total of two thousand two hundred and one (2201) employees. One ethnic community in the County took two thousand and sixty eight (2068) or ninety three (93.96%) per cent of the total jobs in the County while the remaining balance of one hundred and thirty three (133) or six per cent (6.04%) of the jobs were shared among other ethnic communities contrary to Section B.7 of the County Public Service Human Resource Manual, 2013 which requires that all public establishments shall seek to represent the diversity of the people of Kenya in employment of staff and that no public establishment shall have more than one third of its establishment from the same ethnic community. Consequently, the management is in contravention of the law.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

FCPA Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

1 September 2016