

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
COUNTY GOVERNMENT OF
GARISSA**

**FOR THE YEAR
ENDED 30 JUNE 2015**



OFFICE OF THE AUDITOR-GENERAL

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

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Garissa set out on pages 8 to 38, which comprise the statement of assets as at 30 June 2015, and the statement of receipts and payments, statement of cash flows, summary statement of appropriation: recurrent and development combined 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. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

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 the Public Audit Act, 2003 and submit the audit 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 misstatements.

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 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.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Basis for Qualified Opinion

1. Fixed Assets Register

Annex 2 to the financial statements disclosed a summary of fixed assets amounting to Kshs.2,991,282,137 as at 30 June 2015. Out of this figure, Kshs.358,152,323 relates to purchase of vehicles while other transport equipment amounts to Kshs.160,000,000, cost of purchase of household furniture and institutional equipment is Kshs.5,872,102, purchase of office furniture and general equipment is Kshs.99,585,682. In addition, purchase of ICT equipment was Kshs.49,655,088, purchase of specialized plant, equipment and machinery Kshs.42,695,451 and purchase of certified seeds, breeding stock and live animals Kshs.344,000. The figures were, however, not documented in the fixed asset register and the County management did not avail the same for audit verification. Further, the assets inherited from the defunct local authorities were neither disclosed in these financial statements nor documented in the fixed asset register.

In view of the foregoing, it has not been possible to ascertain the validity, completeness and accuracy of the fixed assets figure of Kshs.2,991,282,137 for the year ended 30 June 2015.

2. Unsupported Expenditure

Examination of payment vouchers and other supporting documents revealed that an amount of Kshs.60,759,971 was incurred on procurement of emergency fuel subsidies, repair and maintenance of motor vehicles, water trucking activities and repair and maintenance of water supplies. The payments were, however, not properly supported with the relevant supporting documents as detailed below:-

- (i) There was no fuel register maintained for the fuel purchased, no returns from the water supplies issued with the fuel subsidies and no work tickets for the vehicles fueled.
- (ii) The vehicles used for the emergency water trucking were repaired and tyres procured for them. The spare parts procured were not recorded in the stores register, and where recorded, there were no issue notes to confirm if they indeed were issued out of the stores and the same were not made available for audit

review. In addition, the vehicle log books (GP55) and work tickets were not availed for audit verification. Further, the County Government procured numerous tyres for the vehicles involved in the water trucking and in one transaction, the County Government procured sixty (60) tyres worth Kshs.4,732,800. The tyres procured were however not recorded and issued out properly hence it was not possible to ascertain whether the tyres were bought and fitted to the purported vehicles.

- (iii) Further, an amount of Ksh.24,946,080 was incurred on water trucking activities between July, 2013 and June, 2014. However, the payments were not properly supported and the distribution schedules did not indicate the names and the identification numbers of the persons who received the water and the schedules were not signed. Other schedules supporting water distribution in different locations had the same handwriting an indication that they were written by one person. In addition, there were no contract agreements signed between the County Government and the owners of the vehicles used for water trucking during the year.
- (iv) Scrutiny of the quotations, L.S.O/L.P.Os and the procurement minutes supporting the expenditure revealed that these documents were raised after the goods and services were delivered/rendered. No proper explanation was given how the goods were supplied and services rendered before L.S.O and L.P.Os were raised and how the suppliers were identified. Further, same officers were involved in most of the procurement processes, that is; procurement initiation, preparation and opening of quotations, receiving, recording and issuing out the stores contrary to Section 26(3) (c) of the Public Procurement and Disposal Act, 2005 which requires all procurement to be handled by different officers in respect of procurement initiation, processing and receipt of goods and services. In addition, some of the tender documents supporting the payments were altered without countersigning, an indication of possible falsification of records.

Under the circumstances, it has not been possible to ascertain the propriety of the expenditure amounting to Kshs.60,759,971 as at 30 June 2015.

3. Preparation of Spatial Development Plan

The County Government undertook a project to carry out a spatial development plan for its seven sub-counties which include Garissa Township, Balambala, Modogashe, Dadaab, Bura, Masalani and Hulugho at a cost of Ksh.172,281,240. However, the following anomalies were observed;

- (i) The project was advertised in the Daily Nation on 10 January, 2014. Tenders were opened on 24 February 2014 and as per the tender register, six firms expressed interest in the project. The project was evaluated by a seven member evaluation committee headed by the County Structural Engineer between 14 March, 2014 and 25 March, 2014. As per the evaluation report, the evaluation team was appointed on 6 March 2014 vide letter Ref.no.CGG/CCO.LHP/44-45 of 6 March,

2014. The letter appointing the committee was however, not availed for audit verification.

- (ii) According to the evaluation report prepared by the committee, six (6) firms had expressed interest in the project. However, FATCO, the company which was awarded the contract was not among the companies which had expressed interest. The payment was however, supported by another evaluation report prepared by a four (4) member evaluation committee which was allegedly appointed by the County Chief Officer Lands vide letter Ref.no.CGG/CCO CIRCULAR of 8 July, 2014. The alleged evaluation was done between 10 July, 2014 and 16 July, 2014. It was not clear why a second evaluation was done when the first evaluation team had already recommended five firms to be invited to submit their technical and financial proposals for the services.

The appointment of the second evaluation team on 10 July, 2014 is against the provision of Section 46 of the Public Procurement and Disposal Regulations, 2006 which requires evaluation to be done within thirty (30) days from the date of tender opening. No reason was given why the second evaluation committee was appointed five (5) months after the opening of the tender documents. The award of the contract by the Directorate of Lands, Roads & Housing tender committee contravenes the provision of legal notice number 60 of the Public Procurement and Disposal (County Governments) Regulations, 2013 which stipulates the powers of various tender committees.

It is not clear why the County Government disregarded the requirements of the Public Procurement Regulations.

- (iii) Examination of payment vouchers revealed that an amount of Ksh.50,000,000 was paid to FATCO in December, 2014, three months before the progress report was availed. This means that an advance payment was made to the company against the provisions of Section 5.5.13 of the Government Financial Regulation and Procedures which requires payments to be processed immediately in respect of demands for settlement of goods and services which have been supplied /rendered to the Government in accordance with valid regulations.

In addition, the payment of Kshs.50,000,000 was supported by progress reports for only six (6) sub-counties instead of seven (7). The physical planning of Garissa Township was not included in the report allegedly prepared by the department of physical planning. The report however, did not indicate the name of the persons who prepared it and the same was not signed hence cannot be validated as authentic report to support the payments.

In view of the foregoing, it has not been possible to ascertain whether the County Government got value for money for the project implementation and expenditure of Kshs.50,000,000.00.

4. Irregular Procurement of Laboratory Equipment and Reagents

The County Government procured laboratory equipment and reagents items totalling Kshs.66,051,200. However, stores were not taken on charge in the stores ledger and no issue notes were raised. Further, the counter receipt voucher (S13) purported to have been used to receive the stores had the following columns blank: unit, value and remarks. Others lacked the quantity received and were not dated by the receiving officer, an indication that the stores were not received physically.

In addition, the inspection and acceptance committee conducted the inspection on 23 June 2014 and issued a report confirming of the stores. However, the stores were delivered on 25 June 2014 as shown by the delivery notes, an indication that no inspection was done and the committee issued the certificate for the stores which were not delivered. The invoice and delivery note attached to the payment voucher had no descriptions about the stores which were alleged to have been delivered.

Under the circumstances, it was not possible to ascertain the authenticity of the expenditure of Kshs.66,051,200 as at 30 June 2015.

5. Unaccounted for Subsistence Allowances (Local Travel)

The County Government paid a total of Kshs.24,777,431 to officers who were on official duties outside their work stations attending seminars/workshops or performing other duties. However, no supporting documents such as bus tickets or work tickets and invitation letters were attached to the payment vouchers. Further, the officers involved were not issued with imprest hence the source of finances used was not clear. The nature and purpose of the journeys made by the officers was also not specified, while some officers collected money on behalf of others without authority.

Under the circumstances, it has not been possible to ascertain the propriety of the expenditure of Kshs.24,779,431 as at 30 June 2015.

6. Unsupported Mileage Claims

The County Government paid Ksh.21,424,175.72 to Members of the County Assembly as mileage claims during the financial year under review. However, the payments were supported with incomplete records which lacked the vehicles registration numbers, make, rating capacity (CC), temporary work tickets and the number of kilometers covered during the MCAs visits to their wards.

In the circumstances, it has not been possible to ascertain the validity and propriety of the mileage allowances expenditure of Kshs.21,424,175.72 reflected in these financial statements.

7. Transfer of Funds to Ward Offices

Examination of payment vouchers and other records maintained at the County Government revealed that Kshs.12,940,539 was paid to MCAs ward fund account to

cater for staff salaries, office rent and other expenses in the ward offices for the period from 1 October 2014 to 31 March, 2015. However, the ward offices did not maintain cash books and muster rolls to confirm daily attendance of the staff while the staff payrolls maintained were not approved by the County Public Service Board before salaries were paid out as required. Further, statutory deductions made from the worker's salaries were not remitted to the relevant bodies. In addition, the County Government did not engage the department of Housing, Public Works and Lands to inspect, verify and assess the value of offices before they rented them. Further, no documentary evidence was availed to show existence of lease agreements between the owners of the rented premises and the representatives of the wards offices.

In view of the foregoing, the ward fund expenditure of Kshs.12,940,539 remains unaccounted for as at 30 June 2015.

8. Irregular Basic Pay Increase

Scrutiny of the IPPD system revealed that eight (8) officers had their basic salaries increased between February 2015 to June 2015. The correctness of the increment amounting to Ksh.1,352,112.00 could not be ascertained since the officers personal files were not made available for audit review.

9. Contracts Awarded for Capital Projects

Scrutiny of the development cash book and payment vouchers availed for audit revealed that the County Government awarded contracts totaling Kshs.3,315,914,930 to various contractors who undertook civil works within the County in respect of construction of market stalls, bush clearing, renovation of government houses, access roads improvement, water supply among others during the financial year under review. Examination of payment vouchers revealed that payments amounting to Kshs.2,170,542,644.50 was made to the contractors for works during the year. However, projects worth Kshs.52,016,975 were awarded and implemented but were not included in the annual procurement plan. Further, the County Government used inappropriate procurement methods in awarding the tenders, only the winning bidders were financially evaluated, project files were not availed for audit and where availed they lacked contract agreement, tax compliance certificates, certificate of incorporation and inspection and acceptance certificates.

In view of the foregoing, it has not been possible to ascertain whether value for money paid to the contractors were actually realized by the County Government as at 30 June, 2015.

10. Unaccounted for Emergency Food Relief

During the year ended 30 June 2015, the County Government spent Kshs.67,579,403 for procurement of emergency relief food for drought stricken families. The foodstuffs

were procured through restricted tender method. The request for use of restricted tendering method was sought by the County Chief Officer, Trade, Tourism, Investment, Enterprise Development and Programmes on 1 September, 2014 and quotations were raised on 3 September, 2014. However, the tender committee did not approve the use of restricted tendering method.

The issuance of relief food to the drought stricken families was discussed in a County Steering group meeting held on 10 September, 2014 seven (7) days after the quotations were raised for the procurement of the foodstuffs. The quotations were also raised ten (10) days before the need assessment report from the County Drought Co-ordinator was submitted to the County Executive Committee for Trade, Tourism and Special programme on 11 September, 2014. No explanation was given why the procurement of the relief food was initiated before the need assessment report was submitted and before the discussion to mitigate the drought was agreed on 10 September, 2014 by the County Steering Group. The payment was not supported by list of the relief food beneficiaries.

Consequently, the propriety of the expenditure of Kshs.67,579,403 could not be confirmed as at 30 June 2015.

11. Consultancy Services for Environmental Impact Assessment on County Government's Projects

During the year ended 30 June 2015, the County Government undertook consultancy services for Environmental Impact Assessment on Projects implemented by the County Government at a cost of Kshs.68,940,480. The project was procured through restricted procurement method. However, the following observations were made:-

- a) In a letter ref.no.CDE/NEMA/EIA/GCG dated 13 January 2014, the County Director of Environment requested the County Government to undertake Environmental Impact Assessment (EIA) study on all the projects advertised by the County Government. The CEC-Finance, in his letter ref.no.CT/CEC/ENV/01/14 dated 10 April 2014 advised the CEC – Environment, Energy, Mining & Tourism to coordinate with NEMA and undertake the EIA study before the County projects starts. It was on the strength of these two letters that the Directorate of Environment sought authority from the County Tender Committee to undertake the Environmental Impact Assessment (EIA) project through restricted tendering process vide letter ref no. CGG/CEC/EEM & T/FINANCE/159 dated 25 May 2014. However, it was not clear why restricted tendering was used instead of open tender as the nature of the project does not qualify for the same.
- b) The tender was opened on 18 June 2014, evaluation done on 22 June 2014 and contract awarded to a firm at a cost of Ksh.61,554,000. The contract agreement was signed by both the County Government and the bidder on 26 July 2014. The company was paid Ksh.68,940,480 vide payment voucher dated 4 December,

2014 and was cleared by the Garissa County Recurrent account no.1000170972 at CBK on 5 December, 2014.

In view of the foregoing, it has not been possible to ascertain the propriety of this expenditure and whether the County Government got value for funds on the consultancy of Kshs.68,940,480.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the County Government of Garissa as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

Other Matter

1.0 Budget Performance Analysis

During the year under review, the approved supplementary budget for the County Government was Ksh.7,741,483,032 with Ksh.3,763,795,391 (42%) allocated to the recurrent expenditure and Ksh.3,977,687,641 (58%) to development as follows:-

Item	Actual 2014/2015	Budgeted Allocation 2014/2015	Absorption rate %	% of Total Expenditure
Development for 2015	2,998,299,542.8	3,977,687,641	75.4%	44.6%
Development 2013- 2014	216,879,627.18	216,879,627.18	100%	3.2%
Recurrent	3,504,474,457	3,763,795,391		73.7%
Total	6,719,653,627	7,741,483,032	70%	

- i. Review of the budget performance shows that the county spend Ksh.3,215,179,169.15 on development expenditure which is 47.8% of total expenditure.
- ii. The expenditure on the development vote of Ksh.216,879,627.18 relates to payments made to contractors engaged to implement 2013/2014 projects which were rolled over to the financial year 2014/2015. No proper explanation was given why projects for 2013/2014 were rolled over to 2014/2015.

1.1 Governor and Deputy Governors' Budget

The Governor's development budget of Kshs.5,000,000 for the year under review was not utilized by the county.

VOTE	OFFICE	APPROVED BUDGET	ACTUAL EXPENDITURE	UNSPENT AMOUNT
Development	Governor's office	10,000,000.00	5,000,000.00	5,000,000.00
Development	D/ Governor's office	Nil	Nil	Nil
Recurrent	Governor's office	144,684,438.00	138,478,299.00	6,206,139.00
Recurrent	D/Governor's office	52,082,834.00	44,993,057.00	7,089,777.00

1.2 Under /Over Expenditure

The county under spent on use of goods and services, transfer to other Government units, other grants and transfers and acquisition of assets but overspent on other payments by Ksh.5,463,200 without budget approval.

Item	Budget (Kshs.) 2014-2015	Actuals (Kshs.) 2014-2015	Over	Under (Kshs.)
Use of goods and services	1,715,954,338	1,622,832,364	-	93,121,974
Transfers to Other Government Units	210,000,000	159,493,774	-	50,506,226
Other grants and transfers	183,610,728	162,637,929	-	20,972,799
Acquisition of Assets	3,854,193,743	2,991,282,137	-	862,911,606
Other Payments	-	5,463,200	5,463,200	-
TOTAL	5,963,758,809	4,941,709,404	5,463,200	1,027,512,605

No proper explanation was given for the under spending of Kshs.1,027,512,605 and over spending of Kshs.5,463,200 as at 30 June 2015.

2.0 Revenue Analysis

During the financial year under review, the County Government collected local revenue amounting to Kshs.130,483,519 against an annual revenue target of

Kshs.500,000,000 resulting to under collection of Kshs.369,516,481. The Exchequer releases and proceeds from domestic and foreign grants were received as budgeted (Kshs.5,148,254,626 and Kshs.15,560,000 respectively). It was also noted that the County Government received total exchequer releases amounting to Kshs.6,719,653,627 which include exchequer releases of Kshs.216,879,627.18 relating to 2013/2014 financial year against the budgetary allocation of Kshs.7,741,483,031 leading to an underfunding of Kshs.781,300,992.

No explanation was given for the underfunding as follows:-

	Budget (Kshs.)	Actuals (Kshs.)		(Kshs.)
Item	2014-2015	2014-2015	Over	Under
Proceeds from Domestic and Foreign Grants	15,560,000	15,560,000		
Exchequer releases	5,148,254,626	5,148,254,626		
Other Receipts	500,000,000	130,483,519		
Total Receipts	5,663,814,626	5,294,298,145		369,516,481

The County had a shortfall in revenue collection of Kshs.369,516,481 which will affect the County's operations and service delivery.

2.1 Unpaid Bill on Refugees Treatment

The Red Cross Society of Kenya entered into an arrangement for treatment of sick refugees with the County Referral Hospital where treatment was to be given, and the Kenya Red Cross Society of Kenya invoiced by the hospital for cost of treatment at the end of every month.

Examination of invoices raised and registers for refugee patients treated at the Hospital revealed that an amount of Kshs.2,193,950.00 was invoiced to Kenya Red Cross Society for the period between July 2014 and April 2015. The Society however paid only Kshs.672,000 to the hospital leaving a balance of Kshs.1,521,950 as at June, 2015. No explanation was given to show when the remaining bill will be settled.

3.0 Cash and Cash Equivalents

An audit of the cash books and other related records maintained at Garissa County Treasury revealed that the County Government maintained six (6) bank accounts as detailed below:-

Bank Name	Branch	Account Name	Account Type	Account Number	Account Balances as at 30/6/2015
Central Bank of Kenya	Nairobi	Garissa County Revenue Fund	Revenue	1000171499	469,555,114
Central Bank of Kenya	Nairobi	Garissa County Recurrent	Recurrent	1000170972	693,346
Central Bank of Kenya	Nairobi	Garissa County Development	Development	1000170905	3,205,457
Central Bank of Kenya	Nairobi	Garissa County Deposit Account	Deposit	1000225677	14,752,574
Equity bank	Garissa	Payroll Account	Recurrent	No	13,064,772
First Community Bank	Garissa	Department of Environment & Natural Resources	Recurrent	95766-01	101,590
TOTAL					501,372,853

Although the closing bank balances for all accounts as at 30 June 2015 of Kshs.501,372,853 were supported with bank certificates and the bank balances were in agreement with the figures reflected in the statement of assets, it was not clear why the County had to operate all these accounts which attract more bank charges.

4.0 Human Resources

4.1 Irregular Employment to Permanent and Pensionable Terms at the Age of 50 Years and Above

Section E 16 (1) of the code of Regulations indicates that an employee qualifies to be permanent and pensionable after serving for at least 10 years in the service. However, scrutiny of the IPPD system revealed that four (4) officers who were above the age of fifty (50) years were employed into permanent and pensionable terms as detailed below:-

Payroll No.	Name	Birth Date	Date of Employment	Age at Appointment	Engagement Code	Detachment Code
20080004780	Mr. Abdi Abdille Dabaar	1/1/1954	11/1/20008	55	3	0
20080004806	Mr. Mohamed Ali Yussuf	1/1/1955	11/1/20008	55	3	0
20080004815	Mr. Ibrahim Olow Bashir	1/1/1956	11/1/20008	53	3	0
20110004815	Mr. Mohamed Ali Mitani	7/1/1958	7/1/20011	53	3	0

No explanation has been provided for this anomaly.

4.2 Shared Bank Accounts

Scrutiny of the IPPD bank details showed that four (4) officers were sharing bank accounts.

Payroll No.	Account No.	Amount (Kshs.)	Name
1983000885	580196330226	104,967.4	Mr. Mohamud Abdullah Mohamed
2012021837	580196330226	111,876.4	Dr, Abdi Mohamed Abdullahi
2010163703	29776337	47,859.1	Mr. Hassan Abdifatah Amin
20130024458	29776337	127,411.3	Mrs. Hassan Maryan Amin

No explanation was given why officers were using same bank accounts.

4.3 Net Pay Calculated Different From Amount Remitted To the Bank

A scrutiny of the IPPD payroll revealed that two (2) employees with P/F No.1979150597 and 20130024109 had negative net pay in the months of Dec 2014 and June 2015 of Kshs.(8,350.55) and (128.7) respectively. The officers were however, paid Ksh.9,564 and Ksh.6,336 respectively in their bank account as shown below:-

Dec 2014	Pf No	Earnings	Deduction	Net pay	Bank
	1979150597	11,660.7	20,011.25	- 8,350.55	9,564.45
June 2015	Pf number	Earning	Deduction	Net pay	Bank
	20130024109	204,591	204,719.7	- 128.7	6,336.3

The propriety of the expenditure could not be confirmed as at 30 June 2014.

5.0 Audit Committee

The County Government does not have an audit committee in place and therefore the internal audit department reports to the management, rendering the internal audit unit ineffective. This is contrary to the requirements of Section 155(5) of the Public Finance Management Act, 2012.

My opinion is not qualified in respect of these matters.



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

Nairobi

14 October 2016