

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
COUNTY GOVERNMENT OF
SAMBURU**

**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 SAMBURU FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Samburu County Government set out on pages 7 to 24, 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 controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessment, the auditor considers internal controls 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

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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. Receipts

The statement of receipts and payments for the year ended 30 June, 2015 reflected exchequer receipts of Kshs.3,107,466,532 and other receipts of Kshs.175,037,733. However, the bank statements indicate that exchequer releases and other receipts received during the financial year was Kshs.2,783,506,147 and Kshs.170,494,024 respectively. Therefore, according to paragraph 1.2.2 of International Public Sector Accounting Standards - cash basis which recognizes transactions and events when cash (including cash equivalents) is received or paid, the balance of exchequer releases has been overstated by Kshs.323,960,385 while that of Other receipts has been overstated by Kshs.4,543,709. Therefore, the accuracy of receipts balances could not be confirmed.

2.0. Cash and Bank Balances

The statement of financial assets represents a cash and bank balance of Kshs.387,710,995 as at 30 June 2015. Included in the balance is Kshs.355,379,109 held in bank accounts at the Central Bank of Kenya (CBK). Out of the balance, Kshs.4,910,497 was held in CBK Development Account No. 1000 170 743 while Kshs.17,325 was held in CBK Recurrent Account No. 1000 170 808 and Kshs.350,447,215 in CBK Revenue Account No. 1000 171 437.

However, the following anomalies were noted:

2.1. Development Account No. 1000 170 743

The bank reconciliation statement as at 30 June 2015 reflected a cashbook balance of Kshs.73,003,089 which was reconciled to a bank balance of Kshs.55,366,536. However, a certificate of balance for the account reflected a credit bank balance of Kshs.201,345,410 as at that date. In the circumstance, the accuracy of the cash book balance could not be confirmed.

2.2. Recurrent Account No. 1000 170 808

The bank reconciliation statement as at 30 June 2015 reflected a cashbook debit balance of Kshs.35,003,703 which was reconciled to a bank statement credit balance of Kshs.17,325. However, a certificate of balance for the account reflected a credit

bank balance of Kshs.80,465,070 as at that date. In the circumstance, the accuracy of the cash book balance as at 30 June 2015 could not be confirmed.

2.3. Revenue Account No. 1000 171 437

A certificate of balance for the account reflected a balance of Kshs.2,624,176 as at 30 June, 2015. However, no bank reconciliation statement was provided to reconcile the bank balance with the balance of Kshs.350,447,215 reflected in the financial statements.

Under the circumstances, the accuracy of the balance of financial assets of Kshs.387,710,995 as at 30 June 2015 could not be confirmed.

3.0. Domestic and Foreign Travel – Unsupported Expenditure

The expenditure on domestic and foreign travel reduced from Kshs.152,257,609 as at 30 June 2014 to Kshs.131,805,659 as at 30 June 2015. This is a reduction of Kshs.20,451,950 or 13.%. The cost of domestic travel for the year was Kshs.86,054,619 while foreign trip took Kshs.45,751,040, overall this was 4% of the total revenue.

Further review of this expenditure shows that subsistence allowances totaling to Kshs.2,232,200 was paid to various officers for being away on official duty. However, the documents attached in support of the expenditure were only the imprest request and budget. No evidence of travel such as work tickets and duly signed payment schedules were attached to support the respective expenditure amounts; see **Appendix 5**. There is a possibility that the funds were not utilized for official travel.

In the absence of evidence for travelling and payments schedules signed by recipients of the cash, the propriety of the expenditure could not be confirmed.

4.0. Unsurrendered Imprest

The outstanding imprest balance increase from Kshs.21,864,478 as at 30 June to Kshs.32,331,886 as at 30 June 2015. This is an increase of Kshs.10,467,408 or 48% in one year. According to Government Financial Regulations, imprest should be accounted for within 48 hours upon return from a journey. Continued increased of unsurrendered imprest is therefore a breach of the law.

5.0. Inaccuracies of Financial Statements

5.1. Adjustments

Various adjustments totaling to Kshs.72,723,944 were done in the general ledger to expenditure items at the year-end as shown in the table below:

Item	Category	Amount (Kshs)
Domestic Loans	Samburu Adjustments	10,746,050
Other Operating Expenses	„ „ „ „	6,827,000
Other Operating Expenses		1,868,300
Construction and Civil Works	„ „ „ „	20,470,049
Construction and Civil Works		969,990
Overhaul and Refurbishment of Construction and Civil Works	Samburu Adjustments	8,786,742
Refurbishment of Building	Samburu Adjustments	829,421
Purchase of Specialized Materials and Services	„ „ „ „	12,702,600
Research and Feasibility Studies	„ „ „ „	898,897
Construction of Buildings	„ „ „ „	969,990
Construction of Buildings		3,332,880
Construction of Buildings	Samburu Adjustments	4,322,024
Total		72,723,944

However, the journal vouchers that explain how the adjustments were made were not provided for audit verification. Therefore, the accuracy of the financial statement as a whole could not be confirmed.

5.2. Mis-postings of Expenditure

Examination of vouchers totaling Kshs.220,631,902 incurred under recurrent expenditure were wrongly posted under development vote as shown in the table below:-.

Department	Item	Misclassified Transaction (Kshs)
County Assembly	Construction of buildings	31,352,989
	Purchase of furniture and general equipment	5,658,247
	Purchase of specialized plant, equipment and machinery	3,503,210
	Domestic loans	19,253,948
	Government pension and retirement benefits	4,818,818
County Executive	Construction of buildings	21,559,909
	Purchase of furniture and general equipment	3,009,459
	Purchase of motor vehicle and other transport equipment	8,988,588
	Government pension and retirement benefits	580,000
Public Works and Water	Construction of roads	11,097,417
	Purchase of office furniture and general equipment	8,823,188
	Purchase of motor vehicle and other transport equipment	4,885,000
	Purchase of specialized plant, equipment and machinery	52,741,724

Finance and Economic Planning	Purchase of specialized plant, equipment and machinery.	11,359,510
	Domestic loans	32,999,892
Total		220,631,902

In the circumstance therefore, the balances in the statement of receipts and payment do not reflect a true presentation of the financial operations of the County Government for the year ended 30 June 2015.

6.0. Inherited Assets and Liabilities from Defunct Local Authorities

The Samburu County Government inherited assets and liabilities of undetermined value from the Defunct Local Authorities located within the jurisdiction of the Country Government. However, no identification, validation, valuation and formal handing over by the Transition Authority to the County Government has been done even though the assets are being used.

Failure to identify, validate, value and record both the assets and liabilities of the defunct local authorities that were amalgamated into Samburu County Government implies that there was no basis for the County Government opening balances and the financial statements does not show a true and fair view of the financial affairs of the County Government.

7.0. Pending Bills

The annexure to the financial statements show that as at 30 June 2015 the County Government had pending bills of Kshs.128,572,903 under recurrent and Kshs.279,445,191 under the development account, both totaling to Kshs.408,018,095. Included under the recurrent bills is an amount of Kshs.34,000,000 payable to a firm in respect of aircraft services. However, reference details for the invoices, fee notes and approved claim documents in support of the balance were not disclosed and provided for audit verification. In the absence of these supporting documents, the propriety of the balances as at 30 June 2015 could not be confirmed.

8.0. Budget Analysis

8.1. Revenue Collection

Out of the budgeted revenue of Kshs.406,550,140, the County Government collected only Kshs.170,494,024 or approximately 42%, resulting in a shortfall of Kshs.236,056,115. Out of the collection, Kshs.11,994,349 was from sources that were not factored in the budget. Therefore, only Kshs.158,449,675 (or approximately 39%) out of the budgeted amount was collected; **see Appendix 1.**

Further, examination of land registers revealed that Kshs.20,617,192 in collectable land rates and rents that fell due on 1 January 2015 and prior dates was not collected despite the County Government putting out notices to the general public.

Under the circumstances, the collectability of the revenue in property rates is in doubt.

8.2. Budgetary Analysis of Departments – Development Expenditure

The table below shows the amounts allocated to the various departments of the County Government for development expenditure. It was noted that the department of Finance and Economic Planning had the least variance of 0.2% while the Executive had the highest budget over-expenditure of 115%. The details are shown below:

Department	Amount Allocated (Kshs)	Actual Expenditure (Kshs)	(Over)/Under Expenditure (Kshs)	% of Variance over Budget Amount
Executive	10,000,000	21,559,910	(11,559,910)	-115%
Finance & Econ	52,837,480	52,941,596	(104,116)	0.2%
Public Works	858,681,096	671,561,469	187,119,626	22%
Health Services	224,190,489	184,819,217	39,371,271	18%
Agriculture	200,117,218	141,364,820	58,752,397	29%
Education	182,960,612	139,214,629	43,745,983	24%
Environment	41,261,506	34,189,903	7,071,602	17%
Planning	133,537,348	79,875,140	53,662,207	40%
Trade	253,516,165	206,870,298	46,645,866	18%
Gender	47,449,795	45,896,524	1,553,270	6%
C. Assembly	70,000,000	67,510,650	2,489,350	4%

8.3. Budgetary Analysis of Departments – Recurrent Expenditure

The table below shows the amounts allocated to the various departments of the County Government for recurrent expenditure. It was noted that the department of Education, Youth and Sports had the least variance of 0.5% while Physical Planning, Housing and Urban Development had the highest budget over-expenditure of 26%. The details are shown below:

Department	Amount Allocated (Kshs)	Actual Expenditure (Kshs)	(Over)/Under Expenditure (Kshs)	% of Variance over Budget Amount
Executive	256,661,246	243,332,553	15,328,692	6%
Finance & Econ	306,992,948	299,647,966	7,344,981	2%
Public Works	101,414,067	91,393,003	10,021,064	10%
Health Services	406,401,928	399,791,451	6,610,476	2%
Agriculture	123,655,377	113,768,293	9,887,083	8%
Education	260,256,459	264,353,820	(1,356,345)	(0.5%)

Environment	26,382,548	19,981,005	6,401,542	24%
Planning	52,599,565	39,178,954	13,420,611	26%
Trade	94,275,296	83,230,642	11,044,654	12%
Gender	43,191,334	33,539,131	9,652,202	22%
C. Assembly	403,327,566	373,178,583	30,148,982	8%

Nearly all departments spent within their budgeted except department of education which exceeded the approved estimate by a small margin of 0.5%. No evidence has been provided to show that approval was sought and granted to spend beyond their budgets in conformity with section 154 (2) of the PFM Act, 2012.

8.4. Samburu County Executive Car and Mortgage Loan Scheme

Included under Other grants of Kshs.94,999,891 in Note 16 of the financial statements is a sum of Kshs.32 million as loan under the Mortgage Scheme. The conditions for lending require that a beneficiary provides the original allotment letter of the parcel of land, an approved copy of house plan and gives prior authority in writing for pension dues or gratuity to be utilized to clear any outstanding debt in case the member leaves their position before the loan is repaid. However, the beneficiaries; see **Appendix 2**, did not comply with the requirements of lending. The agreements were also not provided for audit verification.

Therefore, it is likely that the loan amount may not have been utilized for the intended purpose. Further, the County Government may not have means for redress in the event of default.

9.0. Staff Matters

9.1. Staff Establishment

10.1The number of employee rose from 1275 in 2013/2014 to 1397 in 2014/2015 giving an increase of 122. However, the County Public Service Board has not established every department for staff to guide in recruitment as required by section B.5 (2) of the Human Resource Manual for County Public Service. In the absence of staff establishment structure, the County Government is likely to recruit arbitrarily with no guidelines.

9.2. Compensation to Employee

In addition, the expenditure rose from Kshs.711,170,331 as at 30 June 2014 to Kshs.973,274,604 as at 30 June 2015. This was an increase of Kshs.262,104,273 or 37% in one year. Unless control is instituted by freezing further employment, this expenditure item may become unsustainable.

9.3. Recruitment of Accountant II

The County Public Service Board advertised 12 posts of Accountant II in a daily newspaper of October, 2013, specifying the qualifications of the applicants. The total number of applications received was eighty six (86), out of which twenty (20) were shortlisted for interview. However, upon verification of the personal files, it was noted that three (3) of the recruited accountants did not meet the required qualifications; **see Appendix 3**. Therefore, the Board was in breach of section B.6 (2) of Human Resource Manual for County Public Service which states that in recruitment, the County Government will ensure that the staff appointed has the necessary skills, knowledge and attitude to deliver efficient and effective services.

10.0. County Government Projects

10.1. Incomplete Civil Works at Wamba Stadium

Saimen Enterprises Ltd of P. O. Box 159-20600, Maralal, was awarded a contract to construct a perimeter fence round Wamba Stadium at a cost of Kshs.4,992,183. It was noted that the firm was identified through request for quotations, contrary to procurement regulations. Subsequently, the contractor submitted an invoice against which the contract sum was paid. The payment was supported by a certificate indicating that the work had been completed.

However, physical verification done on 5 December 2015 revealed that only one incomplete gate and one side of the fence had been erected, or approximately 25% of work had been done, yet full payment had been made. Also, the contractor was not on site. Therefore, the County Government is likely to lose money to the extent of the incomplete work.

10.2. Unaccounted for Expenditure on Provisional and Contingency Sums

In the period under review, the Department made payments in respect of contracts for various projects. The bill of quantities indicated that the contract amounts paid included contingency funds and provisional sums totaling to Kshs.4,277,035; **see Appendix 4**. However, there were no documents to support the specific activities for which the contingency funds and provisional sums were paid. This is contrary to section 6.2 of the manual for Public Procurement for Works which stipulates that the final contract price is dependent on the total quantities of work carried out at completion.

Therefore, payments for contingency and provisional amounts has not been justified.

10.3. Payment for Incomplete Works at Baragoi Cultural Manyatta

Salamat Ltd of P. O. Box 195-20600, Maralal, was awarded a contract to construct a cultural manyatta at Baragoi at a cost of Kshs.1,800,059. The firm which was

identified through request for quotations, was to construct 6 Nos. mud huts in a chain link-fenced compound having a steel gate.

Subsequently, the contractor submitted an invoice against which the contract sum was paid. The payment was supported by a certificate indicating that the work had been completed. However, audit verification done on 8.12.2015 revealed that two of the huts were not completed. All the huts did not have shutter doors. By estimation, only 70% of work had been done, yet full payment was made. Further, the contractor was not on site and the facility was not in use. Therefore, the County Government is likely to lose money to the extent of the incomplete work.

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

15 September 2016