

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
COUNTY GOVERNMENT OF  
THARAKA NITHI**

**FOR THE YEAR ENDED  
30 JUNE 2015**



## OFFICE OF THE AUDITOR-GENERAL

### **REPORT OF THE AUDITOR – GENERAL ON COUNTY GOVERNMENT OF THARAKA NITHI FOR THE YEAR ENDED 30 JUNE 2015**

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#### **REPORT ON THE FINANCIAL STATEMENTS**

I have audited the accompanying financial statements of County Government of Tharaka Nithi set out on pages 8 to 46, which comprise the statement of assets and liabilities as at 30 June 2015, and the statement of receipts and payments, statement of cash flows and summary statement of Appropriation: combined, recurrent and development for the period 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. 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 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

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*County Government of Tharaka Nithi – Annual Report and Financial Statements for the year ended 30 June 2015*



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.

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

### **Basis for adverse Opinion**

#### **1.0 Late Submission of Financial Statements**

The County Government submitted its 2014/2015 financial statements on 29 October, 2015. However, Section 149 (2)(k) of the Public Finance Management Act 2012 requires the financial statements to be submitted for audit on or before 30 September 2015. The County was therefore approximately one (1) month late in submitting its financial statements. In the circumstances, the County Government was in breach of the Public Finance Management Act 2012.

#### **2.0 Over banking of Revenue Receipts**

Documents made available for audit review reflected total revenue collections of Kshs.102,023,466 and corresponding banking's of Kshs.102,033,534 resulting into an unexplained and unreconciled over banking of Kshs.10,068.

In the circumstance, the controls on revenue receipts could not be confirmed as at 30 June 2015.

#### **3.0 Budgetary Control and Performance**

The County approved budget of Kshs.3,958,691,689 comprised of both development and recurrent expenditures of Kshs.1,981,668,278 and Kshs.1,977,022,811 respectively. However, out of the total approved revenue budget of Kshs.3,958,691,089, only Kshs.3,150,857,965 was realized resulting to a shortfall in revenue of KShs.807,833,124 as shown on the table below:-

ITEM	BUDGET (KSHS)	ACTUAL (KSHS)	VARIANCE (KSHS)
Local Revenue	250,000,000	163,326,581	86,673,419
Bank Balance B/F	240,218,687	240,218,687	-
Foreign Grants (Danida)	9,950,000	9,950,000	-
Exchequer Releases	2,671,360,382	2,737,362,697	(66,002,315)

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Loans & Grants	698,823,239	-	698,823,239
Rural Electrification Fund	88,338,781	-	88,338,781
<b>Total Kshs</b>	<b>3,958,691,089</b>	<b>3,150,857,965</b>	<b>807,833,124</b>

Further, the Assembly did not receive a total amount of Kshs.56,764,916.40 comprised of Kshs.27,525,040.40 for recurrent and Kshs.29,239,876.00 for development from the National Government as transfers from the County Treasury as at 30 June 2015. No explanation has been given for the failure to transfer the Kshs.56,764,916.40 from the County Treasury to the Assembly to enhance its operations.

Out of the budgeted local revenue of Kshs.250,000,000, only Kshs.163,326,581 was realized resulting to revenue shortfall of Kshs.86,673,419 (35%).

In addition, Kshs.694,628,670 (35%) was utilized out of Kshs.1,981,668,278 development budget, resulting to an under expenditure of Kshs.1,287,039,608 as detailed in the table below:-

Ministry/Docket	Approved Estimate Kshs	Cumulative Expenditure Kshs	Balance Kshs	Absorption Rate
Agriculture Livestock and Fisheries Development	135,940,000	73,385,998	62,554,002	54%
County Assembly	50,000,000	23,094,914	26,905,086	46%
Education Gender Culture and Social Services	325,350,000	7,691,130	317,658,870	2%
Finance and Economic Planning	110,950,000	82,975,242	27,974,758	75%
Health Service	195,000,000	45,482,182	149,517,818	23%
Labour, Urban Development and Disaster Management	124,200,000	5,757,000	118,443,000	5%
Office of the Governor	-	-	-	0%
Physical Planning, Lands, Energy and ICT	192,238,781	13,004,378	179,234,403	7%
Roads, Transport, Public Works and Legal Services	523,617,503	402,043,714	121,573,789	77%
Trade, Industry, and Cooperative Development	126,277,794	9,068,800	117,208,994	7%
Tourism, Environment, and Natural Resources	198,094,200	32,125,312	165,968,888	16%
<b>Total Development</b>	<b>1,981,668,278</b>	<b>694,628,670</b>	<b>1,287,039,608</b>	<b>35%</b>

No documents were made available to show the development projects implemented during the year and their status.

In the circumstances, the revenue short fall of Kshs.807,833,124 and the development under expenditure of Kshs.1,287,039,608 renders the entire budget unrealistic and it denied the county residents of equivalent services during the year ended 30 June 2015.

#### 4.0 Compensation of Employees

The financial statements reflect a compensation of employees balance of Kshs.1,357,932,322 as at 30 June 2015. However, analysis of ledgers or schedules of payments made during the year were not made available for audit review.

Further, a commuter allowance totaling Kshs.3,040,000 was paid to eight (8) County Executive Committee (CECs) members and nine (9) Chief Officers who had official vehicles contrary to Salaries and Remuneration Commission's Circulars in force. The details of payment for commuter allowance to county secretary and members of the county public service board were not provided for audit review. No recovery of the irregular commuter allowances had been done by the time of winding up the audit exercise on 4 December 2015.

In addition, the County Executive did not provide for audit review approved staff establishment. It was therefore not possible to determine whether there was over or understaffing of staff in various positions.

In the circumstances, the authenticity, accuracy and propriety of the compensation of employees expenditure of Kshs.1,357,932,322 for the year ended 30 June 2015 could not be confirmed.

#### 5.0 Acquisition of Assets

Included in the statement of receipts and payments for the year under review is an amount of Kshs.550,003,037 and Kshs.25,931,323 relating to acquisition of assets for the County Executive and Assembly respectively both totalling to Kshs.575,934,360. However, the respective Ledgers/analysis were not made available for audit review.

Further, the summary of fixed assets register attached as *annex 4* of the annexes to the financial statements reflects assets totalling Kshs.575,934,360 which excludes the assets acquired in previous period and County Assembly assets. Title deeds for parcels of land were not made available for audit review.

In addition, the summary statement of appropriation – Development reflects Kshs.973,004,463 as acquisition of assets while the summary statement of appropriation – development and recurrent combined reflects Kshs.575,934,360 resulting to unexplained and unreconciled difference of Kshs.397,070,103.

No documents were made available to show that the County acquired and incorporated into its financial statements, the assets from the defunct Tharaka Nithi Local Authorities.

In view of the above, it was not possible to ascertain the ownership, existence and security of the fixed assets and that the Kshs.575,934,360 was expended as appropriated as at 30 June 2015.

## 6.0 Cash and Cash Equivalents

The statement of assets reflect cash and cash equivalents of Kshs.302,161,539 analyzed as follows:-

Item	Amounts (Kshs)
Cash in Bank	230,320,533.22
Cash in Hand	1,697,581.00
Outstanding Imprests	<u>70,143,425.00</u>
<b>Total Kshs,</b>	<b><u>302,161,539.00</u></b>

However, the bank confirmation certificate and board of survey report for the eighteen (18) Equity – Ward Accounts and bank statements for ward expenditures amounting to Kshs.3,123,000.00 were not made available for audit review.

Further, the Board of Survey report confirming the cash in hand balance of Kshs.1,697,581 was not provided for audit review.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.302,161,539 as at 30 June 2015 could not be ascertained.

## 7.0 Outstanding Imprests

The statement of assets reflects outstanding Imprests of Kshs.70,143,425 as at 30 June 2015. Further, examination of an imprest list provided indicates that several officers had more than one outstanding imprest. No measures have been put in place to have the imprests accounted for.

In the circumstances, it has not been possible to ascertain the issuance and accountability of the Kshs.70,143,425 imprests balance as at 30 June 2015.

## 8.0 Unsupported Payables and Receivables

### 8.1 Payables/Pending Bills

Annex 11 of the annexes to the financial statements reflects pending bills in respect to supply of goods totaling Kshs.801,331,772 as at 30 June 2015. However, the pending bills were not supported by local purchase orders or local service orders, invoices, payment vouchers and ledgers as required.

Further, Note 14.2 of the notes to the financial statements reflects staff payables in respect to employers pension contribution amounting to Kshs.16,252,000 as at 30 June 2015. No documents were made available to show that the County remitted fully its portion of pension contribution to the respective pension schemes.

In view of the foregoing, it has not been possible to confirm the completeness and accuracy of the payables/pending bills as at 30 June 2015.

## 8.2 Receivables / Debtors

Annex 2 to the financial statements reflects outstanding rents totaling Kshs. 27,447,233 as at 30 June 2015. However, the respective analysis/ ledgers per each sub-county showing the composition of the outstanding rents were not made available for audit review. As a result, it has not been possible to ascertain the accuracy and completeness of Kshs.27,447,233 outstanding rent as at 30 June 2015.

## 9.0 Unvouched Expenditure

### 9.1 Unsupported Expenditure

During the year under review, the County Executive and County Assembly spent Kshs.38,416,416 and Kshs.26,270,193 respectively both totaling to Kshs. 64,689,609 to procure goods and services as follows;

Item	Executive (Kshs)	Assembly (Kshs)	Total (Kshs)
a) Routine Maintenance of Motor Vehicles	363,500		363,500
b) Non Pharmaceuticals	1,041,400		1,041,400
c) Other Civil works	1,432,728		1,432,728
d) Training Expenses	1,239,500		1,239,500
e) Travelling and Accommodation Costs	7,600,775		8,431,761
f) Hospitality, supplies and services	2,631,000	1,454,610	4,266,610
g) Insurance costs	4,507,311	8,453,786	13,773,842
h) Purchase of Equipment- Chuka Hospital.	577,000		577,000
i) Refurbishment of Assets	624,050		624,050
j) Fuel, oil and lubricants	6,908,657	3,082,577	9,991,234
k) Sanitary and Cleaning materials- Chuka Hospital	1,271,155		1,271,155
l) Rental of produced Assets.	432,000		432,000
m) General Office Supplies & Services	5,431,950	815,220	6,247,170
n) Printing, Advertising, & information Supplies & Services	2,381,000	9,187,900	11,568,900
o) Routine Maintenance -Other Assets	1,204,640		1,204,640
p) Utilities supplies & services	348,200		348,200
Purchase of Furnitue	0	3,276,100	3,276,100
q) Fuel & Oil Expenses – Chuka District Hospital	404,000		404,000
r) Maintenance of Motor Vehicle.	317,000		317,000
<b>Total Kshs</b>	<b>38,416,416</b>	<b>26,270,193</b>	<b>64,686,609</b>

However, the respective payment vouchers were not sufficiently supported with the appropriate verifiable documents including LPOs/LSOs, invoices, delivery notes and cash sale receipts as required.

Under the circumstances, the propriety of the Kshs.64,686,609 expenditure as at 30 June 2015 could not be confirmed.

## **9.2 Partially Unauthorized Payments**

A review of the County's records revealed that payments totaling Kshs.7,628,670 were not authorized by the accounting officer as follows;

<b>Item</b>	<b>Amount (Kshs)</b>
Hospitalities Supplies and Services	1,385,830
Refurbishment of Assets	324,600
Fuel, oil and lubricants	200,000
Purchase of office, furniture and equipment	2,724,000
General Office Supplies & Services	1,906,240
Printing, Advertising, & information Supplies & Services	<u>1,088,000</u>
<b>Total</b>	<b><u>7,628,670</u></b>

No explanation was given for the failure to have the expenditure authorized and approved as required by Section 5.5.14(e) of the Government Financial Regulations and procedures.

## **9.3 Missing Payment vouchers**

Examination of the cashbook revealed that twenty five (25) payment vouchers totaling to Kshs.45,763,811 were paid but the physical payment vouchers were not availed for audit. No explanation was provided for failure to produce the payment vouchers. Consequently, it has not been possible to determine what the expenditure related to and whether the County Executive got value for money from the payments.

## **9.4 Unauthorized County Assembly Expenditure**

Examination of sampled payment vouchers of County Assembly revealed that payments amounting to Kshs.4,062,167.00 were paid for supply of goods and services. However, all the payments vouchers were not examined and authorised by delegated official as required by the financial regulations.

In the circumstance, the propriety of the payments on behalf of the County Assembly could not be confirmed as at 30 June 2015.



## 10.0 Irregular Procurement of Goods and Services

### 10.1 Non- Compliance in Procurement of Goods and Services

The County made payments totalling Kshs.8,560,090 in procuring various goods and services without compliance of Section 59 of the Public Procurement and Disposal Regulation 2006 and Section 8(3)(a) of the Public Procurement and Disposal (Amendment) Regulations, 2013 as follows:-

Item	Amount (Kshs)	Deviation from the PP&DA 2005
Hospitalities Supplies and Services	3,360,000	No quotations
Routine Maintenance	2,417,840	No quotations
Printing, Advertising, & information Supplies & Services	2,782,250	Supplier not prequalified
<b>Total</b>	<b>8,560,090</b>	

No explanations were provided for the departure from the Public Procurement and Disposal Regulation.

In the circumstances, it has not been possible to ascertain that the County got full value for money in the expenditure of Kshs.8,560,090.

### 10.2 Supply of Goods and Services by Non Pre-Qualified Suppliers

The County's records showed that various goods and services amounting to Kshs.13,086,240 were procured from various firms during the year as follows:

Items	Amount (Kshs)
Hospitalities Supplies and Services	1,395,000
General Office Supplies & Services	4,862,650
Routine Maintenance	1,315,840
Printing, Advertising, & information Supplies & Services	<u>5,512,750</u>
<b>Total Kshs</b>	<b><u>13,086,240</u></b>

However, these firms were not in the list of suppliers of goods and services contrary to Section 8(3)(a) of the Public Procurement and Disposal (Amendment) Regulations 2013 that requires pre-qualification of suppliers. It was therefore not clear how the firms were identified for the services provided.

In the circumstances, the County was in breach of the Public Procurement and Disposal Act 2005 and it was not possible to ascertain that the County got full value for money in the Kshs.13,086,240 expenditure as at 30 June 2015.

### **10.3 Foreign Travel Flight Charges**

Examination of available documents including payment vouchers revealed that Tharaka Nithi County Assembly paid Kshs.2,176,195.00 to a Tours and Travel Company as booking fee for overseas trips during the year under review. However, there was no evidence of competitive sourcing of the supplier through open tender and it appears the sourcing was done through direct procurement contrary to Section 29(1) of the Public Procurement and Disposal Act, 2005.

Further, the negotiation minutes on the costs charged and signed contract between the Assembly and the Tours and Travel Company were not made available for audit review.

In view of the foregoing, the propriety of the expenditure of Kshs.2,176,195 on flight charges could not be confirmed.

### **10.4 Purchase of Furniture and Fittings**

The County Assembly paid a Company on 11 September 2014, Kshs.1,329,200.00 vide payment voucher number 087/14-15 for supply and delivery of office furniture. However, procurement committee minutes and inspection and acceptance committee minutes were not made available for audit verification. It was not possible therefore to determine how the merchant was sourced and whether the items delivered were as per the specifications ordered as required by Sections 34 and 45 of the Public Procurement and Disposals Act, 2005 and Section 17(3)(b) of the Public Procurement and Disposal Regulation, 2006.

Further, examination of LPO, delivery note and quotations detailing the specification with pictures of the desks which were to be delivered revealed that the Assembly ordered for five (5) 1.8m executive tables and ten (10) 1.6m executive tables with leather covering at the front side of the tables. However, physical verification of the tables revealed that five (5) 1.8m executive tables and ten (10) 1.6m executive tables seen were different from the ones ordered.

In view of foregoing, it has not been possible to ascertain that the County Assembly got full value for money in the Kshs.1,329,200 expenditure as at 30 June 2015.

### **10.5 Domestic and Foreign Travel and Subsistence Expenditure**

Examination of available documents of County Assembly including payment vouchers revealed that Kshs.2,118,510.00 and Kshs.8,335,426.00 was paid as per diem to MCA's and members of staff committees, while attending various domestic and foreign official activities. However, air tickets, details of persons for whom the air tickets were paid, communication on the change in reservations, copies of passports for officers who travelled, approval of the trips, training programme/time table and back to office report were not made available for audit review.

Consequently, the propriety of the total expenditure on both domestic and foreign travel of Kshs.10,453,936 for the year ended 30 June 2015 could not be confirmed.

### **11.0 Un-accounted for Fuel, Oils and Lubricants**

Work tickets for all motor vehicles were not provided for audit review. Further, examination of sampled payment vouchers show that Kshs.6,828,656.70 was spent on purchase of fuel, oil and lubricants. However, fuel register and logbooks for all vehicles owned by the County Executive were not made available for audit verification.

In the circumstances, the accuracy and propriety of Kshs.6,828,656.70 could not be ascertained as at 30 June 2015.

### **12.0 Irregular Payment to Casuals**

During the financial year under review, the County executive spent Kshs.29,128,425.80 in respect of wages on employed casuals as follows:-

<b>Month</b>	<b>Number of Casuals</b>	<b>Monthly Wages (Kshs)</b>
Jul-14	88	845,233.90
Aug-14	88	836,507.70
Sep-14	88	819,618.80
Oct-14	237	3,013,188.60
Nov-14	262	2,447,333.20
Dec-14	263	2,553,134.80
Jan-15	276	2,600,660.70
Feb-15	272	3,300,211.20
Mar-15	300	2,853,223.40
Apr-15	307	2,996,907.30
May-15	317	3,137,937.50
Jun-15	356	3,724,468.70
	<b>Total Kshs</b>	<b><u>29,128,425.80</u></b>

However, how they were recruited, the work they were supposed to do, reason for their recruitment, terms and conditions of service were not provided for audit review. Further, muster roll showing attendance of the casuals was not provided for audit review.

In view of the foregoing, the probity and propriety of Kshs.29,129,425.80 as an expenditure on casual wages could not be confirmed as at June 2015.

### 13.0 Mortgage and Car Loan

During the year under review, the Assembly spent Kshs.23,050,000 and Kshs.44,900,000 for MCAs car loan and Mortgage respectively both totalling Kshs.67,950,000 as at 30 June 2015. However, the Assembly did not provide for audit review, the copies of logbooks of the purchased using car loan funds. Further, the ownership documents for the properties purchased using the Kshs.67,950,000 were not made available for audit verification in accordance with provisions of Section 149 (1) and (2) of Public Finance Management Act, 2012. In addition, there is no evidence that the car and mortgage loans issued were charged against the properties as collateral for the loans.

In the circumstance, it has not been possible to ascertain the security and recoverability of Kshs.67,950,000 mortgage loan and funds as at 30 June 2015.

### 14.0 Penalties for Late Payment of Statutory Deductions

During the year under review, the County Assembly was billed Kshs.2,153,657 for late payment of PAYE as follows;

Month	Payable	Date Paid	Amount Paid	Tax Balance	Penalty Sec.37	Interest Sec.94	Tax Due
May, 14	287,820	3.10.14	287,820	-	71,955	-	71,955
June, 14	668,129	3.10.14	668,129	-	167,032	-	167,032
Jul, 14	2,144,780	29.08.14	2,144,780	-	536,195	-	536,195
Aug, 14	1,803,576	3.10.14	1,803,576	-	450,894	-	450,894
Sep, 14	3,710,323	29.10.14	3,710,323	-	927,581	-	927,581
<b>Total</b>					<b>2,153,657</b>		<b>2,153,657</b>

The expenditure could have been avoided if the assembly had paid PAYE on a timely basis. No explanations was provided as to why the Assembly failed to remit the money deducted on time as required by Section 37(c), Section 72 (d) and Section 94(1) of Income Tax Act Cap 470.

In the circumstances, the Kshs.2,157,657 was not a proper charge to public funds and hence no value for money was obtained as at 30 June 2015.

### Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of County Government of Tharaka Nithi 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 do not comply with Public Finance Management Act, 2012 and the County Government Act, 2012.

## **Emphasis of Matter**

### **1.0 Weak Internal Control System**

The County's internal control system was weak as evidenced by the inaccuracies in cash books, missing payment vouchers, lack of ledgers and unaccounted for expenditures. The Internal audit department did not avail for audit review its program of work, audit reports, and recommendations to the management. Further, there was no audit committee in place including the internal audit charter. As a result, the internal control system and governance of the County Government was doubtful.

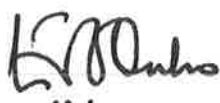
### **2.0 Format of Financial Statements**

The consolidated financial statements for the year under review submitted on 14 June 2016 were not well paged in that page 9 is blank, page 13 is repeated thrice, pages 10, 16 to 24 and 47 are missing. The efforts of the office to get properly paged financial statements yielded nothing.

The responsibility and reliability of the County's management and treasury in generating accurate and complete financial statements was therefore in doubt. Further, progress on follow up of previous year's audit recommendations has not been included as required.

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

My opinion is not qualified in respect of these matters.



**FCPA Edward R. O. Ouko, CBS**  
**Auditor – General**

**Nairobi**

**23 September 2016**