REPUBLIC OF KENYA

OFFICE OF THE AUDITOR- GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF MACHAKOS

FOR THE YEAR ENDED 30 JUNE 2015

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke

P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

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

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Machakos County Government set out on pages 7 to 33, 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 combined 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 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 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 Limitation of Scope

The County Government incurred expenditure totalling Kshs.7,031,426,529 during the year ended 30 June 2015. Out of this amount, Kshs.3,361,729,871 was incurred in compensation of employees, Kshs.1,312,706,909 in use of goods and services Kshs.1,918,988,625 on acquisition of assets, while an amount of Kshs.394,198,919 was used as grants to institutions and other payments. Other amounts include payment for social benefits Kshs.36,406,275 and Kshs.7,395,852 described as payment for civil contingency.

Despite numerous requests in writing, for access to various procurement records, payroll records and other records on amounts transferred to third parties, these were not provided. These records include:-

(i) Tender documents register,

(ii) Original tender and procurement committee's minutes,

(iii) Procurement plans,

(iv) Advertisements for contracts or supplies,

(v) Bill of quantities from public works department were not available for all the works done, and where in existence, the Bill of Quantities and work done was always at variance,

(vi) Evidence of evaluation minutes and that public works department was involved in the evaluation.

(vii) Tender award minutes.

(viii) List of prequalified suppliers.

(ix) Complete payroll records

(x) Supporting documents for amounts transferred to third parties.

In the absence of these supporting documents, the propriety of the expenditure for the year could not be confirmed.

2.0 Revenue

The statement of receipts and payments reflects receipts totalling Kshs.7,540,047,806, out of which Kshs.6,062,711,461 or about 80.4% is in respect of exchequer releases and Kshs.119,596,830 as proceeds from domestic and foreign grants, and an amount of Kshs.1,357,739,495 as other receipts. Review of records on revenue for the year under review revealed the following:-

2.1 Exchequer Releases from National Treasury

The statement of receipts and payments reflects receipts from the Exchequer amounting to Kshs.6,062,711,461, and this differs with records maintained by the Controller of Budget amount of Kshs.6,087,031,461, resulting in a difference of Kshs.24,320,000 which was a grant to the National Treasury from DANIDA meant for health services at the County Government that was accounted for as proceeds from domestic and foreign grants. The County Government received Kshs.5,987,031,461 from the exchequer and the difference of Kshs.100,000,000 was said to have been amounts withheld by the National Treasury for earlier obligations that were paid for on behalf of the County Government. However, no supporting documents were provided to confirm the withholding amount of Kshs.100,000,000 and consequently, the accuracy of the Exchequer releases could not be confirmed.

2.2 Other Revenues

The statement of receipts and payments reflects other receipts totalling Kshs.1,357,739,495 which relates to revenue collected from own sources. These include rent and rates on properties, business permits, parking fees and licenses. The County uses a Revenue Management Systems provided by Business Connection Limited at Mavoko Sub-County to capture revenue collections. Other revenues are collected and captured using LAIFOMs, receivable module. Analysis of the revenue data availed revealed the following anomalies:-

(i) The County Government collected internally generated revenue amounting to Kshs.1,357,739,495, while information and records available indicates a budget amount of Kshs.2,700,000,000, during the year under review resulting in a shortfall of Kshs.1,342,260,505 or 49% of the projected revenue. The County Government did not provide justification for the under collection of revenue.

(ii) A review of the daily collection and banking records of revenues at Mavoko Sub-County where the County Government collects most of its revenue revealed that an amount of Kshs.702,560,288 including direct banking of Kshs.40,106,782 was collected during the year ended 30 June 2015. However, the revenue did not include related revenue collected from hospitals and liquor licenses. Out of the amount of Kshs.702,560,288 collected from Mavoko Sub-County, only an amount of Kshs.686,328,956 was banked resulting in a difference of Kshs.16,231,332 which was spent directly contrary to Sec.109 of the Public Finance Management (PFM) Act, 2012.

(iii) Revenue from the hospitals in the County of Machakos amounted to Kshs.151,031,793. It was noted that revenue from Sub-Counties hospitals

could not be confirmed as there were no records and returns on revenue. However, included in the amount of Kshs.151,031,793 is an amount of Kshs.95,276,850 from World Health Organization (WHO) which is not an internally generated revenue. In addition the same amount of Kshs.95,276,858 has been included in the proceeds from domestic and foreign grants hence double counting on the amount.

(iv) Revenue from the liquor licenses amounted to Kshs.53,691,583. However, such revenue could not be confirmed due to lack of supporting analysis and documentation from the Sub-Counties.

a) The County Government had not done any mapping for revenue sources since it took over from the defunct local authorities.

b) There were no registers for rate payers and tenants in the County.

c) There were no ledgers or aged debtors analysis for rate and rent debtors.

d) Three revenue items, related to market/trade center fee, rents and hospital fee reduced from Kshs.949,652,841 to Kshs.56,724,663, from Kshs.40,838,164 to Kshs.18,144,368 and from Kshs.160,462,958 to Kshs.55,754,943 respectively. This was a drop by 94%, 55% and 65% but no explanation was given for the reduction.

2.3 Proceeds from Domestic and Foreign Grants

The statement of receipts and payments reflects receipts of Kshs.119,596,830 under proceeds from Domestic and Foreign Grants, which relate to a donor funding of Kshs.24,320,000 from DANIDA released through the Exchequer and Kshs.95,276,850 from World Health Organization (WHO) released directly to the County Government. However, no documentary evidence was provided to support the Kshs.95,276.850 from WHO.

Consequently, the accuracy and completeness of the revenues received during the year ended 30 June 2015 of Kshs.7,540,047,806 could not be confirmed.

3.0 Expenditure

The statement of receipts and payments for the year ended 30 June 2015 as disclosed under notes 12 – 21 in these financial statements reflects expenditures totalling Kshs.7,031,426,529. However, there were no supporting records of original entries like the invoices, Local Purchase Orders (LPOs) and relevant payment vouchers on the following expenditure items:

3.1 Compensation of Employees

The statement of receipts and payments under compensation of employees reflects expenditures totalling Kshs.3,361,729,871 for the year ended 30 June 2015. Details of payrolls and other emolument payment schedules supported an amount of Kshs.3,005,283,031 resulting in unexplained and un-reconciled difference of Kshs.356,446,840. In addition, the following anomalies were noted:

(i) The County Government does not have an approved staff establishment and salary structure in place. Consequently the system of compensation of employees has no controls and prone to errors. Defalcations could easily be perpetuated without them being detected.

(ii) The County Government had paid salaries for 970 employees amounting to Kshs.621,801,624 which were processed using MS Excel spread sheet. There were also no identity (ID) numbers captured in the Excel Worksheets hence each staff member did not have a unique identifier as expected in the IPPD system. There was no documentation to confirm the type of engagement and nature of work undertaken, designated places of work and terms of engagement. No explanation was given for using MS Excel to process salaries.

(iii) The expenditure on the compensation of employees totals for the year increased by huge margins during the year, without significant corresponding increase in the number of employees as shown below:

Item	2013/2014 Kshs	2014/2015 Kshs	Increase Kshs	% Increase
Basic salaries	1,945,905,402	2,772,642,709	826,737,307	42
Basic wages for temporary employees	112,365,287	457,180,138	344,814,851	306
NSSF	3,642,590	5,815,162	2,172,572	60

(iv) The pension and other social security contributions although reported under different items in the financial years 2013/2014 and 2014/2015, reduced by Kshs.84,740,502 or 232% from Kshs.121,146,777 to Kshs.36,406,275 despite the huge increase in salaries and wages. The disclosure of the social security figure of Kshs.36,406,275 in the year could be misrepresented or understated.

No justification has been provided for these increases in compensation for employees. Consequently the propriety of the expenditure on compensation of employees expenditure of Kshs.3,361,729,871 could therefore not be confirmed.

3.2 Use of Goods and Services

The statement of receipts and payments reflects expenditures of Kshs.1,312,706,987 under use of goods and services. Review of available records and information revealed the following issues:-

3.2.1 Expenditures with Huge Increases

Included in the use of goods and services total expenditures are six (6) expenditure items that had huge increases as compared to prior year as detailed below:-

Item	2014/2015 Kshs	2013/2014 Kshs	Increase Kshs	Percentage %
Utilities supplies and services	47,187,363	18,000,907	29,186,456	162%
Communication	23,189,157	12,185,286	11,003,871	90%
Foreign Travel	72,818,483	47,831,079	24,987,404	52%
Printing and Advertising	102,737,238	85,703,124	17,034,114	20%
Specialized Materials	253,300,371	70,211,025	183,089,346	261%
Fuel Oil and Lubricants	158,281,548	32,841,755	125,439,793	382%

The above expenditures, which had huge increases, were not supported with information and documentary evidence. Consequently the propriety of the expenditures could not be confirmed.

3.2.2 Unsurrendered Imprests

Imprests were given to various officers in the Governor's office during the year under review and charged against various items under use of goods and services. Review of records revealed that the imprests amounting to Kshs.20,360,158 mostly issued in November 2014 were still outstanding as at the time of audit (See Appendix I).

No explanation on was provided for the failure to surrender the amounts in time. It is also not clear whether the money issued as imprests was spent for the intended purposes.

3.2.3 Missing Payment Vouchers

The total expenditure on fuels and lubricants as disclosed in note 13 to the financial statements amounts to Kshs.158,281,548, during the year under review. The expenditures includes amounts of Kshs.40,066,363 on refined fuels and lubricants out of which only payment vouchers amounting to Kshs.3,059,109 were provided for audit verification, leaving the balance of Kshs.37,007,254 as unsupported expenditure (See list of vouchers availed at Appendix II).

3.2.4 Routine Maintenance

Included in the use of goods and services are two amounts of Kshs.49,068,639 and Kshs.48,612,987 relating to routine maintenance on vehicles and other transport equipment and other assets. Schedules provided to support the amounts reflects expenditure amounts of Kshs.94,566,289 and Kshs.29,124,988 respectively, as having been spent, which differed with expenditure as disclosed in the financial statements by negative Kshs.45,497,655 and Kshs.19,487,999 respectively. However, no documentary evidence were provided for audit verification to support the expenditure.

3.2.5 Foreign Travel

Included in the use of goods and services is an expenditure of Kshs.72,818,483 on foreign travel where three members of the County Assembly were paid conference fee

amounting to Kshs.756,000 for World Ploughing Championship in Bordeaux, France with each member being paid an amount of Kshs.252,000. No documents were availed to support the rate or the duration of the conference.

Further, members of the County Assembly made a trip to Abu Dhabi from 23 December 2014 to 3 January 2015 for Media Partnership with M-Government ABU DHABI 2014 and per diems amounting to Kshs.2,673,900 were given. There were no reports produced from the trip. Consequently, the results of the trip could not be explained.

In addition, a claim of Kshs.150,000 was made and paid as miscellaneous expenses yet full per diem of Kshs.590,400 had been paid. It was not clear what rate was used to convert Dirhams to Kenya shillings as there was no exchange rate shown.

As reported in the previous year, the County Assembly Members and staff made various foreign trips during the previous period. It was observed in a number of cases where the members were double paid through per diems while at the same time a travel agency had been contracted to provide for full package of the trip including airport transfers, local transport and full board accommodation all totalling Kshs.24,287,027. No action appear to have been taken to recover the amount of Kshs.24,287,027 from the MCAs.

3.2.6 Rental of Produced Assets

The expenditure on rental of produced assets of Kshs.9,881,512 for the year ended 30 June 2015 was not supported by any documentary evidence. Consequently the propriety of the expenditure could not be confirmed.

3.2.7 Procurement of Insurance Services

The vote book reflected a payment of Kshs.7,795,410 to an Insurance agency on 21 May 2015 but this was not reflected in the expenditure analysis for 2014/2015. Consequently, this expenditure has been excluded from the total expenditure of Kshs.7,085,394,849 reflected in the statement of receipts and payments.

3.2.8 Water Mapping

The County Government incurred expenditure totalling Kshs.187,865,301 in respect of water mapping in the County as shown in Appendix V. The expenditure included costs of training, payments to enumerators, stationery, fuel and hire of computers and data entry clerks including the cost of printing stationery. However, details of the modalities followed to procure the training venues and trainers, and the other items were not availed for audit verification. In addition, imprests amounting to Kshs.10,322,850 were given to various officers for the same purpose and had not been surrendered at the time of audit (See appendix VI).

3.3 Transfers to Other Government Entities

(i) The statement of receipts and payments and as disclosed under note 13 to the accounts reflects transfers to other government entities totalling Kshs.232,306,919 for the year ended 30 June 2015, which include an amount of

Kshs.40,000,000 in respect of a housing mortgage scheme fund for members of the County Assembly. However, records availed at the Assembly indicate that a total of Kshs.80,000,000 was transferred to the Fund Account. The transfer has therefore been understated by Kshs.40,000,000. It is not clear how the amount of Kshs.40,000,000 was accounted for in these financial statements.

(ii) The transfers to other government entities does not also include an amount of Kshs.120,000,000 transferred from the County Treasury to the County Assembly for the Machakos County Assembly Service Board Car Loan Scheme Fund during the year. No documentary evidence has been provided to confirm how the amounts were accounted for in these financial statements.

(iii) The transfers included an amount of Kshs.50,000,000 transferred to a public servants housing loans fund account. Out of this amount, Kshs.39,339,960 was borrowed by the executive and issued to the departments of Transport - Kshs.6,339,960 and Health - Kshs.33,000,000 for recurrent expenditure instead of being used for the purpose it was budgeted for. The balance of Kshs.10,660,040 was to be surrendered to the County Treasury but no evidence was provided to indicate that it was surrendered.

(iv) Further, the transfers figure also includes an amount of Kshs.55,371,429 issued to the department of Image Directorate. However, documents to support this actual expenditure was not availed for audit verification.

Consequently, the propriety of these expenditures on transfers to other government entities could not be confirmed.

3.4 Other Grants and Transfers

The statement of receipts and payments and as shown under note 16 to the accounts reflects Other Grants and Transfers of Kshs.161,892,000 for the year ended 30 June 2015, which includes Kshs.24,320,000 and Kshs.96,276,000 received from DANIDA and World Health Organization respectively, which were transferred to the department of health. However, the expenditure for the two related donor items could not be verified since supporting documents were not availed.

3.5 Other Payments

The statement of receipts and payments reflects other payments amounting to Kshs.7,395,852, described as a civil contingency for reserve. No explanation or supporting documents was provided to support this expenditure amount. Consequently, the propriety of the expenditure could not be confirmed.

4.0 Cash and Cash Equivalents

4.1 Bank Balances

The statement of assets as at 30 June 2015 and as disclosed under note 22 A to the accounts reflects a cash and cash equivalents balance of Kshs.605,820,763 that relates to six (6) bank accounts, two held in Cooperative Bank and four at the Central Bank of Kenya. However, information available and the list of bank accounts provided

shows that the County Government operated fifty three (53) bank accounts. This list of banks did not disclose crucial information such as bank transactions and balances, signatories, date of opening the accounts and other details as required by Section 87 (4) of the Public Finance Management (County Government) Regulations 2015.

The following anomalies in respect of the bank balances were noted:-

(i) The bank reconciliation statement for account No.01141277913200 at Cooperative Bank reflected a cash book balance of Kshs.1,172,684,360 and overdraft bank balance of Kshs.250,000,000 as at 30 June 2015. However, the amount disclosed in the financial statements is an overdraft of Kshs.22,312,718 hence an unexplained difference of Kshs.1,194,997,078.

(ii) In addition the reconciliation statement reflects payment in the bank statement not recorded in the cash book amounting to Kshs.2,075,435,471 which include unexplained payments described as loan repayments in the bank statements amounting to Kshs.1,894,265,163 as shown in Appendix VII. No such liability was disclosed in the financial statements and neither were any supporting documents for the same availed for audit verification.

(iii) Out of the list of fifty three (53) bank accounts, eleven bank accounts which had bank statements whose balances amounting to Kshs.15,631,087 were omitted in the financial statements as detailed below:-

	Bank	**Account No**	**Bank balance as at 30 June 2015**
1	Chase bank	0342083410004	11,983,645
2	National Bank	01001099943000	1,001
3	Kenya Commercial Bank	1143631935	902,834
4	Kenya Commercial Bank	1140764721	2,566,560
5	National Bank	01001072781200	103
6	Chase bank	0342083410003	40
7	Kenya Commercial Bank	1143632621	80,104
8	Kenya Commercial Bank	1150344105	97
9	Kenya Commercial Bank	1150344482	340
10	Kenya Commercial Bank	1146328710	1,397
11	Coop bank	01141549510400	94,966
	TOTAL		**15,631,087**

The following irregularities were observed in regard to the operation of the eleven (11) bank accounts.

- No bank reconciliation statements had been prepared for the bank accounts.
- There were no cash books for the eleven accounts that had cash balances in their statements.

(iv) There was no confirmation on the other thirty six (36) bank accounts as;

- No bank statements were provided.
- No cash books were provided.

(v) Further, the financial statements of the County Assembly reflects bank overdraft balances of Kshs.2,852,796.76 and Kshs.3,094 in the general and development bank accounts respectively held at the Co-operative Bank of Kenya. These balances were not included in the bank balances of the County Government consolidated financial statements.

Under the circumstances, it was not possible to ascertain whether all bank transactions and bank balances during the year under audit were fairly stated.

5.0 Accounts Receivable

As reported in the previous year, imprest amounting to Kshs.46,963,196 was due for surrender at the beginning of the year, however no evidence was availed to confirm that the same had been surrendered.

The County Governments financial statements reflect an outstanding imprests balance to Kshs.21,285,261 as at 30 June 2015. However, there was no imprest register availed to confirm these amounts. Further, the balance of Kshs.21,285,261 as at 30 June 2015 did not include imprest balances under the governor's office and department of water of Kshs.20,360,158 (Appendix I) and Kshs.10,322,850 (Appendix VI) respectively.

Consequently, the completeness and accuracy of the outstanding imprests balance of Kshs.21,285,261 as at 30 June 2015 could not be confirmed.

6.0 Accounts Payable and Other Liabilities

6.1 Deposits and Retentions

The statement of assets as at 30 June 2015, reflects an accounts payable-deposits and retentions balance of Kshs.32,557,378, and although a list of the contractors was availed, related payment records and documentation, and percentage of completion certificates were not availed for audit verification.

6.2 Pending Bills

As also reported in the previous year, the County Governments records showed that there were pending bills of Kshs.712,863,900 as at 30 June, 2014 which were due for payment during the year under audit. The balance of pending bills had risen to Kshs.2,799,764,650 as at 30 June 2015 as reflected under note 26.1 to the financial statements. This in effect indicates that the County Government has continued to incur expenditure over and above its budget. In addition, the County Government did not keep a pending bills register and the bills schedule provided was not age analysed and did not show account heads charged nor did it have any references to originating documents and reasons why payments were not made.

Failure to pay bills in the year they relate distorts the financial statements for the year and adversely affects the provisions for subsequent years where they have to be charged. Had those bills been paid, the statement of receipts and payments would have reflected a deficit of Kshs.2,291,143,372 instead of Kshs.508,621,277 surplus now reported.

Consequently, the accuracy and completeness of the pending bills figure could not be confirmed.

6.3 Borrowing

A review of bank statements for account no 01141277913200 at the Co-operative Bank of Kenya indicated that the County Government had an overdraft facility of Kshs.250,000,000 which was not factored in the approved estimates. The overdraft disclosed in the financial statements is Kshs.22,312,718 while the cash book reflects a negative balance of Kshs.1,172,684,360. Approval for the borrowings by either the County Assembly or the National Treasury was not produced for audit verification. In addition, the County Government had incurred interest charges amounting to Kshs.10,982,468 according to bank statements availed for audit. Bank reconciliation statements reflect payments in the bank statement but not recorded in the cash book amounting to Kshs.2,075,435,471 which includes unexplained payments of Kshs.1,894,265,163 described as loan repayments.

The borrowings that the County Government has made have not been disclosed in these financial statements.

7.0 Assets

7.1 Assets and Liabilities Inherited from the Defunct Local Authorities in Machakos County

The statement of receipts and payments reflects an amount of Kshs.1,918,988,625 under acquisition of assets for the year ended 30 June 2015. However, as reported in the previous period, the County's financial statements for the year do not include the assets and liabilities of the Defunct Local Authorities within Machakos County although the County Government took possession of them. In addition, the Transition Authority (now defunct) did not formally handover the assets and liabilities of the defunct local authorities in Machakos to the County Government. It is not known when these assets and liabilities will be handed over to the County Government. This situation is indicative of significant impairment on the County's assets.

Consequently, it was not possible to confirm whether the carrying values as stated in these financial statements reflect fair values of the assets and liabilities.

7.2 Acquisition of Assets

The statement of receipts and payments reflect an amount of Kshs.1,918,988,625 under acquisition of assets as at 30 June 2015 out of the amount budgeted and received for development of Kshs.4,350,880,977. The difference of Kshs.2,431,892,352 was incurred on recurrent expenditure. However, details on how reallocation was done were not availed for audit scrutiny. The expenditure was not

supported with documentary evidence such as LPOs, invoices or ownership documents like logbooks and titles to land. In addition, no procurement records were availed to confirm whether the Procurement and Disposal Act, 2012 and the related regulations were followed. Also, the cost of movable assets valued at Kshs.271,329,050, were not recorded in the fixed assets register.

7.3 Purchase of Tractors

As reported in the previous period, the County Government had procured forty (40) units of tractors, 32 of them Mersey Ferguson and the rest of different makes and models and were meant to assist farmers to plough their farms. Ownership documents for fifteen units were not availed for audit verification. In addition, the existence of twenty five units listed in **Appendix VIII** could not be confirmed as only fifteen were made available for physical verification.

7.4 County Residential Houses

As reported in the previous period, the National Housing Corporation developed a Housing Scheme, Depot Housing Scheme in Machakos Municipality Block 1/197-214 on behalf of the defunct Masaku County Council. Information available from National Housing Corporation indicates that the Scheme was developed through a loan to the defunct Council which was fully paid. However, the entire 25 units of houses were later taken over by the National Government under the Ministry of Housing and Urban Development and allocated to Civil Servants who have in effect been paying rent to the Ministry. However, no evidence was availed to indicate how these houses were taken over by the Ministry and further what action the County Government is contemplating to repossess the houses.

7.5 Immovable Assets

As reported in the previous period, an undetermined number of land parcels and buildings belonging to the County Government valued at Kshs.961,451,472 did not have title deeds and were prone to grabbing or encroachment by unscrupulous individuals who might be privy to this fact.

Further, records available show that 18 pieces of land of various sizes recognized by the defunct Municipal Council of Mavoko as public utilities in Syokimau and Numerical area of Mavoko Sub-County had been sub-divided and allocated to individuals and institutions under unexplained circumstances. A physical check revealed that most of the land had been developed by private developers and others fenced off while a few were still vacant. However, no evidence was availed to indicate that the County has followed up on title deeds to secure ownership of these properties as at the time of audit and also avail documents for the sub-division of the 18 parcels of land allocated to the individuals/private developers if any.

7.6 Purchase of Fertilizer

The County Government of Machakos purchased fertilizer at a cost of Kshs.19,889,500 on 5 June 2015. However, no distribution list was provided to confirm the beneficiaries. There was no documentary evidence to confirm that the goods were received and inspected as required. In addition, no evidence in form of a report was

provided to show the impact of the expenditure on fertilizers. Further, it was not clear why the procurement of seeds and fertilizers were accounted for under acquisition of assets and not under use of goods and services.

It was therefore not possible to confirm if the procurement was a proper charge to public funds.

7.7 Construction of Markets

A review of the expenditure schedules on market construction contracts provided and site visits to Mlolongo, Kyumvi, Kathome and Kaseve market sheds in Machakos County revealed that there was lack of accountability on payments totalling Kshs.28,008,571 as detailed in Appendix IX. However, the itemized works done to warrant the payments was not availed for audit verification. The validity of these payments could therefore not be ascertained.

7.8 Renovation and Extension of County Secretary's Residence

The County awarded a contract for the renovation and extension of county secretary's residence to a company on 24 December 2013 at a contract sum of Kshs.8,993,630. Available records indicate that a Local Purchase Order (LPO) was issued on 23 September 2014 while the certificate from the contractor was dated 9 September 2014.

In addition, the relevant procurement records were not provided for audit verification and a visit to the site showed the following:-

(i) The works done on the perimeter wall costing Kshs.1,894,300 had visible cracks and unfinished works are not as specified in the bills of quantity.

(ii) Renovation of the main house was not done.

(iii) The servant quarter was not completed as per the specification in the Bill of Quantities.

The amount of Kshs.8,993,630 incurred in the renovation was therefore a loss of public funds.

7.9 Purchase of Motor Vehicles and Other Equipment

The County Government purchased various motor vehicles and other equipment as detailed below:-

Purchase of Motor Vehicles

Date	Payment Voucher No	Item purchased	Amount (Kshs.)	Payee details and other observations
29.12.14	109	Supply of vehicle Nissan Civilian bus	8,581,330	DT Dobie Co Ltd
23.2.15	164	Motor grader balance	9,185,000	Shaneebal ltd

24.3.15	347	2 double cabin pickups	8,236,724	CMC Motors Group
15.4.15	445	Supply of motor vehicles	10,792,705	Toyota
8.6.15	687	Supply of electrical appliances	11,275,948	Gallops Products
8.6.15	688	Supply of 2 water bowsers	12,929,741	Trans-Africa Motors
8.6.15	689	Supply of 3 pickups	8,326,952	General Motors
8.6.15	690	Supply of 5 pickups	15,194,224	General Motors
		Total	**84,522,624**	

Other Purchases

Date	Payment Voucher No	Items Purchased	Amount (Kshs.)	Payee Details and Other Observations
16.9.14	14	CCTV	10,263,680	Real World Fortune Tech
30.9.14	45	Floodlights	10,000,000	Gallops Products Ltd
18.5.15	561	Floodlights	16,689,655	Gallops Products Ltd
8.6.15	676	Electrical For Street Lighting	4,199,701	Tonlect Enterprises
7.6.15	730	Wooden Poles	3,879,868	Khavangi Holding
1.10.14	58	Power Generator-Machawood	6,870,000	Khavangi Holding
1.10.14	65	CCTV Matuu	9,443,500	Centro Systems EA Ltd
20.3.15	321	Portable Video Lighting Equipment	1,491,637	Eastern Handlers
		Total	**62,838,041**	

However, payment vouchers and procurement processes followed were not provided for audit verification. Consequently, the validity of the expenditure amounting to Kshs.147,360,665 could not be confirmed.

7.10 Work-in-Progress

As reported in the previous audit report, during the transition period there were several projects in various stages of completion/ progress in each of the defunct Local Authorities whose completion was not budgeted for in the County budget for the period 2013/2014 after spending a total of Kshs.12,542,292 on the same. Further, no evidence was availed to confirm whether the projects have been incorporated in the county budget and development plan for the year under review. There is the risk of these projects in various stages of completion not being completed.

7.11 Construction of the Governor's Office

As reported in the previous period the department of Transport, Roads and Public Works and Housing contracted various suppliers to supply building materials for

construction of the Governor's Office. A visit to the project site established that the project had stalled. When the project stalled, the County Government had incurred a total expenditure of Kshs.57,726,344.80 out of which Kshs.28,254,629 had been paid. An additional amount of Kshs.11,689,655 out of the outstanding balance brought forward was paid during the year under audit. However, no work had been budgeted for nor carried out during the same period. It was therefore not clear whether the project was properly planned and budgeted for from inception.

8.0 Inaccuracies in the Financial Statements

8.1 Irregular Postings in the Vote Book

The statement of receipts and payments reflects total expenditure of Kshs.7,031,426,529 which include expenditure totalling Kshs.88,206,219 that was posted in the department of water's vote book under various account heads after the close of the financial year. However, the expenditure was not supported with any documentary evidence **(Appendix X)**. Consequently the completeness and accuracy of the excess figures in the account heads in the department could not be confirmed.

8.2 Format of the Financial Statements

The format of the financial statements and the format of the approved budget were not the same, as the financial statements were prepared in accordance with IPSAS as per the templates provided by the Public Sector Accounting Standards Board, while the Budget was prepared as per the requirements of the Directorate of Budgeting at the National Treasury, therefore it was not possible to compare the two sets of documents.

8.3 Inaccuracies of the Financial Statements

(i) The net financial assets balance of Kshs.594,548,646 as reflected in the statement of assets differ with the net financial position figure of Kshs.627,106,024 by unexplained and unreconciled difference of Kshs.32,557,378. The financial statements are not wholly IPSAS cash basis of accounting as accounts payables have been taken into account.

(ii) The combined and individual summary statements of appropriation do not disclose the budgeted and actual figures for receipts.

(iii) The comparative figures for transfer to other government entities were not included in note 15 as per the requirements of the Directorate of Budget at the National Treasury.

(iv) Note 12,13,14,16,17 and 18 in the statement of cash flows are incorrectly stated.

(v) The following expenditure figures relating to the County Assembly and reported in the consolidated financial statements, did not agree with figures reported in the financial statements prepared by the County Assembly.

Description	County Government (Kshs.)	County Assembly (Kshs.)	Variance (Kshs.)
Hospitality	9,159,330	7,445,081	1,714,249
Office and general supplies and services	6,754,497	7,607,588	(853,091)
Insurance	0	1,869,433	(21,869,433)
Communication supplies and services	8,267,872	66,450	8,201,422
Utilities	2,609,198	5,538,156	2,928,958)
Domestic travel	91,785,947	149,760,540	(57,974,593)
Training	29,449,176	7,902,220	21,546,957
Foreign travel	30,829,840	33,747,778	(2,917,938)
Maintenance costs	6,236,501	5,744,936	6,236,501
Printing and adverts	6,048,825	28,311,271	(22,262,446)
Total	**191,141,187**	**262,248,517**	**(71,107,330)**

No justification has been provided for the above irregularities. Consequently, it has not been possible to confirm the accuracy of the figures reported in the financial statements.

9.0 Budget and Budgetary Controls

9.1 Recurrent Budget

(i) The summary statement of appropriation reflects a current expenditure budget of Kshs.4,911,146,837 and actual of Kshs.4,900,037,704 which tally with the budget schedule provided for audit. However, a recast of the budget schedules totalled Kshs.4,903,946,835 of which difference of Kshs.7,200,002 between the two sets of records has not been reconciled or explained.

(ii) In addition, comparison of budget figures and actual returns shows that the county incurred recurrent expenditure totalling Kshs.5,051,736,305 and not Kshs.4,900,037,704 as reflected in the summary statement of appropriation.

Further, although the summary statement of appropriation reflects that there was a budget performance of 99.8%, and that there was no over-expenditure in the recurrent account, review of available records indicate that the County Government incurred expenditure totalling Kshs.5,051,736,305 under recurrent account, leading to over expenditure of Kshs.147,789,470 as shown below:-

Recurrent Budget Analysis

Department	Budget Kshs.	Actual Expenditure per Returns per Debt Kshs.	Difference
Executive (Governor)	396,030,700	365,636,735	30,393,965

County Treasury	235,446,482	225,607,367	9,839,115
Public Service	146,782,973	118,299,264	28,483,709
County PSB	56,368,012	71,584,456	(15,216,444)
Decentralised Units	636,034,651	776,279,086	(140,244,435)
Education, Youth	339,188,563	173,178,392	166,010,171
Health and Energy	1,708,573,623	1,730,867,550	(24,493,927)
Environment	51,136,785	75,897,190	(22,293,927)
Tourism and Culture	61,264,279	91,009,140	(29,744,861)
Public Works	158,492,458	240,351,753	(81,859,295)
Agriculture	297,614,168	355,631,881	(58,017,713)
Planning, Trade, Water and Sanitation	166,354,280	222,625,309	(56,271,029)
County Assembly	608,833,441	539,260,441	69,573,000
Total	**4,911,146,830**	**5,051,736,305**	**154,989,465**

From the above, it can be noted that the County Government incurred more on recurrent expenditure than had been approved in the budget. No authority was sought to revise the budget and incur the given expenditure.

Consequently, the financial statements as presented do not provide relevant, reliable, comparable and understandable information.

9.2 Development Budget

The summary statement of appropriation also reflects a development budget of Kshs.4,350,880,976 and actual expenditure totalling Kshs.2,131,388,825, hence, an under absorption of Kshs.2,219,492,151. However, a recast of the approved budget schedule totals Kshs.4,347,880,926. The difference of Kshs.3,000,000 between the two sets of records has not been reconciled or explained.

In addition, comparison of budget figures and actual expenditure returns shows that the County Government incurred development expenditure totalling Kshs.2,033,658,544 and not the Kshs.2,131,388,825 amount reflected in the summary statement of appropriation. Consequently, the summary statement of appropriation as presented in the financial statements is misleading.

Further, the summary statement of appropriation reflects that there was a budget performance of 49%. This is contrary to audit findings, which indicate that budget performance was 46% as detailed below:-

Development Budget Analysis

Development	Budget per Documentary Evidence Kshs.	Actual Expenditure per Returns by Department Kshs.	Under Expenditure Kshs.
Executive	70,000,000	36,951,828	33,048,172
County Treasury	33,375,580	12,930,630	20,444,950
Public Service	174,501,607	75,919,728	98,581,879
County PSB	25,416,616	9,448,719	15,967,897
Decentralized Units	75,950,522	40,871,208	35,079,314
Education, Youth	185,931,937	92,605,072	93,326,865
Health and Energy	601,828,308	193,763,264	408,065,044
Environment	293,656,284	100,966,542	192,689,724
Tourism and Culture	154,786,881	46,302,016	108,484,865
Public Works	1,366,417,422	983,984,539	382,432,883
Agriculture	174,868,184	37,558,911	137,309,273
Planning, Trade	219,843,000	39,384,570	180,458,430
Water and Sanitation	790,138,026	281,537,376	508,600,650
County Assembly	181,166,559	81,434,141	99,723,418
Total	**4,347,880,926**	**2,033,658,544**	**2,314,222,382**

The budgetary figures as presented in the summary statement of appropriation are therefore misleading as they do not reflect the actual expenditure as per the budget returns by various departments in the County Government. The figures do not also reflect the approved budget figures by the County Assembly or records forwarded to the Controller of Budget.

9.3 Total Budget

The summary statement of appropriation reflects a combined budget for the year of Kshs.9,262,027,807 and total expenditure of Kshs.7,031,426,529. There was therefore an under absorption of Kshs.2,230,601,278 and a 76% utilisation of the budget.

9.4 Unauthorized Expenditures

9.4.1 Specialized Materials and Services

The statement of receipts and payments reflects an expenditure of Kshs.1,312,706,987 under use of goods and services. Included in the expenditure are amounts totalling to Kshs.13,527,169 incurred by four departments, which exceeded the budgetary allocations by Kshs.8,429,004 which is more than 100% as shown below:-

Department	Budget Kshs.	Total Expenditure Kshs.	Over Expenditure Kshs.
Education, Youth	2,220,984	3,245,646	(1,024,662)
Roads, Transport	-	660,400	(660,400)
Agriculture	329,416	1,159,850	(830,434)
Water and Sanitation	2,547,765	8,461,273	(5,913,508)
Total	**5,098,165**	**13,527,169**	**(8,429,004)**

The expenditure of Kshs.8,429,004 on specialized materials and services was incurred without the authority of the County Assembly.

9.4.2 Utilities, Supplies and Services

Further, the statement of receipts and payments figure of Kshs.1,312,706,987 on use of goods and services includes an amount of Kshs.59,196,184, incurred on utilities, supplies and services against an approved budget of Kshs.48,308,883. The difference of Kshs.10,887,301 amounts to unauthorized expenditure. In addition, payments on utilities, supplies and services were supported with photocopies of electricity and water bills, which could lead to fraud as original documents could be used to make additional payments.

9.4.3 Travel and Subsistence Allowances

The statement of receipts and payments figure of Kshs.1,312,706,987 relating to use of goods and services includes an amount of Kshs.52,182,492 incurred by various departments on travel and subsistence allowances. This amount exceeded the budget by Kshs.23,856,777 and no evidence was provided to indicate that authority was granted by the County Assembly to incur the extra expenditure. The expenditure was incurred by various departments as shown below:-

Department	Budget Kshs.	Actual Expenditure Kshs.	Over Expenditure Kshs.
County Public Service Board	663,168	882,315	(219,147)
Decentralized Unites	5,552,798	5,800,391	(277,593)
Environment	2,702,173	3,042,185	(340,012)
Transport	19,601	10,698,836	(10,679,235)
Agriculture	8,260,006	14,506,786	(6,246,780)
Planning, Trade	4,164,145	5,751,939	(1,587,794)
Total	**28,325,715**	**52,182,492**	**(23,856,777)**

Management had not provided justification for the over-expenditure of Kshs.23,856,777.

9.4.4 Compensation of Employees and Social Benefits

The statement of receipts and payments reflect an amount of Kshs.3,361,729,871 under compensation of employees and an amount of Kshs.36,406,275 under Social Security Benefits, while the budgetary allocations for the two expenditure items were Kshs.3,071,496,400 and Kshs.23,810,890 respectively. The exceeded amounts for the compensation of employees and social security benefits were Kshs.290,233,642 and Kshs.12,595,385 respectively which had not been approved by the County Assembly or any other authority.

9.4.5 Over-expenditure on Development Account

(i) The statement of receipts and payments reflects an amount of Kshs.1,918,988,625 on acquisition of assets while departmental return reflects an expenditure of

Kshs.2,033,658,544. The difference of Kshs.114,669,919 between the financial statements and supporting documents was not reconciled or explained.

(ii) In addition, the County Government overspent by Kshs.102,228,031 on development over and above what had been budgeted in six departments as shown below:-

Department	Item	Budget Kshs.	Actual Kshs.	Variance Kshs.
Public Service	Housing loans	-	50,000,000	(50,000,000)
	Purchase of Computers	1,815,092	8,093,049	(6,277,956)
County PSB	Furniture	-	9,448,719	(9,448,719)
Health	Feasibility Services	10,059,307	15,714,459	(5,655,152)
Tourism	Non-residential Buildings	-	18,428,985	(18,428,985)
Transport	Governor's residence	14,260,585	17,546,630	(3,286,045)
	Motor vehicles	21,336,688	26,015,500	(4,624,622)
Water and Sanitation	Infrastructure over hand of water systems	46,992,481	51,312,875	(4,320,393)
Total		108,561,897	210,840,120	102,228,031

The over-expenditure was not authorized. In addition the validity of the expenditure disclosed in the statement of receipts and payments and the summary statement of appropriations could not be confirmed as it differed with available supporting documentation.

9.5 Budgeting for Revenue

The summary statement of appropriation: recurrent and development reflects a nil budget on revenue while records available indicate that the County Government had budgetted to collect Kshs.2,700,000 from its own sources. However there were no itemized records on the intended collection.

10.0 Other Projects-Implementation Issues

10.1 CCTV Installation and Integration

A report on development expenditure for 2014/2015 under the department of Public Service, Labour and ICT as at 31 December 2014 indicated that the County Government had initiated thirteen (13) CCTV installation and integration projects at an estimated cost of Kshs.104,366,860 out of which only five (5) were complete and working. However, this could not be confirmed due to lack of project information documentation, such as BQs, tender documents, progress reports and the current status as at the time of audit. It was noted that the CCTV cameras could not work during power black outs since there was no power back up for the cameras. It was therefore not possible to confirm if the County Government obtained value for money from the procurement and installation of the CCTV.

10.2 Drilling of Boreholes

The County Government had planned to drill two hundred twenty five (225) boreholes, sixty one (61) of those boreholes were dry, and a hundred and thirty two, (132) were fully or partially equipped. A total of thirty two (32) boreholes were capped. The reason for drilling so many boreholes and capping others was informed by the desire to have as many boreholes as possible across the County. Since the funds available are finite, the County ended up with a proliferation of many incomplete borehole projects which have no value to the community they were supposed to serve. No supporting documents like LPO's, invoices, BQs and payment vouchers were availed for audit review. Consequently, the completeness, accuracy and the validity of expenditure incurred on the drilled boreholes could not be confirmed.

10.3 Irregular Distribution of Water Tanks

One hundred and sixty five (165) 10,000 litre water tanks valued at Kshs.65,000 each totalling to Kshs.10,725,000 meant for equipping boreholes in Matungulu Sub County once drilled, were procured and distributed to locations other than those they were intended for. In addition, details such as the number of tanks ordered, locations they were meant for and those they were eventually distributed to and the current position including internal reports and procurement processes used for the tanks were not made available for audit verification.

10.4 Stalled and Abandoned Projects

The health and emergency services department started dispensary and community health projects valued at Kshs.461,484,335 at various locations but almost all of them stalled after certificates amounting Kshs.115,966,689 were issued and out of which only Kshs.59,038,687 had been paid as at the time of audit. **(See Appendix IX)**. It appears that no proper planning had been made before the inception of these projects that were started simultaneously in all the locations. It has therefore not been possible to confirm whether, the projects will be completed and whether value for money can be realized.

11.0 Internal Control-Internal Audit Function

The County Government has an internal audit department in place. However, the following weaknesses were identified regarding the functioning of the internal audit unit:-

(i) The unit is under the finance department which weakens its functions.

(ii) The scope of internal audit function did not include evaluating and reporting on internal controls applicable to high risk areas as identified by management.

(iii) Audits for the financial year in the annual audit work plan were not finalized.

(iv) Some progress audit reports conducted during the year were availed for audit review but responses from the management to confirm actions taken on the issues raised were not availed for audit verification.

(v) Internal audit unit is understaffed and may not have the capacity and staff with necessary competencies to carry out the internal audit function.

(vi) No confirmation that there is a written provision from the accounting officer providing the unit unrestricted access to all records and assets of the County.

(vii) There is no audit committee to review audit reports.

Consequently, the County Government does not have an effective internal audit unit that could assist the County management in identifying risk of malpractices, improper recording of transactions, loss of assets and non-adherence to internal controls.

12.0 ICT Internal Control Environment

12.1 Integrated Financial Management Information System (IFMIS)

The County Government had implemented the Integrated Financial Management Information System (IFMIS) partially, where transactions of the same nature are sometimes processed through IFMIS and others outside IFMIS. It was not clear why the county government chose not to take full advantage of a system that enhances efficiency in planning, budgeting, procurement, expenditure management and reporting. Problems of verifying completeness of expenditure and budgetary control since pending bills increased by Kshs.2,086,900,750 from Kshs.712,863,900 to Kshs.2,799,764,650 were apparent during audit. Accountability of the procurement processes was not possible due to lack of an audit trail in addition to the County Government's inability to produce reports such as electronic general ledger and other sub-ledgers, trial balance and other expenditure reports/schedules. Analysis of the consolidated payments from the two systems making up the figures in the financial statements was however not availed for audit verification.

In addition, the County Government did not avail a schedule to explain how the items in the approved budget were combined to come up with the items reported in the financial statements. Attempt to sum up related items for the departments produced different figures from what was reported. For instance, casting of budget figures for basic salaries-permanent employees in the approved budget gave us Kshs.2,491,038,890 whereas the financial statements (note 12) has Kshs.2,772,642,709 resulting in a difference of Kshs.281,603,819.

12.2 ICT Policy

As reported in the previous year, the County Government has not developed a policy on ICT, to formally document and approve processes to manage system upgrades or changes made to all financial information systems.
Consequently, it is not able to monitor changes made to all financial information systems and thus the correct and fair presentation of the financial statements for the County Government for the year ended 30 June 2015 could not be confirmed.

12.3 Poor Record Keeping

The County has a weak Internal control system and irregularities or errors may have occurred which could not have been detected.

The County Government has failed to develop and maintain a system that ensures proper recording of all transactions of the County. As a result, its systems cannot produce credible and reliable financial statements that can enable readers of the financial statements and decision makers rely on them. Although a chart of accounts from the National Treasury exists, the County Government does not maintain proper books of primary data, like regularly updated cash books, inventory ledgers, pending bills registers, rent and rate registers etc. Consequently, the financial statements presented are unreliable.

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

05 October 2016