REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF ISIOLO

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 ISIOLO FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Isiolo set out on pages 8 to 32, 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: 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. 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 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 qualified audit opinion.

Basis for Qualified Opinion

1. Cash and Cash Equivalents

During the year under review, the County Executive operated five (5) bank accounts while County Assembly had one bank account as detailed below:

Name	Type	A/c Number	Balances as at 30 June 2015 – Kshs.
CBK Recurrent	Recurrent Expenditure A/c	1000171405	13,215,364
Consolidated Bank	Revenue A/c	10111203000081	4,586,805
KCB Imprest	Imprest A/c	1140761072	46,613
CBK Development	Development A/c	1000171367	10,713,434
Equity-County Assembly	Current A/c	0410261437860	168,001
CBK Revenue Fund	Revenue Fund A/c	1000171715	800,854
Total			**29,531,071**

The statement of financial assets and liabilities as at 30 June 2015 reflected cash and cash equivalents balance of Kshs.29,363,072. However, the balance excludes outstanding imprest amounting to Kshs.1,536,934 as disclosed in Annexure II to the financial statements. Further, a bank balance of Kshs.168,001 in the County Assembly account number 0410261437860 has not been included in the cash and cash equivalent balance.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.29,363,072 as at 30 June 2015 could not be ascertained.

2. Un-surrendered Imprest

Annexure II to the financial statements reflects outstanding imprest of Kshs.1,536,934 as at 30 June 2015. Scrutiny of various imprest documents including

imprest warrants, imprest register and payment vouchers revealed various issues of non-compliance regarding management of imprest.

It was observed that more than one imprest was issued to two (2) officers with long outstanding imprest. Further, personal numbers were not indicated in the imprest warrants and imprest register.

Consequently, the County contravened the regulations relating to issuance of imprest and it was not possible to ascertain the recovery of the Kshs.1,536,934 outstanding imprest as at 30 June 2015.

3. Creditors / payables.

Annexure IV attached to the financial statements reflect payables balance of Kshs.169,246,992 as at 30 June 2015 made up of Kshs.158,259,036 from the defunct council and Kshs.10,987,956 from the County Government.

Further, the payables balance increased from Kshs.84,072,170.00 as at 30 June 2014 to Kshs.169,246,992.00 as at 30 June 2015. However, both County Executive and Assembly did not maintain creditors records including creditors' ledger and creditors register.

In addition, the statement of receipts and payments would have reflected a deficit of Kshs.477,568,126 instead of the deficit of Kshs.308,321,134 now reflected, had the County settled all its debts as at 30 June 2015, and hence the County's ability to sustain quality service remains doubtful.

In the circumstances, it has not been possible to confirm the existence, completeness, and accuracy of the creditors and payables' balance of Kshs.169,246,992 as at 30 June 2015.

4. Receivables / Debtors

The County's receivables/debtors balance as at 30 June 2015 was Kshs.81,549,676.00 as shown on Annexure V to the financial statements. The debtors increased by Kshs.18,588,690 from Kshs.62,960,986 reported as at 30 June 2014. Further, the Annexure reflected huge unanalyzed block balances.

In addition, no evidence was adduced that the County had stepped up efforts to collect the long outstanding debts to fund various projects.

Consequently, the recoverability of the debtors/receivables balance of Kshs.81,549,676 as at 30 June 2015 could not be ascertained.

5. Budgetary control and performance

During the year under review, the County Government had an approved budget of Kshs.3,377,608,032 comprised of Kshs.2,055,938,158 (61%) for recurrent expenditure and Kshs.1,321,669,874 billion (39%) for development expenditure. Included in the approved budget was Kshs.315,000,000 recurrent and 30 million for development for the County Assembly. The spending units were Office of the Governor, County

Assembly, and ten executive departments namely; Agriculture, Cohesion and Intergovernmental, Education and Vocational Training, Finance Planning National Development and Vision 2030, Health Services, Livestock, Veterinary and Fisheries, Public Service Management and ICT, Lands and Urban Planning, Tourism, Culture and Social Services, Water and Irrigation.

(a) Recurrent Expenditures

The Kshs.2,055,938,158 approved recurrent estimates comprised of Kshs.380,679,966 for the Office of the Governor, Kshs.315,000,000 for the County Assembly, and Kshs.1,360,258,192 for the executive's ten departments. The actual recurrent expenditures comprised of Kshs.263,101,209 (84%) for County Assembly, Kshs.351,681,274 (92%) for the Office of the Governor and Kshs.1,317,191,216 (97%) for the ten executive departments are analysed here under;

Head	Approved Estimates Kshs.	Actual Expenditure Kshs.	Variance Kshs.	Absorption Rate %
Office of the Governor	380,679,966	351,681,274	28,998,692	92%
County Assembly	315,000,000.00	263,101,210.00	51,898,790.00	84%
Agriculture	58,297,574.00	55,162,297.00	3,135,277.00	95%
Cohesion Intergovernmental	74,412,303.00	66,721,533.00	7,690,770.00	90%
Education And Vocational Training	100,045,455.00	96,753,221.00	3,292,234.00	97%
Finance, Planning, National Development And Vision 2030	348,308,178.00	341,459,412.00	6,848,766.00	98%
Health Services	529,640,000.00	525,520,997.00	4,119,003.00	99%
Livestock, Veterinary And Fisheries	72,182,620.00	65,016,330.00	7,166,290.00	90%
Public Service Management And ICT	24,207,540.00	22,905,550.00		95%
Lands And Urban	26,479,400.00	26,003,893.00	475,507.00	98%

Planning				
Tourism Culture And Social Services	71,066,069.00	63,506,062.00	7,560,007.00	89%
Water And Irrigation	55,619,056.00	54,141,920.00	1,477,136.00	97%
Total	**2,055,938,161**	**1,931,973,699**	**123,964,462**	94%

The detailed departmental expenditure analysis for the Office of the Governor, County Assembly and the other ten departments are as shown in **Appendix Ia, Ib and Ic** respectively.

The county had an unexplained under – expenditure of Kshs.123,964,462 during the year ended 30 June 2016.

(b) Development Expenditures

The approved development estimates comprised of Kshs.219,628,070 for the Office of the Governor, Kshs.30,000,000 for the County Assembly, and Kshs.1,072,041,804 for the executive's departments. The actual development expenditures comprised of Kshs.204,109,325 (93%) for the Office of the Governor, Kshs.928,317,554 (87%) for the nine executive departments and no expenditure was incurred by the County Assembly. The analysis is as below:-

Head	Approved Estimates Kshs.	Actual Expenditure Kshs.	Variance Kshs.	Performance %
Office Of The Governor	219,628,070	204,109,325	15,518,745	93%
County Assembly	30,000,000	-	30,000,000	0%
Cohesion Intergovernmental	30,000,000	26,229,594	3,770,406	87%
Education And Vocational Training	80,700,000	74,076,237	6,623,763	92%
Finance, Planning, National Development And Vision 2030	158,134,801	158,134,788	13	100%
Health Services	104,169,526	75,265,952	28,903,574	72%
Livestock, Veterinary And Fisheries	47,900,000	28,551,406	19,348,594	60%
Lands And Urban Planning	343,159,832	283,241,959	59,917,873	83%
Tourism Culture And Social Services	94,376,289	89,621,278	4,755,011	95%
Water And Irrigation	200,856,356	180,951,340	19,905,016	90%
Agriculture	12,745,000	12,245,000	500,000	96%
Total	**1,321,669,874**	**1,132,426,879**	**189,242,995**	

The County Assembly budgeted to construct 10 ward offices at an initial cost of Kshs.30,000,000. However, although the tenders were awarded, the construction of the ward offices as at 30 June 2015 had not commenced.

The detailed departmental expenditure analysis for the Office of the Governor, County Assembly and the other ten departments are as shown in **Appendix II.** The county had an unexplained under – expenditure of Kshs.189,242,995 in its development expenditure and a total under – expenditure of Kshs.313,207,457 in both recurrent and development vote.

In the circumstances, the County Executive and Assembly did not adhere to the approved budget and consequently the residents of Isiolo County did not get the expected services as intended in the budget.

6. Revenue

The summary statement of appropriation in the financial statements reflects that the County had targeted to raise Kshs.360,000,000 from local revenue sources in the financial year 2014/2015 to supplement the national share of revenue of Kshs.2,608,945,502. However, the County managed to collect only Kshs.132,211,591.25 which was 36.7 per cent of the targeted annual local revenue resulting to a short fall of Kshs.22,788,049. The grant from Danida is shown as Kshs.5,590,000 instead of Kshs.5,593,200 in the statement of receipts and payment.

Further, although the county received exchequer releases of Kshs.2,667,456,921 which exceeded the budgeted receipts by Kshs.58,511,419, Kshs.720,213,369 or 27% was received between 25 May and 30 June 2015 which may have not been possible to utilize considering the lengthy procurement procedures.

Further, the County had collected local revenue of Kshs.147,409,300 in the year 2013/2014 and therefore there was a reduction by 11.5% per cent of revenue collected in the year under review. Out of the Kshs.132,211,591.25 actual revenue from twenty nine (29) items, five (5) items exceeded their targeted revenue while the revenue collection in four (4) other items was between 0% and 1% of the targeted revenue as shown in **Appendix IIIa and IIIb**.

The County received 18% of the exchequer releases in the month of June.

In the circumstances, the County was not able to fully implement the approved County Integrated Development Plan and implement the targeted budget for effective delivery of services to the County residents.

7. Operating with an expired contract

As stated in the previous year's report, the Kenya Association of Tour Operators (KATO) was appointed as selling agents for Buffallo Springs and Shaba National Reserves entry

tickets through a contract signed with the defunct County Council in February, 1995. KATO was to stock tickets, vet the Tour Operator to whom tickets were sold and submit to the Council an analysis of ticket sales on a weekly basis. In return, KATO was to be paid a commission of four (4) percent of the face value of all the tickets. The agreement which was valid for twenty four (24) months up to 2 February, 1997 had not been renewed or any other service provider identified as at 30 June 2015. However, during the year ended 30 June 2015, KATO collected revenue amounting to Kshs.40,700,398 and retained Kshs.1,695,850 as their commission even though they had no valid contract with the County in respect to revenue collection and retention.

In the circumstances, the validity and propriety of the commission payments retention of Kshs.1,695,850 could not be confirmed as at 30 June 2015.

8. Non-current assets

As reported in the previous year, the County Government of Isiolo had not taken over assets and liabilities amounting to Kshs.14,155,106,914.00 and Kshs.151,880,458.00 respectively from the defunct County Council of Isiolo. Further, the financial statements reflects non-current assets amounting to Kshs.15,792,486,188 as at 30 June 2015. However, the County Executive and County Assembly did not maintain an updated fixed assets register. In addition, both County Executive and the County Assembly did not have in place policies and procedures relating to asset management while the assets were not coded or tagged for ease of identification. Ownership documents for land, whose acreage was undisclosed, were also not made available for audit review with an estimated value of Kshs.13,904,747,490 as at 30 June 2015.

In view of the foregoing, the ownership, completeness, location and security of the non-current assets balance of Kshs.15,792,486,188 could not be ascertained as at 30 June 2015.

9. Operationalization of Ward Offices

During the year under review, an amount of Kshs.7,200,000.00 was advanced in form of imprest to Members of County Assembly to pay rent, contractual employees and for general office use as per Section 47 of the Isiolo County Assembly Service Board (Operationalization of ward offices) Regulations, 2013. However, out of the Kshs.7,200,000.00 issued as imprest, only Kshs.960,000.00 was fully surrendered and accounted for leaving a total of Kshs.6,240,000.00 un-surrendered.

Further, no approved structure, grading, job descriptions and subsequent recruitment of ward staff evidence was provided for audit review. Evidently, the positions were filled by the Members of the County Assembly and it was not possible to establish whether the positions were competitively sourced and whether the persons met the required qualifications.

In addition, no documentary evidence was made available as a proof that the salaries of the employees were set by the Salaries and Remuneration Commission as required by Article 230(4) of the Constitution. Furthermore, the Members of the County Assembly were given the imprest to pay for the services instead of the amounts being paid directly to the service providers, employees and landlords as required by the financial regulations.

As a result, the expenditure of Kshs.7,200,000 on operational expenses for wards was not used in an economical, effective and efficient way as at 30 June 2015.

10. Foreign Travelling and Accommodation Allowances

During the year under review, the County Assembly organized two foreign trips to Ethiopia and Uganda.

10.1 Benchmarking Tour to Ethiopia

The trip to Ethiopia was a benchmarking tour on agriculture, tourism and culture which was held between 25 February and 4 March 2015. Payments to the Members of County Assembly's for the trip was invoiced on 24 February 2015 for Kshs.1,200,000 and the payments were made to the eight (8) County Assembly Service Board Members, Speaker and Deputy Speaker at Kshs.120,000 per person.

However, no documentary evidence was made available for audit review to confirm that the trip actually took place and contributed in enabling the County Assembly to discharge its functions as per Section 8 of the County Government Act, 2012. It was also not clear how Keele Point Training Institute was identified to facilitate the Ethiopia trip and whether the firm was actually paid for the services rendered as per demand note no. 10089 of 18 February 2015 of Kshs.840,000.

Further, temporary imprest warrant no. 2189575 dated 24 February 2015 for Kshs.3,603,355, paid to Abdullahi A. Dhima for travel to Ethiopia remained un – surrendered as at 30 June 2015.

10.2 Monitoring and Evaluation Tour to Uganda

The trip to Uganda was for the purposes of training on monitoring and evaluation in legislative setting for County Assembly Service Board members. The training took place between 23 and 28 February 2015 at Potex hotel in Entebe, Uganda. Payment for the trip was invoiced on 19 February 2015 for Kshs.463,100 and the five Board Members were paid individually at Kshs.92,620 per person. However, no documentary evidence including invitation letters, invoices and receipts were made available for audit to confirm that the trip took place and the participants paid for their participation in the seminar.

In addition, amongst the outstanding imprests, warrant nos. 2189554 and 2189555 dated 10 February 2015 and 19 February 2015 for Kshs.809,330 and Kshs.141,600 respectively

which were paid to Abdullahi Dhima indicated the nature of duty as night outs and travelling allowance while in Uganda. However, no supporting documents were made available for audit review.

In view of the foregoing, it has not been possible to ascertain that the total expenditure of Kshs.6,217,385 incurred in Ethiopia and Uganda trips was a proper charge to public funds.

11. Irregular Mileage Allowances

During the financial year 2014/2015, the County Assembly paid Members of County Assembly gross mileage allowance of Kshs.40,757,216.20 for the period April 2013 to December 2014 which was over and above their maximum monthly entitlement of 90 Kms per week.

The amount was paid in three installments of Kshs.8,460,144, Kshs.24,623,536 and Kshs.7,673,536.20 on 13 January, 17 February and 11 June 2015 for the period July to December 2014, April 2013 to June 2014 and February to May 2015 respectively and all amounting to Kshs.40,757,216.20 as indicated below:-

	Ward Name	Member of County Assembly	Kilometres claimed per Return Journey	Gross Paid (Kshs.)	Tax Deducted (Kshs.)	Net Paid (Kshs.)
1	Cherab	Hon.Hassan Kumpa	1008	9,216,356.40	2,764,906.92	6,451,449.48
2	Sericho	Hon.Nura Diba	964	8,803,382.20	2,641,014.70	6,162,367.50
3	Charri	Hon. Ali Galgalo	520	4,635,598.00	1,390,679.40	3,244,918.60
4	Oldonyiro	Hon.David Lemantile	532	4,728,239.60	1,424,471.68	3,303,767.92
5	Kinna	Hon.Ali Adan	448	3,959,748.40	1,187,924.72	2,771,823.68
6	Ngare Mara	Hon.Peter Losu	300	2,570,502.00	771,150.60	1,799,351.40
7	Burat	Hon. Paul Mero	192	1,556,727.60	467,018.08	1,089,709.52
8	Garbatulla	Hon. Abdi Sora	588	5,266,662.00	1,579,998.80	3,686,663.20
	Total			**40,737,216.20**	**12,227,164.90**	**28,510,051.30**

However, an analysis to ascertain the correctness and accuracy of the payments indicated the following;

- No evidence was made available to show that the rates claimed took into consideration the AA rates based on the cubic capacity of the vehicle.

- The distances indicated by the Regional Mechanical Engineer were for various points in the wards and not a specific point where the Member of County Assembly commutes to and from.

In addition, the MCAs were paid Kshs.4,822,416 being weekly mileage claim (90km) for 61 weeks calculated at the recommended AA rates of Kshs.109.8 per Km which was normally paid together with other monthly allowances as shown in the table below:-

	Ward	Member of County Assembly	Kilometres claimed per Return Journey	Kilometres Over-claimed	Rate (Kshs.)	Weeks Claimed	Double Payment (Kshs.)
1	Cherab	Hon. Hassan Kumpa	1008	90	109.8	61	602,802.00
2	Sericho	Hon. Nura Diba	964	90	109.8	61	602,802.00
3	Chari		520	90	109.8	61	602,802.00
4	Oldonyiro	Hon. David Lemantile	532	90	109.8	61	602,802.00
5	Kinna	Hon. Ali Adan	448	90	109.8	61	602,802.00
6	Ngare Mara	Hon. Peter Losu	300	90	109.8	61	602,802.00
7	Burat	Hon. Paul Mero	192	90	109.8	61	602,802.00
8	Garbatulla	Hon. Abdi Sora	588	90	109.8	61	602,802.00
	Total			720			**4,822,416.00**

In view of the foregoing, the propriety of the mileage reimbursements of Kshs.40,757,216.20 could not be ascertained as at 30 June 2015.

The payment of the Kshs.4,822,418 is a double payment as the MCAs had already been paid mileage allowances totaling Kshs.28,510,051.

12. Irregular Payment of Allowances to External Board Member

During the year under review, one board member held the position of the external member as per Section 12 (3) of the County Government Act, 2012. The County Assembly Service Board meeting held on 15 October 2014 resolved and approved through Min 04/15/10/14 to pay her a monthly payment of Kshs.100,000 as retainer. This allowance was paid over and above the monthly transport allowance of Kshs.20,000, accommodation of Kshs.10,000.00 and airtime of Kshs.5,000.00 even when there were no board meetings. As a result, Kshs.935,000 was paid to the member as indicated below;

Date	Purpose	Amount (Kshs.)
08/09/2014	Transport Allowance and accommodation July and August 2014	60,000.00
3/10/2014	Transport Allowance, Accommodation and airtime July to September	45,000.00
11/12/2014	Transport Allowance (October & November) , Accommodation (October & November) and Airtime July to November	85,000.00
16/01/2015	Retainer allowance October 2014 to December 2014	300,000.00
19/02/2015	Transport, Accommodation and Airtime	35,000.00
12/04/2015	Transport Allowance 11 meetings	110,000.00
13/04/2015	Retainer allowance January 2015 to March 2015	300,000.00
Total		**935,000.00**

Further, the member was paid double payment of airtime in the months of July to September 2014 (3 months). In addition, the Kshs.935,000 payments included Kshs.110,000 paid on 12 April 2015 being transport allowance for 11 sittings. However, the details of the dates when these meetings were held and an attendance register to confirm attendance were not made available for audit review.

In the circumstances, the validity and propriety of the allowances totaling to Kshs.935,000 could not be confirmed as at 30 June 2015.

13. Allowances to the County Public Service Board

During the financial year under review the County Public Service Board spent a total of Kshs.3,815,990 in respect to various retreats, training, and screening of new employees and study tour. A scrutiny of the expenditures revealed that they were not adequately supported with attendance list/register and minutes to support the claim.

Qualified Opinion

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

Other Matter

1. Operations without an Approved Staff Establishment

During the period under review, the County Government recruited three hundred and twenty one (321) and eighty two (82) new staff in the education and health sectors respectively. However, the County Government did not prepare or approve its personnel establishment and hence managed its human resource without an approved establishment. As a result, the adequacy and appropriateness, the existence and the necessity to fill vacancies or the possibility of staff progression was not ascertained. This may have a negative impact on efficient and effective service delivery.

2. Unaccounted for Drugs

During the year under review, the County Government procured drugs from two firms at a total cost of Kshs.4,121,000. The drugs were received in the store on 15 February 2014 and 7 May 2014. Physical verification in the store established that the drugs had been issued to Isiolo County Referral Hospital pharmacy. However, no documentary evidence was made available to show that the drugs were received by the hospital.

In the circumstances, there was a risk that the drugs may not have been received by the Hospital to be dispensed to the patients.

3. Non Establishment of the Audit Committee

During the period under review, the County Government did not establish an audit committee as required by Section 155 (5) of the Public Finance Management (PFM) Act, 2012. The audit committee would have performed various roles as stipulated in the Act. In the circumstances, the County was in contravention of the Act.

My opinion is not qualified in respect of these matters.

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

Nairobi

31 August 2016