REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF KIRINYAGA

FOR THE YEAR ENDED 30 JUNE 2015

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

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

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Kirinyaga set out on pages 8 to 23 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. 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.

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 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 adverse audit opinion.

Basis for Adverse Opinion

1. Unrecorded and Unsupported Receipts

The statement of receipts and payments for the year ended 30 June 2015 reflects a figure of Kshs.3,415,013,611 for total receipts, represented by Kshs.3,097,237,385 as exchequer releases and Kshs.317,775,726 as other receipts from local resources. However, records provided for audit indicated that liquor licensing revenue amounting to Kshs.27,286,320 was not included in the receipts from local revenue. Further, schedules relating to revenue collected from Kamweti Farmers Training Centre were not availed for audit verification and the balances were not disclosed as part of receipts. Consequently, the completeness and accuracy of total receipts of Kshs.3,415,013,611 for the year ended 30 June 2015 could not be confirmed.

2. Compensation of Employee

The compensation of employee figure of Kshs.1,824,023,224 for the year ended 30 June 2015 differed with schedules availed for audit by Kshs.22,327,496 as follows:-

Item	Financial Statement Balance (Kshs)	Source Records Balance (Kshs)	Over/(Under) Statement) Kshs.
Basic Salary to Permanent Staff	1,641,500,117	1,671,975,413	(30,475,296)
Basic wages of temporary employees	123,739,107	123,739,107	-
Personal Allowances paid as part of salary	58,784,000	50,636,200	8,147,800
Total	**1,824,023,224**	**1,846,350,720**	**(22,327,496)**

Further, ledgers to support the financial statement figures were not availed for audit verification. In the circumstance, the accuracy of compensation of employees figure of Kshs.1,824,023,224 for the year ended 30 June 2015 could not be confirmed.

3. Unsupported balances

The statement of receipts and payments for the year ended 30 June 2015 reflects the following expenditure items amounting to Kshs.1,488,464,710 as summarized below:-

	Kshs.
Use of goods and services	443,102,360
Transfer to other government entities	37,659,934
Other grants and transfers	67,760,000
Acquisition of Assets	939,942,416
Total	**1,488,464,710**

The management did not provide relevant ledgers of schedules to support the expenditure.

In the circumstances, the propriety and completeness of the above expenses could not be ascertained.

4. Cash and Bank Balances

The statement of assets as at 30 June 2015 shows a balance of Kshs.703,764,574 in respect of cash and cash equivalents. However, the following anomalies were observed;

4.1 Unrecorded bank balances

The following six (6) bank accounts with their respective balances though operated by Kirinyaga County Government were not incorporated in the financial statements:-

Account	Account Number	As at 30/6/2015 Amount (Kshs)
ADSACF	0114567202400	9,542,435
Kirinyaga County Hospital Fund	01141567073500	30,467,145
Kirinyaga Sub County Revenue Account	01141489581000	2,608,298
Kirinyaga County Assembly	01141567001400	2,000
Kirinyaga County Revenue Account	1140758497	10,298,708
Equity Bank of Kenya	0420260844601	1,156,098
Total		**54,074,684**

4.2 Unreconciled Bank Accounts

The following bank balances were not reconciled:-

Account Name	Financial statement Balance (Kshs)	Actual Bank Balance (Kshs)	Difference (Kshs)
County Revenue Fund A/C 10001700433	9,332,681	579,077,368	(569,744,687)
Recurrent Account A/C 10001700336	91,725,310	33,663,363	57,061,947
Development Account A/C 10001702447	313,634,700	786,416	(312,848,284)

4.3 Unrecorded Wards Bank Balances

The twenty (20) wards of the County Government operated bank accounts where the operation funds for the wards were being deposited. However, there was no written authority from the County Treasury to facilitate the opening of 20 ward bank accounts contrary to the requirements of requirements of Regulations 82(5) of the Public Finance Management (County Governments) Regulations, 2015.

Further, cash books, bank reconciliations, bank confirmation certificates for ward bank accounts were not availed for audit verification for all the wards bank accounts.
In the circumstances, the completeness and accuracy of cash and cash equivalent balance of Kshs.703,764,574 could not be confirmed.

5. Unsupported Deposits and Retentions

The statement of assets as at 30 June 2015 shows a deposits and retentions balance of Kshs.32,965,584. However, schedules provided showed a total of Kshs.39,587,226, resulting to unexplained and unreconciled balance of Ksh.6,621,642. Further, apart from the register that was maintained at the cash office, there was no ledger maintained to record the movement of the balances during the year. Consequently, the accuracy of deposits and retentions balance of Kshs.32,965,584 as at 30 June 2015 could not be confirmed.

6. Accounts receivable

(a) Outstanding Arrears of Revenue

It was noted that the County Government of Kirinyaga had outstanding arrears of revenue amounting to Kshs.163,863,784.54 as at 30 June 2015 as follows:-

SUB COUNTY	Revenue Arrears (Kshs)
Kerugoya Kutus (Former Municipal Council of Kerugoya Kutus)	51,787,100.54
Kirinyaga (Former County Council of Kirinyaga)	89,873,942.00
Sagana/Kagio (Former Town Council of Sagana)	22,202,742.00
Total	**163,863,784.54**

It was not possible to establish for how long the arrears of revenue remained uncollected in absence of debtors ageing analysis.

Further, it was noted that the records for arrears of revenue at Sagana/Kagio were not up to date, record of arrears of plot rent provided showed arrears as at 1 January 2014 of Kshs.14,023,302 and record of defaulters of plot rent, market stalls and bus park stalls showed defaulters as at 31 December 2014 of Kshs.8,179,440. The status of the arrears of revenue between 1 January 2014 to 30 June 2015 could not be established in absence of supporting schedules and analysis.

In the absence of a clear analysis of the arears, the County revenue may never be collected. Further, the County revenue and enforcement officers may take advantage of this apparent laxity in collection of the arrears to divert the same to their own use.

7. Commitments/Pending Bills

As at 30 June 2015, the County Government had Kshs.137,381,228 outstanding bills from various departments. Further, these bills were not supported with the relevant invoices, contract agreements or list of creditors. It was also established that no equivalent amount was in the bank. The County Government did not explain how the pending bills will be cleared. Further, no reason was provided for failure to clear the bills. In the circumstances, the propriety of these debts could not be confirmed.

8. IFMIS – Operations

8.1 Accounts not Configured to IFMIS

The County Treasury did not post exchequer receipts amounting to Kshs.3,097,237,885 and other receipts of Kshs.317,775,726 to the IFMIS system since the County Revenue Fund (C.R.F) and different commercial bank accounts were not configured in I.F.M.I.S. The following bank accounts had not been created in IFMIS system:-

Bank	Account name	Account Number
Central Bank of Kenya	County Revenue Fund(C.R.F)	10001700433
Kenya Commercial Bank(KCB)	Recurrent account	1140791605

Cooperative Bank of Kenya	Development Account	01141273895600
Cooperative Bank of Kenya	Recurrent account	01141567202401
National Bank of Kenya	Development Account	0112003493700
Cooperative Bank of Kenya	Recurrent account	01141567073501

Further, the County Government was not using the cash module of IFMIS in carrying out auto reconciliations on a regular basis to an extent that transactions related to these accounts were not posted to the system.

8.2 Unreconciled Balances to the IFMIS

The figures reported in the financial statements do not agree with the figures in IFMIS as follows:-

Details	Amount as per the financial statements Kshs.	Amount as per the IFMIS Kshs.	Difference Kshs.
Receipts	3,415,013,611	-	3,415,013,611
Payments	3,377,616,634	3,237,233,221	140,383,413
Financial assets	703,764,574	-	703,764,574
Opening balance	633,402,013	-	633,402,013

The management did not provide explanations for these differences.

Consequently, the accuracy of the financial statements could not be confirmed.

8.3 Erroneous IFMIS Budget

A review of the budgets of the Department of Environment and Natural Resources and Department of Education and Youth Affairs, revealed that the budget as per IFMIS differed from the approved budget provided for audit as analyzed below; therefore the County Government was using wrong budget balances in monitoring the two ministries expenditure status.

Department	Budget as per the IFMIS Development status report (Kshs).	Approved budget (Kshs)	Difference (Kshs.)
Environment and Natural Resources	463,626,973	344,819,870	118,807,710
Education and Youth Affairs	230,678,801	121,776,851	108,901,950
Total	**694,305,774**	**466,596,721**	**227,709,660**

The County Treasury did not adequately monitor, evaluate and oversee the management of public finances and economic affairs of the County Government.

9. Prior Year Audit Matters

The following audit issues were raised in the previous year and they had not been conclusively addressed by 30 June 2015.

a) Failure to include the assets and liabilities from Defunct local authorities in the financial statements;

b) Unreconciled and unrecorded revenue balances;

c) Failure to maintain cash books, bank reconciliations and unreconciled cash and bank balances;

d) Compensation of employees namely unexplained variance, omitted ward staff wages and unpaid deductions;

e) Unreconciled expenditure balances;

f) Failure to disclose key information in the financial statements.

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 represent fairly, the financial position of the County Government of Kirinyaga 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 does not comply with the Public Finance Management Act, 2012.

Other Matter

1.0 Budget Performance Analysis

1.1 Overall Analysis

During the year under review, the final approved budget for Kirinyaga County Government was Kshs.4,101,590,326, comprising of recurrent expenditure of Kshs.2,534,893,988(62%) and development expenditure of Kshs.1,566,696,338 (38%) as follows:-

Item	Final Budget 2014/2015	Actuals as per financial statements	Budget utilization	% of total expenditure
Expenditure				
Development	1,566,696,338	1,070,759,261	68%	31%
Recurrent	2,534,893,988	2,306,857,373	91%	69%
Total	**4,101,590,326**	**3,377,616,634**	**82%**	

The absorption rate for development and recurrent expenditure was 68% and 91% respectively as shown above. No reason or explanation was given for the low absorption rate for development expenditure.

1.2 Under-Collection of Revenue

During the year under review, the approved budget for development and recurrent expenditure for Kirinyaga County Government of Kirinyaga was Kshs.4,101,590,326. The County had projected to collect revenue amounting to Kshs.4,101,590,326. However, the County realized revenue totaling Kshs.3,415,013,611 hence resulting to revenue shortfall of Kshs.686,576,715 or 17% of the budgeted revenue.

The shortfall of Kshs.686,576,715 was mainly from local sources as tabulated below:-

Receipts	Budget (Kshs)	Actuals (Kshs)	Under collection (Kshs)
	2014/2015	**2014/2015**	**2014/2015**
Exchequer Releases	3,097,237,885	3,097,237,885	
Other Receipts			
Receipts from Administrative Fees and Charges	422,454,650	309,539,919	112,914,731
National Bank of Kenya Tree Planting Grant	2,255,000	2,255,000	-
World Bank Grant for Health Sector Services (HSSF)	61,516,959	-	61,516,959
Rolled over funds	518,125,882	5,980,807	512,145,075
Total (Kshs.)	**4,101,590,326**	**3,415,013,611**	**686,576,715**

1.3 Overall Budget Performance on Development Expenditure

During the year under review, the County Government had budgeted to implement 601 projects. However, the projects implementation status report for the County as at 30 June 2015, showed a total of 297 projects were implemented while 304 projects were not implemented as per the project budget as shown below:-

Ministry	No of projects budgeted	No of projects implemented	Actual expenditure	Budgeted amount	Under expenditure
County Assembly	4	1	8,144,457	50,739,260	(42,594,803)
Office of the Governor	1	1	93,099,828	100,000,000	(6,900,172)
Finance and Economic planning	1	1	3,432,528	50,000,000	(46,567,472)
County Health Services	126	24	86,351,262	314,473,914	(228,122,652)
Education, Youth affairs and social programme	126	68	86,854,346	121,776,851	(34,922,505)
Agriculture	14	4	37,537,992	55,448,538	(17,910,546)
Culture and Social services	21	8	9,902,599	29,872,769	(19,970,170)
Trade development and regulations	28	11	8,014,495	66,688,470	(58,673,975)
Environment and Natural Resources	195	95	328,235,880	344,819,869	(16,583,989)
Physical planning and development	5	4	22,655,935	75,586,822	(52,930,887)
Transport and infrastructure	180	80	246,277,356	357,289,845	(111,012,489)
Total	**601**	**297**	**930,506,678**	**1,566,696,338**	**(636,189,660.)**

The following were the audit observations:-

(a) Audit verifications revealed that out of the 24 projects implemented in the County Health Services in 2014/2015 financial year, only 4 projects were allocated sufficient funds. For instance, the contract sum for Kabuti Dispensary Block project was Kshs.12,992,568 but Kshs.2,200,000 was allocated to the project which translated to 17% of estimated cost of the project. Another project that was underfunded was Njuki Dispensary whose contract sum was Kshs.12,980,968 but funds allocated to the project amounted to Kshs.1,000,000 which translated to 8% of the estimated cost.

(b) It was also noted that some of the projects in the county health services that were started in the financial year 2013/2014 were not funded in 2014/2015 such as Thigirichi Mukui, Kinyaga, Kangu and Sagana Sub County Hospital borehole leaving them stalled/abandoned.

2.0 Unexplained Differences

It was noted that there were material differences in the actual development expenditure for all the ministries between the payment registers and the status report both generated from IFMIS as analyzed below:-

Actual expenditure as per the payment register Vis a Vis Expenditure as per the IFMIS development status report			
Ministry	**Actual expenditure as per the IFMIS development status report**	**Actual expenditure as per the payment registers from IFMIS**	**Differences**
County Assembly	8,144,457	8,144,457	-
Office of the Governor	93,099,828	83,999,096	9,100,732
Finance	3,432,528	963,781	2,468,747
Health	86,351,262	81,077,768	5,273,494
Education	86,854,346	83,970,786	2,883,560
Agriculture	37,537,992	31,351,008	6,186,984
Culture and Social services	9,902,599	9,625,569	277,030
Trade	8,014,495	11,665,247	(3,650,752)
Environment and Natural Resources	328,235,880	335,899,099	(7,663,219)
Physical planning	22,655,935	23,091,522	(435,587)
Transport and infrastructure	246,277,356	253,708,484	(7,431,128)
Total	**930,506,678**	**923,496,817**	

No audit evidence was availed on the source of the differences since the report were generated from IFMIS.

The County Treasury did not adequately monitor, evaluate and oversee the management of public finances and economic affairs of the county government.

3.0 Stalled Projects under the Health Department

3.1 Non-Completion of Projects at the Sagana Sub-County Hospital

Physical verifications carried out on 26 September 2015 revealed that there were three incomplete projects at the Sagana Sub County Hospital initiated by the County Government.

The projects were a Mortuary, X-Ray unit and borehole projects. No explanation was provided for this irregularity. The borehole project was initiated and implemented by County Government in 2013/2014 financial year and merely required three (3) phase power supply and piping to operationalize it. It was therefore not clear why new projects were started before completion of the borehole and why the mortuary and the X-ray unit were implemented concurrently yet the available funds were not adequate to complete both projects.

3.2 Failure to Operationalize Completed Health Facilities

The Constituency Development Fund (CDF) undertook projects in the health sector and handed them over to the County Government to be operationalized. However, the County Government has failed to operationalize the projects as follows:

- Seven completed health facilities handed over vide letter dated 24 February 2014 by Kerugoya, Kutus/Kirinyaga Central Constituency Development Funds.

- Kimbimbi Hospital Mortuary handed over by the Mwea CDF which just requires a perimeter wall and a pavement.

- Dispensaries handed over by Kerugoya, Kutus /Kirinyaga Central CDF including Kiamuruga, Ng'aru, Kianderi, Kiawakara, Kiaritha and Kamuiru dispensaries.

The stalled/abandoned projects are subject to deterioration and vandalism. Further, failure to utilize these facilities amounts to waste of public funds.

4.0 Over Funding of Some Projects

Records made available show the County Government issued AIEs for implementation of projects but the amount that was authorized to be spent was in excess of the budget allocation. Examples of overfunded projects included:

- Wamumu Nganga which was allocated Kshs.7,250,000 in the budget but AIEs issued amounted to Kshs.8,820,000;

- Kianjiru was allocated Kshs.5,910,000 in the budget but issued with AIEs amounting to Kshs.8,566,311 and;

- Kabuti Dispensary was allocated Kshs.2,434,030 in the budget but issue with AIEs amounting to Kshs.4,434,483.

Public resources were not utilized efficiently and effectively.

5.0 Un-vouched Expenditure and Inadequate Specifications

5.1 Construction of Mortuaries

According to a letter from the County Executive Committee member for Health Ref MOH/CEC/VOL.1/(50) dated 27 January 2014, the Health Department intended to construct mortuaries costing approximately Kshs.4,000,000 each at the Sagana and Kianyaga Sub-County hospitals during the year. However, records made available indicated that the cost of project went up from Kshs.4,000,000 to Kshs.17,745,192.80 and Kshs.17,917,690.06 for the Kianyaga and Sagana Sub-County Hospital Mortuaries respectively. However, no reason was provided to explain the escalation cost of these projects.

Further, no bill of quantities were provided to show the engineers estimated cost of the project. Also no certificates, inspection and acceptance report were availed for audit verification.

The projects had stalled as at 30 June 2015 and the contractor was not at site.
In addition an expenditure of Kshs.6,828,124 had been incurred for the Kianyaga Sub-County Hospital Mortuary while Kshs.6,963,395 was incurred on the Sagana Sub-County Hospital Mortuary as at 30 June, 2015.

5.2 Construction of X-Ray Units Rooms

The contracts for construction of X-Rays units at Kianyaga and Sagana Sub-County Hospitals were awarded to the lowest evaluated bidders as follows:-

Project	Contract Sum Kshs.
Kianyaga Sub-County Hospital X-Ray Unit	7,697,290.00
Sagana Sub-County Hospital X-Ray Unit	7,628,485.00

As at the time of audit, an amount of Kshs.6,605,420 had been paid to the contractor for the Kianyaga Sub-County Hospital X-Ray unit, whereas Kshs.5,997,270 had been paid for the Sagana Sub-County Hospital X-Ray unit.

Physical verification revealed that the specifications of the proposed X-Ray units under construction at Sagana Sub County Hospital and Kianyaga Hospital were inadequate.

The rooms were too small and could not accommodate the expected X-Ray equipment's and some walls had to be demolished to accommodate the equipment. The technical specifications of the projects were also inadequate. Consequently, the County Government might not have gotten value for money.

6.0 Direct Procurement

The County Government of Kirinyaga entered into a contract on 21 May 2015 with Technical University of Kenya to prepare the County Spatial Plan at a contract sum of Kshs.32,000,000. However, the following anomalies were noted:

(a) Advertisement of a notice inviting expressions of interest was not done and the University was single sourced thus denying other willing and able consultants both in the public and private sector an opportunity to express their interest.

(b) The direct procurement method was used instead of request for proposals since the service was advisory or more intellectual in nature. Further, no evidence was presented to prove that only Technical University of Kenya had the capacity to prepare the spatial plan.

(c) The contract sum of Kshs.32,000,000 solely depended on the budget presented by the Technical University of Kenya and there was no evidence that price adopted was competitively established since technical and financial evaluation was not done.

The contract period was supposed to be 16 weeks and therefore the preparation of the County Spatial Plan should have been completed by end of September 2015. As at the time of audit in October 2015, only the inception report had been submitted by the Technical University of Kenya. Digital GIS based existing land use map had also been done but imagery was not included. As at 30 June 2015, the County had paid a total of Kshs.10,000,000 vide payment voucher 4869 dated 16 June 2015.

In the circumstances, it could not be confirmed whether the cost of Kshs.32,000,000.00 represented fair pricing for the preparation of the county spatial plan and whether the County Government got value for its money on this contract.

7.0 Delay in Supply of Survey Equipment

The County Government placed a Local Purchase Order (LPO) no. PO 0710700 dated 16 April 2014 with a firm for supply of survey equipment.

According to quotation reference number KCG/SCM/MLHD/01/2013/2014, the supplier should have supplied the items within 6 weeks but took 5 months to make partial delivery. Dyline plan printer and plotter AO size were delivered on 28 October 2014 and paid Kshs.1,583,500 on 28 November 2014, while modern plani-meter was delivered on 24 October 2014 and paid Kshs.181,550 on 29 January 2015. Modern GPS and Arch GIS Software were not delivered. It was noted that the supplier vide letter dated 17 June 2014 requested for extension of delivery period since he had made an international order from Italy.

The supplier therefore took a long period to supply the equipment due to lack of capacity to supply survey equipment.

Award of contract to a supplier who was not a dealer of the required items and therefore lacked the capacity to supply the required equipment resulted in delays and failed delivery of the equipment.

8.0 Direct Procurement of Non-Pharmaceutical Items

Records show the Department of Health procured items worth Kshs.2,191,900 from a firm through direct procurement and failed to request for quotations during the time of their procurement. The items procured were as follows:-

Item	Quantity	Unit Price Kshs.	Value Kshs.
3 Functional Hospital Bed with Mattresses	5	160,000	800,000
Stretcher	1	97,800	97,800
Delivery Packs	5	170,000	850,000
Baby Cot With Mattress	2	100,000	200,000
Window Curtains	10	15,000	150,000
Pillows	10	650	6,500
Partitioning Curtains	5	15,450	77,250
Mackintosh Roll(50m)	1	10,350	10,350
Total			**2,191,900**

There was therefore no competition in the procurement of these non-pharmaceutical items. The County Government was in breach of procurement rules and regulations.

9.0 Irregular Procurement of Cabro Works

During the year under review, the County Government proposed to undertake cabro works at the Kerugoya market at an estimated cost of Kshs.9,700,000. The estimate was given by Chief Officer Transport, Roads and Public Works vide letter dated 9 March 2015.

Records show the County Government invited ten(10) contractors to tender from the standing list of registered tenderers maintained by the County Government. The tenders were opened and evaluated on 1 and 2 April 2015 and recommendation made that Cadama Builders Limited be awarded the contract at a cost of Kshs.9,504,840.80. During award of the tenders on 9 April 2015, the tender award committee, however deferred, the award of the contract due to a concern by the Chief Officer –Transport Road & Public Works which indicated that the project estimated cost was Kshs.7,285,320 vide his letter dated 9 April 2015 and the amount of Kshs.9,599,188 quoted by Cadama Builders Limited exceeded the estimated cost by 31.8% which was above the allowable limit of 10%. The chief officer requested for the works to be retendered again. The Chief Officer – Roads in another letter dated 27 April 2015 gave yet another estimate of Kshs.9,700,000. After retendering, the contract for the works

was again awarded to Cadama Builders Limited at a cost of Kshs.9,504,840.80 on 15 May, 2015.

It was therefore not confirmed why the Chief Officer- Transport and Infrastructure gave out three engineer's estimates of Kshs.9,700,000, Kshs.7,205,320 and Kshs.9,700,000. Further, based on the above, it was noted that there was no properly costed bill of quantities which could have guided the procurement process. Other audit issues noted were as follows:-

(i) Copies of bids attached to payment voucher were not signed by tender opening committee members meaning they were accessed before tender opening date.

(ii) After deferring the first tender because the tenderer quoted higher amount than the engineer's estimate, the BQ was revised and the same tenderer quoted almost the same amount quoted in the first tender. It was probable that the Contractor was privy to the budgeted cost of the project.

Physical verification of the project revealed that works were poorly done and the amount of money spent not worth the works done hence there was no value for money. It was noted that the cabro was falling off at the edges due to lack of concrete binding while in other areas, the cabro was sinking and uneven due to substandard work during base formation.

As a result of the above, there is likelihood that the project award process was highly compromised and therefore the County Government could not have achieved value for money.

10. Unaccounted for Fuel

The County Government through the Department of Transport and Infrastructure purchased fuel worth Kshs.14,997,869. However, no fuel register was maintained to control and account for the receipt, custody and issue of the fuel that was purchased. In the absence of fuel registers and fuel control system, the propriety of the expenditure on fuel amounting to Kshs.14,997,869 could not be confirmed as a correct charge to public funds.

11. Unprocedural Procurement Through Cash Purchases

The County Executive was operating the Kirinyaga County Operations Account to cater for imprest requirements for different Departments. During the year, the Executive transferred into the bank account cash receipts of Kshs.67,740,000.00 from the recurrent account at the Central Bank of Kenya.

However, it was noted that the Department procured goods and services through imprests and this was against National Treasury circulars Ref AG.20/047 Vol.9 (89) dated 26 November 2013.

Further, it was noted that the procurement unit was not being involved in the procurement of goods and services since the purchases were being done by the Department without raising requisitions to the procurement office for procurement of goods and services. Consequently, the propriety of the expenditure could not be confirmed as a correct charge to public funds due to non-adherence to the laid down rules and regulations on procurement.

12. Irregularities in the Management of the Bursary Fund

The County Government of Kirinyaga disbursed a total of Kshs.63,000,000 in 2014/2015 in respect of bursaries to the twenty wards within the County with each ward getting Kshs.3,150,000. The funds were managed by bursary ward committees. The following issues were noted:-

(i) There was lack of sufficient bursary guidelines, procedures and processes to ensure efficient and effective management of the bursary fund. Issues that have not been adequately addressed included; the minimum amount that could be awarded as bursary and how to determine the amounts to be awarded to students in different institutions.

(ii) Acknowledgement letter or receipts from beneficiaries' schools and institutions were not produced for audit review.

(iii) A list of beneficiaries for bursary awarded to adult education students disbursed from Kabare ward and Baragwi ward was not availed for audit verification. These bursaries awarded to adult education students totaled Kshs.193,900.

Under the above circumstances, it was not possible to ascertain that the funds were used for the intended purposes.

13.0 Human Resource Audit

13.1 Lack of Approved Staff Establishment

Contrary to the requirements of Section B 5 (2) and Section B 6(3) of the County Public Service Human Resource Manual and Transition Authority Circular Ref No TA/2 dated 18th December 2013, Kirinyaga County did not have an approved staff establishment and therefore optimal staffing levels for all cadre of staff have not been established.

The basis for declaring vacancies, advertising and subsequent recruitment could therefore not be established.

13.2 Exceeding Budgetary Allocation

The County Government of Kirinyaga requisitioned Kshs.1,783,014,036 from Central Bank to pay salaries while the approved budget on salaries, wages and allowances

paid as part of salary amounted Kshs.1,610,932,090 resulting in excess requisitions amounting Kshs.172,081,946.

It was also noted that the amount requisitioned on salaries to pay ECDE teachers which amounted to Kshs.151,000,000 was far much higher than actual salaries paid to ECDE teachers of Kshs.48,776,786.00

Requisitioning funds allocated for other budgeted items to pay salaries results in slow implementation of budgeted projects and other developmental actitivities.

13.3 Payment of Salaries Outside the IPPD

Manual payment vouchers and supporting schedules availed revealed salaries amounting to Kshs.220,148,067 were paid outside the IPPD payroll. This included salaries paid to E.C.D Teachers, Youth Polytechnic Instructors, ESP staff, clinical officers, doctors, salary arrears of the defunct County Council of Kirinyaga, defunct Town Council of Sagana staffs and some County Assembly staff. As at 30 June 2015, 362 officers in the County Executive were being paid through manual system.

The salaries paid outside IPPD payroll may not be included in the financial statements. Also statutory deductions might also not be effected on salaries paid outside IPPD payroll. Further, payment of staffs outside the IPPD payroll distorts the determination of national wage bill which is crucial for planning purposes by the National Government.

13.4 Failure to Remit Statutory Deductions

Audit verification carried out revealed that the county failed to remit PAYE amounting Kshs.7, 703,023 deducted from salary arrears paid to defunct local authorities staff and paid through the manual system and Local Authorities Provident Fund(LAPROFUND) deductions amounting to Kshs.6,908,496.50, comprising of Kshs.3,909,038 for 2014/2015 and Kshs.2,999,458.50 for the period 2013/2014 and earlier year.

Additionally, as at 7 July 2015, the County Government owed LAPTRUST Kshs.23,744,230 which comprised of actuarial deficit and principal balance brought forward as at 31 March 2013.

Failure to remit statutory deductions attracts penalties and interest which result in wastage of public funds through nugatory payments which can be avoided.

13.5 Breach of Employment Act on the Employment of Casuals

During the period under review, the Department of Environment, Water and Natural resources incurred expenditure amounting Kshs.8,372,200.00 to pay casuals for cleaning various markets.

Examination of supporting documents revealed breach of Section 37 (1) (b) and (c) of Employment Act Chapter 226 Revised 2012 and Section B16 (1) of County Public Service Human Resource Manual since the County continuously engaged cleaning

staff on casual basis for a period of more than three months yet this was not a short term assignment expected to be completed soon. Further, report from the Ministry of Water and Irrigation dated 21 September 2015 reveal the department had 107 casuals as at 30 June 2015 and also indicated that most of the casuals have been engaged since 2013 and 2014. As at 30 June 2015, the Ministry of Health had engaged several casuals of which their number and the salary paid during the year under the audit was not availed for audit verification. As a result the casuals may petition the Court to be engaged permanently or petition for compensation which would involve huge cash outflow and which eventually will be a financial burden to the County Government.

13.6 Payroll Audit

During the year under review, Kirinyaga County used both the IPPD and manual Payroll to process salaries. The findings are as follows:-

13.6.1 Logical Access Rights

A scan of a list of IPPD users and their roles revealed that the system manager had been granted both staff register and payroll roles, in addition to the system manager role thus violating the principle of segregation of duties.

13.6.2 Sharing of Bank Accounts

Analysis of the bank remittance for salaries for the month of June 2015 revealed fourteen(14) employees sharing bank accounts as shown below:-

Payroll Number	Name	Agent Type	Agent Code	Branch Code	Account Number	Amount Kshs.
19810003617	Mrs Gichanga Elizabeth Wandam	307	99	187	227102492	36,074.80
19820000486	Miss Gachoki Esther Wambui	307	99	187	227102492	13,855.80
19870006947	Ms Ngatia Monica Nyaguthi	307	99	187	227102617	38,692.80
19870007542	Mrs Gathumbi Eunice Wangechi	307	99	187	227102617	35,035.20
19850002818	Mr. Muriithi Obadiah Mwangi	307	99	187	227102680	38,785.20
19860004959	Ms Mugambi Pauline Wangechi	307	99	187	227102680	46,055.65
19870001899	Mr. Ngondi Robert Jeremiah	307	99	187	227102698	9,429.80
19940010837	Mr Ngondi Ephantus Karani	307	99	187	227102698	12,899.40
19760000299	Mrs Gathu Beatrice Njeri	307	99	187	227102708	37,029.60

	Beatrice Njeri					
19780002842	Mr Njeru Stephen Njiine	307	99	187	227102708	25,043.00
19870006910	Mrs Ndiga Margaret Wangui	307	99	187	227102745	38,692.80
19880001954	Mrs Ndiga Mary Wairimu	307	99	187	227102745	37,645.60
19980000584	Mr Kinyua Simon Mwangi	307	99	187	227102931	21,381.20
20000000448	Mr Mbui John Muthike	307	99	187	227102931	31,321.60

With sharing of bank account, there is possibility of fraudulent payment to people who are not employees of the County.

13.6.3 Double Payment of Salaries

Comparison of the payroll data from IPPD and manual systems revealed that seventy one (71) staff members were paid using the two payrolls thus resulting in double payment. The staff were paid an additional Kshs.1,320,763 despite having been paid through IPPD. This resulted in misappropriation of public funds.

13.6.4 Invalid Payments of Arrears

An employee received arrears for three consecutive months totaling Kshs.178,655. However it was not possible to establish the basis of the arrears as the authorizations of the same was not in his personal file. As a result, the county might have lost public funds.

14.0 Pending Bills

The County Government incurred Kshs.104,704,194.00 as pending bills during the year. Kirinyaga County Executive had pending bills balance of Kshs.58,632,881.00 while the County Assembly had a balance of Kshs.46,071,313.00. A balance of Kshs.27,404,309.00 related to unpaid bills for drug supply by KEMSA. There is likelihood of the pending bills affecting the subsequent financial year budget implementation since the County Government will be forced to clear the pending bills before embarking on the execution of the subsequent years projects.

15.0 Irregular Payments to Council of County Governors

The County Government of Kirinyaga paid a total of Kshs.12,500,000 to the Council of Governors for various purposes. However, there was no basis for making the said payments based on the Section 37 of the Intergovernmental Relations Act 2012, since the funding of the institution was being catered for by the National Government. Further, it was noted that no receipts were issued to acknowledge that payments were actually made. In addition, the basis upon which the amount was computed and paid was not established. Consequently, there is possible loss of public funds.

16.0 Revenue Management

16.1 Weakness in Revenue Collection and Management System

The County Government of Kirinyaga procured a revenue collection and management system from African Banking Corporation Bank. The contract between the County Government of Kirinyaga and ABC bank was signed on 28 December 2014 and the contract period was four (4) years. However, the following issues were noted:-

i) The charges for provision of the revenue collection and management service were Kshs.50,000,000 per annum or 7.5% of the revenue collected whichever was higher. The County Government of Kirinyaga was expected to pay Kshs.50,000,000 as minimum charges regardless of revenue collected during the period.

ii) As at the time of audit, ABC bank had collected Kshs.67,655,657 out of which Kshs.66,127,652 was transferred to CRF and Kshs.1,528,005 was the balance in the account as at 12 October 2015.

iii) Schedule 3 of the contract states that the charges were to be invoiced annually; however ABC bank invoiced the County Government of Kirinyaga on 20 April 2015 only four months after the contract was signed. The invoice was for Kshs.22,079,715 being part payment on development and maintenance charges for the year, this was despite the fact that ABC bank had not delivered or operationalized the revenue collection and management database.

iv) ABC bank did not adhere to the rollout plan as set out in annexure 1 of the contract. In annexure 1 some of the key milestone dates set out were; data migration (migration of data from LAIFOMS to the new system) by 28 February 2015, testing by 15 June 2015 and deployment of the system by 30 June 2015. None of these have been achieved.

v) It was noted that the intellectual property rights to the software for the revenue collection and management system were owned by Techno Brain Limited and not by the County Government of Kirinyaga or by ABC bank with whom the County Government has entered into an agreement. Techno Brain Limited owns the intellectual property rights to the software and has commercially licensed the software to ABC bank. The County Government of Kirinyaga has not entered into any contract with Techno Brain Limited the company that owns the software.

vi) It was noted from the ABC bank statements that there was an amount of Kshs.923,849 debited from the account on 30 June 2015, the money debited was described as recovery of March 2015 transactions. Further it was noted that this money was not transferred to the County Revenue Fund (CRF) as it did not reflect in the CRF bank statements.

vii) The contract agreement did not take into account the revenue collected by the units that were devolved from the National Government (Health facilities) and how this revenue will be captured by the revenue collection system.

The County Government of Kirinyaga may not be getting value for money for the revenue collection and management service from ABC bank.

16.2 Lack of Cash Book at the County Treasury (System)

The Kirinyaga County Revenue Office did not maintain a cash book for recording the revenue collected from the sub counties as well as other revenue collected on behalf of Kirinyaga County.

The lack of a revenue cash book demonstrates that proper accounts relating to revenue are not maintained which contravenes the Public Finance Management Act 2012.

16.3 Lack of Bank Reconciliations for Revenue Collections

All the revenue collected within the County from the various collection points in the sub counties is banked in Kirinyaga County's revenue collection accounts. However, it was noted that no reconciliation of the revenue collection accounts was done at the Kirinyaga County Revenue Office. The County Government was therefore in breach of the law.

16.4 Unsupported Exemptions Related to Patients

Patients under the age of five years, prisoners and persons living with disabilities are exempted from paying for hospital bills. Exemptions for the whole period amounted to Kshs.8,905,744.00. These were however not supported by copies of hospital bills. The only document availed was a register that was poorly maintained. It was therefore not clear whether the patients were procedurally exempted from paying for their hospitals bills.

16.5 Unauthorized Waivers

Kerugoya County Referral Hospital waived a total of Kshs.2,931,010 to the less fortunate patients during the year. The committee did not hold any meetings as required by hospital regulations in order to assess and approve the waivers and therefore the waivers were irregularly authorized.

The waivers exposed the County Government to loss of funds due to weak internal control systems on management of waivers.

16.6 Variance Between Revenue Collected and Bankings

It was noted that during the 2014/2015, Kerugoya County Referral Hospital bankings of revenue were more than the revenue collected by Kshs.183,183. This indicates that there are weak internal control in collection and recording of revenue at Kerugoya County Referral Hospital.

The overbanking indicates that there was revenue that was collected but which was not receipted in the system or manually.

16.7 Under banking

LAIFORMS is configured so as to record revenue collection, and banking. A reconciliation of revenue collected and banking for the year revealed an under banking of Kshs.172,587, 780.00 as shown in the table below:-

Under Banking		
Period	**Particulars**	**Amount (Kshs.)**
1 July 2014 – 30 June 2015	Receipts Issued	222,353,958.00
1 July 2014 – 30 June 2015	Direct Banking	49,766,178.00
Difference		**172,587,780.00**
1 July 2014 – 30 June 2015	Bank Listing	-
	Under banking as at 30 June 2015	172,587,780.00

Failure to bank revenue and make reconciliations on time may create opportunities for misappropriation.

16.8 Variance of Reported Revenue Figures

The total revenue collections as per the county LAIFORMS system totaled Kshs.222,353,958. A comparison of this figure with the one from revenue and finance department revealed a variance of Kshs,6,888,819.00 and 87,185,960.51 respectively as shown in table below:-

Reported Revenue F/Y 2014/15					
Area	**LIFORMS (A)**	**Revenue (B)**	**Finance Dpt (C)**	**Variane (A –B)**	**Variance (A – C)**
Kirinyaga Central	133,658,655.00	136,415,284.00		-2,756,629.00	
Sagana-Kagio	38,889,498.00	38,893,258.00		-3,760.00	
Kerugoya-Kutus	49,805,805.00	53,934,234.00		-4,128,430.00	
Totals	**222,353,958.00**	**229,242,777.00**	**309,539,918.51**	**-6,888,819.00**	**-87,185,960.51**

- The mismatch of revenue figures may create opportunity for embezzlement of collected revenue.

- The revenue as presented in the financial statements may be overstated

17.0 Policy Issues

Lack of Audit Committee

During the financial period under review, the County Internal Auditor did not have a committee to report to and was addressing reports to the County Secretary. The findings of the Internal Audit could not be enforced in order to ensure that the County management have put in place internal controls relevant to address risks.

18.0 Prior Year Audit Issues

The following audit issues were noted during the previous year audit and the recommendations has not been implemented to date:-

i. Incomplete books of accounts;
ii. Irregular procurement of spot improvement service of road;
iii. Flaws in procurement procedures-Kimbimbi District Hospital;
iv. Doubtful expenditure on shooting of a documentary;
v. Doubtful expenditure for culture, social services, gender and sports to facilitate KICOSCA games in Nairobi;
vi. Unaccounted for miscellaneous receipts;
vii. Lack of bank reconciliations on revenue banking account;
viii. Unutilized development fund for infrastructure in health centres and uncontrolled petty cash withdrawals;
ix. Unsurrendered imprests;
x. Human resource management;
xi. Staff head account audit
xii. Unpaid dues;
xiii. Payment of salaries outside IPPD payroll;
xiv. Unsupported statutory deductions;
xv. Weaknesses in human resource management; e.g. Lack of organization structure;

xvi. Non-current assets-Flawed procurement procedures on procurement of two motor graders;

xvii. Bursary awards;

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

NAIROBI

20 September 2016