REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF KITUI

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 KITUI FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Kitui set out on pages 6 to 57, which comprise the statement of assets as at 30 June 2015, and the statement of receipts and payments, statement of cash flows, statement of appropriation 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 for 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 adverse audit opinion.

Basis for Adverse Opinion

1.0 Budget and Budgetary Control

During the year under review the County government approved a budget of Kshs.9,569,719,519 which constituted recurrent budget of Kshs.4,480,576,740 (47%) and development budget of Kshs.5,089,142,779 (53%). Revenue in form of appropriation in aid was budgeted for at Kshs.650,000,000.

1.1. Over Expenditure

An analysis of the supplementary appropriation status report for the year under review showed that the budgets of 25 individual items/sub votes was overspent by a total of Kshs.40,395,185 **(Appendix 1)**.

The expenditure on non-residential buildings and the other infrastructure and civil works had not been budgeted for in the final approved budget but had an accumulated expenditure of Kshs.7,968,380. It was therefore not explained from what source and authority the funds were committed on the two items.

1.2 Unbudgeted Expenditure

The health facilities in the County spent a total of Kshs.36,924,650 directly from the revenues collected internally as follows:-

Health Facility	Amount (Kshs.)
Ikanga Hospital	340,145
Migwani Hospital	1,275,848
Tseikuru Hospital	1,075,625
Kauwi Hospital	601,049
Mutito Hospital	453,680
Kitui Hospital	17,594,103
Kyuso Hospital	342,930
Katulani Hospital	386,837
Nuu Hospital	145,670
Mwingi Hospital	14,559,103
Kanyangi Hospital	149,660
Total	**36,924,650**

The expenditure of Kshs.36,924,650 was not included in the approved budget for the 2014/2015 financial year. Further, it was irregular to spend revenue at source.

In the circumstances, the County did not contain its expenditure within the approved expenditure ceilings to deliver its planned services to the county residents.

1.3 Development Budget

Kitui County Government development budget was Kshs.5,089,142,779 while the total expenditure as at 30 June 2015 as recorded in the expenditure status report for the year under review was Kshs.2,964,753,279 and an additional Kshs.54,098,284 in relation to the County assembly which had not been keyed in the IFMIS system. Thus the total expenditure was Kshs.3,018,851,563. This was an absorption rate of 59%. The break down into the various ministries and departments together with the accumulated expenditures as 30 June 2015, is as indicated in the table below and in **(Appendix 2).**

Development Expenditure-Departmentalize

Department	Approved Budget (Kshs.)	Cumulative Expenditure (Kshs.)	Variance (Kshs.)	Absorption Rate
Kitui - Finance And Economic Planning	59,362,375.25	50,769,628	8,592,747.25	86%
Kitui - Basic Education, Training And Skills Development	195,683,589.25	149,242,991	46,440,598.25	76%
Kitui - Agriculture, Water And Irrigation	925,497,312.25	675,445,349	250,051,963.25	73%
Kitui - Environment, Energy And Mineral Resources	275,469,491	198,599,759	76,869,732	72%
Kitui - Lands, Infrastructure And Urban Development	1,419,135,918.50	880,286,863	538,849,055.50	62%
Kitui - Culture, Youth, Sports And Social Services	140,396,170.50	85,583,734	54,812,436.50	61%
Kitui - Trade, Industry And Cooperatives	301,755,346	179,513,888	122,241,458	59%
Kitui - Office Of The Governor	902,474,030	469,053,320	433,420,710	52%
Kitui - County Assembly Service Board	164,169,853.25	77,490,787	86,679,066.25	47%
Kitui - Health And Sanitation	552,862,643	211,856,196	341,006,447	38%
Kitui - Natural Resources And Tourism	31,500,000	9,728,987	21,771,013	31%
Kitui - Administration And Coordination Of County Affairs	120,836,050	31,280,061	89,555,989	26%
Grand Development Totals	**5,089,142,779**	**3,018,851,563**	**2,070,291,216**	**59%**

The following additional issues were noted:-

i. Four (4) departments had absorption rates below 50% with the department of administration and coordination of County affairs having the least overall absorption rate of 26%. The under absorption in this department is mainly

contributed by not spending Kshs.90,000,000 meant for other infrastructure and civil works as only Kshs.19,924,561 was spent.

ii. Further, analysis of the development budget revealed there were four major components which cumulatively had a total budget of Kshs.3,864,673,897.75 which was 76% of the total development budget as shown below:-

Program	Approved Budget (Kshs.)	Cumulative Expenditure (Kshs.)	Absorption Rate %
Other Infrastructure and Civil Works	2,349,359,358	1,295,137,278	55%
Non-Residential Buildings (offices, schools, hospitals, etc)	568,286,833.25	231,446,248	41%
Access Roads	522,301,600	479,063,833	92%
Other Capital Grants and Trans	265,106,517.50	-	0%
Scholarships and other Educational Benefits - Secondary Education	159,619,589	116,287,943	73%
Total	**3,864,673,897.75**	**2,121,935,302**	**55**

iii. The budget analyses also revealed that only six components had fully absorbed the budgeted funds, two of which had an over absorption as shown below:-

Program	Approved Budget (Kshs.)	Cumulative Expenditure (Kshs.)	Absorption Rate %
Construction of Roads – Other	15,000,000	19,986,660	133%
Purchase of Drilling Rig	96,000,000	101,872,508	106%
Donations	32,790,000	32,790,000	100%
Purchase of Survey Equipment	6,000,000	6,000,000	100%
Purchase of Generators	1,500,000	1,500,000	100%
Management Support Allowance	1,000,000	1,000,000	100%

Eight (8) components with a total budgeted expenditure of Kshs.332,630,345.50 had no expenditure values hence had zero absorption rates as follows:-

Program	Approved Budget (Kshs.)	Cumulative Expenditure (Kshs.)	Absorption Rate %
Other Capital Grants and Trans	265,106,517.50	-	0%
Purchase of Medical and Dental Equipment	65,329,558	-	0%
Veterinarian Supplies and Materials	1,250,000	-	0%

Purch. of Certified Seeds -	500,000	-	0%
Maintenance of Buildings and Stations -- Non-Residential	200,000	-	0%
Purchase of Computers, Printers and Other IT Equipment	129,270	-	0%
Maintenance of Plant, Machinery and Equipment (including lifts)	100,000	-	0%
Maintenance of Office Furniture and Equipment	15,000	-	0%
Total	**332,630,345.50**	**-**	**0%**

iv. Agriculture, Water and Irrigation – Included in the total department's expenditure of Kshs.675,445,349 was an expenditure of Kshs.101,872,508 in respect to drilling rig which exceeded the budget by Kshs.5,872,508.

v. Lands, Infrastructure and Urban Development - The management of Kitui Town was allocated Kshs.306,906,517.50 which was 22% of the total ministry of lands, infrastructure and urban development budget. However, the absorption rate was only 12.6% as only Kshs.38,561,630 had been spent as at 30 June 2015. The under absorption is adversely affected by not spending Kshs.265,106,518 budgeted for other capital grants and transfers.

vi. County Assembly Service Board - The County Assembly Service Board had a development budget of Kshs.164,169,853 for non-residential buildings composed of, Kshs.125,000,000 for other infrastructure and Kshs.39,169,853 for civil works. A total of Kshs.77,490,787 had been spent representing an absorption rate of 47%.

The development under expenditure of Kshs.3,018,851,563 denied the County residents of Kitui equivalent promised and expected services.

1.4 Recurrent Expenditures

The County's approved recurrent expenditure budget totaled Kshs.4,480,576,740 which was 47% of the total County budget. The budget was further sub divided into 13 major vote heads including the Office of the Governor and the County Assembly. The cumulative expenditure, according to the expenditure status report for the year under review was a total of Kshs.3,935,041,100 which was an overall absorption of 41% resulting to an under expenditure of Kshs.545,535,740 as follows; while a more detailed recurrent budget for all the departments is analyzed in **Appendix 3** attached to this report.

VOTE BUDGET	Approved Budget (Kshs.)	Cumulative Expenditure (Kshs.)	Variance (Kshs.)	Absorption Rate
Vote 1 Office of the Governor	425,742,280	400,477,307	25,264,973	94%
Vote 3 Ministry of Agriculture, Water and Irrigation	372,467,335	302,270,832	70,196,503	81%
Vote 02: Ministry of Administration and Coordination of County Affairs	291,226,408.46	233,512,053	57,714,355.46	80%
Vote 04: Ministry Of Basic Education Training & Skills Development	317,983,751	310,249,993	7,733,758	98%
Vote 05 - Ministry Of Lands, Infrastructure & Urban Development	300,204,470.46	281,525,464	18,679,006.46	94%
Vote 09: Ministry Of Environment, Energy & Minerals Investments Development	42,174,613.60	40,608,688	1,565,925.60	96%
Vote 10: Ministry Of Natural Resources & Tourism	40,499,535.81	35,930,558	4,568,977.81	89%
Vote 12: Kitui County Public Service Board	62,041,108	57,586,045	4,455,063	93%
Vote 06: Ministry Of Health And Sanitation	1,514,666,309	1,361,971,684	152,694,625	90%
Vote 06: Ministry Of Trade, Industry, It And Cooperatives	66,658,142.07	58,967,084	7,691,058.07	88%
Vote 08: Ministry Of Culture, Youth, Sports & Social Services	64,160,175	60,439,860	3,720,315	94%
Vote 011: Ministry Of Finance & Economic Planning	293,623,100	223,025,665	70,597,435	76%
Vote 13: County Assembly Services	689,129,512	568,475,767	120,653,745	82%
TOTAL	**4,480,576,740.40**	**3,935,041,000**	**545,535,740.40**	**88%**

In addition, the following issues were noted:-

i. The overall County recurrent budget absorption was at 88%, with the Ministry of Finance and Economic Planning having the least overall absorption rate of 76% while the Ministry of Basic Education Training and Skills Development had the highest overall absorption rate of 98%.

ii. Cumulatively the salaries to permanent employees had the largest budget allocation of Kshs.2,075,362,458.53, which was 46% of the total recurrent budget.

Other items with huge budgets were those of specialized materials and supplies budgeted at Kshs.343,185,838, Purchase of Vehicles and Other Transport Equipment at Kshs.325,200,000 and Domestic Travel and Subsistence, and Other Transportation Costs at Kshs.176,309,148 while Foreign Travel and Subsistence, and other transportation costs was Kshs.75,726,450.

iii Cumulatively, the following items with a total budget of Kshs.48,716,989 were found not to have been spent namely Government Pension and Retirement Benefits, Social Security, Research and design, rental of assets and overhaul of vehicle and other transport equipment. Therefore, the absorption rate was zero.

Program	Budget (Kshs.)	Expenditure (Kshs.)	Absorption
Government Pension and Retirement Benefits	31,565,123	-	0%
Social Security Benefits	16,569,866	-	0%
Research & Design	302,000	-	0%
Rentals of Assets	200,000	-	0%
Overhaul of Vehicles and Other Transport Equipment	80,000	-	0%
Total	**48,716,989**		

1.5 Office of the Governor

1.5.1 Recurrent

The total recurrent budget for the office of the governor was at Kshs.425,742,280 or 10% of the total County's recurrent budget. The expenditure status report for the year under review showed that the total expenditure was Kshs.400,477,307, thus, Kshs.25,264,973.05 was unspent at the year end as follows:-

Item	Approved Budget	Total Expenditure	Variance	Absorption
Domestic Loans to Individuals and Households	10,000,000	10,000,000	-	100%
Routine Maintenance - Vehicles and Other Transport Equipment	3,574,000	3,574,000	-	100%
Insurance Costs	20,500,000	20,499,999	1	100%
Fuel Oil and Lubricants	8,000,000	7,999,976	24	100%
Communication, Supplies and Services	2,500,000	2,499,100	900	100%
Rentals of Produced Assets	2,800,000	2,769,819	30,181	99%
Purchase of Vehicles and Other Transport Equipment	33,000,000	32,600,000	400,000	99%
Other Operating Expenses	66,500,000	65,232,806	1,267,194	98%
Foreign Travel and Subsistence, and other transportation costs	13,684,870	13,390,405	294,465	98%
Domestic Travel, Subsistence & Other Transportation Costs	10,000,000	9,676,412	323,588	97%

Basic Salaries - Permanent Employees	104,572,500.05	100,637,692	3,934,808.05	96%
Hospitality Supplies and Services	27,750,910	26,458,742	1,292,168	95%
Printing, Advertising, Information Supplies and Services	66,960,000	63,077,488	3,882,512	94%
Training Expense (including capacity building)	18,800,000	17,249,492	1,550,508	92%
Purchase of Office Furniture and General Equipment	12,500,000	11,324,246	1,175,754	91%
Routine Maintenance - Other Assets	2,500,000	2,147,995	352,005	86%
Utilities Supplies and Services	1,100,000	858,039	241,961	78%
Office and General Supplies and Services	5,000,000	2,977,797	2,022,203	60%
Purchase of Specialized Plant, Equipment and Machinery	11,850,000	6,461,439	5,388,561	55%
Specialized Materials and Supplies	1,500,000	776,860	723,140	52%
Refurbishment of Buildings	2,650,000	265,000	2,385,000	10%
Totals	**425,742,280.05**	**400,477,307**	**25,264,973.05**	**94%**

A proportion of 57% of the total expenditure was in three items namely basic salaries- Kshs. 100,637,692, other operating expenses Kshs.65,232,806 and printing advertising information supplies and services Kshs.63,077,488. A proportion of 8% of the total expenditure was incurred on purchase of vehicles and other transport equipment at Kshs.32,600,000. Other items which had major expenditures included the hospitality supplies and services and Insurance costs at 7% (Kshs.26,458,742) and 5% (Kshs.20,499,999) respectively of the total expenditure.

1.5.2 Development

The total development budget for the office of the governor was Kshs.902,474,030, which was 18% of the total development budget for the County. Two major components namely other infrastructure and civil works and scholarship and other educational benefits accounted for 89% of the total departmental budget.

An amount of Kshs.640,287,500 was for other infrastructure and civil works which represented 71% of the total departmental budget.

Another major component was for scholarship and other educational benefits budgeted at Kshs.159,619,589, which is 18% of the departmental development budget. The expenditure status report for the period July 2014 to June 2015 showed that the total development expenditure for the office was Kshs.469,053,320. Hence, developments worth Kshs.433,420,710 were not undertaken as follows:-

Program	Approved Budget	Cumulative Expenditure	Variance	Absorption Rate
Scholarships and other Educational Benefits - Secondary Education	159,619,589	116,287,943	43,331,646	73%
Emergency Relief (food, medicine, blankets, cash grant, tents and other temporary shelter etc.)	8,000,000	7,457,976	542,024	93%
Residential Buildings (including hostels)	15,000,000	12,000,000	3,000,000	80%
Non-Residential Buildings (offices, schools, hospitals, etc..)	32,315,983	21,822,673	10,493,310	68%
Refurbishment of Non-Residential Buildings	32,250,958	6,002,496	26,248,462	19%
Other Infrastructure and Civil Works	640,287,500	301,311,875	338,975,625	47%
Purchase of Police and Security Equipment	7,500,000	2,458,000	5,042,000	33%
Purchase of ICT Networking and Communication Equipment	7,500,000	1,712,357	5,787,643	23%
Total	**902,474,030**	**469,053,320**	**433,420,710**	**52%**

The under - expenditure mainly related to the other infrastructure and civil works as Kshs.338,975,625 of the component was unutilized. A detailed analyses of the budget is in **Appendix 3** attached to this report.

In view of the foregoing, the overall County expenditure budget was not realistic and the County did not contain its expenditure within the approved budget.

1.6.0 Revenue

1.6.1 Revenue Analysis

During the year 2014/2015, the total revenue received amounted to Kshs.434,268,204 (67%) against a target of Kshs.650,000,000 resulting to an under –collection of Kshs.215,731,796. The revenue targets and actuals for the period are as summarized here under with an overall under collection of Kshs.215,731,796 or 33%.

REVENUE SOURCE	TARGET FY14/15	ACTUAL FY14/15	VARIANCE	VARIANCE %
Local Revenues	350,000,000	294,945,539	55,054,461	-16%
Devolved Ministries:				
Ministry Of Agriculture	15,000,000	10,473,105	4,526,895	-30%
Office Of The Governor	80,000,000	10,154,130	69,845,870	-87%
Ministry Of Culture And Social Services	1,000,000	12,000	988,000	-99%
Ministry Of Tourism	100,000	140,900	40,900	41%
Ministry Of Trade	2,000,000	178,231	1,821,769	-91%
Ministry Of Health	144,000,000	113,746,911	30,253,089	-21%

Ministry Of Energy And Minerals	2,000,000	74,000	1,926,000	-96%
Ministry Of Land	55,000,000	4,543,388	50,456,612	-92%
Basic Education	800,000	-	800,000	-100%
Co-Ordination And Administration	100,000	-	100,000	-100%
Total Amount	**650,000,000**	**434,268,204**	**215,731,796**	**-33%**

i. Further, the budget revealed that liquor licensing, renewal and application was budgeted at Kshs.80,000,000. However, only Kshs.10,154,130 was realized leading to a deficit of 87%. The revenue was placed under the department of office of the governor.

ii. The ministry of Lands, Infrastructure and Urban Development (LIUD), had 13 different categories of revenue to be collected. However, out of budgeted revenue of Kshs.55,000,000, only Kshs.4,543,388 of the revenue was realized. The budget was placed as a lump sum figure instead of a budget for each revenue source. It was therefore not possible to estimate the category of revenue from which revenue was not realized.

1.6.2 Un-Disclosed Revenue Receivables

A review of the financial statements revealed that no outstanding revenues were disclosed under 'Other Important Disclosures' on page 25 of the financial statements. However, records made available reflected outstanding revenues from property rates and rents totaling Kshs.18,699,324 in Mwingi Sub County whose supporting schedules were not made available for audit review as follows:-

Zone	Type of Revenue	Amount (Kshs.)
Mwingi	Market Stalls Rent	1,281,220
Mwingi	Property Rates	17,418,104
Total		**18,699,324**

No explanation has been provided for the non-disclosure and the accountability of the recoverable revenue of Kshs.18,699,324.00.

1.6.3 Irregularities in Revenue Collection

i) A review of the revenue collected at the health facilities and Kitui Agricultural Training College (KATC) revealed that a total of Kshs.113,746,911 and Kshs.1,565,760 had been collected at the health facilities and KATC respectively. However, the revenue so collected had not been transferred to the County Revenue Fund as at 30 June 2015 contrary to section 109 of the Public Financial Management (PFM) Act, 2012.

ii) Some 3 hard disks that contained Mwingi revenue collection reports for June to December 2014 were said to have crashed and could not boot. It was therefore not possible to ascertain how much revenue was collected during this period and whether it was included in the financial statements.

In the circumstances, it was not possible to ascertain the accuracy and completeness the total receipts of Kshs.6,961,807,904 reflected in the financial statements as at 30 June 2015.

2.0 Fixed Assets Register

During the year under review, the County Government reflects in the statement of cash flow acquisition of assets worth Kshs.3,209,395,701. However, the fixed assets register was not updated with the year of acquisition of the asset, depreciation rate, accumulated depreciation, asset condition, physical location, identification of the asset, estimated useful life and mode of financing.

Further, the financial statements as at 30 June 2015 did not have an annex of 'summary of fixed assets register' as required by IPSAS (Cash Basis). In addition, no documents were availed for audit review to show that the County had taken possession of the assets owned by the defunct Kitui local authorities.

In view of the foregoing, it was not possible to ascertain the existence, ownership, value, security and location of the County's fixed assets as at 30 June 2015.

3.0 Cash and Cash Equivalents

3.1 Cash and Bank

During the financial year under review, the County government operated 37 bank accounts in five different banks. The financial statements reflected other operating expenses of Kshs.109,622,797 which included bank service commission and charges of Kshs.532,810 and Kshs.98,460 from County Executive of Kitui and County Assembly of Kitui respectively all totaling to Kshs.631,270. The expenditure on this item would have been reduced if the County had operated fewer bank accounts.

In the circumstances, it was not possible to ascertain that the County instituted proper financial management in its banking operations.

3.2 Maintenance of Cash Books

A review of the recurrent, development and revenue collection cashbooks revealed that they were poorly maintained and were not ruled off at 30 June 2015. Further, the recurrent cash book reflected an unexplained cash book adjustment of Kshs.5,663,919. In addition, various receipts in the Recurrent, Development and Revenue bank accounts including Kshs.2,879,543,821 Exchequer receipts were not recorded in the cash books.

In the circumstances, the reliability and accuracy of the cash books balances as 30 June 2015 could not be ascertained.

4.0 Accuracy and Completeness of the Financial Statements

4.1 Unsupported Financial Statement Balances.

The following financial statements balances totaling to Kshs.524,162,664 were not supported by the necessary accounting schedules:-

Component	Kshs
Reimbursements from CBK	49,955,923
Transfers to County Hospitals/Health Centers	3,456,753
Employer Contribution to Staff Pensions Scheme	26,054,968
Domestic Public Non- Financial Enterprises	196,005,000
Temporary Wages	12,207,216
Basic Salary	126,751,017
Personal Allowances paid as part of Salary	109,731,787
Total	**524,162,664**

In the circumstances, the existence and accuracy of the Kshs.524,162,664 balance reflected in the financial statements as at 30 June 2015 could not be ascertained.

4.2 Inaccuracy of the Financial Statements

A review of the balances reflected in the financial statements as at 30 June 2015 and the respective schedules reflected a net overstatement of the financial statements with Kshs.1,545,690,749 as follows:-

Item	Financial Statement Figure (Kshs.)	Audited Figures (Kshs.)	Variance (Kshs.)
Acquisition of Assets	3,209,395,701	3,212,987,132	3,591,431
Use of goods and services	1,281,616,319	1,277,892,332	53,723,987
Compensation of employees	2,252,991,018	2,252,719,093	271,925
Cash and bank	2,056,995,364	830,306,398	1,226,688,966
Cash and cash equivalent	2,058,322,469	1,796,908,029	261,414,440
Total	**10,859,320,871**	**9,370,812,984**	**1,545,690,749**

Further, the County Government did not prepare and submit for audit its final Trial Balance for which the financial statements would be prepared from.

In the circumstances, it has not been possible to confirm the accuracy and completeness of the financial statements as at 30 June 2015.

5.0 Omitted Accounts Payables

The financial statements reflected accounts payables balance of Kshs.102,882,719 as at 30 June 2015. However, audit verification revealed that the County did not

include the payables owed to its predecessor - Kitui Agricultural Training Centre of Kshs.1,353,200.

In the circumstances, the accuracy of the accounts payable balance of Kshs.102,882,719 reflected in the financial statements as at 30 June 2015 could not be confirmed.

6.0 Undisclosed Account Balance

A review of the IFMIS general Ledger payment details report revealed that an item coded 2990105 and named Expenses and whose total account balance was Kshs.21,298,140 was not disclosed in the financial statements.

In view of the circumstances, the accuracy of the Kshs.7,004,190,394 total payments reflected in the financial statements as at 30 June 2015, could not be ascertained.

7.0 Irregular Recruitment

The County Executive did not have an approved organizational structure and staff establishment. During the year under review, the County Executive recruited 170 new employees which included 53 grade 3 drivers and 12 senior drivers. However, no documents were made available to show that the Kshs.16,692 basic pay, Kshs.5,000 house allowance and the Kshs.4,000 commuter allowance paid monthly to each of the twelve senior drivers was approved by Salaries and Remuneration Commission (SRC). Further, in the absence of an approved organization structure, the recruitment of the 170 new employees was irregular.

Consequently, all emoluments paid to the new employees was not a proper charge to public funds.

8.0 Hire of Security Guards Services

The County Government advertised for provision of guard services in which nine (9) bidders responded to the tender by submitting their bids. Preliminary, technical and financial evaluations were done and the tender was awarded to Carewell international limited, P.O. Box 35299—00200 Nairobi at the quoted price of Kshs.3,394,800 per annum being the financially lowest and technically responsive evaluated bidder.

However, the county tender committee deferred this tender for reasons that it was not responsive. It was however observed that the tender was later awarded to Armored Security Alarms E.A. Ltd PO Box 57128 –00200 Nairobi at a cost of Kshs.3,841,920 which was Kshs.447,120 higher than the originally awarded bidder.

No new tender committee meeting was formed to discuss the award and rejection as required by the public procurement Act 2005 and the legal notice no.106.

As a result the propriety of the expenditure of Kshs.3,841,920 could not be confirmed.

9.0 Irregularities on Payments made to and on behalf of the Land Taskforce

The IFMIS General Ledger report for the period under review reflected payments totaling Kshs.54,641,049 in respect to acquisition of land. Included in this expenditure was Kshs.20,251,429 paid as allowances to a land task force created by the County Government on land issues within the County. The task force composed of 25 members, two chairpersons, vice chairpersons, and secretaries. The chairpersons were each being paid Kshs.34,285.71, vice chairpersons Kshs.31,428, the joint secretaries Kshs.30,000 and the members Kshs.28,571. These rates were against the SRC rates of Kshs.5,000, Kshs.4,000, Kshs.2,000, and Kshs.1,000 for public servants appointed as chairperson, members, secretarial staff and driver/support staff respectively, and Kshs.15,000, Kshs.12,000, Kshs.10,000, and Kshs.10,000 for members from private sector appointed as the chairperson, vice chairperson, member and joint secretary respectively. Further, seven of the members were from the public sector. These included the four joint secretaries and three more members. The rates for these seven members ought to have been those set for the officials from the public sector. Hence, the taskforce members were overpaid by a total of Kshs.13,793,429 for the allowances. **(Appendix 5).** The following irregularities were also noted:-

i. A total of Kshs.2,670,034 was paid to various hotels and facilities in respect of catering services accorded to the task force team on various dates while the team was on official duties. However, these hotels were directly procured and no authority was sought from the tender committee to authorize the direct procurement method. It was not explained how the prices charged thereof were agreed upon. **(Appendix 6)**

ii. The sub vote was meant for the acquisition of land, yet no land was acquired with the budgeted funds. Instead, the funds were utilized in meeting the expenses of the task force which would amount to an unauthorized reallocation of funds.

In the circumstances, the propriety of the expenditure of Kshs.16,463,463 could not be confirmed as at 30 June 2015.

10.0 Unsupported Other Operating Expense

Included in other operating expenses figure of Kshs.109,622,797 was a payment of Kshs.24,018,826 made to the Council of Governors. However, the purpose of the payments was not disclosed and no documents were availed to show how it was accounted for.

Further, an additional Kshs.13,723,606 was paid out to contracted professional services whose support documents were not availed for audit review.

In the circumstances, the propriety of the expenditure of Kshs.109,622,797 as at 30 June 2015 could not be confirmed.

11.1 Procurement of Ambulances and Mobile Clinics

i) The County Government procured seventeen (17) ambulances during the 2014/2015 financial year. Six of these ambulances were heavy duty diesel Toyota land cruisers costing Kshs.7,993,915 per vehicle while the other eleven ambulances were Mitsubishi single cab procured at a total sum of Kshs.43,370,159. However, audit verifications revealed that a requisition raised for the procurement of ambulances did not give clear details or specifications of the ambulances required.

   It was therefore not possible to establish and compare what was required with what was eventually acquired. In addition to this, the Toyota Kenya contract number S/69582 indicated that there was a cheaper model of the heavy duty ambulance which was going at Kshs.5,842,253. Had the County opted for the cheaper heavy duty model, it could have saved Kshs.2,151,662 per vehicle or a total of Kshs.12,909,972 for the six vehicles. As a result, the County appears to have lost Kshs.12,909,972 as at 30 June 2015.

ii) Further, a payment of Kshs.23,896,000 was paid to CMC Motors Group Ltd in respect of two mobile clinics delivered. The cost for each was broken down into chassis at Kshs.5,800,000 and mobile clinic body Kshs.4,500,000 plus 16% VAT all totaling to Kshs.11,948,000.

   However, though the prices were said to have been the supplies branch agreed prices, the said contract document between supplies branch and CMC Ltd. was not made available for audit verification including the one showing the costs for the mobile clinics body. The dates of their delivery were also not clear as the delivery notes were not made available for audit.

In the circumstances, the propriety of the expenditure of Kshs.23,896,000 could not be confirmed.

11.2 Lack of Supporting Documents for KIVEST Programme

Payments totaling Kshs.17,500,000 were made to two firms - Alpha Review Limited and Benchmark Management Limited in respect of developing the Kitui Long Term Development Plan. The two firms were to work jointly at a total cost of Kshs.25,000,000. However, it is not clear how the tender evaluation was carried out as the relevant procurement records for the tender were not made available for audit review.

Consequently, the propriety of the expenditure of Kshs.17,500,000 as at 30 June 2015 could not be confirmed.

12.0 Irregularities in Procurement of Goods and Services

12.1 Irregular Procurement of Road works

12.1.1 Construction of Road D509 - Tender No. CGOKTI/222/2013-2014

Tender evaluation documents in respect to Contract No. CGOKTI/222/2013-2014 on the proposed heavy bush clearing, culvert installation, Gabion installation, Rock fill to Gabion, Heavy grading, gravel patching, Drift construction of road D509 under open tender at reserve price of 30,000,000 and which was quoted at Kshs.32,132,058 were not availed for audit review.

Consequently, the propriety of the expenditure of Kshs.32,132,058 could not be confirmed as at 30 June 2015.

12.1.2 Construction of Kwa Mutune-Mutendea Drift – Tender No. CGOKTI/465/2014-2015

The tender for road construction E744-12 Kwa Mutune-Mutendea drift was awarded to Bavko Engineering Company at a contract sum of Kshs.3,344,164. However, contract agreement and tender evaluation process documents were not availed for audit review.

As a result, the propriety of the expenditure of Kshs.3,344,164 as at 30 June 2015 could not be ascertained.

12.2 Irregular Procurement of Tractors

12.2.1 Supply of Farm Tractors - CGOKTI/341/2014-2015 and CGOKTI/677/2014-2015

FMD East Africa of P. O. Box 7277 - Nakuru was also awarded a contract to supply (7) farm ploughs at Kshs.3,395,000 (each at Kshs.485,000).

However, tender evaluation process documents were not availed for audit review. Further, there was no contract agreement between the FMD East Africa and the County Government of Kitui.

In the circumstances, the propriety of the expenditure on farm tractors could not be confirmed.

12.3 Irregular Procurement of Insurance

Payments totaling to Kshs.21,051,579 were made in respect of premiums for various motor vehicle insurance covers to Kenya Orient Insurance Limited during the financial year 2014/2015. However the firm was single sourced as no tender documents were availed for audit review.

In view of the foregoing, the County Government may not have got value for money from the transaction of Kshs.21,051,579 as at June 2015.

12.4.0 Procurement of Drugs and Non-Pharmaceuticals

12.4.1 Irregularities in the Procurement of Non- Pharmaceuticals

Payment voucher number 8700 and 8701 both totaling to Kshs.2,929,150 reflected payments in respect to assorted non pharmaceuticals. However, the order numbers were dated the same date as the invoice numbers and counter receipt voucher numbers.

The delivery note numbers were signed by the stores official on the same dates. It was therefore not clear how the orders were raised after the purported goods had been allegedly delivered. Further, a visit to the hospital on 8 October 2015 revealed that the goods were not recorded in the ledger cards as none was made available for audit review.
Consequently, the propriety of the expenditure of Kshs.2,929,150 could not be ascertained.

12.4.2 Procurement of Drugs

Drugs worth Kshs.1,506,475 were procured from Ridmas Pharmacy Limited of P.O Box 1204- 90200 Kitui for Kitui District Hospital. The drugs were ordered through LPO numbers 2193253 and 2193252 of 17 September 2014.

However, the drugs were not recorded in the store ledgers or received at the hospital pharmacy as the ledger cards maintained there did not indicate the receipt. It was therefore not possible to ascertain that the delivery was actually honoured by the supplier.

In the circumstance it has not been possible to confirm the propriety of the expenditure of Kshs.1,506,475 as at 30 June 2015.

12.5 Direct Procurement of Goods/Services

Two payments of Kshs.600,000 and Kshs.825,200 were made to Mike Mwaniki for hire of tents, ground, tables, decorations and chairs during the beyond zero campaign. The payments were supported by invoice number 004 of 13 November 2014 from Vista Gardens Resort. However, direct procurement method was used which was not approved by the tender committee contrary to the public procurement regulations, 2006.

Also no LPO/LSO was raised to order for the items. It was therefore not explained how the supplier was contracted. Further, the payments were made in the persons/proprietor name instead of the trading name Vista Gardens Resort indicated on the invoice.

In view of the foregoing, the propriety and legality of the expenditure of Kshs.1,425,200 could not be confirmed as at 30 June 2015.

12.6 Irregular Expenditure for Beyond Zero Campaign

The Kitui County Government organized the beyond zero campaign which was held on 11 November 2014. The function had a budget of Kshs.14,827,600. A review of some of the expenditures incurred revealed the following irregularities;

12.6.1. Irregular Procurement of T-Shirts

An amount of Kshs.5,000,000 was paid to Bojues Investment in respect of supply and delivery of branded T-shirts. However, it was noted that they were done through direct procurement. The tender committees' authority was not sought and the criteria for using the direct procurement were not met. Further, an LPO number 2155828 dated 17 December 2014 which was issued to the supplier was raised over a month after the function had ended. The supporting S13 was however raised on 10/11/2014. It was therefore not clear why the items were ordered days after the function they were intended for had ended. The LPO ordered for branded T-shirts but no other specifications like the quality were included. However, in the said S13, it was indicated that 500 Pollo T-shirts and 4,500 round neck T-shirts were supplied.

In the circumstances, it has not been possible to confirm whether value for money was obtained from the expenditure of Kshs.500,000 as at 30 June 2015.

13.0 Un-Supported Payments

A sample of payments made by the County Government during the year revealed that payment vouchers totaling Kshs.276,946,580 **(Appendix 9)** were not supported by the respective supporting documents. It was therefore not possible to ascertain that the expenditure was a proper charge to public funds.

As a result, the propriety of the unsupported expenditure of Kshs.276,946,580 could not be confirmed as at 30 June 2015.

13.1 Irregularities in the Implementation of the Kitui Youth Infrastructure and Savings Programme

A payment of Kshs.29,000,000 was made to Kitui Youth Infrastructure and savings Fund in respect to manual work provided by youth groups at Kshs.350 per member per day. Only 60 % (Kshs.210) of the daily wages was paid to the members while 40% (Kshs.140) was given as savings and matching fund.

The savings and the matching fund were to be paid through a bank cheque to the group account. A bank account number 1171400365 was opened at the Kenya Commercial bank and the payment of Kshs.29,000,000 was deposited. However, audit review revealed that once the matching up was paid to the groups concerned, it was not accounted for. As at 9 October 2015, a total of Kshs.17,941,730 had been disbursed to various groups within the county. However, other than the bank statements, there were no other documents made available to support the payments. Further, the funds were sourced from purchase of tree seeds and seedlings as there was no budget for the programme.

In the circumstances the propriety of the expenditure of Kshs.29,000,000 could not be ascertained as at 30 June 2015.

14.0 Pending Bills

Note 14.3 and 14.4, of the Notes to the financial statements reflects pending accounts payables and staff payables of Kshs.374,620,254 and Kshs.22,639,065 respectively all totaling to Kshs.397,259,319 as at 30 June 2015. This was a decrease from the previous year 2013/14 of Kshs.582,377,793.

Further, as shown in annex 1 and 2 to the financial statements, the exact nature of these pending payables has not been indicated.

In the circumstances, the propriety of the pending bills totaling to Kshs.397,259,319 as at 30 June 2015 could not be confirmed.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of the County Government of Kitui as at 30 June 2015 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the County Government Act, 2012 and the Public Finance Management Act, 2012.

Other Matter

i. Independence of the Internal Audit

The internal audit department reported to the chief officer finance, an arrangement that inhibited the independence of the internal audit department. The department was also understaffed as it comprised of three officers. Further, no specific budget was set aside for the department. The department was therefore, not well resourced hence hampering its operations.

ii. Information Technology (IT) Environment

A review of the IT System of the County Government during the year revealed that there was no IT strategic plan, defined roles and responsibilities for each IT function, training programme and formally approved IT security policy. Also, there were no formal documented and approved processes to manage upgrades made to all financial Information Systems, no policies were in place to cover physical access to IT environment and access was not properly controlled after office hours.

Further, there were neither formal, documented and tested emergency procedures in place nor disaster recovery plan including processes to review user access rights on the system.

In the circumstances, the County Government was not able to realize the full benefits of a functional IT system.

iii. Weak Revenue Controls

A review of the revenue controls in place revealed the following weaknesses:-
The issuing of revenue receipts books was not done chronologically and the LAIFOM system used for revenue management did not produce a summary of all the receipt books surrendered back to the county treasury showing amounts collected at a given time period. Further, the surrendered receipts books were also stored in sacks in no particular order while revenue collectors especially in Mwingi were casuals. In addition, the revenue cash book was poorly maintained as its recording were made from the bank statements and it was not ruled on a daily basis and inspected regularly by an independent person.

This compromises the accuracy and completeness of revenue collection.

iv. Management of Revenue Receipt Books

The County management contracted Cyber Base Printers for the printing of revenue receipt books. A physical inspection of sampled revenue receipt books that were in use in Mwingi revealed that:-

i) One hundred and forty (140) miscellaneous receipt books with inventory numbers 461D to 600D were not recorded in the master Counter Receipt Book (CRB) maintained at the county treasury and the suppliers list dated 10 June 2015 showing the accountable documents supplied in 2013/2014 and 2014/2015 financial years did not include these books.

ii) Further, as at the time of this audit - 12 November 2015, the manual CRB maintained at the sub county showed that fifty (50) of the above receipt books with inventory numbers 551D to 600D which were already in use had not been issued to the revenue collectors.

In addition, a review of sampled miscellaneous receipt books revealed two sets of books (C110 to C130) bearing the same serial numbers and only differentiated by a colour grey and yellow cover.

Consequently, management of revenue receipt books falls short of the expected control for accountable documents.

v. Ethnicity-Regional Balance

An ethnic composition analysis of the 2289 employees working directly under the County Executive revealed that the Kamba ethnic community was at 81% of all the 2289 employees of the County – **(Appendix 7).** Further, 96% of all employees recruited during the year were from the same community contrary to the provisions of Section 65(1) (e) of the County Government Act, 2012 on the 30% outside County representation threshold.

vi. Poor Management of Stock and Stock Controls at Kitui and Mwingi Level IV Hospitals

A review of stock controls at the Kitui and Mwingi level IV health facilities revealed the following issues:-

The stock control records were poorly maintained and especially for the pharmacy and non-pharmacy items. Store ledger cards, goods issue notes and deliveries from suppliers were maintained in an orderly manner. It was therefore not possible to trace specific documents as needed.

The ledger cards were not filed sequentially or in a chronological way. The goods issue notes were also not filed properly hence it was not possible to trace how goods were being issued from the stores to the user departments.

The drugs stores had shortage of staff. In Kitui, the pharmacist was in charge of the main drugs store and the dispensing unit. While in Mwingi, only two officers were involved in drugs management.

vii. Motor Vehicle Accidents

Records made available showed that Kshs.339,692,050 was spent on the procurement of vehicles and other transport equipment during the year under review. Further, a verification of the motor vehicles procured by the County Government during the year revealed that three of them had been involved in road accidents.

Further, the Traffic police abstract reports in regard to the accidents were not made available for audit review. It was therefore not possible to ascertain whether the accidents were reported or not. In addition, there were no insurance assessments reports hence it was not possible to confirm whether the insurance firm would indemnify the County Government for the losses.

In the circumstances, the County Government risk losing the value of the accident motor vehicles.

viii. Imprest Management

A list of outstanding imprests attached to the financial statements shows that the County's outstanding imprests as at 30 June 2015 were Kshs.9,986,568. However, the management of temporary imprests in the County was found not to be complying with the laid down regulations and procedures as the imprest list reflected officers with multiple imprests while the purpose of applying for the imprests was not disclosed in the purpose section of the imprests warrants. Further, the imprests were used to procure goods and/or services directly contrary to the Public Procurement and Disposal Act, 2005 and its regulations, 2006 and the surrenders were not properly supported. **(Appendix 8)**.

My opinion is not qualified in respect of these matters.

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

Nairobi

06 September 2016