REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF LAMU

FOR THE YEAR ENDED 30 JUNE 2015

REPUBLIC OF KENYA

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

P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

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

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Lamu set out on pages 6 to 23, which comprise the statement of financial 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.

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 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.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, I am not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

1.0 Inaccuracies in the Financial Statements

1.1. Variances Between the Financial Statements and Statement of Appropriations

The statement of receipts and payments for the year ended 30 June 2015 disclose a balance of Kshs.560,927,503 in respect of acquisition of assets. This varied with the figure of Kshs.561,744,669 disclosed in the statement of appropriation resulting in unreconciled or explained difference of Kshs.817,166.

1.2 Financial statements balance not Agreed to Support Schedules

It was noted that the figures reported in the financial statements did not agree to the figures in IFMIS the as shown below:

Details	Financial Statements Amount	IFMIS report Amounts	Variance
Receipts	1,857,672,978	-	1,857,672,978
Payments	1,786,192,979	1,754,968,391	31,224,588
Financial Assets	785,502,658	-	785,502,658
Bank Balances as at 01 July 2014	714,365,123	-	714,365,123
Total	**5,143,733,738**	**1,754,968,391**	**3,388,765,347**

In addition, there were discrepancies between the expenditure reports extracted from IFMIS and the summary statement of appropriation presented in the financial statements as shown in the table below:-

Recurrent Expenditure	Actual Expenditure (Kshs)
As per financial statements	1,211,026,288
As per extracted report from IFMIS	1,151,795,532
Variance	**59,230,756**

The management has not explained the cause of these anomalies.

1.3 Presentation of the financial statement

The financial statement presented for audit did not disclose the following items as per the requirement of the Public Sector Accounting Standards Board:-

Note No.	Title of the Note	Amount
24D	Outstanding imprest	34,320,233.65
25	Fund balance B/f	714,365,123.08

In addition, the page numbering after page 22 is not continuous and consistent.

In view of the foregoing, the accuracy and completeness of the financial statements for the year ended 30 June, 2015 could not be confirmed and did not conform to the International Public Sector Accounting Standards (Cash basis) financial reporting framework.

2.0 Cash and Bank Balances

2.1 Unsupported Bank Balances

The following bank account balances as disclosed in the financial statements for the year under review varied with the cash book balances as shown below:

Bank Account	A/c Number	Amount in Financial statements	Amount as per Cashbook	Variance
Central Bank of Kenya - Recurrent	1000171146	(7,842,818)	12,491,960	20,334,778
Central Bank of Kenya - Development	1000181338	599,131,887	276,945,646	322,186,241
Total		**591,289,069**	**289,437,606**	**342,521,019**

Further, included in bank balance of Kshs.748,960,034 under Note 24A to the financial statements is Kshs.817,166.29 in respect of Kenya Commercial Bank–Retention Account whose cash book and bank reconciliations were not availed for audit review. In addition, the cash book and the respective bank reconciliation statements for Kenya Commercial Bank – Revenue Bank Account with a balance of Kshs.998,440.76 as reflected under Note 24A to the financial statements were also not availed for audit review.

2.2 Bank Accounts Omitted in the Financial Statements

According to Note 24A to the financial statements, the bank balance of Kshs.748,960,034 relates to eight (8) bank accounts. However, bank confirmations certificates revealed that the following two bank accounts with credit balance of Kshs.35,486,601 were omitted in these financial statements.

Further, and as reported in 2013/2014, information available indicate that the cash book balances for the defunct local authority's accounts had not been included in these financial statements under the bank balance of Kshs.748,960,034 as at 30 June 2015 (2013/2014 Kshs.727,477,880).

2.3 Standing Imprest Cash Book not Updated

Note 24A to the financial statements disclose a balance of Kshs.9,545,755.38 as at 30 June 2015 in respect of Kenya Commercial Bank standing imprest account. However, the bank reconciliation as at 30 June 2015 revealed an amount of Kshs.2,080,156 recorded as suspense. In addition, the bank reconciliation included stales cheques amounting to Kshs.1,464,904 which had not been reversed in the cash book as at 30 June 2015.

Further, direct bank deposits totaling Kshs.7,062,299 for the period November 2014 to June 2015 had not been recorded in the cash book. Also, the bank reconciliation reflect payments amounting to Kshs.12,759,720 made in August 2014 which had not been recorded in the cash book. In addition, receipts amounting to Kshs.12,437,012 dating back to the year 2014 had not been recorded in the cash book as at 30 June 2015. It was not clear why the cash book had not been updated for several months.

In the circumstances, the accuracy, validity and completeness of the bank balance of Kshs.748,960,034.04 as at 30 June 2015 could not be ascertained.

3.0 Cash Balance

The statement of assets reflect cash balance of Kshs.1,747,688 as at 30 June 2015. However, the board of survey certificate was not availed for audit verification. In the circumstance, the existence of cash balance of Kshs.1,747,688 as at 30 June 2015 could not be confirmed.

4.0 Outstanding Imprest

Examination of IFMIS reports on outstanding imprest revealed that the County Government of Lamu had un-surrendered imprest amounting to Kshs.34,320,233 as at 30 June, 2015. The audit revealed the following:

i. Included in the outstanding imprest of Kshs.34,320,233 as at 30 June, 2015 is imprest amounting to Kshs.12,131,539 which had been outstanding for more than six (6) months.

ii. The audit examination also revealed that forty nine (49) officers had more than one imprest unsurrendered amounting to Kshs.9,009,433 contrary to Section 5.6.5 of the Government Financial Regulations and Procedures which require that an officer issued with imprest to account for the same within 48 hours of conclusion of the assignment.

In the circumstances, the activity for which the imprest was issued for may not have been undertaken. It was also not clear why the Accounting Officer had not recovered the imprest from the respective officers' salary.

Consequently, the propriety and regularity of the outstanding imprest balance of Kshs.34,320,233 as at 30 June 2015 could not be ascertained.

5.0 General Account of Vote (GAV) Balance

The summary statement of provisionings reflect a GAV balance of Kshs.785,027,956 and exchequer provisionings account balance of Kshs.652,562,463. However, the balances were not supported with a schedule or a ledger on how the balances were arrived at. In the circumstances, the accuracy of General Account on Vote balance of Kshs.785,027,956 as at 30 June 2015 and exchequer provisionings account balance of Kshs.652,562,463 could not be confirmed as at 30 June 2015.

6.0 Other Receipts

6.1 Revenue Collection Systems

The statement of receipts and payments disclose a balance of Kshs.51,403,506.05 in respect of other receipts for the year ended 30 June 2015. The audit verification revealed that the County Government relies on a manual system for recording of revenue. However, as at the time of audit January, 2016 there was no revenue ledger and the revenue cash book was not updated for several months. The balance of Kshs.51,403,506.05 was based on revenue bank account statements. This was contrary to Section 165(1) of the Public Finance Management Act, 2012 which require the receiver of revenue for a county government to prepare an account in respect of the revenue collected, received and recovered during a financial year. It was not possible to determine how much revenue was due for collection, actual collections and amount banked and a reconciliation for any variance.

Further, information available indicated that the county spent Kshs.588,000 on benchmarking on revenue automation without evidence of application lessons learnt to automate the revenue collection system. Audit inspection at the county treasury revealed that miscellaneous receipt books and receipts from government printers were being used concurrently to collect revenue. There were also no proper records on issuance and surrender of receipt books for tracking purpose. Also, due to the inherent limitation of the manual revenue collection system, it was not possible to determine how much was collected from each type of receipt book. The County Government may not meet its revenue targets as the manual system is susceptible to revenue leakages and was not possible to determine collectable revenue due to its inefficiencies.

Furthermore, according to manual records availed, the County Government of Lamu collected a total of Kshs.61,672,255 from local sources. However, Kshs.1,747,688 was not banked in revenue collection bank account as at 30 June 2015. No evidence was availed to indicate how or when the cash was subsequently banked. This is contrary to Article 207 of Constitution of Kenya, 2010 which require all county revenues to be banked intact in revenue bank account. The unbanked revenue may have been misappropriated or irregularly spent at source.

Information available also indicated that far flank islands including Faza Island have no access to banking services. Revenue collectors accumulate cash collected for several days before travelling to Lamu Island for banking. The County Government also incurs additional cost in terms of travelling costs and allowances. In addition, information available indicated that the locations are not supervised due to logical challenges. Management has not explored the mobile banking platform to ensure revenue collected is banked daily and intact. This exposes the revenue to the risk of theft, misappropriation as result of collusion between revenue collectors and record keeping officers.

Further, information available indicated that the County Government has engaged a number casuals as revenue collectors and supervisors. A visit to the revenue office revealed that casuals were also engaged in recording of revenue. It was not clear why the County Government has entrusted such sensitive function to casuals and without controls put in place to safeguard the county's revenue.

6.2 Other Property Income

According to Note 12 to the financial statements, other receipts balance of Kshs.51,403,506.05 for the year ended 30 June 2015 incudes other property income of Kshs.14,998,828. However, there were no records on property rates and neither was there a valuation roll of the ratable plots within the county of Lamu. The outstanding balance of property rates at the start and end of the financial year was not provided for audit verification.

In the circumstances, the propriety, accuracy, regularity and completeness of other receipts balance of Kshs.51,403,506.05 for the year ended 30 June 2015 could not be confirmed.

7.0 Travel and Subsistence

Note. 14 to the financial statements reflect use of good and services balance of Kshs.518,949,660 for the year ended 30 June 2015. Included in the balance of Kshs.518,949,660 is an amount of Kshs.145,064,723 in respect of domestic travel. However, audit verification revealed the following:-

i. Expenditure amounting to Kshs.5,620,575 was paid to various officers was not supported with invitation letters;

ii. A total of Kshs.7,755,519 was paid to various officers for travel and accommodation without documenting the purpose of the journeys. In addition, payments amounting to Kshs.719,500 paid to travel agencies for air tickets did not disclose the officers who traveled. It was not clear whether the expenditure was incurred on private or official journeys.

In the circumstances, the propriety of the travel and subsistence expenditure amounting to Kshs.14,095,594 for the year ended 30 June 2015 could not be confirmed.

8.0 Fuel, oil and lubricants

Included in the use of goods and services balance Kshs.518,949,660 as per note. 14 to the financial statements, is fuel, oil and lubricants of Kshs.28,815,126 for the year ended 30 June 2015. However, fuel registers and motor vehicle work tickets were not availed for audit verifications. It was not possible to reconcile fuel expenditure to vehicle consumption. In addition, there was also no evidence that the supplier's invoices were reconciled to fuel consumption before payment was made. It is not clear how the management controls fuel consumption and verifies the amount of fuel billed.

Consequently, the propriety of the fuel, oil and lubricants expenditure of Kshs.28,815,126 for the year ended 30 June 2015 could not be confirmed.

9.0 Governor's Tournament

According to note.14 to the financial statements, included in the balance of use of goods and services of Kshs.518,949,660 for year ended 30 June 2015 is other operating expenses balance of Kshs.65,517,255. Included in other operating expenses of Kshs.65,517,255 is expenditure amounting to Kshs.750,000 on a sport tournament for purchase of sports equipment. However, audit verifications revealed that this equipment was purchased by cash contrary to Public Procurement and Disposal Act, 2005. While equipment costing Kshs.1,186,550 was purchased from un-prequalified suppliers, payments vouchers were not supported with suppliers' receipts as evidence of acknowledgement of the payment. Further, there was no documentary evidence of how the equipment were distributed to the beneficiaries.

In the circumstances, the propriety of the Governor's tournament expenditure of Kshs.750,000 for the year ended 30 June 2015 could not be confirmed.

10.0 Acquisition of Assets

As reported in year 2013/2014, annex 1 to the financial statements disclose a summary of assets totaling Kshs.550,623,454 as at 30 June 2015. However, according to the statement of receipts and payments, the balance of acquisition of assets was Kshs.560,927,503 for the year ended 30 June 2015 resulting in unreconciled or explained variance of Kshs.10,304,049. In addition, the balance of Kshs.550,623,454 as at 30 June 2015 did not include assets acquired in the year 2013-2014 and prior years. Further, the summary of fixed asset register as per Annex 1 to the financial statements was not supported with the County Government's fixed asset register. This is contrary to Section 149 (1) (o) of the Public Finance Management Act, 2012 which requires accounting officer for the county government to ensure that adequate systems and processes are in place to plan for, procure, account for, maintain, store and dispose of assets, including an asset register that is current, accurate and available to the relevant County Treasury. Furthermore, it is not clear and the management has not explained how the handing over process of the defunct local authorities' assets was handled including the handing over report of the assets and liabilities to the County Government.

In the circumstances, the propriety, accuracy and completeness of acquisition of assets balance of Kshs.560,927,503 for the year ended 30 June 2015 could not be confirmed.

11.0 Procurement of Goods and Services

11.1 Advance Payment

Statement of receipts and payments for year ended 30 June 2015 disclose a balance of Kshs.560,927,503 in respect of acquisition of assets. According to Note.20 to the financial statements, acquisition of assets balance of Kshs.560,927,503 include construction of buildings balance of Kshs.142,155,273. The construction of buildings balance of Kshs.142,155,273 include an advance payment amounting Kshs.18,692,200 for construction of the county headquarters. However, a review of the payment documents indicated that the payment was made before the site was handed over to the firm. In addition, there was no evidence that the firm submitted advance payment guarantee as security. This was contrary to the Public Procurement and Disposal Act, 2015. The County Government may lose public funds in case the contractor fails to perform on the contract.

11.2 Lack of Procurement Plan

Statement of receipts and payments for year ended 30 June 2015 disclose a balance of Kshs.560,927,503 in respect of acquisition of assets. Included in this is an expenditure totaling Kshs.136,466,498.

However, the audit verifications revealed that the items were not in the 2014/2015 procurement plan contrary to Section 26(3) of the Public Procurement and Disposal Act, 2005 which require each entity to prepare a procurement plan for each financial year as part of the annual budget preparation process. It was not clear how the need for the items was identified. It is also possible the county resources were committed to non-priority areas at the expense of deserving areas.

In addition, the audit verifications revealed that the procurement of Toyota Prado, farmer tractor, motor cycles and water bowser all amounting to Kshs.32,194,409 were by use of government negotiated contracts. Information available indicate that, although there were other government contracted suppliers for the items, there was no evidence that the County Government subjected the procurement to competitive selection. There was also no evidence that the tender committee approved the alternative procurement method contrary to Section 10 (2) of the Public Procurement and Disposal Regulations, 2006 that require of the tender committee to approve alternative procurement method other than tender.

11.3 Delivery of Goods

Note 20 to the financial statements for year ended 30 June 2015 disclose a balance of Kshs.560,927,503 in respect of acquisition of assets. Included in this amount are purchases of furniture and equipment at Kshs.46,713,496 and purchases of ICT equipment and software at Kshs.10,815,549. Further, records availed for audit review and included in these figures are various items

amounting to Kshs.35,332,317 whose suppliers were paid without any documentary evidence of the delivery having been approved by the inspection and acceptance committee in line with Section 17 of the Public Procurement and Disposal Regulation, 2006.

Public funds may have been used to pay for sub-standard or un-delivered goods as there is no evidence of approval by the inspection and acceptance committee

11.4 Procurement from Un-Prequalified Suppliers

Note 20 to the financial statements for year ended 30 June 2015 disclose a balance of Kshs.560,927,503 in respect of acquisition of assets. Included in this amount is purchase of ICT equipment and software at Kshs.10,815,549. Records availed for audit review indicated that included in this are items amounting Kshs.6,618,933 consisting of phones of Kshs.1,509,983, fishing gear Kshs.1,936,550 and sports gear Kshs.3,172,400 purchased by the County Government whose suppliers were not on the list of prequalified suppliers contrary to Section 25 of the Public Procurement and Disposal Act, 2005 which requires prequalification of suppliers. It is not clear how the suppliers were identified and selected. It was further revealed that County Government procured the preparation of county integrated development plan at a cost of Kshs.4,600,996 through request for quotations contrary to Section 88 of the Public Procurement and Disposal Act, 2005 which states that request for quotations should only be used when procuring for goods that are readily available and up to a maximum cost of Kshs.1 million.

11.5 Irregular use of Restricted Method of Procurement

Note 20 to the financial statements for year ended 30 June 2015 disclose a balance of Kshs.560,927,503 in respect of acquisition of assets. Included in this amount is purchase of vehicles and other transport equipment balance of Kshs.77,986,724. Records availed for audit revealed that the County Government of Lamu used restricted method to procure marine boat ambulance and outboard engines at a total cost of Kshs.17,586,227 with no evidence of written approval by the tender committee for use of the alternative procurement method. It is possible procurements were awarded to preferred firms for personal gains at the expense of value for money and fairness.

Under the circumstances, the propriety and regularity of the acquisition of assets balance of Kshs.221,315,108 for the year ended 30 June 2015 could not be confirmed.

12.0 Construction of a Hospital Perimeter Wall

Included in the acquisition of assets balance of Kshs.560,927,503 at Note 20 to the financial statements is a balance of Kshs.90,695,674 in respect of construction and civil works. Included in the balance of construction and civil works is expenditure of Kshs.9,748,350 for the construction of a perimeter wall for an hospital. However, audit verification of contract CGL/T/HS &E/059/2014/2015 revealed that the contract was awarded at Kshs.9,748,350

although the budget allocation was Kshs.8,000,000 resulting in an over expenditure of Kshs.1,748,350.

Consequently, the propriety and validity of excess payment of Kshs.1,748,350 for the year ended 30 June 2015 could not be confirmed.

13.0 Procurement of Veterinary Supplies

Included in the acquisition of assets balance of Kshs.560,927,503 at Note 20 to the financial statements is a balance of Kshs.9,194,200 in respect of purchase of certified seeds, breeding stock and live animals. However, documentary evidence in support of the procurement process on veterinary supplies worth Kshs.4,795,075 were not availed for audit review. It was not clear how the supplier was identified, selected and prices determined. In addition, there was no evidence that the supplies were reviewed by the inspection and acceptance committee contrary to the Public Procurement and Disposal Regulations, 2006.

In the circumstances, the propriety, regularity and validity on the expenditure of Kshs.4,795,075 on purchase of veterinary supplies for the year ended 30 June 2015 could not be confirmed.

14.0 Funds from Transition Authority

According to letters from Transition Authority TA/7/7A VOL.II (30) and TA/7/7A VOL.III (2) dated 17/04/2015 and 29/09/2015 respectively to Lamu County Government and copied to the Office of the Auditor-General indicated that the County Government directly received Kshs.61,592,000 and additional Kshs.2,000,000 through the County Commissioner which amounted to Kshs.63,592,200. The letter indicated that the funds had not been accounted for.

The management has not disclosed in these financial statements or explained how an amount of Kshs.63,592,200 transferred from the Transition Authority during the year under review was accounted for.

15.0 Budget Controls and Performance

The County Government of Lamu had a total budget of Kshs.2,509,718,275 voted for the financial year 2014/2015 comprising of Kshs.1,134,423,492 for development and Kshs.1,375,294,783 for recurrent expenditure. This was an increase of 47% compared to 2013/2014 financial year budget of Kshs.268.5 million.

The budget absorption was as follows:-

Item	Budgeted Allocation 2014/2015	Actual 2014/2015	Under Absorption	Absorption in %	As % of Total Expenditure
Development	1,134,423,492	575,983,858	558,439,634	51	32
Recurrent	1,375,294,783	1,211,026,288	164,268,495	82	68
Total	**2,509,718,275**	**1,787,010,146**	**136,760,123**		**100**

15.1 Development Vote

Records availed for audit review indicated that Kshs.1,134,423,492 was budgeted under development vote for the year under review. However as at the end of the financial year only Kshs.575,983,858 had been spent leaving a balance of Kshs.558,439,634 or 49% unutilized contrary to Section 107 of the Public Finance Management Act, 2012 that requires the County Government to adhere to fiscal objectives set out in the Budget Policy Statement.

The County Government Executive of Lamu has nine (9) departments and following is the budget performance analysis as at 30 June 2015:

Entity	Budget 2014-2015	Actuals 2014-2015	Under-Absorption	% Under-absorption
County Executive	202,964,240	70,884,665	132,079,575	65
Finance, economy & strategic planning	9,670,596	5,790,226	3,880,370	40
Agriculture	47,343,100	44,196,511	3,146,589	7
Land, physical, planning, water& nat. Resources	269,578,984	186,166,635	83,412,349	31
Education, gender, youth affairs, sports & social services	114,150,000	55,232,122	58,917,878	52
Health services, sanitation & environment	185,548,720	78,765,099	106,783,621	58
Trade, investment, culture & tourism	8,750,000	32,469,286	16,280,714	33
Information, communication & e-govt	14,867,174	5,094,250	9,772,924	66
Fisheries, livestock, veterinary & cooperative dev	1,940,698	60,579,684	11,361,014	16
County Assembly	169,610,000	36,805,380	132,804,620	78
Total	**1,134,423,512**	**575,983,858**	**558,439,654**	**49**

Overall, the County Executive did not utilize a total of Kshs.558,439,654 representing 49% of the County Government's development budget. Other than the County Assembly, departments of information, communication and e-government, health and education and sports had the highest unutilized development budget at 66%, 58% and 52% respectively.

The management has not explained the failure to utilize all the funds budgeted for development projects. The management may have over budgeted on development expenditure. The management should embrace more realistic budgeting in future and focus on areas which may require more funding.

A further analysis of the department of County Executive indicated that the department was allocated a total budget of Kshs.489,001,535 comprising of Kshs.202,964,240 for development expenditure and Kshs.286,037,295 for recurrent expenditure. Under the development vote, the department utilized Kshs.31,870,028 (34% of the budget) with no expenditure on the budget on minor alternations to buildings and civil works as shown below:-

Budget Vote	Budget Amount	Actual Expenditure	Under-Absorption	%
Minor Alterations to Buildings and Civil Works	50,000,000	0	50,000,000	100
Non-Residential Buildings	40,000,000	38,344,337	1,655,663	4
Security Operations	670,300	670,300	0	0
Non-Residential Buildings	112,293,940	31,870,028	80,423,912	72
Total	**202,964,240**	**70,884,665**	**132,079,575**	**66**

The management has not explained why more than 66% of the development budget has not been utilized.

15.2 Recurrent Vote

Out of the recurrent budget of Kshs.1,375,294,783, below is the budget performance analysis:

Item	Budget 2014-2015	Actuals 2014-2015	Under-Expenditure	%
Compensation of Employees	722,928,304	607,641,481	115,286,823	16
Use of Goods and Services	443,875,380	454,576,036	(10,700,656)	-2
Acquisition of assets	72,117,478	50,134,435	21,983,043	30
Other Grants and Transfers	88,700,000	60,711,060	27,988,940	32
Social Security Benefits	47,173,621	37,506,976	9,666,645	20
Other Expenses	500,000	456,300	43,700	9
Total	**1,375,294,783**	**1,211,026,288**	**164,268,495**	**12**

From the above analysis, it is evident that the County Government under-spent on most budget lines with compensation to employees leading with the highest amount of unutilized allocation of Kshs.115,286,823. This is an indication of idle funds not put to proper use for service delivery. The management may have over budgeted on recurrent expenditure and need more realistic budgeting in future.

15.3 Office of the Governor & Deputy Governor

According to the organizational structure of the County Government of Lamu, the office of the Governor and Deputy Governor falls under the department of

County Executive. Out of the department's total recurrent budget of Kshs.346,739,633, the office of the Governor was allocated Kshs.156,561,172 (about 45% of the department's total budget).

Below is the budget expenditure analysis:

Budget Vote	Budget Amount	Actual Expenditure	Under-Absorption	Over-Absorption	%
Basic Salaries	19,273,908	17,931,433	1,342,475		7
Allowances	16,257,264	15,812,178	445,086		3
Utilities	400,000	382,240	17,760		4
Telephone & postage	500,000	459,726	40,274		8
Printing	450,000	361,122	88,878		20
Rent	4,000,000	3,999,818	182		4
Training	4,500,000	3,523,310	976,690		22
General office	5,380,000	5,598,865	0	218,865	0
Maintenance	1,000,000	993,102	6,898		1
Gratuity	12,000,000	10,158,975	1,841,025		15
Purchase of motor vehicles	24,500,000	22,690,039	1,809,961		7
Purchase of equipment	2,000,0000	1,449,489	18,550,511		93
Travel	14,300,000	12,493,021	1,806,979		13
Stationery	500,000	369,135	130,865		26
Fuel	1,500,000	1,022,600	477,400		32
Drought Contingency	32,000,000	27,314,320	4,685,680		15
Total	**156,561,172**	**124,559,373**	**32,220,664**	**218,865**	

The following was noted:

i. The total budget underutilization was Kshs.32,220,664 representing 21% of the department's budget. The underutilization of the funds may have impacted negatively on the delivery of goods and services to the public.

ii. Contrary to Section 220 (1) of the Constitution of Kenya which requires recurrent and development expenditure to be separated, the recurrent budget of Kshs.156,561,172 included Kshs.24,500,000 for purchase of motor vehicles and motor cycles and Kshs.2,000,000 for purchase of office equipment. It was not clear why capital expenditure was recorded as recurrent expenditure;

iii. Office of the Governor's budget also included drought contingency budget of Kshs.32,000,000 out of which Kshs.27,314,320 had been spent as the end of the financial year. It was not clear why the funds were allocated to

the Governor's office instead of allocating to an emergency fund as required by the Section 110 of the Public Finance Management Act, 2012 on the establishment and operation of an emergency fund.

16.0 Project Implementation

Record availed for audit indicate that a total of Kshs.572,450,863 was allocated to nine (9) departments during the year to fund 158 projects in the year 2014-2015 budget period which were supposed to be implemented within the financial year. However, the projects were not fully implemented with only 14 projects which represent 9% of the total planned projects having been completed as at 30 June 2015. This was contrary to Section 113 (1) of the County Government Act, 2012 which requires the county's budget to be based on the annual development priorities and objectives and the performance targets set by the county.

The projects were behind schedule with only Kshs.378,726,910 spent representing 66% of the funds allocated having been spent on 115 projects as detailed below:-

Department	No of Budgeted Projects	Budget	Actual Expenditure	No of Projects implemented	% Level of Implementation
County Executive	10	49,022,062	32,737,839	2	67%
Finance, Economy & Strategic Planning	2	9,670,596	5,790,226	2	60%
Agriculture	4	47,342,700	44,948,711	4	95%
Land, physical, Planning, Water& nat. Resources	20	94,500,000	40,000,000	20	42%
Education, Gender, Youth Affairs, Sports & Social Services	31	50,400,000	46,062,979	26	91%
Health Services, Sanitation & Environment	39	190,193,443	102,987,567	22	54%
Trade, Investment, Culture & Tourism	20	42,967,000	32,737,839	18	76%
Information, Communication & E-Govt	14	23,555,062	8,687,888	3	37%
Fisheries, Livestock, Veterinary & Cooperative Dev	18	64,800,000	64,773,861	18	100%
Total	**158**	**572,450,863**	**378,726,910**	**115**	**66%**

In addition, according to the County Government's approved budget estimates for 2014/2015 financial year, development vote was allocated Kshs.1,134,423,502 while the total budget of development projects in the financial year was Kshs.572,450,863 leading to a variance of Kshs.561,972,639. It was not clear to which projects the County Government expected to allocate the balance of Kshs.561,972,639.

Delayed implementation of projects deny the public goods and services they deserve. Further, due to inflationary factors the project costs may escalate.

16.1 Project Status

From a sample of projects verified, the audit revealed following the observations:

Project	Budget allocation	Payments as at 30 June 2015	Observations
Provision of dumpsite and collection containers	20 million	9,750,000	Two tractors have purchased have never been used as the county has not acquired a dumpsite
Construction of a mortuary in Mpeketoni	18,857,619	8,447,398	The contractor was not on site and information available indicates that he abandoned the work
Nagele livestock market	3,000,000	3,000,000	The contractor had started clearing the bushes, more than 6 months after full payment
Rehabilitation of Witu cattle dip	2,000,000	1,997,411	Project is complete but not in use
Rehabilitation of Didewaridea cattle dip	2,000,000	2,000,000	Project is complete but not in use
Koreni cattle dip	2,000,000	2,000,000	Project is complete but not in use
Solar street lighting	18,000,000		BoQ and contract not availed. Could not confirm the project deliverables
Fish landing at Shella	2,500,000	2,500,000	Only a slab done. The BoQ and contract not availed. Could not ascertain the extent of work to be done.

The above observations are clear indication of wastage of public funds where completed projects are not utilized. It is also an indication of lack of public participation before a project is implemented which leads to lack of ownership of such projects contrary to Section 115.(1) of the County Government Act, 2012 which demands public participation in the county planning processes. In addition, most of the projects were not branded and it was therefore not possible to confirm whether the projects were funded by the County government or another government agency.

16.2 Projects not Started

The project status report availed audit revealed that the following projects had not commenced as at 30 June 2015

Project	Estimated Cost (Kshs)
Construction of Hindi ward office	4,800,000
Construction of Faza ward office	4,800,000
Construction of Mkunumbi ward office	4,800,000
Construction of Bahari ward office	4,800,000
Construction of Hongwe ward office	4,800,000
Construction of Witu ward office	4,800,000
Refurbishment of Lamu market	1,500,000
Construction of Hindi Market	11,000,000
Construction of Theatre and Laundry	17,000,000
Upgrading of Mokowe Health centre	27,500,000
Purchase of Ambulance	4,000,000
Renovation of Witu Health Centre	568,400
Renovation Mkunumbi Dispensary	2,000,000
Total	**92,368,400**

It is not clear and the management has not explained why the approved projects had not been undertaken inspite of the availability of Kshs.141,216,992 in the development bank account. In addition, according to the project status report availed for audit verification two projects had stalled.

The public may not enjoy the intended services from the incomplete projects. Further, public funds amounting to Kshs.6,304,911 may go to waste if measures are no put in place to revive the projects and implementation in the next financial year 2015/2016.

17.0 Management of Debtors

The financial statements for the year ended 30 June 2015 has no rates outstanding as the end of the financial year. However, according to revenue summary record, a total of Kshs.1,644,605 was collected from property rates during the financial year ended 30 June 2015.

An inspection done at the County Government's revenue office revealed the following:

i. There was no record on the current status of rates receivable from property owners;

ii. There was an old torn register book which had not been updated;

iii. Information available indicated that the rates owing from property owner is computed when one comes to pay;

iv. Although the county had allocated Kshs.4,000,000 for the preparation of a valuation roll none was in use.

The above state of affairs is contrary to Section 157 (2) of the Public Finance Management Act, 2012 which requires a receiver of County revenue to ensure that the revenue for which the receiver is responsible is collected or recovered, and is accounted for.

In the absence of proper debtors' records, it has not been possible to confirm that rates are regularly collected and remitted to the county treasury. The County Government may fail to achieve its revenue targets thus affecting service delivery to the public.

18.0 Implementation of IFMIS

Records availed for audit indicates that expenditure amounting to Kshs.3,152,763 for the financial year 2014 / 2015 was not posted in the IFMIS system. The expenditure was for various departments as shown below:-

Department	Amount
Lands	8,382,301.52
Trade	1,261,409.00
Land	8,382,301.52
Health	3,821,010.80
Education	732,945.00
Finance	2,895,880.20
Fisheries	428,575.00
Executive	7,248,340.00
Total	**33,152,763.04**

Further, the audit revealed that the Consolidated Revenue Fund (CRF) account and Commercial banks had not been configured in IFMIS. Hence, transactions related to these accounts were not posted in the IFMIS system. The same was recorded manually as shown below:-

Bank/Branch	Account Name	Account Number
Central Bank of Kenya	County Revenue Fund Account	1000181338
Kenya Commercial Bank	Standing imprest	1140745603
Kenya Commercial Bank	Revenue Collection	1140750615
Kenya Commercial Bank	Local Authority	1142230341

Kenya Commercial Bank	County Assembly	1150833025
Kenya Commercial Bank	Retention	1163420840

It was not clear and the management has not explained why IFMIS has not been fully operationalized as required by Section 105(d) of the Public Finance Management Act, 2012 which requires the County Treasury to implement a Finance Management System. This may lead to issues of poor accountability and lack of monitoring mechanism on the expenditure of public funds.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

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

Nairobi

13 September 2016