REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF NAROK

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 NAROK COUNTY GOVERNMENT FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Narok set out on pages 6 to 38, which comprise the statement of financial assets as at 30 June 2015, and the statement of receipts and payments, statement of cash flows, and statement of summary of appropriation for the period 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 Public Audit Act, 2003 and submit the audit report in compliance with the 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 disclosure in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County Government's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

1. Use of Goods and Services

The summary statement of appropriation recurrent and development combined for the year ended 30 June 2015 reflect use of goods and services budget of Kshs.1,999,000,000 against an actual expenditure of Kshs.2,095,491,791 resulting to an over expenditure of Kshs.96,491,791.The over expenditure has not been explained or regularized by way of supplementary budget.

2. Non-Disclosure of Bank Accounts for Newly Gazetted Health Facilities

Ten (10) bank accounts for newly gazetted health facilities (table below) were not disclosed in the financial statements and therefore the balances existing as at 30 June 2015 could not be confirmed.

S/No	Name	Sub county	Bank Account	Bank	Branch
1	Shartuka Dispensary	Transmara West	1230299235348	Equity	Kilgoris
2	Ndamama Dispensary	Trasmara East	1138644536	KCB	Kilgoris
3	Ilkerimisho Dispensary	Narok North	0360260637804	Equity	Narok
4	Chemwokter Dispensary	Narok South	01141339303900	Coop	Narok
5	Salabwek Dispensary	Narok South	01141339276600	Coop	Narok
6	Rongena Dispensary	Narok South	01141339118900	Coop	Narok
7	Leshuta Dispensary	Narok South	01141339432700	Coop	Narok
8	Enkototo Dispensary	Narok South	01141339431300	Coop	Narok
9	Loosho Dispensary	Narok South	01141338835700	Coop	Narok
10	Entyiani Dispensary	Narok North	01141337995700	Coop	Narok

3. Foreign Travel

Included in the balance under use of goods and services is cost on foreign travel amounting to Kshs.11,653,680. Examination of payments records produced for audit revealed that amount totaling Kshs.11,653,680 was paid for foreign trips in the form of air tickets and allowances. Although the expenditure was supported by passports, boarding passes and visas, the benefit of the trips were not demonstrated by reports, outlining the benefit to the County. In the circumstance, the expenditure of Kshs.11,653,680 on foreign trips could not be confirmed to be a proper charge to public funds.

4. Pending Bills

The County Government of Narok reported pending bills amounting to Kshs.1,220,265,056 as at 30 June 2015. The balance included the amount owed to road contractors of Kshs.1,161,271,479 and Kshs.58,993,577 for use of goods and services. It was observed that the County Government engaged contractors without committing funds to pay for such works, thereby exceeding the budgetary ceilings contrary to Public Finance Management Act, 2012.

Included in the pending bill of Kshs.1,220.265,056 was contract works to various contractors amounting to Kshs.354,137,946 who by the closure of financial year 2014/2015 had not received any payment. Due to delayed payments the contractors appear to have abandoned of work sites.

Although the management presented detailed schedule of the individual contractors and suppliers including their pending balances, LPOS, LSOs, certificates of completion, invoices, suppliers' statements and delivery notes were however not provided for audit verification.

This may lead to litigations where the county would be forced to defend suits and eventually make good for breach of contacts.

5. Acquisition of Assets

The financial statements reflect acquisition of assets amounting to Kshs.1,283,189,517 as at 30 June 2015. However, Fixed Asset Register was not produced for audit verification. In addition and as was reported in 2013/2014, the details of assets and liabilities inherited from the defunct local authorities under the jurisdiction of the Narok County have not been formally determined and taken over by the County Government. It was therefore not possible to confirm the completeness, accuracy and existence of assets acquired during the period under review.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the County Government of Narok as at 30 June 2015, and of its receipts and payments and its cash flows for the year then ended, in accordance with

International Public Sector Accounting Standards (cash basis) and comply with Public Finance Management Act, 2012.

Other Matter

1.0 Budget Performance

1.1 Income – Budget

The County Government had budgeted to receive Kshs.4,666,571,759 from exchequer releases but received a sum of Kshs.4,629,250,045. Local receipts had a budget of Kshs.3,336,157,146 but managed actual receipt of Kshs.1,639,214,710 realizing a total revenue of Kshs.6,268,464,755 against an overall budget of Kshs.8,032,728,905, resulting in a revenue shortfall of Kshs.1, 734,264,150 or (22%) (table below). This revenue shortfall affected most of the commitment because they were done on the basis of budgeted revenue. Further, failure to achieve the projected revenue adversely affect timely payment to creditors resulting to pending bills at the close of the year.

Receipts	Approved Budget	Actual received / corrected	Variance under collection	Percent
	Kshs	Kshs	Kshs	%
Exchequer	4,666,571,759	4,629,250,045	37,321,714	99%
Local revenue	3,336,157,146	1,639,214,710	1,696,942,436	49%
Total	**8,002,728,905**	**6,268,464,755**	**1,734,264,150**	**78%**

1.2 Expenditure Budget versus Actual

During the year ended 30 June 2015, the County Government of Narok had a recurrent expenditure budget of Kshs.5,000,847,052 against actual expenditure of Kshs.4,594,686,260 representing ninety two percent (92%) absorption rate. The development budget was Kshs.3,031,881,853 against actual amount of Kshs.1,796,523,262 representing sixty percent (60%) absorption of funds. The overall absorption of funds as tabulated below is eighty percent (80%).

Expenditure	Budget	Actual	Variance	Percent
	Kshs	Kshs	Kshs	%
Recurrent	5,000,847,052	4,594,686,260	406,160,792	92%
Development	3,031,881,853	1,796,523,262	1,235,358,591	60%
Total	**8,032,728,905**	**6,391,209,522**	**1,641,519,383**	**80%**

Analysis of the budget performance indicate that the approved budget for the year stood at Kshs.8,032,728,905 while the actual expenditure for the year stood at Kshs.6,391,209,521 resulting in under expenditure of Kshs.1,641,519.383. This revenue shortfall affected implementation of development budget which had an under expenditure of Kshs.1,235,358,591.

The management did not prepare supplementary budget to cut down revenue and expenditure even when it was clear that the revenue target would not be achieved.

1.3 Office of the Governor

The office of the governor was allocated Kshs.225,289,390 for recurrent expenditure. The actual expenditure for the year was Kshs.182,883,402 creating a saving of Kshs.46,401,596.

The major expenditure in this Vote was salaries and wages including gratuity for County Executive Committee Members which took about 30%. Other major expenditures are indicated below:-

Title and Details	Budget	Actual Expenditure
Basic salaries - civil service	46,257,390	43,263,642
Travel Costs (airlines, bus, railway, mileage allowances, etc.)	8,800,000	8,739,149
Accommodation - Domestic Travel	14,000,000	13,448,342
Foreign Travel and Subs.- Others	9,700,000	7,891,458
Catering Services (receptions), Accommodation, Gifts, Food and Drinks	6,000,000	4,560,302
Boards, Committees, Conferences and Seminars	5,500,000	5,036,990
Hospitality Supplies - other	9,000,000	7,000,340
Refined Fuels and Lubricants for Transport	18,000,000	16,287,570
Medical Expenses	4,000,000	3,900,000
Legal Dues/fees, Arbitration and Compensation Payments	13,875,278	11,301,600
Maintenance Expenses - Motor Vehicles	9,550,000	5,921,888
Gratuity - Ministers	11,340,000	11,091,866
Refurbishment of Non-Residential Buildings	8,300,000	6,225,106
Purchase of Specialized Plant	8,000,000	6,121,500
	172,322,668	**150,789,753**

2. Maasai Mara Game Revenue

The County Government of Narok budgeted to collect Kshs.2,183,688,000 from Maasai Mara Game Reserve. However, the actual revenue collected was Kshs.1,543,843,238 resulting to a shortfall of Kshs.639,844,762 as shown below:-

Mara Game Reserve	Budget Kshs	Actual Kshs	Variance (Under Collection) Kshs	Percentage achieved
Lodge tariffs	304,264,000	62,349,911	(241,914,089)	21%
Park entry fees	1,830,374,000	1,450,889,281	(379,484,719)	79%
Filming fees	6,000,000	2,111,841	(3,888,159)	35%
Camping fees	8,000,000	1,048,897	(6,951,103)	13%
Serena levies	20,050,000	17,408,458	(2,641,542)	87%
Balloon landing fees	15,000,000	10,034,850	(4,965,150)	67%
Total	**2,183,688,000**	**1,543,843,238**	**(639,844,762)**	**71%**

3. Employment Cost

The County Government number of employees increased by four hundred and sixty two (462) during the year. The number included three hundred and seventy eight (378) newly recruited and eighty four (84) were deployed to Narok County by the National Government. The wage bill for the year ended 30 June 2015 increased by Kshs.306,495,000 or approximately 17% from Kshs.1,838,041,899 in the financial year 2013/2014 to Kshs.2,145,036,899 which is approximately 47% of the total recurrent expenditure for the year.

4. Ministry of Education

4.1. Direct Transfers

It was observed that Kshs.131,179,146 was directly transferred to primary and secondary schools for construction of classes, dormitories and laboratories. The buildings were constructed through labour based contracts on bill of quantities from public works. However, the buildings were not inspected at various stages of construction and there was no occupancy certificates for completed projects. As a result, the quality of workmanship was not standardized.

4.2. Education-Unsupported Fund Transfer Kshs.7,705,600

The County Government transferred funds to the ministry of education sports and social services accounts as follows:-

P.V. No.	Purposes	Amounts (Kshs)
7027	Identification of football talent	379,200
4844	Office facilitation fees	500,000
7473	African child celebration day	927,100
17047	Narok principals conference	300,000
7618	Office operation and facilitation	2,000,000
7642	Office operation and facilitation	2,000,000
7093	Narok county youth fund	615,800

4844	Office operation and facilitation	500,000
6169	Narok county youth fund	483, 500
Total		**7,705,600**

However, there was no cash book or bank account statement provided to support the receipt of the amounts transferred and no expenditure returns and supporting documents were provided for audit verification.

In the absence of a bank statement to support the receipt of funds and supporting expenditure documents, the validity and the propriety of the transactions could not be confirmed.

5. Department of Health

5.1 Expenditure on Department of Health

The County Government transferred Kshs.8,460,790.00 to the Department of Health and Sanitation operations account number 1167422937 held with the Kenya Commercial Bank. Verification of the bank statement revealed withdrawal of Kshs.8,460,060.00. These transactions were not recorded in the cash book of the department. The amount of Kshs.8,460,060.00 was encashed by the account holders out of which a sum of Kshs.3,015,060 had no supporting documents as shown below:-

Date withdrawn as per bank statement	Details	Amount (Kshs)
26 March 2015	Cash withdrawal	1,835,060
7 April 2015	Cheque encashment	450,000
22 April 2015	Cheque encashment	230,000
8 May 2015	Cheque encashment	500,000
Total		**3,015,060**

5.2 Health Care Cost Sharing Services

The Narok County Referral Hospital collected Kshs.23,460,173 during the period 1 July 2014 to 30 June 2015. However, verification of revenue collected and banked revealed that a total of Kshs.4,093,398 was banked by the hospital management while a sum of Kshs.10,175,416 was spent at source. The a balance of Kshs.9,191,359 could not be accounted for.

6. Prior Year Matters – Inherited Assets and Liabilities

As previously stated, the Narok County Government inherited assets and liabilities of undetermined value from the Defunct Councils of Narok and Transmara, and Town Council of Narok. However, no identification, validation, valuation and formal handing over by the Transition Authority to the County Government has been done even though the assets are being used.

Failure to identify, validate, value and record both assets and liabilities of the defunct Local Authorities that were amalgamated into the County Government of Narok implies that the assets may not be fully accounted for and the liabilities may affect the future cash flow of the County Government.

My opinion is not qualified in respect of these matters.

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

Nairobi

26 September 2016