REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF NYAMIRA

FOR THE YEAR ENDED 30 JUNE 2015

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OFFICE OF THE AUDITOR-GENERAL

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

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the County Government of Nyamira set out on pages 9 to 36, 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 recurrent and development for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 8 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 4 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 9 of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement

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

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

Basis for Adverse Opinion

1. Inaccuracies of Financial Statement Figures

The recurrent budget execution report indicate actual expenditure of Kshs.2,719,352,834 while the Integrated Financial Management Information System (IFMIS) indicate expenditure of Kshs.2,729,352,834 giving rise to a difference of Ksh.10,000,000 which was not explained.

Further, the payments figure of Kshs.3,756,295,000 in the statement of receipts and payments, differ from the amount in IFMIS of Kshs.4,229,742,000 giving rise to an unexplained difference of Kshs.473,447,000.

The financial statement figures are not supported by IFMIS which is the principal reporting system for County Governments.

In the circumstances, it was not possible to confirm the accuracy and status of balances in the financial statements as presented.

2. Bank Balances

The statement of financial assets reflects bank balances of Kshs.415,274,075 as at 30 June 2015 that includes a bank account operated by the County Assembly with a balance of Kshs.52,186 which was not supported with a bank reconciliation statement. The retention fees fund account held at Cooperative bank – Nyamira Town Branch with debit balance of Kshs.6,065,548 as at 30 June 2015 as per bank statements has been excluded from the reported bank balance.

Further, the reported bank balances does exclude the Car loan and Mortgage Fund accounts operated by the County Assembly and held at Kenya Commercial Bank – Nyamira Branch with a total of Kshs.148,000,000 initial fund having been deposited into the account during the financial year under review.

Consequently, it was not possible to confirm the completeness and accuracy of the bank transactions for the year reported and bank balances as 30 June 2015.

3. Accounts Receivable

The statement of financial assets reflects an outstanding imprest balance of Kshs.3,440,000 as at 30 June, 2015. The imprest funds advanced in October 2014 were unsurrendered and unaccounted for as at the year end. The County Government had not yet taken steps to recover the funds from the affected officers. Consequently, the recoverability of the outstanding imprests figure of Kshs.3,440,000 as at June 2015 could not be confirmed.

4. Accounts Payable

The statement of financial assets and as disclosed under note 24 to the accounts reflects nil balances under deposits and retentions. However, bank statements availed for audit review indicates that Kshs.6,065,548 was held under Nyamira County Project Retention Account at Cooperative Bank Limited was for this purpose and has not been included in the financial statements. The operation of this account was also in contravention of the County Financial Accounting and Reporting Regulations (section 6.11 – contract retention fund) and the Public Finance Management Act, 2012 which requires the County Treasuries to reserve the retained fees in a deposit account specifically opened at the Central Bank of Kenya. This amount was also not supported with a detailed analysis of the figure. This has resulted in the understatement of the financial liabilities for the year under review.

5. Pending Bills

The County Government had accumulated pending bills totaling Kshs.402,534,242 as at 30 June 2015. Failure to pay bills in the year they relate distorts the financial statements for the year and adversely affects the provisions for subsequent years. Had these bills been paid, the statement of receipts and payment would have a higher deficit of Kshs.636,250,109 instead of the current Kshs.233,715,867 now reported.

6. Receipts

6.1 Proceeds from Sale of Assets

The statement of receipts and payments and as disclosed under note 8 to the accounts reflects proceeds from sale and assets of Kshs.6,078,785. No Supporting schedules have been made available for audit review. Consequently, it was not possible to confirm the completeness and accuracy of proceeds from sale of assets of Kshs.6,078,785.

6.2 Other Receipts

6.2.1 Revenue Receipts Under Collection

The revenue generated locally and as disclosed under note 11 to the accounts reflect other receipts total of Kshs.196,118,924 as compared to budgeted figure of

Kshs.219,053,554 resulting in under collection of Kshs.22,934,630 or about 10% of the Budget. Also, included in the budgeted amount are budget receipt items totaling Kshs.28,422,506 that were either not collected or not properly accounted for as they indicated nil balances.

6.2.2 Significant Variations on Revenue Collections

Information and records available indicates that there were significant variances between the budgeted revenues and actual receipts on cess and public health fees as tabulated below:-

Item	Budget (Kshs)	Actual (Kshs)	Variation (Kshs)	Variation (%)
Cess	18,706,920	2,279,267	(16,427,653)	-88%
Public health fees	38,855,362	13,730,997	(25,124,365)	-64%
Total	**55,562,282**	**16,010,264**	**(39,552,018)**	**-71%**

Management has not provided justification for the shortfalls in the budgeted collections.

6.2.3 Omission of County Health Facilities Revenue in the Books

Revenue from the county health facilities have not been included in the county books of accounts. There was no satisfactory explanation rendered by management on the omission during the audit.

Consequently, it was not possible to confirm the completeness and accuracy of the Kshs.196,118,924 reported under receipts figure in the financial statements

7. Use of Goods and Services

The statement of receipts and payments and as detailed in note 13 to the accounts reflects an expenditure of Kshs.1,186,449,994 relating to use of goods and services. Included in this amount are payments totaling Kshs.4,820,192 that are not supported with relevant documentary evidence.

Consequently, the propriety of the Kshs.4,820,192 expenditure charged to public funds could not be confirmed.

8. Mortgage and Car Loans Facility

Included in the statement of receipts and payments is transfers to other Government units of Kshs.68,000,000 as disclosed in note 15 to the accounts. The amount relates to transfers to Members of the County Assembly car loans and mortgages fund. The requisite loans and mortgages board that is envisaged to manage the

scheme was not established as at the end of the financial year. It was also noted that the financial statements for the fund had not been prepared and submitted for audit as required by Section 11 of the Public Finance Management Act 2012. Consequently, the County Assembly is in breach of the law.

9. Assets and Liabilities inherited from Defunct Local Authorities

The statement of receipts and payments and as disclosed in note 18 to the accounts reflects an amount of Kshs.1,150,934,545 under acquisition of assets for the year (2014: Kshs.666,009,476). However, the financial statements for the year do not include the value of assets and liabilities inherited from the defunct local authorities, despite the county management having taken ownership. In addition, the Inter-governmental Relations Technical Committee which took over from the Transition Authority is yet to formally hand over the assets and liabilities to the County Government. This situation may be indicative of significant impairment on some of the assets. Consequently, it was not possible to confirm whether the carrying values as stated in the financial statements reflect fair values of the assets and liabilities as at 30 June 2015.

10. Incomplete Assets Listing

During the year and as indicated in the statement of receipts and payments under note 18 to the accounts, the County acquired assets totaling Kshs.1,150,934,545. This differs with the summary of fixed assets register on page 36 of the financial statements which reflects a figure of Kshs.322,082,830 thus leading to a variance of Kshs.828,851,715. Consequently, the existence and accuracy of the summary of fixed asset register items as at 30 June could not be confirmed.

11. Purchase of Total Station Machines

The County spent Kshs.54,149,924 on purchase of specialized plant, equipment and machinery. Part of this amount were payments for purchase of Total Station machines for geospatial mapping.

Examination of procurement records revealed that the Department of Land, Housing and Urban Development purchased two Total Station machines at a cost of Kshs.11,699,000 during the year. However, the payments were not posted in the cash book. The receipts of the machines is in doubt as there are no documents to support delivery, as well as the procurement documents for this purchase.

Consequently, the propriety of the expenditure of Kshs.54,149,924 on purchase of specialized plant, equipment and machinery for the year ended 30 June 2015 could not be confirmed.

12. Purchase of Heavy Earth Moving Machines

The statement of receipts and payments reflects an amount of Kshs.1,150,934,543 relating to acquisition of assets which includes payments of Kshs.332,921,482 on civil works. Part of this amount related to payments for purchase of heavy earth moving machines.

The County Government of Nyamira during the year under review procured 3 heavy earth moving equipment at a total cost of Kshs.60,984,000. The Local Purchase Order was raised on 8 May 2014 and the invoice raised on 11 June 2014 upon inspection of the equipment. However, upon verification and review of the procuring process and related documents, the following anomalies were noted:

i. The County Government used the term contracts of the Ministry of National Transport and Infrastructure (National Government) to order for the equipment;

ii. The County Government did not enter into its own agreement with the supplier for the supply of the equipment but instead relied on the Ministry's agreement;

iii. The Public Procurement and Oversight Authority had formally informed the County on 9 June 2014 that the Public Procurement and Disposal Act 2005 and its regulations do not recognize use of other procuring entity's contracts; and

iv. There was no agreement between the County Government of Nyamira and the Ministry of Transport and Infrastructure for the transfer of procurement responsibility as required under regulations 18(4) of the Public Procurement and Disposal Act and Regulations, 2006.

From the foregoing, it is evident that due process of procurement in accordance with Public Procurement and Disposal Act, 2005 and its regulations were not adhered to for the purchase of the equipment. It was not possible to confirm whether the Kshs.60,984,000 expenditure on purchases of heavy earth moving equipment was a proper charge to public funds.

13. Use of Imprest to Carry out Routine Civil Works

The County spent Kshs.332,921,482 on civil works during the year. Included in this amount was the cost of hiring casuals for various civil work activities in the County. From the review of the payments, it was noted that, County officers procured services on cash basis (vide imprest), despite having a list of prequalified suppliers and contractors for the financial year 2014/2015. This was mainly prevalent in the routine maintenance of various roads and market cleaning. The payments confirmed to have

been applied for the service amounted to Kshs.7,618,100. In addition, the following issues were also noted:

- There were no bill of quantities (BQs) originated by the engineer, to justify the volume of works;
- The services were not competitively sourced despite the amounts involved being substantial.
- No inspection and acceptance reports were used to support the payment. Ideally these should have been signed for by the committee to authorize for payment after certifying the works as done as per the BQs.
- Other works done using imprest included cleaning of markets, un-blocking of drainages, bush clearing and rehabilitation of various roads where there was no authority stating the nature of works, the execution period and there was no payees list approved by the supervising officer(s).
- Further, it was noted that the casual workers were paid at different rates per day ranging from Kshs.250 to Kshs.500; it was not clear how the rates were arrived at.

From the foregoing, the County Government is in breach of the Public Procurement and Disposal Act, in undertaking the above works. The validity of the payments to Kshs.7,618,100 on routine civil works could therefore not be ascertained.

14. Land Resource Mapping

Included in the expenditure of Kshs.1,150,934,543 relating to acquisition of assets is Kshs.185,609,506 spent on specialized materials and contracted services during the year. Parts of this amount were payments related to land resource mapping in the County.

The County Government of Nyamira engaged the National Governments' Department of Resource Surveys and Remote Sensing (DRSRS) to undertake a resource mapping exercise at a cost of Kshs.21,774,660. This service had been single sourced on the basis of government to government procurement.

The tender committee and procurement unit of the County Government was not involved in procuring for the services neither did the County management evaluate the contractor to check on experience and staff capacity.

The user (County Department of Lands, Housing & Urban Development) had also not requisitioned the services nor was it included in the procurement plan and budgeted for.

The contract agreement indicated that the second and final payments were to be based on the interim and final reports which were yet to be availed despite the contractor having been paid Kshs.8,709,864 as down payment by year end.

A government official receipt acknowledging receipt of money by the responsible Ministry was also not available for audit review.

In the circumstances, it was not possible to confirm validity of the Kshs.8,709,864 payment and effective use of public funds in the procurement of land resource mapping services.

15. External Refurbishments to Nyamira Level 4 Hospital and Construction of Main Gate

Incuded in expenditure of Kshs.1,150,934,543 relating to acquisition of assets is Kshs.86,084,681 being cost of refurbishment of buildings during the year. Part of this amount being payment for the external refurbishment of Nyamira level 4 hospital and construction of main gate.

The total contract sum for the construction of the main gate and the refurbishment works on the hospital was Kshs.7,680,831. A review of the contractor's bill of quantities (BQ) indicated that the gate was to cost Kshs.2,581,406. This consisted of a sentry box, gate, and a visitors waiting area. Although the works had been done as per specifications, the use of the Kshs.2,581,406 to construct the gate and related works in light of the limited resources could not be justified.

The balance of Kshs.5,099,425 was to cater for various repair works on the hospital buildings, which entailed; wire brushing of beams and columns, painting and decorating fair faced surfaces of concrete ring beams columns, horizontal points and gable ends walls of the level 4 hospital. The exact measurements in square meters of the areas to be covered were not detailed out in the BQ. The quantity surveyor instead gave a blanket quantity of meters to be done, which may have resulted immeasurable works. The actual engineer's estimates were also not availed for audit review.

Physical verification of the project indicated that most beams and columns were wire brushed. The fair faced surfaces of concrete ring beams, columns horizontal points had also been painted. However, due to limited details on the BQ, it was not possible to confirm that the scope of works done matched the intended scope. A provisional sum of Kshs.470,000 had also been paid but which was yet to be accounted for.

Consequently, the propriety of the expenditure of Kshs.86,084,081 could not be confirmed.

16. Renovation of the Nyamira Level 4 Hospital

The expenditure of Kshs.86,084,681 includes payments for the renovation of the level 4 hospital mortuary, kitchen, store and the plumbing works.

The proposed contract for refurbishments to Nyamira Level 4 Hospital was awarded on 15 May 2014 at a contract sum of Kshs.26,393,010 with a contract period of 24 weeks with effect from the date of award. The nature of work involved renovation of hospital mortuary, kitchen, store and plumbing works.

A physical verification of the kitchen and store works done revealed that the flush doors were not replaced as stated in the BQs. The three coats of bituminous paint were also not applied to the rendered area and concrete floor was not placed on the base but instead a concrete floor was done. No documentation to confirm approval of the changes was availed for audit.

Verification of the X-ray unit works done revealed that the old paint was not hacked out as per the BQ with the painting being poorly done. The plumping works were not done to the satisfaction as there were noticeable leakages with no water flowing into the taps and the toilets. That notwithstanding, payments had been done on the basis of the engineer's certification of works done and the inspection and acceptance reports without notice of these defects and non-performances.

Further, the works were completed one year ago yet no formal handing over had been done by the time of the audit in December 2015. In the circumstances the propriety of the expenditure of Kshs.26,393,010 on the project could not be confirmed.

17. Civil Works at County Health Centres

The expenditure of Kshs.1,150,934,543 relating to acquisition of assets includes an amount of Kshs.226,683,317 being cost of refurbishment of County Health Centres. Part of this amount were payments for civil works at various County Health Centres.

From a sample review of works being done on various health facilities during the year with a total contract sum of Kshs.25,565,027, the following observations were made:

i) The contract agreements between the contractors and the County Government did not set the commencement dates, the contract period or the completion date. These contracts were therefore open ended and renders them ambiguous for enforcement.

ii) At Magwagwa Health Centre, the bills of quantity had indicated that the project was for rehabilitation and renovation of a kitchen block. The actual works done were on the rehabilitation of staff quarters. Approval of these changes were not availed for audit review. Rehabilitation and renovation works of the staff quarters

were also poorly done as there were visible cracks on the floors. Therefore, the value for money on this project could not be confirmed.

iii) At Endiba Health Centre, the bill of quantities included provisions for site clearing, excavation and earth works as well as disposal of the excavated materials. However, it was observed that work was actually being done on an existing project that did not require excavation and site clearing provision which had already been done. In this regard the justification for the payment of Kshs.2,007,438 for works not done was not provided.

iv) At Orwak Health Centre, it was observed that works for the rehabilitation and renovation of the facility contracted at a sum of Kshs.3,304,120 by the County Government were similar to what was also being done by Constituency Development Fund and World Vision at the same facility. Although no payment had been made to the contractor by the time of the audit, it was difficult to establish how those works would be distinguished from what the other parties were undertaking. A two door pit latrine claimed to have been constructed by the contractor from the documents presented was non existent.

v) It was also observed that no works had commenced as at the time of the project visits. The explanation rendered was that the contractors had not been paid and thus temporarily abandoned the works.

From the observations made, there is a likelihood that the County might not get value for money used on the projects due to delays, weak contracts documents and likelihood of double dipping and therefore not a justified cause for the use of public funds.

18. Rehabilitation of China Health Facility

The statement of receipts and payments reflect an expenditure of Kshs.1,150,934,543 relating to acquisition of assets that includes an amount of Kshs.226,683,317 spent on refurbishment of civil works. Part of this amount were payments for the rehabilitation of China Health Facility.

The Contract for renovation and rehabilitation of China Health Facility was awarded on 27 June 2014 at a contract sum of Kshs.3,228,493 with Kshs.1,218,820 having been paid out to the contractor as at the year end.

During the physical verification of the project visit it was observed that the refurbishment of the main block was partially done with only three rooms out of the six having some work done. Poor quality paint had been applied to the three rooms, with many cracks visible from the floor and ceiling. The contractor did not fit new ceilings as per the BQs but only renovated and repainted existing ones which were also poorly done. A site for the construction of an incinerator and waste pit were provided but setting up of the structures was yet to commence. All these had been

certified as having been done and hence paid for. The contractor had also abandoned the work and indications were that no works had been done for quite some time. There were also no materials on site.

In view of the above, the justification for the payments totaling Kshs.1,218,820 on the project could not be confirmed.

19. Drilling Works by Ministry of Water, Sanitation and Irrigation

The acquisition of assets expenditure of Kshs.1,150,934,543 relating to acquisition of assets includes an amount of Kshs.226,683,317 spent on refurbishment of civil works. Part of this amount were payments for drilling Works by Department of Water, Sanitation and Irrigation.

The Contracts for drilling works and equipping of five (5) boreholes were awarded to two (2) contractors at a total cost of Kshs.23,451,604. One of the contractor was awarded 3 boreholes while the other was awarded 2 boreholes.

The Bills of Quantity for the projects at Nyangena, Bogwendo, Nyagware, Omikorindo and Okano had indicated that the contractor was required to erect a tank platform to support 40,000 litres, supply two (2) tanks of 20,000 litres and mount the same on the platform. During the audit verification it was observed that the contractors had supplied water tanks for each project site with a capacity 10,000 litres each instead of the two (2) tanks of 20,000 litres each.

It was therefore not possible to establish whether value for money was achieved in the implementation of the project.

20. Construction of Masonry Tank at Ekerenyo

Included in the Kshs.1,150,934,543 expenditure is Kshs.226,683,317 on account of refurbishment of civil works. Part of this amount were payments for construction of a Masonry Tank at Ekerenyo.

A contract to construct and rehabilitate Ekerenyo Water Spring was awarded at a contract sum of Kshs.5,084,639. Among other works to be done was the construction of a masonry tank for Kshs.836,355. This was noted to have been done on a private land without written agreement or consent with the owner. The use of public funds on the project could therefore not be justified.

Consequently, the propriety of the expenditure on construction of masonry tank at Ekerenyo amounting to Kshs.5,084,637 for the year ended 30 June 2015 could not be confirmed.

21. Miriri Water Project

Included in the amount of Kshs.226,683,317 spent on refurbishment of civil works are payments for Miriri Water Project.

The Department of Water & Irrigation awarded a contract for construction and rehabilitation of Miriri borehole water supply at a sum of Kshs.6,472,293. The scope of works included construction of 50 cubic meters ($50M^3$) masonry tank, 2 standard water kiosks, installation of main and distribution lines and setting up of a pump house.

At the time of the audit, the contractor had fully completed the project and had been fully paid. However, documents of ownership of the land on which the tank is constructed were not availed for audit verification.

Included in the payments to the contractor was a provisional lumpsum of Kshs.300,000. However it was not clear what this related to as it had not been quantified in the bill of quantities. In addition, the supply of water was yet to begin as the pump house was yet to be connected to electricity. The efficient use of public funds on the project could therefore not be established.

Consequently, the propriety of the expenditure on construction of Miriri Water Project amounting to Kshs.6,472,293 for the year ended 30 June 2015 could not be confirmed.

22. Renovations of Market Stalls and Construction of Pit Latrine at Nyabite Market

Included in the expenditure of Kshs.1,150,934,543 relating to acquisition of assets is an amount of Kshs.226,683,317 spent on refurbishment of civil works. Part of this amount were payments for renovations of market stalls and construction of pit latrine at Nyabite Market.

The project for renovation of market stalls and construction of pit latrines at Nyabite market was awarded at a contract sum of Kshs.11,900,416 for a period of 12 weeks with effect from 29 September, 2014. A site visit on 2 October 2015 noted that renovation works for the stalls, toilet block and landscaping were substantially complete. However, some works in the bills of quantities and certified in the inspection and acceptance reports had not been done. These included:

- Openings – works on grills, french and dwarf doors and flush doors included in the BQs at a cost of Kshs.297,000 were non-existent on the ground even though payment had been made in full.

- Roof construction and roof covering, rain water works and water storage tanks all billed at Kshs.2,157,120 were at 30% completion according to the

Inspection and Acceptance Committee's Report translating to Kshs.647,136. However, site inspection revealed that none of the works had been done.

- Finishes – wall finishes and worktops, floor finishes, wall tiles and coping finishes billed at Kshs.1,202,000 was complete up to 60% as per the inspection reports representing Kshs.721,200. However, upon inspection, none of the works was in existence on the ground.

From the above findings, it was evident that payments were made for non-existent works.

Further, it was observed that the septic tank and manhole covers had been vandalized, thus posing a great danger to the users of the market facility. The site has not been hoarded despite its provision in the bill of quantities. The works done as at the time of site visit were not commensurate with the value paid of Kshs.9,921,584.

In view of the above, the propriety of renovation of market stalls and construction of pit latrines at Nyabite market amounting to Kshs.11,900,416 could not be confirmed.

23. Rehabilitation and Maintenance of Rionsongo, Nyaisa, Moromba Road

The statement of receipts and payments and as detailed in note 18 to the accounts reflects an expenditure of Kshs.1,150,934,543 relating to acquisition of assets.

Included in this amount is Kshs.332,921,482 spent on account of rehabilitation of civil works during the year. Part of this amount were payments for rehabilitation and maintenance of Rionsongo, Nyaisa, Moromba road.

The contract for rehabilitation and maintenance of Rionsongo, Nyaisa, Moromba road was awarded at a contract sum of Kshs.9,483,000 on 24 April, 2014 for a period of 90 days. The audit verification of the works carried out in September 2015 noted the following observations:-

The road stretches for 5.2 Kilometers, with murrum applied having worn out indicating poor workmanship. Only one culvert was erected on the road at the stream which was of poor workmanship and wrongly placed. It was clear that the work was incomplete and posed real danger to the road users. The contractor had been paid a total of Kshs.5,220,600 as at the date of review.

Despite the project period of over one year having lapsed, significant proportions of the works were yet to be done.

Consequently, the value for money on the rehabilitation and maintenance of Rionsongo, Nyaisa, Morombo road amounting to Kshs. 5,220,600 could not be established.

24. Rehabilitation and Maintenance of Miruka-Nyandoche II-Gitare-Nyamaiya Ward Road

Included in the total acquision of assets expenditures is an amount of Kshs.332,921,482 spent on account of rehabilitation of civil works during the year. Part of this amount were payments for Miruka-Nyandoche II-Gitare-Nyamaiya Ward road.

The contract for rehabilitation and maintenance of Miruka-Nyandoche II-Gitare-Nyamaiya ward road was awarded at a contract sum of Kshs. 9,901,891 for a period of 90 days which lapsed on 24 July, 2014. The contractor had been paid Kshs.2,797,699 by the time of the audit and the balance of Kshs.7,104,192 was still outstanding. The verification and site visit of the road project carried out on 30 September 2015 and the following was noted:-

The road runs for a stretch of 7.8 Kilometres, with minimal gravelling and murrum on the 3 km stretch already paid for. There was no signage erected to confirm the contractor assumed site. At the time of site visit one year had since elapsed with only 30% of the works done. No works were being undertaken at the time of visit raising questions on the contractor's capacity to undertake and complete the project. The value for money for the public funds committed to the project is at risk of loss.

Consequently, the propriety of rehabilitation and maintenance of Miruka-Nyandoche II-Gitare-Nyamaiya ward road amounting to Kshs.9,901,891 could not be confirmed.

25. Compensation of Employees

The statement of receipts and payments reflects the total payments to employees in the year under review as totaling Kshs.1,350,910,943. The following observations were noted from the review of the payments to employees:

i) The wage bill was at 38% of the total receipts of Kshs.3,522,579,616 during the year which is above the national wage bill ceiling of 30% of the total receipts in a given financial year. The wage bill comparison to the previous year ended 30 June 2014 indicated an increase of Kshs.323,745,884. The explanation given by the management was that the employees of the devolved department of health and agriculture were taken over by the County Government during the year. However, the County Government of Nyamira had not developed an ideal staff establishment despite having 2,157 employees on board as at 30 June 2015.

ii) Included in the compensation of employee figure of Kshs.1,350,910,943 is Kshs.9.600,000 paid to County ward employees paid as monthly salaries of Kshs.800,000. The employees have no valid employment contracts with their the County Assembly. A spot check carried out during the audit to establish the existence of the employees revealed that some of them were not

physically present at their work stations. Further existence of Township ward office could not be located while Bomwagomo Ward office was closed at the time of the audit.

iii) It was also noted that Kshs.14,061,236 was paid to temporary employees during the year who did not have contracts with the County Government. There were also instances where the payees National Identity Card numbers were not included in the payment schedules; casting doubts on the existence of the temporary employees. It was further noted that Early Childhood Development Education (ECDE) teachers were paid Kshs.4,854,500 per month without being subjected to statutory deductions of NSSF as required by the NSSF Act, 2013.

In view of the above, the accuracy validity and completeness of the reported compensation of employees expenditure of Kshs.1,350,910,943 for the year could not be confirmed.

Below are County Assembly expenditures posted under executive votes:

Sector where expenditure posted	Budget	Item	Amount (Kshs)
Roads and transport	Recurrent	Fuel and lubricants	2,000,000
Water	Recurrent	Contracted services	2,200,000
Water	Recurrent	Boards, committees and conferences	2,000,000
Health	Recurrent	Basic salaries	3,210,000
Agriculture	Development	Maintenance of plant and machinery	2,500,000
Roads and transport	Development	Maintenance and civil works	12,244,324
Total			**24,154,324**

Management has not reversed the inaccurate entries in the books of account.

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 Nyamira 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 Public Finance Management Act, 2012.

Other Matter

1. Budgetary Performance Analysis

During the year under review, the approved final budget for Nyamira County Government was Kshs.4,678,266,276 with Kshs.2,719,352,834 or (58%) allocated to the recurrent expenditure and Kshs.1,958,913,442 or (42%) to development expenditures. An analysis of the recurrent and development expenditure verses the budget is as shown below:

i. Recurrent Expenditure

The comparison of budget to actual expenditure for the recurrent expenditure is as shown below:

Sector/ Departments	Budget Kshs	Actual Kshs	Variance Kshs	Variance %
County Assembly	250,085,650	163,512,333	86,573,317	35%
County Executive Office	696,577,720	661,172,767	35,404,953	5%
Finance and Economic Planning	96,391,517	47,485,345	48,906,172	51%
Agriculture, Livestock and Fisheries	161,838,928	138,521,141	23,317,787	14%
Environment, Energy, Natural Resources and Mining	27,373,638	17,867,107	9,506,531	35%
Education and ICT	162,070,000	110,713,791	51,356,209	32%
Health	1,053,212,523	923,429,918	129,782,605	12%
Lands, Housing and Urban Development	44,362,322	42,819,479	1,542,843	3%
Water	67,787,806	57,525,202	10,262,604	15%
Roads, Transport and Public Works	46,991,436	40,629,416	6,362,020	14%
Trade, Tourism, Industrialization and Cooperatives Development	53,673,998	29,383,743	24,290,255	45%
Youths, Sports, Gender, Culture and Social Services	58,987,296	46,382,663	12,604,633	21%
Total	**2,719,352,834**	**2,279,442,905**	**439,909,929**	16%

The County Executive underspent 5% of its recurrent budget while the County Assembly's budget was underspent by 35%. The explanation given by management on under spending of 35% of the County Assembly was that some of its votes were mis-posted on the County Executive expenditure.

ii. Development Expenditure

The comparison of budget to actual expenditure for the development expenditure is as shown below:

Sector/Department	Budget Kshs	Actual Kshs	Variance Kshs	Variance %
County Assembly	107,224,000	82,925,291	24,298,709	23%
County Executive Office	190,000,000	131,095,614	58,904,386	31%
Finance and Economic Planning	18,092,000	17,657,534	434,466	2%
Agriculture, Livestock and Fisheries	74,006,005	84,027,324	(10,021,319)	-14%
Environment, Energy, Natural Resources and Mining	71,769,570	61,434,096	10,335,474	14%
Education and ICT	117,757,445	51,161,451	66,595,994	57%
Health	345,062,113	176,990,357	168,071,756	49%
Lands, Housing and Urban Development	32,170,000	27,596,100	4,573,900	14%
Water	184,642,265	100,696,156	83,946,109	45%
Roads, Transport and Public Works	667,010,352	536,847,352	130,163,000	20%
Trade, Tourism, Industrialization and Cooperatives Development	114,652,368	160,726,792	(46,074,424)	-40%
Youths, Sports, Gender, Culture and Social Services	36,527,324	45,694,511	(9,167,187)	-25%
Total	**1,958,913,442**	**1,476,852,578**	**482,060,864**	**25%**

The Departments of Agriculture, Trade and Youth overspent their Development budget. In the Department of Agriculture, it was noted that expenditure for purchase of animals was overshot by Kshs.4,697,000 while the Department of trade purchased motor vehicles for Kshs.49,570,000 which was not in the current year's budget.

Overally, the under expenditure of 25% adversely affected the development goals of the County.

iii. Office of the Governor

The office of the Governor had a budget of Kshs.696,577,720 on recurrent expenditure and the actual expenditure was Kshs.661,172,767 (95%) as shown below:

Head	Budget	Actual	Variance
	Kshs	Kshs	Kshs
Compensation to Employees	354,867,281	353,844,513	1,022,768
Utilities, supplies and Services	240,000	186,845	53,155
Communication, Supplies and services	609,000	535,360	73,640
Domestic travel and Subsistence	43,657,109	35,831,754	7,825,355
Foreign travel and subsistence	52,034,919	39,525,907	12,509,012
Printing, advertising and information supplies and services	25,864,510	20,816,199	5,048,311
Rentals of produced assets	600,000	600,000	-
Training Expenses	14,481,226	14,418,646	62,580
Hospitality supplies and services	18,849,000	15,352,981	3,496,019
insurance costs	27,824,086	27,824,086	-
Specialized materials and services	500,000	420,000	80,000
office and general supplies and services	5,743,660	5,446,184	297,476
Fuels and lubricants	5,724,000	4,084,410	1,639,590
Membership fees	105,220	105,220	-
Other operating Expenses-other	58,836,244	56,817,364	2,018,880
Routine maintenance-Vehicles and other transport equipment	3,565,000	2,108,721	1,456,279
Routine maintenance-Other assets	2,519,970	995,815	1,524,155
Gratuity-Civil servants	57,194,485	57,194,485	-
Public service board	23,362,010	25,063,277	(1,701,267)
Total	**696,577,720**	**661,171,767**	**35,405,953**

The expenditure also includes that of the Office of the Deputy Governor, the Public Service Board as well as the General Administration.

The Office of the Governor had a budget of Kshs.190,000,000 on development expenditure while the actual expenditure was Kshs.131,095,614 (69%) as shown:

Governor Department - Development Expenditure	Actual (Kshs)
Scholarships and other Educational Benefits Secondary Education	43,852,551
Donations	4,248,000

Emergency Fund	8,586,218
Other Infrastructure and Civil Works	310,587
Purchase of Motor Vehicles	10,633,625
Purchase of Office Furniture and Fittings	4,686,543
Purchase of Generators	450,000
Field Operational Allowance	1,306,004
Maintenance of Roads, Ports and Jetties	480,000
Minor Alterations to Buildings and Civil Works	272,000
Non-Residential Buildings (offices, schools, hospitals, etc.)	8,998,800
Other Infrastructure and Civil Works	44,421,286
Purchase of Office Furniture and Fittings	2,850,000
	131,095,614

The office had projected to provide Kshs.108,000,000 in scholarships and bursaries but only spent Kshs.43,852,551 (39%).

iv. Reallocation of Funds

The following matters were noted from the review of expenditure during the year:

i) Examination of expenditure reports of the Executive, Administration and Public Service departments indicated that Kshs.11,200,000 allocated for scholarships and other educational benefits, were reallocated towards the purchase of motor vehicles - Ford Everest Registration No. KBY 923C and KBY 922C which were not in the procurement plan for the year.

ii) Kshs.2,850,000 allocated for the purchase of medical drugs was reallocated to the purchase of fire proof cabinets. Management did not provide justifications for the diversion of funds from purchase of essential medical supplies.

iii) Kshs.1,000,550 allocated for the purchase of furniture and fittings was reallocated to fund Council of Governors' expenses.

iv) An amount of Kshs.24,587,960 in the department of Sports, Youth & Gender was reallocated to the departments of Roads & Public Works, Health, Education and Agriculture. The re-allocations amounted to 23% of the department's budget contrary to the allowable limit of 10% as per the Public Finance Management Act, 2012.

Further, a total of Kshs.16,379,779 was reallocated from the Department of Environment, Energy and Natural Resources to fund various projects in other Departments. This was 16.5% of the total approved vote which is over and above the ceiling 10 per cent allowed in Section 154.2(c) of the Public Finance Management Act 2012, Section 154.2(c).

There was no evidence to indicate that these reallocations were considered and approved by the County Assembly as they were above the set thresholds. This contravened the provisions of the Public Finance Management Act 2012 on reallocation of expenditure.

2. Receipts

The County Government of Nyamira received a total of Kshs.3,522,579,616 comprising of Kshs.3,298,836,907 from the National Government, Kshs.196,118,924 from local revenue collections, Kshs.21,540,000 grant from Danida and Kshs.6,083,785 from sale of seeds and breeding stock.

i. Exchequer Receipts

The County had budgeted to receive Kshs.4,962,192,997 from the National Government during the year. However, only Kshs.3,298,836,907 or about 66.5% had been received by the end of the year. There was a further Kshs.326,258,595 that had been released from the National Treasury but received after the year end. This amount is included in subsequent year's financial statements.

ii. Other Receipts

The County had projected to collect Kshs.219,053,554 from local sources during the year. However, the actual receipts from local sources amounted to Kshs.202,202,709 (92%). This comprises of Kshs.196,118,924 from local revenue collections and Kshs.6,083,785 from sale of seed and breeding stock.

From the review of local revenue the following issues were noted:

a) Not all revenue collections are recorded or managed centrally. Revenue from the Level 4 Hospital, Sub-County hospitals and other health facilities, Department of Water, Environment, Social Services and Culture and Department of Agriculture, Livestock and Fisheries are recorded at the Revenue collection centre, which is a unit in Department Treasury. Instead, these departments make their own internal arrangements on mode of collection and documentation of the revenues. The revenues are therefore not included in the County's financial records. It is therefore not possible to ascertain that all revenues collected have been accounted for due to the disjointed manner of revenue management at the County.

b) A software system for revenue collection has not been put in place even after defunct of Local Authorities Integrated Financial and Operating Management Systems (LAIFOMS). Due to the inadequacies, the County Government management is not keen on enhancing their revenue collection mechanisms.

c) The County management has also not developed a county revenue collection manual/ policy to guide revenue sourcing and management. In addition the

management has not availed the revenue collection documents to all receivers and collectors of revenue. As a result some Departments use their own receipt books and other documents which are not part of the County accountable documents since they lack serial numbers and clear documentation trail.

d) The revenue receivers who have been transferred from their former stations were not reappointed at their new stations as revenue receivers thus creating gaps and loopholes for revenue leakages.

It was also noted that County Revenue Fund (CRF) account and other commercial bank accounts have not been created in IFMIS which is the County accounting system.

In the circumstances, the completeness and validity of income from local revenue collections could not be confirmed.

3. Transactions Posting and Accounting

i) A review of the County's vote status report from the IFMIS records shows instances of numerous adjustments and counter adjustments in various budget items. Further there were no formal journal adjustment approvals provided by the County management to confirm their authorization. The summary of the adjustments per sector is as shown below;

Sector/departments	**Recurrent expenditure (Kshs)**	**Development Expenditure (Kshs)**
County Executive Office	187,024,228	58,343,004
Finance and Economic Planning	8,862,826	9,558,643
Agriculture, Livestock and Fisheries	10,583,825	25,625,673
Environment, Energy, Natural Resources and Mining	4,190,600	14,376,330
Education and ICT	9,156,580	1,355,390
Health	18,164,795	8,338,640
Lands, Housing and Urban Development	12,395,922	30,000
Water	12,011,907	38,169,894
Roads, Transport and Public Works	3,685,916	155,253,526
Trade, Tourism, Industrialization and Cooperatives Development	5,182,014	51,044,813
Youths, Sports, Gender, Culture and Social Services	28,313,929	23,306,600
	299,572,542	**385,402,513**

ii) In addition, certain payments noted in the vote status reports were not reflected in the financial statements under the relevant items. For instance, the Department of Land bought land for Kshs.8,299,000 during the year which was disclosed in the financial statements under acquisition of assets, indicating a misposting or omission of the same.

iii) Expensing of imprests on issuance as opposed to when the expenditure returns and surrender are made.

A review of the transactions posted in the County's accounting records indicates that there were instances where imprests have been expensed as shown below:-

Department	Name	Amount (Kshs)
Trade	Robert Momanyi	1,350,000
Trade	Zephania Mokua	500,000
Trade	Jared Manono	390,000
Water	Joseph Mokaya	1,400,000
Finance	Zephania Mokua	1,300,000
Health	Nyamusi Distrct hospital	700,000
Health	Manga District hospital	2,191,000
Health	Esani district hospital	500,000
Health	Nyamira district hospital	6,600,000
Health	Nyangena district hospital	1,000,000
Health	Keroka district hospital	4,100,000
Total		**20,031,000**

This was prevalent in the funds disbursed to heath facilities in the County during the year. Management has not provided justification for the use of imprests in updating the accounting records.

4. Public Private Partnership (ICT)

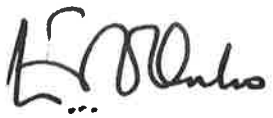
Nyamira County Government through the Department of Education, Information and Communication Technology entered into a contract agreement with Northern Kenya Caucus (NORKENYA) – E-Learning Department on 2 October 2014. According to the agreement, the County Government (ICT) was to provide facilities such as laboratories, workshops, libraries, tiled classrooms, seminar rooms, video newsrooms, suitable chairs, desks, whiteboards, teaching aids and e-props, sanitation facilities, internet as and when the need arises for mounting of academic programs. NORKENYA was on its part to donate computing tools suitable for e-learning purposes and research and capacity building per departments, inspection and direct scientific direction and approaches of the project.

Information available indicated that the County Government had been provided with 45 Samsung Galaxy phones, but only 17 pieces were received at the County. This is an indication that 28 pieces were never delivered to the County Government of Nyamira. Further, 85 pieces of notepads were also provided for but only 49 pieces were delivered leaving 36 unaccounted for. Further, out of the 25 desktops earmarked for delivery only 11 were delivered resulting to under delivery of 14 pieces. The County Government was also to benefit from 3 smart screens, however, none of them had been received.

Communication by the County Executive Member in charge of Education and ICT indicated that the undelivered ICT equipment were taken by a link person to the partnership. There is no indication from management as to how the items will be recovered or where they are at the moment.

Further no record of the items delivered had been captured in the in the books of accounts of the County Government. Instead, they were stored in the office of the County Executive Member incharge of Education and ICT with no delivery notes or goods received notes being raised as and when the goods were delivered.

My opinion is not qualified in respect of these matters.



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

Nairobi

27 September 2016