REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF NYERI

FOR THE YEAR ENDED 30 JUNE 2015

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OFFICE OF THE AUDITOR-GENERAL

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

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Nyeri set out on pages 7 to 20, which comprise the statement of assets and liabilities as at 30 June 2015, and statement of receipts and payments, statement of cash flows, and summary statement of appropriation recurrent and development considered 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.

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 judgment, 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.

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. Statement of Other Receipts and Payments

The statement of receipts and payments for the year ended 30 June 2015 reflects Kshs.842,707,972 in respect of Other Receipts. However, the schedules provided to support the same reflect a balance of Kshs.680,198,473 resulting in an unexplained difference of Ksh.162,509,499 which was not explained or reconciled. Consequently the accuracy and completeness of Other Receipts figure of Kshs.842,707,972 could not be confirmed.

2.0. Unsupported Payments

The statement of receipts and payments for the year ended 30 June 2015 reflects expenditure amounts totaling Kshs.2,334,413,150 which were not supported with relevant schedules or ledger as follows:

	Kshs.
Use of Goods and Services	1,069,954,577
Transfer to Other Government Entities	258,232,000
Government Pension and Retirement Benefits	20,000,000
Acquisition of Assets	986,226,573
Total	**2,334,413,150**

In addition, there was no fixed assets register maintained to record details of assets acquired during the year with a value of Kshs.986,226,573. In absence of supporting documents, ledgers and schedules, the validity, propriety, completeness and accuracy of the expenditure of Kshs.2,334,413,150 could not be ascertained. Given the significance of the unsupported amount, I was unable to state whether 47% of total county funding was used effectively and in a lawful manner.

3.0. Compensation of Employees

3.1. Understatement in Compensation of Employees

The Statement of Receipts and Payments shows a Compensation of Employees balance of Kshs.2,621,914,764. However, availed schedules had a total to Kshs.2,628,087,072

resulting in an unexplained and unreconciled balance of Kshs.6,172,308. Consequently, the accuracy of Compensation of Employees expenditure of Kshs.2,621,914,764 could not be confirmed.

3.2. Unsupported Compensation of Employees Balance

Review of Monthly summary statement of compensation of employee balance availed for audit revealed unjournalized expenditure amounting to Kshs.491, 868,115 classified as salary deduction. However, the supporting ledger was not provided for audit verification and neither was the figure explained. Consequently, the accuracy of the compensation of employee balance could not be ascertained.

4.0. Cash and bank balances

4.1. Failure to maintain Cash Books

The Statement of Assets shows a Bank and Cash balance of Kshs.82,193,419. However, cash books for the following bank accounts were not maintained:

Detail	Account No.	Amount(KShs)
Central Bank of Kenya – CRF	1000171634	5,191,719.00
KCB Revenue	1140760319	-
Land rate-Equity Bank	0110264079376	2,918,365.00
Equity Bank-Revenue Account	0110261912354	41,820,779.63
Health KCB	1167235169	2,626.00
Education KCB	1167243641	325.00
Trade-Equity Bank	0110263704632	795.00
Agriculture-Family Bank	5500003363	3,352.00
Gender-Equity Bank	110263732851	660.00
Energy	1001097810600	100
Public works-Coop Bank	1141666078200	124
Governor's office-Coop Bank	1141666076300	1,364.00

In the circumstances, the above reflected bank balances and the transactions effected through these bank accounts could not be confirmed. In absence of proper maintenance of cash books, there is risk of fraud and errors being committed and remaining undetected in addition to distorting accounting records for both revenue and expenditure. The financial statements of the County as a whole cannot serve without basic books of account like cashbooks.

4.2. Unreconciled balances

Further, it was observed that no bank reconciliations were prepared for the following bank accounts:

Detail	Account No.	Amount(KShs)
Central Bank of Kenya – CRF	1000171634	5,191,719.00
Central Bank of Kenya-Recurrent Account	1000171227	134,392.00
Central Bank of Kenya-Development Account	10001711197	338,876.00
Land rate-Equity Bank	0110264079376	2,918,365.00
Equity Bank-Revenue Account	0110261912354	41,820,779.63
Imprest account-Coop Bank	0114511315000	31,713,573.85
Health KCB	1167235169	2,626.00
Education KCB	1167243641	325.00
Trade-Equity Bank	0110263704632	795.00
Agriculture-Family Bank	5500003363	3,352.00
Gender-Equity Bank	110263732851	660.00
Energy	1001097810600	100
Public works-Coop Bank	1141666078200	124
Governor's office-Coop Bank	1141666076300	1,364.00

The Bank statements for the Development account and the ministerial accounts for Ministry of Health, Education, Trade, Agriculture, Gender, Energy, Public works and Governor's office were not availed for audit review. Further, bank confirmation certificates for all bank accounts were also not availed for audit review.

In the circumstances, the accuracy and completeness of bank balances amounting to Kshs.82,193,419 could not be confirmed.

5.0. Outstanding Imprests

The Statement of Assets reflect outstanding imprests of Kshs.5,835,723 as at 30 June, 2015, while the schedules availed during the audit show a balance of Kshs.9,268,848 resulting in a variance of Kshs.3,433,125 which was not reconciled or explained. Further, the trial balance availed shows an imprest balance of Kshs.12,454,741 resulting in an unexplained difference of Kshs.6,585,078 from the amount shown in the financial statements. Additionally, seventeen (17) officers formally in the analysis of outstanding imprests availed during the continuous audit were not included in the final schedules provided for audit.

In the circumstances, the accuracy and completeness of the imprest balance of Kshs.5,835,723 could therefore not be confirmed.

6.0. Unsupported Deposit and Retentions

The Statement of Assets reflects a balance of Kshs.31,713,573 in respect of deposits and retentions which was not supported by relevant schedules or ledgers. In the circumstance, the completeness and accuracy of the balance could not be confirmed.

7.0. Failure to Disclose Receivables

The International Public Sector Accounting Standards under cash basis reporting template which requires the county government to disclose receivables in Notes to the financial statements. However, the County Government did not disclose receivables including rent and rates in the notes as required. In the circumstances, the county government's Financial Statements do not comply with IPSAS.

8.0. Irregularities in Integrated Financial Management System Operations

8.1. Unposted Receipts

The County Treasury did not post Exchequer Releases, Grant Receipts, Transfer from other Government Entities and Own Generated Funds of Kshs.4,100,574,908, Kshs.500,000, Kshs.46,439,630 and Kshs.842,707,972 respectively in the IFMIS. This was attributed to the County Revenue Fund (C.R.F) and commercial bank accounts not being configured in IFMIS for recording of revenue.

8.2. CRF and Commercial Bank Accounts not Created in IFMIS

The following bank accounts had not been configured in the IFMIS system:

Bank	Account name	Account Number
Central Bank of Kenya	County Revenue Fund (C.R.F)	1000171634
Kenya Commercial Bank(KCB)	Land rates revenue account	1140760319
Cooperative Bank of Kenya	Imprest account	0114151131500
Equity Bank	Revenue Account	0110261912354
Family Bank of Kenya	County Assembly	0550002664

Consequently, the County Government was not able to post into the system transactions relating to these accounts.

8.3. Unreconciled Balances to the IFMIS

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

Details	Amount as per the financial statements Kshs.	Amount as per the IFMIS Kshs.	Variance Kshs.
Receipts	4,990,222,511	-	4,990,222,511
Payments	4,957,629,697	4,349,511,333	608,118,364
Financial assets	85,819,233	-	85,819,233
Opening balance	55,436,328	-	55,436,328

The County Government did not explain the noted variances. Consequently, the accuracy of the financial statements as a whole could not be confirmed.

8.4. Variances Between the Budget Execution Report From IFMIS and Figures Disclosed in the Financial Statements

The following discrepancies between the Budget Execution Reports extracted from IFMIS and the Summary Statements of Appropriation presented on the financial statements were noted:-

Development budget	**Budget (Kshs)**	**Actual expenditure (Kshs)**
As per financial statements	1,623,992,606	1,019,696,611
As per extracted report from IFMIS	1,635,386,659	1,056,526,085
Variance	(11,394,053)	(38,829,474)
Recurrent budget		
As per financial statements	3,866,948,836	3,940,142,995
As per extracted report from IFMIS	3,866,948,836	3,061,163,073
Variance	-	**878,979,922**

The validity and accuracy of budget execution statement for 2014/2015 could not be ascertained.

9.0. Unresolved Prior Year Matters

The following matters raised in the Auditor-General's report for 2013/2014 financial year have not been addressed.

9.1. Assets and Liabilities Inherited from Defunct Local Authorities

As reported in the year 2013/2014, the County Government disclosed under annex IV fixed assets balances of Kshs.267,405,139 and pending bills totaling Kshs.344,941,390 for the year ended 30 June 2014. However, the County's financial statements did not include the assets and liabilities inherited from the defunct local authorities, although the county management took possession of them. In addition, the Transition Authority is yet to formerly hand over the assets and liabilities of the defunct local authorities to the County Government.

Consequently, the financial statements presented by the County Government as at 30 June 2015 are not fairly stated.

9.2. Variances between Financial Statements and Ledgers/Supporting Schedules for 2013/2014

The following variances noted between the financial statements and supporting/IFMIS report have not been corrected in the current financial statements:

Items	Balance as per 2013/14 Financial Statements Kshs.	Supporting Schedules/IFMIS Ledger Kshs.	Variances Kshs.
Compensation of Employees	1,840,943,225	1,470,764,668	163,077,849
Use of Goods and Services	818,976,535	461,275,765	357,700,770
Acquisition of Non-Financial Assets	963,549,085	645,874,822	317,674,263
Total Payments	4,613,435,382	3,107,308,632	1,506,126,750

As a result, the accuracy of comparative figures for the year ended 30 June 2014 could not be confirmed.

No action appears to have been taken by the County Government to address the above issues which affect financial statements for the year under review.

10.0. Budget Performance Analysis

10.1. Revenue Analysis

The County realized a shortfall in revenue collection by Kshs.484,100,297 in 2014/2015 financial year as analyzed below:

Receipts	Budget Kshs.	Actuals Kshs.	Over Kshs.	Under Kshs.	Budget Utilization %
Exchequer Releases	4,100,574,908	4,100,574,908		-	100%
Proceed from Domestic &Foreign Grant	-	500,000	500,000	-	0%
Transfer from Other Government Grant	-	46,439,631	46,439,631	-	0%
Other Receipts	1,373,747,900	842,707,972	-	531,039,927	61%
Total	**5,474,322,808**	**4,990,222,511**	**46,939,631**	**531,039,927**	91%

Other Receipts actual collections of Kshs.842,707,972 when compared to the budget of Kshs.1,373,749,900 resulted in an under collection of Kshs.531,041,928 or 39%. No explanation was provided for the poor revenue performance.

10.2. Failure to Collect all the Budgeted Revenue – Other Receipts

The financial statements show a balance of Kshs.1.373,747,900 as Other Receipts under the Budget Execution report. However, the schedule provided to support the same reflects a balance of Kshs.1,384,907,900 resulting in an unexplained difference of Kshs.11,160,000.

Further, financial statements reflect an actual balance of Kshs.842,707,972 as Other Receipts in the financial statements. However, the schedules provided to support the same reflect a balance of Kshs.680,198,473, resulting in an unexplained difference of Kshs.162,509,499.

The county government had budgeted to collect Kshs.1,384,907,900 from local revenue but collected Kshs.680,198,473 according to revenue schedule availed for audit resulting in 51% under collection as analysed below:

Revenue Source	Approved Budget (Kshs)	Actual Revenue Collected (Kshs.)	Under Collection (Kshs.)	%Under Collection
CILOR Current Year	54,754,000	0	-54,754,000	**-100%**
Liquor Licence	75,000,000	7,721,640	-67,278,360	**-90%**
Co-operative Audit	1,800,000	1,124,730	-675,270	**-38%**
Agriculture				
Agricultural Mechanisation Station	8,700,000	1,377,286	-7,322,714	**-84%**
Wambugu Agricultural Training Centre	11,456,000	6,310,097	-5,145,903	**-45%**
Veterinary Charges	21,747,900	4,219,324	-17,528,576	**-81%**
Slaughter Houses	21,400,000	3,469,920	-17,930,080	**-84%**
Sale of Fertilizer		3,537,000	3,537,000	**100%**
Cess	14,000,000	412,380	-13,587,620	**-97%**
Revolving fund Coffee (% of gross sales)	30,000,000	0	-30,000,000	**-100%**
Business Permits	100,000,000	91,089,689	-8,910,311	**-9%**
Application Fee	7,150,000	12,730,279	5,580,279	**78%**
Bed Occupancy	24,500,000	0	-24,500,000	**-100%**
Health				
Health Hospital Services	330,600,000	208,849,349	-121,750,651	**-37%**
Health Public Health	6,000,000	8,857,634	2,857,634	**48%**

Refuse Collection Fee	30,500,000	29,924,645	-575,355	**-2%**
Health Others	720,000	1,618,260	898,260	**125%**
				Other Revenue Sources
Lease of Water Distribution Network	20,973,951	0	-20,973,951	**-100%**
Parking Fees	157,000,000	109,212,891	-47,787,109	**-30%**
Land Rates	173,471,049	55,915,332	-117,555,717	**-68%**
Ground Rent	16,000,000	7,080,404	-8,919,596	**-56%**
Cess	30,000,000	26,871,880	-3,128,120	**-10%**
House Rent	13,185,000	13,874,560	689,560	**5%**
Market Entrance/Stalls/Shop Rents	10,000,000	37,195,141	27,195,141	**272%**
Approvals	70,000,000	2,387,500	-67,612,500	**-97%**
Sign Boards & Advertisement Fee	30,000,000	18,161,780	-11,838,220	**-39%**
Buildings Plan Approval Fee	50,000,000	9,278,560	-40,721,440	**-81%**
Buildings Inspection Fee	50,000,000	2,594,920	-47,405,080	**-95%**
Education	1,180,000	551,000	-629,000	**-53%**
Other Income	24,770,000	15,832,272	-8,937,728	**-36%**
TOTAL	**1,384,907,900**	**680,198,473**	**-704,709,427**	**-51%**

No explanation was provided for under collection of revenue of Kshs.704,207,833 or 51% from the various sources during the year under review.

10.3. Overall Analysis

During the year under review, the approved supplementary budget for Nyeri County Government was Kshs.5,490,941,442 with Kshs.3,866,948,836 (70%) allocated for the recurrent expenditure and Kshs.1,623,992,606 (30%) for development as follows:

	Budget(Kshs.)	Actual(Kshs.)	Budget Utilization	% of total expenditure
Development Expenditure	1,623,992,606	1,019,696,611	63%	21%
Recurrent Expenditure	3,866,948,836	3,941,716,778	102%	79%
	5,490,941,442	**4,961,413,389**		

Review of the budget performance shows that the county spent Kshs.1,019,696,611 on development expenditure which was 21% of total expenditure.

This is contrary to section 107 (2) b of the PFM Act, 2012 which requires that over the medium term, a minimum of thirty (30) percent of the county government's budget shall be allocated to development expenditure.

From the analysis above, the County government overspent the recurrent vote by Kshs.106,544,769.

10.4. Development Vote Performance

A total of Kshs.1,547,552,876 was allocated to twelve (12) departments during the year to finance projects in the 2014-2015 budget period, which the departments were required to implement within the financial year. However, the implementation of these projects was behind schedule and by November 2015, only Kshs.994,805,111 had been spent on the projects, which represents only 64% of the funds allocated as follows:

Department	No. of Projects Budgeted	No. of Projects Implemented	Budget	Actual Expenditure	Under Expenditure	% Performance Levels
Ministry of Lands, Housing and Physical Planning	22	17	24,306,203	2,827,514	21,478,689	12%
Public Administration, Information and Communication	5	4	33,880,600	12,305,887	21,574,713	36%
Ministry of Health	13	13	337,668,210	276,627,670	61,040,540	82%
Ministry of Education and ICT	35	25	45,266,490	11,762,114	33,504,376	26%
Ministry of Agriculture, Livestock and Fisheries	9	7	109,624,000	55,513,466	54,110,534	51%
Ministry of Trade, Industrialization, Tourism and Cooperative Development	20	16	38,354,080	9,001,250	29,352,830	23%
Ministry of Energy	9	9	125,589,560	109,358,941	16,230,619	87%
Ministry of Water, Environment and Natural Resources	17	16	95,129,222	40,192,604	54,936,618	42%
Ministry of Public Works, Roads and Transport	Details not provided	Details not provided	510,309,399	344,045,780	166,263,619	67%
Ministry of Gender, Culture and Social Development	"	"	23,972,507	3,857,244	20,115,263	16%
Office of Governor and Deputy Governor	"	"	19,933,117	15,800,000	4,133,117	79%

Finance and Economic Planning	"	"	81,372,169	51,059,750	30,312,419	63%
Office of County Secretary	"	"	102,147,319	62,452,891	39,694,428	61%
TOTAL			**1,547,552,876**	**994,805,111**	**552,747,765**	**64%**

The ministries that recorded the lowest budget performance include Ministry of Gender, Lands and Housing, Education and Trade. No explanation was provided for the low absorption of development funds.

10.5. Unexplained Variances Between IFMIS Report and Approved Budget Figure (Revised Estimate)

It was observed that the approved budget for the Ministry of Water was Kshs.95,129,122 for development expenditure while the IFMIS status report reflects a budget figure of Kshs.168, 460,612 resulting in an unexplained variance of Kshs.73,331,390.

10.6. Failure to Avail list of Projects Recommended for Funding by Budget and Appropriation Committee

The list of recommended projects approved by the Nyeri County Assembly for the year ended 30 June 2015 was not made available for audit verification. The County only provided programme performance reports with a list of implemented projects. It was therefore not possible to establish whether the implemented projects were the approved projects. Further, the list of projects implemented by the Ministries of Public Works, Roads and Transport, Ministry of Gender Culture and Social Development, Office of Governor and Deputy Governor, Finance and Economic Planning and County Assembly were not made available for audit review. Consequently, it was not possible to ascertain whether these departments implemented all the projects budgeted for.

10.7. Excess Funding of Projects

Review of the budgeted amounts, cost estimates and actual expenditure incurred in the Ministry of Agriculture for the year ended 30 June 2015 revealed availability of extra funding as analysed below:

	Description	Estimated Cost Kshs.	Funds Provided Kshs.	Excess Funding Kshs.
1	AMS Narumoru-Farm Mechanization	5,568,000	9,810,000	4,242,000
2	AMS-Farm Mechanization and Water Harvesting	1,913,178	2,000,000	86,822
3	Vaccination	7,383,500	8,000,000	616,500
4	Purchase of Fridges	179,800	2,100,000	1,920,200
5	Fish Value Addition-Refrigerated Truck	3,950,000	9,810,000	5,860,000

6	Soil Testing Unit	10,200,820	16,000,000	5,799,180
	Total	**29,195,298**	**47,720,000**	**18,524,702**

The source of the extra funding was not explained.

11.0. Cash and Bank Balances - Overdrawn Cash Books

As at 30 June, 2015, the recurrent cashbook (For Account No. 1001712227 held at the Central Bank) had been overdrawn by Kshs.406,557,883. Similarly, the development cash book (For account no. 100017197 held at the Central Bank) had a negative balance of Kshs.3,979,192 and 42,518,336 as at the end of December 2014 and February 2015 respectively. However, no bank statements were availed for audit review and therefore the corresponding bank balances could not be ascertained. Further, no authority was provided for the account to be overdrawn contrary to provisions of section 119(4) of the Public Finance Management Act, 2012.

12.0. Revenue

12.1. Unaccounted for Revenue Deposited in the Equity Bank County Revenue Account

Audit verification revealed that monthly revenue collections through Local Authority Integrated Financial Operations Management (LAIFOM) System were not reconciled with the Collection Account (Equity Bank revenue account) balances. Reconciliation of Equity Bank revenue collection records availed revealed unaccounted for revenue amounting to Kshs.22,234,518. Other observations were noted as follows:-

(i) Other direct credits amounting to Kshs.32,625,086 from various hospitals and Kshs.31,424,513 received from various sources such as unspent balances but excluding grants amounting to Kshs.66,989,730 were also not receipted in LAIFOM.

(ii) Although Section 5.3.1 of The National Treasury County Financial Accounting and Reporting Manual on accounting procedures for own generated revenue require all revenue to be banked in the County Revenue account before receipting, the County government irregularly receipted Kshs.8,727,800 held in Othaya District Hospital KCB Facility Improvement Account No.1101572108.

(iii) Authority letter to open a new Equity Bank Land Rates bank account number 0110264079376 opened on April 2015 was not availed for audit verification.

Further, delay in transferring the revenue collected through the land rate bank account was also noted since the account was opened in April 2015 and by 30 June 2015, the account had a balance of Kshs.2,918,365 and no money had been transferred to the Central Bank County Revenue account as required. The County Government did not provide explanations for these anomalies.

12.2. Unreceipted Parking Fees Nyeri Town Sub County

An agreement between Equity Bank and the county government was made to permit the bank collect parking fees, effective from 24 April 2015.

However, at the time of audit, the county government had not maintained records to show the total parking fees collected during the year. Further, according to the agency agreement no.3 on fees and charges, the County was supposed to pay the bank the fees set out in schedule 2 on a monthly basis upon reconciliation of the accounts by both parties. However, schedule 1, 2, 3, 4 and 5 which form part of the agency agreement were not availed for audit review.

Further, reconciliations prepared using the bank statements and the daily attendants machines revealed a total of Kshs.2,690,607 was collected through the bank but was not received in LAIFOMS for accountability. Consequently, the total amount of Kshs.26,842,910 collected during the year may have been understated by Kshs.2,690,607.

12.3. Non-remittance of House Rent

Review of the IPPD Payroll analysis on earnings and deductions for the period between July 2014 to June 2015 revealed unremitted but deducted Government of Kenya (GOK) house rent of Kshs.5,348,150, GOK rent arrears of Kshs.826,641 and house Market rate of Kshs.1,590,200 all totaling Kshs.7,764,991. It was however noted that these deductions were not remitted to the revenue section and were not receipted as revenue. In the circumstances, the accountability of the unremitted amount could not be established.

12.4. Unapproved Hospitals Waiver

Nyeri Provincial General Hospital and Karatina hospital waived fees totalling Kshs.20,527,526 and Kshs.14,178,996 respectively for the year ended 30 June 2015. However, minutes, the necessary office correspondences, letters and memos were not made available for audit review, an indication that the waiver committee never met to evaluate the system or make any agreed decisions or recommendations. Further, verifiable criteria used when granting or rejecting waivers was not provided.

In addition, no reference was made to the records to evaluate the trends over the years or quantify amounts waived over a period of time. It was not possible, therefore to establish whether the said waivers were properly authorized.

12.5. Failure to Close and Transfer Facility Improvement Fund (FIF) Bank Account Balance at Othaya Hospital to the County Revenue Bank Account

Contrary to National Treasury Circular Ref. AG.3/008/Vol.6/ (73) dated 9 June, Othaya Hospital did not close the Health Care Services Fund bank account number 1101572108 held with Kenya Commercial Bank that had a balance of Kshs.9,405,006 as at 31 August

2015. Further, it was noted that the hospital was still using central government health care receipt books instead of using the county government health care receipt books. In the circumstances, the county Government was in contravention of the regulations.

13.0. Human Resources Issues

13.1. Lack of Approved Staff Establishment

During the year under review, the County government operated without an approved staff establishment. Optional staffing levels have therefore not been determined.

For instance, 16 ambulance drivers were recruited during the year but no consideration was made on whether all drivers in other devolved functions were optimally utilized and with functional vehicles. The Board had recommended existing drivers to be attached to the new ambulances in a letter dated 5 March 2014 which but was disregarded.

As a result, over-staffing may occur and may impact negatively on efficient and effective service delivery.

13.2. Payment of Leave Allowance

A review of payroll revealed that leave allowances amounting to Kshs.30,068,506 were paid to all staff employees of the county in the months of December 2014 and February 2015. However, no approved leave forms were provided for audit review. Further, the possibility of all officers proceeding for annual leave concurrently in one month is untenable. The payment was therefore unjustified and was paid contrary to the code of regulations.

13.3. County Executive Car Loan and Mortgage Scheme

During the year under review, the County Executive transferred an amount of Kshs.50,000,000 to an account in Family Bank for car loan and mortgage scheme vide voucher dated 9 December 2014. However, the following was noted:-

(i) The county lacked regulatory framework on car and mortgage scheme to manage the funds.

(ii) No documentary evidence was provided to confirm how the bank was identified to manage the fund.

(iii) According to the status report, an amount of Kshs.21,000,000 had been advanced to the County Executive as at April 2015. However, a letter dated 23 April 2015 from Family Bank indicate that total amount disbursed amounted to Kshs.23,000,000 resulted in unexplained variance of Kshs.2,000,000.

In the circumstances, it could not be confirmed whether the executive car loan and mortgage scheme was properly granted to the County Executive members and whether its operations are properly administered.

13.4. Unsupported Statutory Remittance

During the year under review an amount of Kshs.231,966,411 was paid to statutory bodies including KRA, NHIF and Pension funds. However, no acknowledgment receipts were provided confirming receipt of the payments. In the circumstances, the propriety of the payments made could not be confirmed.

14.0. Office of the Governor and Deputy Governor

14.1. Payment for Services not Rendered

The county government entered into a project agreement with Kenya Red Cross Society on disaster management and response programme.

This agreement was signed on 17 April 2014 by both parties for a duration of five years (2014-2017). According to the agreement made available for audit review, the cost for the services was Ksh.15,800,000 per year according to 2014 Annual Budget which was based on activities/ inputs. This translates to Kshs.79,450,000 for the five year duration as per the agreement. However, the amount for the year was paid to the Kenya Red Cross before services were rendered. Further, it was not clear how the amount of Kshs.15,800,000 was arrived at. In addition, no evidence was availed to show the actual activities to be undertaken to warrant the payment of Kshs.15,800,000 to the Red Cross. It was also observed that the County had set aside emergency funds at Equity Bank to cater for unforeseen contingencies. It was not clear why the County had to commit the funds for the same purpose. The procurement procedure used to procure this service and related records were also not made available.

In the circumstances, the propriety of payment of Kshs.15,800,000 made to the Kenya Red cross could not be confirmed.

14.2. Irregular Payment of Owner Occupier House Allowances to the Governor and the Deputy Governor

A total of Kshs.4,620,000 was paid during the financial year under review to the Governor and the Deputy Governor in respect of owner occupier house allowances for 21 months. The Governor was paid a total of Kshs.2,100,000 at a rate of Kshs.100,000 per month while the Deputy Governor was paid a total Kshs.2,520,000 at a rate of Kshs.120,000 per month during the year.

The payments were made contrary to Salaries and Remuneration Commission's circular SRC/TS/CGOVT/3/61 dated 18 December, 2013 prohibiting payment of house allowance as part of housing benefits. The Deputy Governor does not qualify for a housing benefit as per the gazette notice. The payment of the owner occupier

allowance is therefore irregular and inconsistent with the provisions of the quoted gazette notice.

14.3. Flawed Procurement Procedures on Supply and Fixing of Carpet

The County Government paid a total Kshs.2,578,380 in favour of Slims E.A. Ltd. being payment for delivery and fixing of a red carpet at the Governor's office. The payment was supported by invoice No. 501 dated 2 December, 2014, delivery note no. 2012 of the same date, L.P.O. No. 2283039, S13 no. 6909644 dated 2 December, 2014 and request for quotation ref. CGN/28/14-15 of 26 November 2014. However, the following anomalies were noted:

(i) The value of the goods exceeded the maximum prescribed threshold of Kshs.2,000,000 for using request for quotations. This contravenes the provisions of section 88(b) of Public Procurement and Disposal Act, 2005 and Legal notice no. 106 of 18 June, 2013.

(ii) There was no proper description of the goods to be procured as required by section 34 and 89(2) of the Public Procurement and Disposal Act, 2005. This may not have allowed fair and open competition among the bidders.

(iii) There was no description on where and when quotations must be submitted by the bidders as required by section 89(2)(c) of the Act.

It is therefore not clear how the deadline for the submission of the quotations was communicated to the bidders.

In the circumstances, the County Government was in contravention of the procurement laws.

14.4. Unaccounted for Fuel

A total of Kshs.800,000 was paid to Blue Seas Car Hire and Tours Ltd in respect of fuel purchased for use by the vehicles in the Governor's and Deputy Governor's department. However, no fuel register, detail orders, supplier's statement and receipts were availed to account for daily consumption of the fuel. In absence of these records, the quantity of fuel drawn by each vehicle could not be verified in the relevant vehicles' work tickets and also the accountability of the amount paid could not be confirmed.

In the circumstances, the propriety of this expenditure could not confirmed.

14.5. Unsupported Domestic Travel Expenditure

A total of Kshs.904,500 was paid from the Governor's vote to various officers in respect of domestic travel expenses. It was however noted that the travel expenses were not supported by invitation letters and in some cases no travel documents such as work ticket and bus tickets were made available for audit verification. The nature of duties to be

performed were also not disclosed. In absence of such information, it was not possible to confirm the expenditure as a proper charge to public funds.

15.0. Ministry of Energy

15.1. Payments in Excess of the Contract Amount

The County Government contracted M/s Gimchar Ltd for the supply, delivery and installation of street lights along Ring Road, Mumbi Road, and Bishop Gatimu Road within Nyeri Town for a contract sum of Kshs.15,030,117. However, payment schedules and completion certificates made available for audit review showed that the county paid the contractor total of Kshs.18,242,217 thereby overpaying the contractor by Kshs.3,212,100. The overpayment was not explained or approved as additional work. Details of the payment are as follows:

Date of payment	Certificate No.	Amount
13/10/2014	01	3,276,768
13/10/2014	02	11,749,460
19/01/2015	04	3,215,989
Total		**18,242,217**
Contract amount		15,030,117
Excess Payment		**3,212,100**

Further, references on payment certificates were not consistent as the forwarding letter to payment certificate number 04 for Kshs.3,215,989 (IFMIS 366854) referred to it as 2nd Payment Certificate while computing certificate no 04, the earlier payment of Kshs.11,749,460 being second certificate was referred to as 1st Certificate with no reference to the actual 1st certificate for Kshs.3,276,768.00. However, the excess payment was not approved as additional works.

Additional works done for supply, delivery & installation of street lights along Bishop Gatimu road were quoted separately and a total of Kshs.2,211,291 was paid (separate BQ) and therefore did not lead to the mentioned overpayment. In addition, no inspection report by the inspection and acceptance committee/tender Processing Committee before payments were done. The County Government was therefore in breach of procurement laws and regulations.

16.0. Ministry of Lands and Infrastructure Development

16.1. Procurement of Consultancy for Review and Audit of Roads and Civil Works by M/s Pleng Ltd

Records maintained by the County Government indicates that the above consultancy services were awarded to M/s Pleng Ltd of Nairobi at a contract sum of Kshs.17,993,115. Available information shows that the consultant was single sourced by the County Executive Secretary through a letter dated 12 August 2014 requesting the consultants to

undertake the review and audit of roads and civil works tendered and awarded during the period from March 2013 and June 2014. It was however, not explained why the consultant was to carry out duties that are covered in certificates of works prepared by a government engineer or woks officer. There was therefore no justification for the contract and this constitutes waste of public funds. Consequently, the propriety of the expenditure of Kshs.10,795,869 could not be confirmed.

16.2. Construction of Non-motorized Facility - Kamakwa to Nyeri Town along Baden Powell Road Nyeri Town to Meeting Point Section along Kenyatta Road.

The County Government undertook construction of non-motorized facility (NMT) from Kamakwa -Nyeri Town, along Baden Powel road and Nyeri Town meeting point section along Kenyatta Road during the year under review. The contract was awarded to M/s Penn Construction Ltd at a contract sum of Kshs.48,744,468. According to the contract agreement, the contract was to take 45 days and end on 27 June 2014. However, during the audit verification of the facility in August 2015, it was found that the contractor had not completed the work although Kshs.38,058,789 had been paid. There was no letter of request for extension from the contractor or even an official letter for extension of the contract period was issued by the County Government given the fact the project was to be complete by 27 June 2014. It was further observed that the Engineers estimate for the entire project was Kshs.38,638,342 against the contract price of Kshs.48,744,468, hence resulting in a variance of Kshs.10,106,126 above the Engineers estimate.

In the circumstances, the county Government will not have realized value for money for the works already paid for.

16.3. Grading and Gravelling of Various Roads

The County Government during the year under review undertook to grade and gravel various roads in the county. A physical verification of some of the roads graded as graveled revealed the following;

Roads	Amount Paid Kshs	Contractor	Remarks
Mukurweini - Kiharo	7,039,622		3.6 km done at the cost of Kshs.7,039,662. This includes 0.3km which no contract was signed although paid for
Thukuma-Kinuri	7,839,280	Accord Builders & Developers Ltd	No evidence that this road was done although the whole contract sum was paid. Notice Board showed that the Road was done by KERRA
Kwa Joseph - Karigu-ini	7,832,900	Chromawave Enterprise	5 kms was to be graded and gravelled. Only 3 kms was done but the full sum was paid.
Kwa Geoffrey-Gatei(ragati road)	9,958,200	Kerande Construction	The roads were not complete despite the full contract sum already paid

It was observed that the county government was paying for incomplete works and most of the works paid for did not commensurate with the money paid. The County Government therefore did not realize value for money in these projects.

16.4. Grading and Gravelling of Kambora Road

During the financial year under review, the county government contracted M/s Wiltime Enterprises to do the grading and gravelling of Kambora Road at Muruguru Ward at a cost of Kshs.480,225. Scrutiny of the support documents to the payment voucher revealed that quotations were raised on 22 September 2014 and opened on 2 October 2014.

Invoice number 222 was raised on 28 October 2014 while the LPO number A467481 was raised on 20 January 2015. There was no explanation why the LPO was raised much later than the invoice and after the works had already been done.

16.5. Purchase of Specialized Equipment

During the year under audit review, the county government purchased specialized materials worth Kshs.83,539,052. These included four Motor Graders and two Pac Rollers.

Available documents indicated that three graders PP 129 and one Pac Roller were ordered for and supplied by M/s Shanneebel Ltd at a cost of Kshs.59,525,000. Scrutiny of payment in the IFMIS system revealed that the county government purchased one additional grader PP 124 and one extra Pac Roller for an extra cost of Kshs.24,465,000. However, payment vouchers for the extra grader and Pac Roller were not availed for audit. Further, no other procurement document were availed for audit to ascertain how the specialized machines were procured. Consequently, in the absence of relevant documents, it was not possible to confirm whether the procurement procedures were followed while procuring the two extra machines at a cost of Kshs.24,465,000 to ensure value for money spent.

17.0. Ministry of Water

17.1. Supply of Water Pipes

During the year under review, the county government bought water pipes and fittings at a cost of Kshs.16,773,582. The pipes were for water distribution to Mathira East Sub County supported by contract No NCG/WATER/2/2013/2014 worth Kshs.7,783,380, Pipes for Wangi Kanuna Water project worth Kshs.7,507,752 and UPVC pipes of 280mm for Kariithi Irrigation Project for Kshs.1,482,480.

However, no procurement meeting minutes were provided showing how the user departments requisitioned for the pipes. A physical verification showed that, the pipes were still lying idle in various locations and there was no evidence that the pipes were enough for the earmarked projects. Further, it was not clear if the projects will be implemented since the work of the county was only to buy the pipes but not to implement. It is clear that the County Government bought pipes which were not requisitioned and this is therefore a waste of public funds.

18.0. Ministry of Health

18.1. Supply and Installation of Dialysis Machines at Nyeri Referral Hospital

Tender for supply and installation of dialysis machines at Nyeri Referral Hospital was awarded to M/s Rapid Medical Supplies Limited at a contract sum of Kshs.27,493,860 through Open National Tender. The scope of the contract involved supply, installation and commissioning of ten (10) dialysis machines, water treatment system and supply of 1000 complete dialysis kits. However, the following observations were noted:

(i) The contract involved supply, installation and commissioning of the dialysis machines and water treatment system. However, there was no evidence of inspection and acceptance committee that the project was indeed commissioned and satisfactorily done.

(ii) Physical inspection carried out on the project on 28 September 2015 revealed that four (4) out of ten (10) dialysis machines supplied and installed had malfunctioned. Further, it was noted that the 1000 dialysis kits worth Kshs.3,800,000 did not fit into the dialysis machines thus rendering funds spent on the kits a waste.

(iii) There was no evidence that the County Government had entered into service agreement with the supplier, manufacturer or any other service provider for the maintenance of the machines to ensure continued use of the equipment and provision of services to the county residents.

In the circumstances, the County Government did not achieve value for money in this project.

18.2. Procurement of Idle Medical Equipment

During the year under review, the County Government procured medical equipment from various suppliers worth Kshs.25,694,236.

However, it was noted that the equipment had not been put to use at the time of audit in September 2015. Inquiry from the County management and staff revealed that the equipment remained idle due to lack of reagents to operate the equipment and lack of suitable space for installation of the equipment. It was however not explained why the equipment was procured and kept in store and it appears that no measures were put in place to ensure that the equipment serves the intended purpose. The County did not realize value for money and also putting funds into idle equipment denies service delivery to the residents of Nyeri.

18.3. Procurement of Dental Unit for Nyeri Referral Hospital

During the year under review, the County Government paid a sum of Kshs.2,380,000 for supply, installation and commissioning of two fully equipped dental equipment by Nairobi Enterprises Limited at the Nyeri Referral Hospital. However, physical inspection of the

dental unit in September, 2015 revealed that a fire broke out at the room where the dental facilities had been installed and destroyed them. The cause of fire and the action taken thereafter was not explained.

Further, during the year under review, the County Government procured other dental equipment for the dental unit worth Kshs.12,778,400.

However, the items were not verified since they were still packaged in the store and had not been installed and therefore not in use.

Public funds to the tune of Kshs.2,380,000 was lost after the fire destroyed the dental machines. Further, the status/condition of other dental equipment with a value of Kshs.12,778,400 could not be confirmed.

18.4. Irregular Purchase of Goods and Services - Othaya District Hospital

During the financial year under review, Othaya District Hospital procured various goods and services. However, the following observations were made in respect of some goods and services purchased:

(i) The County Government procured laboratory reagents from M/s Elis Laboratory Supplies at a cost of Kshs.890,950. However, there was no evidence that the items were received in the stores. Further, the dates indicated on the Bin Cards for the issuance of Soft-style Glucose testing strips from the stores was found to be earlier than the date of delivery, an indication of irregularities in procurement, deliveries and recording of goods received in the stores.

(ii) The Hospital bought 40 Packets of Soft-style Strips from Elis Laboratory Supplies at a cost of Kshs.2,200.00 each totaling Kshs.242,000 instead of Kshs.88,000.00. The supplier was therefore overpaid by Kshs.154,000. Further, the same items were not reflected in the stores records and it could not be confirmed if these items were actually received. In the circumstances, the propriety of the expenditure incurred could not be confirmed.

18.5. Irregular Procurement of Hospital Linen

During the period ended 30 June 2015, the County Government procured assorted hospital linen for Othaya Sub County Hospital, from M/S Alista Limited for Kshs.10,073,500 which was paid in full. However, 100 pieces of hospital mattresses valued at Kshs.1,548,500 and 25 rolls of Green mackintosh worth Kshs.937,500 were not delivered as evidenced by the delivery documents produced for audit verification. The County Government should ensure that the missing items are delivered and properly accounted for.

18.6. Excess Procurement of Digital Blood Pressure Machines at Mt.Kenya Hospital

During the financial year under review, the County Government procured three hundred digital blood pressure machines (300) worth Kshs.1,950,000 from Chem-Labs Services. However, no requisitions from user departments were made available for review. In the

circumstances, it could not be confirmed whether value for money was realized from the above purchases.

18.7. Idle Equipment, Furniture and Supplies - Othaya District Hospital

As previously reported in 2013/2014, Othaya District Hospital received Pharmaceuticals and non-pharmaceutical items worth Kshs.472,443,898 from the Ministry of Health headquarters between February, 2013 and December, 2013.

These items/ equipment were procured for the new Othaya hospital which was under construction. However, the new hospital has not been completed and work had stalled.

Records availed during the audit of Othaya District Hospital revealed that out of the Kshs.472,443,898 worth of items, delivery worth Kshs.239,160,165 was stored at the Othaya CDF hall and a balance of Kshs.214,099,183 was kept at Nyeri Kemsa stores.

Further, audit verification revealed that items worth Kshs.12, 620,500 were missing from the CDF Hall and had been reported stolen. The theft was reported to the police and case No.CR 253/224/2013 CF 321/2013 was opened which is yet to be concluded. The security of the balance of items worth Ksh.239,160,165 stored there was not assured.

Further, there was the risk of the equipment becoming obsolete and spoilt due to long storage and conditions under which they are stored.

It was noted that out of Kshs.214, 099,183 stock balance, Nyeri Kemsa stores records reflected a balance of Kshs.204,956,943 resulting in unexplained loss of Kshs.14,142,240 worth of items. No effort appears to have been put in place by the county officials to ensure that the items are utilized. It is worth noting also that the County Government continued to procure new items while the idle stock deteriorates and becomes obsolete which will result to waste of public funds.

19.0. Ministry of Gender, Culture, Social Development and Special Programmes

19.1. Irregular Procurement of Lead Experts in Environmental Audits

During the year under review, the County Government paid Kshs.5,100,000 to three lead experts in respect of environmental audits as detailed below:

Lead Expert	Environmental Audit	Amount Kshs
Benard Karoki	old municipal social hall	1,600,000
Newton G. Karuri	proposed bird aviary	1,900,000
James K. Njeru	Karatina Children's Home	1,600,000

However, the following observations were noted:

(a) The tender for environmental audit is a consultancy by nature. However, use of quotations procurement method may not be appropriate and instead expression of interest method should have been used.

(b) The quotations and LSOs did not indicate the Terms of Reference (TOR) for the services to be rendered and the three consultancies were hurriedly undertaken within a period of between 5 and 8 days.

(c) There was no evidence that the results of the environmental audit were presented and implemented.

(d) Invoice No. 07 dated 15 May 2015 from Newton G.Karuri for Kshs.1,900,000 and Invoice No. 21 dated 19 June 2015 from James K. Njeru for Kshs.1,600,000 appear to have originated from the same invoice book.

(e) Four lead experts quoted for all the three consultancies. Further, the names of the consultants were said to have been provided by NEMA, Nyeri Office on request by the user department. It appears that the three consultancies were 'shared' among three lead experts, thereby denying the County Government the benefits of competitive bidding. Therefore, the County Government may not have achieved value for money in the said consultancies.

20.0. Ministry of Agriculture

20.1. Failure to Support Ksh.26 Million Grant to Mukurwe-ini Wakulima Dairy Ltd

During the year, the County under the department of Agriculture gave M/s Mukurwe-ini Wakulima Dairy Ltd Kshs.26 million grant towards procurement, supply, installation and commissioning of a complete yoghurt production line.

The payments were made on 23 January 2015 and 20 November 2014 for Kshs.16 million and 10 million respectively. However, no approval minutes from the county executive were availed to support the payment. Further, no accountability structure was put in place by the accounting officer to ensure that the grant paid to the dairy firm was properly utilized and accounted for as required by the PFM Act, 2012. Without the supporting documents, public funds may have been misused.

20.2. Irregular Procurement of Consultancy Services

The Nyeri County Government signed an agreement with JKUAT Enterprises Ltd for review of liabilities of coffee societies in Nyeri County at a total cost was Kshs.30,082,000 which comprised of Kshs.22,500,000 professional fees, Kshs.3,600,00 local taxes, and Kshs.3,982,000 imprest allowances to cater for professional staff per diems.

However, the following observations were noted:

(i) No documentary evidence was availed to confirm how the firm was sourced. It is therefore not possible to ascertain whether the procurement process was competitive.

(ii) According to the County secretary's memo ref: CGN/CS/ALFCD/1/1/ (10) dated 10 December 2014, the audit of the cooperatives was approved vide executive minutes constituted on 23 June, 2014 and 3 July, 2014. However, no executive minutes were availed for audit verification.

(iii) No consultancy findings (management letter/report) was availed to show that the contract agreement was executed as per the terms of agreement.

(iv) According to the payment schedule availed for audit the amounts payable per professional staff was; Project director Kshs.125,500, Project manager Kshs97,500, QA manager Kshs.95,500, Legal advisor Kshs.90,000, lead audit consultant Kshs.70,000, team audit supervisors Kshs.45,000 and associate audit consultants Kshs.27,500.

It appears therefore that, the Kshs.22,500,000 total Professional fees exclusive of Kshs.3,600,000 local taxes appears exaggerated and uneconomical. In the circumstance, the value for money in this consultancy may not have been achieved.

21.0. Accounts Receivable

21.1. Non Recovery of Arrears of Revenue

Examination of revenue records maintained by the County Government revealed that the county had arrears of revenue totaling Kshs.1,775,462,911 under four (4) categories of revenue as shown below:

Description	Amount Kshs.
Land Rate	1,654,140,274
Ground Rent	79,021,308
Stalls Rent	28,743,665
House Rent	3,592,644
Total	**1,765,497,891**
PGH NHIF & Britam	9,965,020
TOTAL	**1,775,462,911**

In the absence of a clear actionable plan for collection of the arrears, the revenue may never be collected. Further, the county revenue and enforcement officers may take advantage of this apparent lethargy in collection of the arrears to divert the same to their own use.

22.0 Pending Bills

As at 30 June 2014, the County Government had Kshs.324,178,523 pending bills from various departments. Further, these bills were not supported with the relevant invoices, contract agreements or list of creditors. It was also established that no equivalent amount was in the bank. The county Government did not explain how the committed amount was spend or how the pending bills will be cleared. Further, no reason was provided for failure to clear the bills due for payment. In the circumstances, the propriety of these debts could not be verified.

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 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

20 September 2016