REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF SIAYA

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 SIAYA FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Siaya set out on pages 7 to 82, which comprise the statement of assets as at 30 June 2015, and the statement of receipts and payments, statement of cash flows, and summary 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.

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 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 in the Financial Statements

(i) The total payments of Kshs.4,655,389,983 in the statement of receipts and payments differ with the summary of appropriation figure of Kshs.4,654,397,353 by Kshs.992,630. The difference remains unexplained.

(ii) The total payments of Kshs.5,880,837,235 in the summary statement of appropriation differs with the final approved budget amount of Kshs.5,974,637,234. The unreconciled difference of Kshs.93,799,999 is un explained.

The accuracy and completeness of the financial statements as at 30 June 2015 could not be confirmed.

2. Bank Balance

The bank balance figure of Kshs.1,235,937,159 and as disclosed under Note 22A to the financial statements is composed of:-

No.	Account Name	A/C No	Bank	Reported Bank Balance (Kshs)
1	Siaya County Revenue Fund Account	1000171464	CBK	1,007,610,373
2	Siaya County Recurrent Account	1000170883	CBK	24,652,024
3	Siaya County Development Account	1000170816	CBK	52,103,955
4	Siaya County Imprest Account	1141257073300	CO-OP	116,888,487
5	Education , culture and sports	1149007931	KCB	72,400
6	Siaya Assembly Development Account	1169114289	KCB	2,896,267
7	Dept. of Health-HSSF	Various Accounts		31,713,653
	Total			**1,235,937,159**

The following irregularities were noted:-

i. Cash books for County Revenue Fund Account and County Assembly of Siaya development account with a reported bank balance of Kshs.1,010,506,540 were not availed for audit review.

ii. Included in the Siaya Imprest account balance of Kshs.116,888,487 is Kshs.92,000,000 being transfer from Ministry of Health to the County Executive Imprest Account on 27 June 2015. The cash book and bank statements were not made available for review. In addition, the account has not been configured in the Integrated Financial Management Information System (IFMIS).

iii. Bank statements, certificate of bank balances and bank reconciliation statements for Education, Culture and Sports Department and Department of Health-HSSF & health centers were not made available for audit review.

iv. A review of the available bank reconciliations for three (3) bank accounts indicated receipts totaling Kshs.9,431,740 that were not recorded in the cash books, consequently understating the revenue.

Consequently, it was not possible to ascertain whether all bank transactions and bank balances during the year were fairly stated.

3. Outstanding Imprest

Included in the total financial assets' balance of Kshs.1,272,027,142 is outstanding imprest totalling Kshs.36,089,983. This ought to have been accounted for or surrendered within seven (7) working days after the officers return to their duty station as required by the Public Finance Management (County Government) Regulations, 2015. The management have neither provided justification for failure to surrender the imprests nor recovered the full amounts from the salaries of the defaulting officers. The management is in breach of the PFM Act, 2012.

In the circumstances, the total financial assets of Kshs.1,272,027,142 that are in the statement of assets for the year ended 30 June 2015 could not be confirmed.

4. Retentions

Excluded from the statement of financial assets is an amount of Kshs.34,483,716 pertaining to retention funds held at KCB A/C No.01141257650600. The corresponding liability has been reported under financial liabilities; deposits and retentions under note 24 to the accounts.

Further, the retention amount held at the Kenya Commercial Bank Ltd, Siaya branch is in contravention of Section 6.11 of the County Financial Accounting and Reporting Regulations on contract retention fund and the Public Finance Management Act, 2012 which stipulates that the County Teasuries are to reserve these funds in a deposit account specifically maintained at the Central Bank of

Kenya. The amount has also not been supported with an analysis or breakdown hence its accuracy, completeness and validity could not be confirmed.

Consequently, the accuracy and completeness of the bank balance could not be ascertained.

5. Pending Bills

Included in the pending bills amount of Kshs.276,859,982 is an amount of Ksh.23,548,802 in respect of food and ration supplies and non-pharmaceuticals to various county hospitals as follows:

Pending Bills	Amount	Aging
Ugenya Sub County Hospital	593,149	4 Months
Madiany Sub County Hospital	411,208	7 Months
Got Agulu Sub County Hospital	517,120	6 Months
Bondo Sub County Hospital	5,159,710	10 Months
Yala sub county Hospital	2,227,100	9 Months
Ambira sub county Hospital	566,075	5 Months
Siaya Referral Hospital	14,074,440	11 Months
Total	**23,548,802**	

No explanation has been rendered for the unpaid bills despite the County Government having had sufficient funds allocated to cover this. There is risk that the County Health Services budget funds may have been re-allocated irregularly.

6. Revenue

The statement of receipts and payment reflects total receipts of Kshs.4,626,823,631 for the year ended 30 June 2015. This excludes revenue generated from the devolved function of Land and Housing whose budgeted figure for the year was Kshs.6,200,000. Consequently, the accuracy and completeness of the reported revenue figure could not be confirmed.

7. Compensation of Employees

The statement of receipts and payments reflects total compensation of employees of Kshs.1,662,547,586. This is 53% over and above the prior year figure of Kshs.1,090,642,760. The compensation of employees figure includes an out of payroll expenditure for wages of temporary employees totalling Ksh.102,736,800 which is not supported by detailed listing of the employees paid. Further, basic personal allowances paid include salary increment which increased from Kshs.185,858,130 in the prior year to Ksh.625,737,420 in the current year translating to 237% change. However, there was no provision for increments in salary. The compensation of employees cost of Kshs.1,662 547,586 accounted for 38% of the total county revenue. This is above the 35% limit set out by section 25(1) (6) of the Public Finance Management (County Governments) Regulations, 2015. The County Government is in breach of the law.

In the foregoing, the propriety of the compensation of employees balance of Kshs.1,662,547,586 could not be confirmed.

8. Use of Goods and Services

8.1 Variance between financial statements and supporting schedules

The statement of receipts and payments, reflects an aggregated balance of Kshs.1,319,075,167 on use of goods and services which differs with the ledger balance of Kshs.1,333,752,863. The understatement of Kshs.14,577,696 in the financial statements remains unexplained.

In the circumstance, the accuracy of the expenditure on purchase of goods and services of Kshs.1, 319,075,167 could not be confirmed.

8.2 Procurement of Air Tickets

Included in the statement of receipts and payments under use of goods and services figure of Kshs.1,319,075,167 are two payments to travel agencies of Kshs.3,769,600 and Kshs.2,986,130 for the provision of air tickets. The procurement procedures for identifying the service providers and the payment vouchers supporting the payments were not availed for audit review.

Consequently, it was not possible to confirm whether the beneficiaries actually travelled and whether the services were provided and value for money received.

8.3 Procurement of Human Resource Consultancy Audit

Included in the statement of receipts and payments under use of goods and services figure of Kshs.1,319,075,167 is Kshs.5,524,077 paid to a consulting firm to conduct a human resource consultancy audit at a contract sum of Kshs.7,420,520. There was no documentary evidence availed to confirm that the service was competitively sourced as tender documents and award minutes were not availed for audit review. Further, the services were not scheduled in the annual procurement plan. Although the consultants report was made available, implementation of the same could not be confirmed. Consequently, the propriety of the Kshs.5,524,077 expenditure could not be confirmed.

8.4 Procurement of Health Supplements

Included in the statement of receipts and payments under use of goods and services figure of Kshs.1,319,075,167 is Kshs.1,615,776 paid to a firm for the supply of health supplements. The County Government procured health supplements from a firm through quotations method to procure items that were not in the procurement plan. There was no evidence that the quotations were evaluated and a contract agreement entered into with the firm. Further, there was no evidence to confirm that the items were received and issued to the user department. In the circumstances, it was not possible to confirm whether the Kshs.1,615,776 expenditure is a proper charge to public funds.

8.5 Procurement of Non-Pharmaceuticals

The statement of receipts and payments under use of goods and services figure of Kshs.1,319,075,167 is Kshs.12,333,957 paid to a private hospital for supply of non-pharmaceutical items. The operating license for the hospital indicates that it is licensed to offer level 4 hospital services. However, The County Government procured the items through quotations as opposed to competitive tendering process as stipulated by the Public Procurement and Disposal Act,2005.

Consequently, it was not possible to confirm that the County received value for money from its procurement and it is in breach of Public Procurement and Disposal Act, 2005.

8.6 Procurement of Insurance Services

Included in the use of goods and services figure of Kshs.1,319,075,167 is Kshs.25,000,000 paid to an insurance broker for provision of motor vehicle group life and other insurance covers. The expenditure was budgeted under Finance and Planning Department. However, the services were not procured through an open tender as stipulated by the Public Procurement and Disposal Act, 2005 but through a request for quotation. In the circumstances, it was not possible to confirm if the County Government obtained value for money on the procurement of the insurance covers.

Consequently, the accuracy and propriety of the use of goods and services figure of Kshs.1,319,075,167 could not be confirmed.

8.7 Irregular Payment to Council of Governors

Included in the statement of receipts and payments under use of goods and services figure of Kshs.1,319,075,167 is an amount of Kshs.3,750,000 paid to the Council of County Governors. The Council of County Governors was created under Section 17 of the Inter- Governmental Relations Act, 2012. Its expenditure budget is provided for under the annual estimates of the revenue and expenditure of the National Government as stipulated by Section 37 of the Act and therefore, not eligible to receive money from the County Government. The County Government is in breach of the law and the amounts paid to the Council of Governors should be refunded.

9. Acquisition of Assets

9.1 Variance between financial statements and supporting schedules

The statement of receipts and payments reflects an amount of Kshs.1,506,047,442 under acquisition of assets which differs with the general ledger figure of Kshs1,473,065,412 by an un explained difference of Kshs.32,982,030.

9.2 Unsupported Refurbishment of Buildings

Further, included in acquisition of assets is Kshs.38,667,977 for County Assembly refurbishment of Non-Residential Buildings which is not supported by either an analysis or documentation.

The propriety of the Kshs.38,667,977 expenditure could therefore not be confirmed.

9.3 Irregular Procurement of Internet Services

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.1,506,047,442 is Kshs.18,000,007 paid to a firm through payment voucher number 1503 dated 27 June 2015 for provision of Wide Area Network (WAN) connectivity and internet band width. Review of the contract shows that the company will be paid Kshs.18,000,000 per annum for a period of six years, all totalling Kshs.108,000,000 to offer the services. The services were single sourced as opposed to procurement through an open tender. Evaluation and awarding minutes were not availed for audit review.

In the circumstances, it was not possible to confirm if the County Government obtained value from the procurement of the internet services.

9.4 Variation in Contract to Fabricate, Supply, Install and Commission Garbage Bins

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.1,506,047,442 is Kshs.5,280,000 in respect of a contract awarded for the supply, Installation and commissioning of 300 garbage bins at unit price of Kshs.17,600. Despite the contractor having accepted the offer vide a letter dated 18 November 2014, a price variation of Kshs.4,800 per bin (27.3%) was granted which is over and above the stipulated 25%. The County Government is in breach of the Public Procurement and Disposal Act, 2005 on provisions on variation contracts.

9.5 Construction of Fabricated Offices

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.1,506,047,442 is Kshs.22,500,000 paid to a contractor for the construction of one fabricated block for Executive Offices. The County Government used restricted tendering which did not meet conditions set out in Section 73(2) of Public Procurement and Disposal Act, 2005 instead of an open tender. The Contractor awarded was not in the list of prequalified contractors and no report of the Inspection and Acceptance Committee was made available for audit review despite the offices having been completed and occupied by the staff. In the circumstances, it was not possible to confirm whether value for money was realized from the contract.

9.6 Construction of a Perimeter Wall for Siaya County Headquarters

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.1,506,047,442 is Kshs.10,422,733 paid to a contractor for construction of a perimeter wall for Siaya County headquarters. The County Government used restricted tendering procedure instead of open tender method and the contractor awarded the contract was not in the list of prequalified contractors. Further no report on the Inspection and Acceptance by the responsible Committee was made available for audit review despite the perimeter wall having been

completed and paid for. In the circumstances, I cannot confirm value for money realized from the contract could not be confirmed.

9.7 Construction of Oganya Primary School ECD block

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.1,506,047,442 is Kshs.2,640,390 paid to a contractor to construct Oganya Primary School ECD block. On inspection, the walls had cracks and the floors were peeling off, an indication of poor workmanship. The choice of the school location is also suspect as there were no students at the time of the audit visit its location being on a swampy site and a stand-alone block which is contrary to the County policy of building ECD blocks in existing primary schools compound. Consequently, the propriety of the expenditure could not be confirmed.

9.8 Construction of a Resource Centre Building

Included in the statement of receipts and payments under acquisition of assets amount of Kshs.1,506,047,442 is Kshs.2,414,611 paid to a contractor for construction of a resource centre building at Kirindi, in Sigomre Ward. The Centre was intended for use as a library for the community, but it was converted for other uses like conference hall. There are no provisions for books, computers or even toilets for use in the County. Consequently, the propriety of the Kshs.2,414,611 expenditure could not be confirmed.

9.9 Purchase of a Grader

Included in the acquisition of assets figure of Kshs.1,506,047,442 is an amount of Kshs.21,800,000 paid to a supplier for the supply of a grader through open tender. Review of the tender evaluation minutes dated 7 November 2014 revealed gaps in the tender evaluation process. There was no criteria for ranking of the evaluated bids for both technical and financial stages. Instead the Committee recommended two suppliers to be called upon to supply the grader based on the advice of the transport and mechanical engineer. In addition, during the year under review, the County Government had contracted out most of the road projects rendering necessity of procuring the grader redundant. There were neither work plans nor work tickets for the grader usage. In the circumstances, value for money may not be realized from the purchase of the grader.

Consequently, the accuracy and propriety of the acquisition of assets figure of Kshs.1,506,047,442 in the financial statements ended 30 June 2015 could not be confirmed.

10. Other Payments

The statement of receipts and payments reflects other payments figure of Kshs.1,500,000. No documentary evidence was provided by management to support the figure. In the circumstances, the propriety of other payments balance of Kshs.1, 500,000 could not be confirmed.

11. Review of Integrated Financial Management Information System (IFMIS) Operations

11.1 County Revenue Fund and Commercial Bank Accounts not created in IFMIS

The County Imprest Account No.01141257073300 and Ministry of Education, Culture and Sports account No.1149007931 at Cooperative Bank and Kenya Commercial Bank respectively have not been created in IFMIS. No transactions have been processed into the IFMIS on the two accounts.

11.2 Discrepancies Between Financing Statements and IFMIS

Discrepancies were noted between the figures reported in the financial statements and IFMIS as tabulated below:-

Details	Financial Statements Amount	IFMIS report Amounts	Difference
Receipts	4,626,823,631	-	4,626,823,631
Payments	4,655,125,570	4,588,526,000	(66,599,570)
Financial Assets	1,272,027,142	-	1,272,027,142
Opening Balances	1,300,593,494	-	1,300,593,494

11.3 Variance Between the Budget Execution Report from IFMIS and Figure Disclosed in the Financial Statements

Significant discrepancies were noted between the budget execution reports extracted from IFMIS and the summary statement of appropriation annexed to the financial statements as follows:-

Development Budget	Budget (Kshs)	Actual Expenditure (Kshs)	Difference
As per financial statements	2,576,270,750	1,471,634,578	1,104,636,172
As per extracted report from IFMIS	2,713,220,749	1,557,507,123	1,155,713,626
Variance	136,949,999	85,872,545	51,077,454
Recurrent Budget	**Budget (Kshs)**	**Actual expenditure (Kshs)**	
As per financial statements	3,304,566,485	3,185,659,042	118,907,443
As per extracted report from IFMIS	2,959,942,458	2,399,696,061	560,246,397
Variance	344,624,027	785,962,981	441,338,954

Consequently, it was not possible to confirm the completeness and accuracy of the financial statements balances for the year 2014/2015.

12. Assets and Liabilities Inherited from Defunct Local Authorities

The statement of receipts and payments reflects an amount of Kshs.1,506,047,442 under acquisition of assets. It also reflects pending payables/bills amounting to Kshs.275,244,396 (2014; Kshs.169,286,382) as disclosed Under annex 1 to the financial statements. This does not include the assets and liabilities inherited from the defunct Local Authorities, despite the County Management having taken over the possession. In addition the Inter-governmental Relations Technical Committee which took over from the defunct Transition Authority is yet to formally hand over the assets and liabilities of the defunct Local Authorities to the County Government. It is also not clear when the assets and liabilities are to be formally handed over to the County Government.

In the circumstances, it was not possible to confirm whether the financial statements as presented by the County Government are fairy stated.

13.0 Salaries and Wages

13.1 Payment of Casual Wages

Included in the compensation of employees figure of Kshs.1,662,547,586 is Kshs.18,433,150 paid to casuals by the County Department of Water. However, the master roll in support of the payments was not made available for audit review. There was also no documentary evidence provided to confirm the type of engagement, nature of work undertaken, designated places of work, terms of engagements and acknowledgement of payment received.

Consequently, the propriety of the casual wages expenditure of Kshs.18,433,150 could not be ascertained.

13.2 Ward Operations

The County Assembly incurred Kshs.62,919,531 on other operating expenses out of which Kshs.10,800,000 was paid as ward expenses for 30 wards, translating to Kshs.30,000 monthly per ward. The payment was made vide payment voucher number 5551 dated 27 June 2015. However, management did not avail for audit review expenditure returns showing how the money was spent. Consequently, the propriety of Kshs.10,800,000 paid out could not be confirmed.

13.3 Committee Allowance for MCAs and Ward Officials Salaries

The County Assembly incurred Kshs.53,341,642 under other operating expenses out of which Kshs.15,600,000 was paid as subsistence allowance for various claims on committee allowances for honorable members and ward officials' salaries. However management did not avail for audit review documentation to support detailed breakdown of the expenditure to show how the funds were utilized.
Consequently, it was not possible to confirm the propriety of Kshs.15,600,000.

14.0 Un-surrendered Imprest

Included in the total financial assets figure of Kshs.1,272,027,142 is an amount of Kshs.6,880,000 transferred from central bank to imprest account earmarked as expenses related to the visit by the USA President of which it has not been accounted for as at 30 June 2015. Management has not provided justification for the issuance of this imprest and its propriety.

15.0 Legal Fees

15.1 Procurement of Legal Services

i. The County Government retained two (2) law firms to represent the County in various legal cases without adhering to competitive sourcing procedures contrary to the requirements of the Public Procurement and Disposal Act, 2005. No tender committee minutes were availed to confirm that the matter was discussed by the committee as stipulated.

ii. The County Government took over case No. HCC 105 of 2012 in which the defunct County Councils of Siaya and Bondo had been sued in respect to a World Bank Project valued at US Dollars 50,000,000 (approximately Kshs.4,400,000,000 at the then ruling exchange rate).

The law firm representing the County Government, which had been single sourced by the defunct Councils, had requested a deposit of Kshs.22,500,000 as per the deposit request note dated 1 March 2014. On 24 June 2015, the County Government issued to the law firm a local service order of Kshs.20,000,000 which was subsequently paid on 25 June 2015. It is not clear and management has not explained the basis of paying the Kshs.20,000,000. Further, the law firm submitted a final fee note dated 11 February 2015 of Kshs.109,335,250. The County Government may not get value for money by paying for services not procured competitively with no clear milestones defined as for its payment.

16.0 Non-Compliance to Tax Regulations

The following instances of non-compliance with the tax laws were noted:-

16.1 Payment of Tax Due, Penalty and Interest

Included in the statement of receipts and payments under compensation to employees figure of Kshs. 1,662,547,586 is Kshs.43,399,327. This relates to KRA demand following a tax audit on account of unremitted taxes on untaxed but taxable allowances and benefits, Pay As You Earn (PAYE) for defunct Local Authorities and withholding tax. The funds were unbudgeted for and may have negative impact on the County operations/services. There is risk of incurring tax penalties for failure to deduct taxes or remit on a timely basis.

16.2 Failure to Deduct Withholding Tax, VAT and Retention Monies

i. The County Government paid contractors Kshs.11,070,016 without deducting the applicable withholding tax, VAT and retention fees all totalling Kshs.2,011,689.89.

ii. The County Government paid for professional services to the tune of Kshs.7,500,000 without deducting the applicable VAT and withholding tax of Kshs.545,848 and Kshs.86,206 respectively. Further, a payment of Kshs.3,438,000 was made to a law firm without withholding VAT of Kshs.167,400. This is despite being a government agency. The County is at risk of incurring tax penalties for non-compliance.

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 County Government of Siaya 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 Control and Performance

1.1 Budget Performance Analysis

The County Government prepared and had its budget for the 2014/2015 approved by the County Assembly on April 2015. The budget preparation process was guided by Section 117 of the Public Financial Management Act, 2012. The approved final budget for Siaya County Executive was Kshs.5,974,637,234 with Kshs.3,261,416,485 (55%) being allocated to the recurrent expenditure and Kshs.2,713,220,749 (45%) to development expenditures. The following is tabular representation of budget performance.

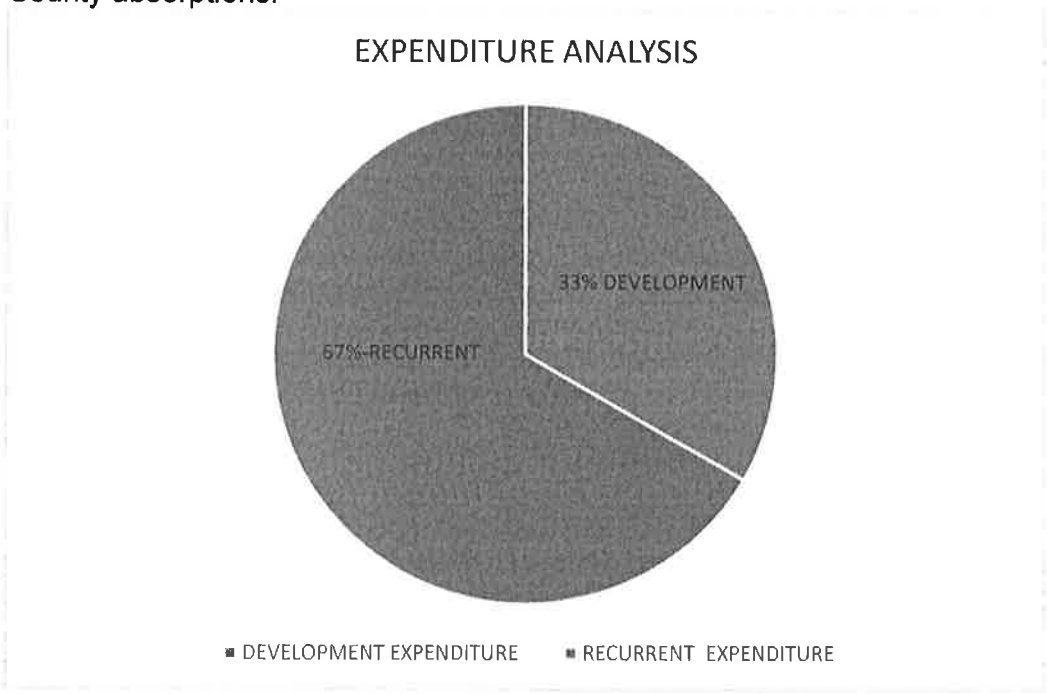
Item	Budget 2014/2015 Kshs.	Actual 2014/2015 Kshs.	Absorption rate %	% of Total Expenditure
Development for Expenditure	2,713,220,749	1,471,984,861	54%	33%
Recurrent Expenditure	3,261,416,485	3,034,945,652	93%	67%
Total	**5,974,637,234**	**4,506,930,513**	**75%**	

The total expenditures for the County Government increased from Kshs.2,587,661,994 in the year 2013/2014 to Kshs. 4,506,930,513 in 2014/2015 representing a 172% increase. The total payments details from cashbook reflected total expenditure of Ksh.4,506,930,513 which differs with total expenditure as per the

summary of appropriation balances of Ksh.4,654,379,353 resulting in unreconciled/unexplained variance of Kshs.147,466,840.

1.2 Expenditure Analysis for 2014/2015

The approved final budget for Siaya County Government was Kshs.2,713,220,749 for development vote and Kshs.3,261,416,485 recurrent against actual development expenditure of Kshs.1,471,984,861 and recurrent expenditure of Ksh3,034,945,652. This represents absorption rates of 33% and 67% for development and recurrent expenditure respectively. The pie chart below depicts the County absorptions:-



1.3. Expenditure Analysis as per Departments

Department	Budget Allocation (Kshs.)		Actual Expenditure		Absorption rate (%)	
	Recurrent (Kshs.)	Development (Kshs.)	Recurrent (Kshs.)	Development (Kshs.)	Revc	Dev
County Executive	290,472,316	240,718,835	1,168,270,592	213,535,903	402	89
Finance & Planning	621,089,470	25,000,000	410,846,661	15,846,101	66	63
Agriculture	218,761,677	225,938,791	389,200	65,094,991	0	29
Water, Environmental	94,586,497	282,820,540	51,674,478	147,424,407	55	52
Education, Youth Affairs	103,526,083	539,783,740	114,053,657	172,668,708	110	32
Health	1,237,527,234	528,819,630	674,886,592	143,967,030	55	27
Lands & Housing	40,488,730	54,968,256	10,052,701	41,894,164	25	76

Roads, Transport & Public Works	19,682,500	561,864,766	16,449,775	518,249,514	84	92
Trade Development	43,102,446	139,806,191	22,610,319	74,816,777	52	54
Tourism & ICT	21,413,585	21,500,000	15,109,008	8,168,417	71	38
County Assembly	570,720,947	94,000,000	550,602,669	70,318,849	96	75
Total	**3,261,416,485**	**2,715,220,749**	**3,034,945,652**	**1,471,984,861**	**93**	**54**

The following observations were noted:-

i. There was a gross underutilization of Kshs.226,470,833 and Kshs.1,241,235,888 for recurrent and development votes respectively.

ii. Review of the budget performance by department shows that the County Executive had the highest absorption rate of its recurrent budgets at 402%. On the other hand Agriculture, Education, Health, Tourism and ICT were at less than 50% of the budgetary allocation for the year 2014/15.

iii. The County has not fully embraced the use of IFMIS to process financial transactions in order to comply with budgetary timeliness.

1.4. Development Expenditure for 2014/2015

A total of Kshs.2,713,220,749 was allocated to eleven departments to finance 741 projects in the 2014/2015 budget period. However, the implementation of the projects was behind schedule as at 30 June 2015. Only Kshs.1,471,984,861 out of an allocation of Kshs.2,713,220,749 had been spent on 563 projects, which represent only 54% absorption rate as tabulated below:-

Sector	No of Budgeted Projects	Allocation Amount Kshs.	Expenditure Amount Kshs.	No of Projects implemented	Status
County Executive	12	240,718,835	213,535,902	10	Ongoing
Finance and Planning	1	25,000,000	15,846,101	0	None
Agriculture	51	225,938,791	65,094,991	43	Ongoing
Roads, Transport and Public Works	287	561,864,766	518,249,514	252	Ongoing
Trade, Industry, Labour and Co-op Development	32	139,806,191	74,816,777	26	Ongoing
Water, Environment and Natural Resources	60	282,820,540	147,424,407	52	Ongoing
Education, Youth Affairs, Culture and Social Services	168	539,783,740	172,668,708	97	Ongoing
Health Services	104	528,819,630	143,967,030	57	Ongoing

Tourism and ICT	3	21,500,000	8,168,417	3	Ongoing
Lands, Housing Physical Planning and Development	19	54,968,256	41,894,164	19	Ongoing
County Assembly	4	94,000,000	70,318,849	4	Ongoing
Total	**741**	**2,715,220,749**	**1,471,984,861**	**563**	

In addition, the following observations were noted:-

i. The payments for projects rolled over from 2013/2014 undertaken in 2014/2015 accounted for Kshs.612,097,413 of the absorption during the year. It is not clear why projects planned in prior years were not implemented on timely basis.

ii. Absorption of funds for development vote totalling Kshs.1,471,984,861 include Kshs.612,097,413 rolled over from 2013/2014. It's not clear how the balance of budgeted fund of Ksh.1,189,131,933 was utilized as only Kshs.52,103,955 was outstanding in the County's development bank account as at the close of the financial year.

iii. The finance and planning department development budget of Kshs.25,000,000 was earmarked for the digitalization of revenue collection. However, Kshs.15,846,101 was utilized for procurement of smart phones, tablets, furniture, purchase receipts, payment for self-help groups, payment for training and licensing Boda Boda operators and supply of building materials which were not budgeted for. The digitalization was yet to be implemented as at the end of the year.

iv. Included in the development expenditure of Kshs.213,535,902 under County executive is Kshs.46,480,000 used in respect of hotels expense, accommodation, insurance and Council of County Governors for which no authority was sought to reallocate the funds into the recurrent vote.

Failure to complete the projects on timely basis impacts negatively on service delivery for the intended beneficiaries.

1.5. Expenditure Analysis of the Office of the Governor

The analysis of the County Executive recurrent budget which comprises the Office of the Governor and Deputy Governor is as shown below:

Item	Total Supplementary (Kshs.)	Actuals Expenditures (Kshs.)	Variances (Kshs.)	% Variance
Salaries and other personnel costs	140,691,760	820,681,883	(679,990,123)	583
Mortgage and Bank Loans	-	146,770,625	(146,770,625)	100

Travel Costs (airlines, bus, railway, etc.)	27,100,000	16,053,447	11,046,553	59
Accommodation &Subsistence Allowance	31,030,000	14,297,121	16,732,879	46
Electricity	540,000	300,582	239,418	56
Water and Sewerage Charges	470,000	245,787	224,213	52
Telephone, Telex, Facsimile & Mobile PhoneServices & Courier & Postal Services	3,140,000	1,731,886	1,408,114	55
Publishing & Printing Services	1,300,000	861,050	438,950	66
Sundry Items (e.g. airport tax, taxis, etc.)	1,900,000	1,567,600	332,400	83
Rents & Rates - Non-Residential	2,300,000	1,480,679	819,321	64
Subscription to News Papers, Magazines & Periodicals	1,140,000	729,180	410,820	64
Advertisement, Awareness & Public Campaigns'	7,800,000	4,579,505	3,220,495	59
Tuition Fees Allowance & Training Expenses- Other	4,750,000	3,368,768	1,381,232	71
Purchase of Uniforms and Clothing - Staff	150,000	-	150,000	-
General Office Supplies (papers, pencils, small office equipment etc.)	1,270,000	860,500	409,500	68
Membership Fees, Dues & Subscriptions to Professional	400,000	200,000	200,000	50
Refined Fuel and Lubricants for Transport	9,000,000	6,112,964	2,887,036	68
Contracted Guards and Cleaning Services	11,300,000	10,406,826	893,174	92
Contracted Professional Services	500,000		500,000	(100)
Supplies & Accessories for Computers & Services	1,297,000	94,600	1,202,400	7
Sanitary and Cleansing Materials, Supplies and Services	1,430,000	748,500	681,500	52
Legal Dues, Arbitration & Compensation Payments	4,000,000	1,919,196	2,080,804	48
Maintenance Expenses - Motor Vehicles, Machinery & Equipment	4,230,000	2,380,347	1,849,653	56

Maintenance of Buildings and Stations - Non-Resident	600,000	312,700	287,300	52
Maintenance of Computers, Software, Networks and Communications	280,000	94,600	185,400	34
Purchase of Motor Vehicles	27,755,785	15,451,373	12,304,412	56
Purchase of Office Furniture and Fittings Computers, Printers and other IT Equipment	4,047,771	2,844,730	1,203,041	70
Purchase of Household and Institutional Appliances	550,000	300,000	250,000	55
Returned Cheques	-	37,995,340	(37,995,340)	100
Prepayment	-	65,836,762	(65,836,762)	100
Insurance	-	9,871,541	(9,871,541)	100
Purchase of Generators	1,500,000	172,500	1,327,500	12
Total	**290,472,316**	**1,168,270,591**	**(877,798,275)**	**402**

i. The Governor's office exceeded its recurrent expenditure budget (excess vote) by Kshs.877,798,275 or 402% which was largely attributed to payment of personnel emoluments instead of charging personnel costs to the respective departmental votes.

ii. The expenditure on prepayments, insurance cost and mortgage had the highest over expenditure and no explanation was provided for the significant variations.

2.0. Revenue Analysis

2.1 Revenue Performance

The gross revenue received by the County Government increased from Kshs.3, 774,601,583 in 2013/2014 to Kshs.4,626,823,631 in 2014/2015 representing a 23% increase. The increase in revenue is a result of increase in exchequer releases from Kshs.3,294,053,047 to Kshs.4, 358,013,207. The County Government overall revenue performance for the period July 2014 to June 2015 are analyzed belolw:

Receipts by category	Actual Receipts 2014	Approved Budget 2015	Receipt 2015	Performance
Exchequer release	3,294,053,047	4,358,013,207	4,358,013,207	100%
Foreign /Other Grant	359,526,290	115,150,000	125,406,984	109%

Local own Source	121,022,246	301,530,027	143,403,440	47.6%
Total	**3,774,601,583**	**4,774,693,234**	**4,626,823,631**	**97%**

The County received total revenue of Kshs.4,626,823,631 against 2014/2015 target of Kshs.4,784,145,908 representing an under-collection of revenue of Kshs.147,869,606 or 3%.

2.2 Under Collection of Revenue

The County Government budgeted to collect Kshs.301,530,027 revenue from local sources. However, it collected only Kshs.143,403,440 representing 47.6% leaving a shortfall of Kshs.158,126,587 disaggregated as follows:-

Revenue Source	Budgeted Amount	Actual Collection	%Under collection
Market fees	45,000,000	20,170,457	44.8%
Bus Park	20,000,000	14,829,361	74.1%
Fish Cess	5,586,052	3,892,399	69.7%
Tender, Advert. Prom. Sign Post	3,000,000	1,159,212	38.6%
Plan Approval, survey Fee	2,500,000	1,003,260	40.1%
Transfer Fee	1,000,000	153,150	15.3%
Misc. Fee	8,000,000	1,171,557	14.6%
Ground, Kiosk Rents	6,000,000	7,307,699	121.8%
Land Rates	26,157,475	3,189,619	12.2%
Single Business Permits	50,000,000	28,350,589	56.7%
Boda Boda Fee	10,000,000	0	-100%
Sugar Cess Fee	2,000,000	0	-100%
CILOR	450,500	0	-100%
Sand,Querry Cess	5,000,000	213,070	4.3%
Burial	30,000	28,600	95.3%
Slaughter Fee	700,000	573,013	81.9%
School Fees	250,000	108,900	43.6%
Stall Rent	3,100,000	107,700	3.5%
Health	61,500,000	47,544,186	77.3%
Land Dept,	6,200,000		-100%
Agriculture, Cattle Auction Fee	25,000,000	13,270,568	53.1%
Commerce, Trade & Tourism	7,000,000	330,100	4.7%
Education, Sports, Social Services	1,000,000	0	-100%
Public works	12,000,000	0	-100%
Total	**301,474,027**	**143,403,440**	**47.6%**

i. There were no plausible explanations provided for the under performance;
ii. The County Government did not maintain a revenue cash book to monitor collection from those assigned; and
iii. The revenue cashbook was not updated, consequently, no bank reconciliations were undertaken to confirm that all revenue collected had been banked intact.

The under collection could be a manifestation of revenue leakage due to weaknesses in internal controls systems over its collection and recording of revenue.

There is risk of degraded quality of service to its citizens due to underperformance in local revenue collections.

3.0. Salaries and Wages

During the year under review, the County Government paid Kshs.1,662,547,586 as wages as tabulated below:

Department	Budgeted Amount	Actual Expenditure	Under Expenses	Over Expenses
County Assembly, Ward Staff, Gratuity, Mortgage	291,088,347	316,969,723		25,881,376
County Executive	140,691,760	59,876,757	80,815,003	
Finance & Planning	376,318,894	329,196,713	47,122,181	
Agriculture	157,540,422	123,278,317	34,262,105	
Water, Environmental, Casuals	36,694,913	36,719,946		25,033
Education, Youth Affairs, Casuals	75,133,683	40,583,434	34,550,249	
Health ,ESP & casuals	755,354,860	660,300,405	95,054,455	
Lands & Housing	13,818,023	17,942,221		4,124,198
Trade Development	15,013,602	11,992,644	3,020,958	
Arrears		13,280,180		13,280,180
LAPROFUND,NSSF,Gratutity		52,407,246		52,407,246
Total	**1,841,654,504**	**1,662,547,586**		

i. The expenditure of Kshs.1,662,547,586 on personal emoluments represents 36% of the total expenditure of Kshs4,654,397,353.

ii. The increase in the compensation of employees in the financial year 2014/2015 compared to 2013/2014 is attributed to employment of ward staffs, casual employees, absorption of staff previously under economic stimulus program, health workers and general annual increment on staff salaries.

iii. The expenditure returns show that the County spent a total of Kshs.13,280,180 on salary arrears which had not been budgeted for in the period under review.

4.0 Rolled Over Road Projects

Analysis of the budget revealed that works relating to financial year 2013/2014 on construction of roads worth Kshs.323,064,766 were incomplete and rolled over to the financial year 2014/2015. Roads worth Kshs.148,135,927 were not completed

during the year under review and rolled over to 2015/2016 budget, with significant payments being made in the year 2014/2015 to projects initiated in 2013/2014.

Review of the roads sector reports indicates that the budget for the year for the department was implemented late with project verifications exercise affirming low rate of project completion. This could result in projects stalling and wastage of public funds.

My opinion is not qualified in respect of these matters.

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

Nairobi

22 September 2016