REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF TURKANA

FOR THE YEAR ENDED 30 JUNE 2015

REPUBLIC OF KENYA

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

P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

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

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the County Government of Turkana set out on pages 5 to 34, which comprise, statement of assets and liabilities as at 30 June 2015, the statement of receipts and payments, statement of cash flows, summary statement of appropriation for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 8 of the Public Audit Act 2003.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the

purpose of expressing an opinion on the effectiveness of the County Government's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Disclaimer of Opinion

1.0 Fixed Assets

1.1 Handing over and Taking Over of Assets and Liabilities of Defunct Local Authorities

The assets figure of Kshs.6,190,667,504 reflected under Annexure 4 include Kshs.1,190,046,389 in respect of assets acquired during the previous year. However, records available indicate that during the previous year, acquisition of assets amounted to Kshs.1,434,543,739 resulting in a difference of Kshs.244,497,350 which has not been explained or reconciled. The assets balance of Kshs.6,190,667,504 also excludes assets that were taken over from the defunct Municipal Council of Lodwar and County Council of Turkana. Further, no handing over report in support of how the assets and liabilities of the defunct local authorities were taken over by the County Government of Turkana was availed for audit review.

In the circumstances, the validity and accuracy of the fixed assets balance of Kshs.6,190,667,504 as at 30 June 2015 cannot be confirmed.

2.0 Social Security Benefits

The statement of receipts and payments reflect social security benefits balance of Kshs.32,584,804 which is indicated in note 17 to the financial statements in respect of social security benefits in cash and in kind. Records availed for audit showed that the amount was in respect of NSSF contributions but no further details were provided to show the makeup of the balance of Kshs.32,584,804.

Consequently, the accuracy and validity of the social security expenditure of Kshs.32,584,804 for the year ended 30 June 2015 could not be confirmed.

3.0 Irregular Advances to Co-operative Societies

Included in other grants and transfers balance of Kshs.1,041,046,018 reflected under note 16 to the financial statements are amounts totalling Kshs.60,081,520 advanced to three cooperatives through the Ministry of Pastoral Economy and Fisheries in accordance with a Memorandum of Understanding (MOUs) signed

between the ministry and the three cooperatives on 27 June, 2014 and 17 November 2014 respectively. A total advance of Kshs.60,081,520 was paid through two account subheads: emergency, relief and refugee assistance, Kshs.19,000,000 out of a total expenditure of Kshs.462,100,355; and subsidies to small businesses, co-operatives and self-employed, Kshs.41,081,520 out of a total expenditure of Kshs.48,286,573 reflected under note 16 to the financial statements. However, no documentary evidence was availed to show that the funding of the cooperatives was approved by the County Executive Committee member for finance and that the firms provided security in respect of the amounts advanced as required by Section 145 of the Public Finance Management Act, 2012. In addition, feasibility study report establishing the viability of the investment was not provided for audit review. Further, the specific projects that were to be funded were also not disclosed in the MOUs. It was therefore not clear how the funds were to be utilized by the three cooperatives.

Consequently, the propriety of the funding totalling Kshs.60,081,520 included in the grants and transfers balance of Kshs.1,041,046,018 as at 30 June 2015 could not be confirmed.

4.0 Construction of Napelilim Livestock Holding Ground

Included in the acquisition of assets balance of Kshs.5,535,974,747 under note 18 to the financial statements is an amount of Kshs.2,343,397,589 being construction of buildings. The balance of Kshs.2,343,397,589 also includes an amount of Kshs.34,142,164 paid to a construction firm vide payment voucher number 1531 dated 9 March, 2015 being 70% of the contract sum of Kshs.48,774,500 in respect of construction of Napelilim livestock holding ground in Loima sub county. However, the actual work done according to the Monitoring and Evaluation Committee report as at the time of payment was 30%. No reason was however provided for making a payment of 70% of the contract sum when the actual work done was only 30%. Further, minutes of the tender committee that awarded the contract, the contract agreement between the County Government and the contractor and notifications to unsuccessful bidders were not availed for audit verification. It was also not clear when the work started and when it was supposed to be completed since the dates were not disclosed.

A site visit on 28 October 2015 also revealed that the contractor was not on site and the project had stalled at 30%, being over six months after the payment had been made. Consequently, the propriety of the expenditure of Kshs.34,142,164 could not be confirmed.

5.0 Procurement of Fishing Nets

Included in note 16 to the financial statements in other grants and other payments balance of Kshs.1,041,046,018 is an amount of Kshs.462,100,355 under Emergency relief and refugee assistance. The figure of Kshs.462,100,355 also includes an amount of Kshs.28,704,000 paid to a supplier on 17 April 2015 through direct transfer as a part payment for supply of fishing nets vide LPO No. 2243033, Invoice No. 548 dated 15 April 2015 and Goods Received Note No. 5445873 dated

16 April 2015. However, the tender documents together with the user requisition, the minutes of the tender evaluation committee and tender award committee minutes were not provided for audit review.

Additionally, although the payment of Kshs.28,704,000 to the supplier was indicated to be in respect of 50% contract execution according to the report of the inspection and acceptance committee dated 23 March 2015, the acceptance committee's report availed for audit verification did not indicate the details of what was supplied. As at the time of the audit in December 2015, there was no evidence that the balance of the nets ordered had been supplied. No reason was provided for making partial payment before the full order was supplied contrary to Section 5.5.14(c) of the Government Financial Regulations and Procedures.

Consequently, the County was in breach of the law and it has not been possible to ascertain if the correct specifications of the nets were supplied.

6.0 Construction of Multiplication and Breeding Centre

Included in the acquisition of assets balance of Kshs.5,535,974,747 under note 18 to the financial statements is an amount of Kshs.2,343,397,589 in respect of construction of buildings. The balance of Kshs.2,343,397,589 also includes an amount of Kshs.17,401,354 paid to a construction firm in respect of construction of multiplication and breeding centre in Kerio area on 27 April 2015 vide payment voucher No. 21201 and Cheque No. 2559 on basis of an interim certificate dated 27 April 2015 on 60% of work done. However, the tender documents, minutes of evaluation and tender award committees and contract between the County Government and terms of contract including commencement date, completion date and dispute resolution among others were not availed for audit review. It is therefore not possible to confirm when the project work started and when it was to be completed and if the stakeholders will obtain value for their resources.

In addition, the payment of Kshs.17,401,354 being 60% of the contract sum was made just five (5) days after the issuance of the LPO and before the work had commenced. No reason was however provided for making payment against interim certificate which indicated that 60% of the work had been done while the work had not started.

As at the time of audit in November 2015, the work had just started and could not be quantified due to lack of Bills of Quantities (BQs). All the above anomalies are in contravention of the Public Procurement and Disposal Act, 2005 and the related Regulations of 2006 and 2013.Consequently, the propriety of the expenditure of Kshs.17,401,354 included in the acquisition of assets for the year ended 30 June 2015 could not be confirmed.

7.0 Construction of Eco-Lodge Hotels

Included in note 18 to the financial statements in acquisition of assets balance of Kshs.5,535,974,747, under construction of buildings amount of Kshs.2,343,397,589 are payments to two construction companies totalling Kshs.92,469,777 in respect of

construction of Eco Lodge Hotels in Kataboi beach and Kainuk game reserve. However, the minutes of the Executive Committee approving investment in the projects as required by Section 183 of the Public Finance Management Act, 2012 were not availed for audit verification.

Further, the feasibility study report on viability of the projects, contract documents for the two tenders and the details of management and operations of the eco-lodge hotels after completion were not availed for audit review.

Consequently, the viability of the investments in the eco-lodge hotels and the propriety of the expenditure of Kshs.92,469,777 included in acquisition of assets balance of Kshs.5,535,974,747 for the year ended 30 June 2015 cannot be confirmed.

8.0 Members of County Assembly Car Loan and Mortgage Fund

Included in transfer to other government entities balance of Kshs.670,559,377 is an amount of Kshs.150,000,000 transferred to Turkana Members of County Assembly car loan and mortgages fund account on 15 August 2014.

However, the financial statements in respect of the Fund for the financial year ending 30 June 2015 were not availed for audit review contrary to Section 167 of the Public Finance Management Act, 2012 which states that the administrator of a county public fund established by the Constitution, an Act of Parliament or county legislation shall prepare financial statements for the fund for each financial year in a form prescribed by the Public Sector Accounting Standards Board and not later than three months after the end of each financial year, submit the financial statements to the Auditor-General.

Consequently, the propriety of Kshs.150,000,000 transferred to Turkana Members of County Assembly car loan and mortgage fund account for the year ended 30 June 2015 could not be confirmed.

9.0 Turkana Emergency Fund

Included in note 16 to the financial statements in other grants and other payments balance of Kshs.1,041,046,018 under Turkana emergency fund is an amount of Kshs.188,000,000 in respect of Turkana County Emergency Fund. However, the records and financial statements of the fund were not availed for audit review as required by Section 115 of the Public Finance Management Act, 2012 which states that, where an Emergency Fund has been established for a County Government in accordance with Section 110, the County Treasury shall, not later than three months after the end of each financial year, prepare and submit to the Auditor-General, financial statements in respect of the Emergency Fund for that year. Consequently, the propriety of the Turkana County Emergency Fund balance of Kshs.188,000,000 for the year ended 30 June 2015 could not be confirmed and the County Treasury was in breach of the law.

10.0 Unsupported Development Grants

Included in note 16 to the financial statements in other grants and other payments balance of Kshs.1,041,046,018 under emergency relief and refugee assistance amount of Kshs.462,100,355, are amounts totalling Kshs.12,186,360 paid to various organizations and youth groups for various activities. However, the policy guideline to monitor the usage of the funds was not availed for audit review. Consequently, the propriety of the total grants of Kshs.12,186,360 included in other grants and other payments balance of Kshs.1,041,046,018 for the year ended 30 June 2015 could not be confirmed.

11.0 Unaccounted for Fuel

Included in note 13 to the financial statements in the use of goods and services balance of Kshs.1,408,639,905 under fuel, oil and lubricants amount of Kshs.62,880,634 is an amount of Kshs.4,528,030 paid to a local firm between September 2014 and June 2015 by the Ministry of Energy, Environment and Natural Resources in respect of purchase of 42,574 litres of diesel. However, records on how the fuel was utilised including fuel register, detailed orders, supplier statements and motor vehicle work tickets were not availed for audit review. Consequently, the propriety of the expenditure of Kshs.4,528,030 for the year ended 30 June 2015 could not be confirmed.

12.0 Repair of Motor Vehicle

Included in note 13 to the financial statements in use of goods and services balance of Kshs.1,408,639,905 under routine maintenance – vehicles and other transport equipment amount of Kshs.73,189,384 are two payments totalling Kshs.1,089,853 made between September 2014 and June 2015 to a motor dealer in Kitale for repair of motor vehicle registration KBY 392C. However, pre-inspection report by the Ministry of Public Works were not provided for audit review contrary to Section 19.8.1 of the Government Financial Regulations and Procedures which states that unserviceable vehicle should be inspected and reported upon by a skilled technical officer of the Ministry of Public Works. Further, there was no documentary evidence to show that competitive bids were invited from the prequalified garages as required by the Public Procurement and Disposal Act, 2005 and the related Regulations of 2006 and 2013. Consequently, the propriety of the expenditure of Kshs.1,089,853 for repair of KBY 392C for the year ended 30 June 2015 could not be confirmed.

13.0 Single Sourcing of Insurance and Publicity Services

Included in note 13 to the financial statements in use of goods and services balance of Kshs.1,408,639,905 under insurance costs amount of Kshs.76,225,300 are amounts of Kshs.1,899,916 paid to an insurance firm on 21 November 2014 in respect of group medical policy and Kshs.525,000 paid on 19 June 2015 in respect of car insurance. Further, another payment of Kshs.1,828,000 was made to a publicity firm in respect of profiling of County Government in a monthly magazine is included under printing, advertising and information supplies and services amount

of Kshs.87,214,319. However, the firms were identified through single sourcing and no reason was provided for not using competitive bidding process.

Consequently, the propriety of the insurance expenditure of Kshs.2,424,916 and publicity expenditure of Kshs.1,828,000 all totalling to Kshs.4,252,916 for the year ended 30 June 2015 could not be confirmed.

14.0 Un-Vouched Expenditure

Included in note 18 to the financial statements in acquisition of assets balance of Kshs.5,535,974,747 under construction of buildings amount of Kshs.2,343,397,589 is an amount of Kshs.123,454,662.60 paid to various firms between September 2014 and June 2015 in respect of construction of the Governor's residence. However, approved structural plans for the building, tender documents and payment vouchers among other records, were not availed for audit review. Although the documents were said to have been submitted to another government agency, no documentary evidence to show the particular government agency that collected the documents was availed for audit review.

Consequently, the propriety of the expenditure of Kshs.123,454,662.60 for the year ended 30 June 2015 could not be confirmed.

15.0 Other Payments

The statement of receipts and payments for the year ended 30 June 2015 reflect other payments figure of Kshs.104,501,137 described under note 21 as civil contingency reserves. However, no documentary evidence to confirm the nature of the expenditure was provided for audit review.

Consequently, the propriety of the other payments figure of Kshs.104,501,137 for the year ended 30 June 2015 could not be confirmed.

16.0 Unauthorised Over Expenditure

The statement of receipts and payment for the year ended 30 June 2015 reflects transfers to other government units figure of Kshs.670,559,377 as detailed under note 15 to the financial statements against a budget of Kshs.502,332,836 resulting into over expenditure of Kshs.168,226,541 or approximately 33% of the budgeted expenditure. However, no documentary evidence to confirm that the over expenditure of Kshs.168,226,541 was authorised as required by Section 135 of the Public Finance Management Act, 2012 was availed for audit review.

Consequently, the county government was in breach of the law and the action adversely affects the implementation of other budgeted activities.

17.0 Revenue Cash book

The County Government maintained a revenue collection account with Kenya Commercial Bank, Lodwar account No. 1140763687. However, as at the time of

audit in December 2015, the cash book had only been written up to November 2014 and no bank reconciliation statements were availed for audit review.

Consequently, the County Government was in breach of the Government Financial Regulations and Procedures which requires up to date cash books to be maintained and monthly reconciliations of bank statements and cashbook balance.

18.0 Turkana County Gratuity Account

Information available indicate that during the year 2014/2015, the County Government opened Turkana County Gratuity account with the Kenya Commercial Bank and subsequently transferred amounts totalling Kshs.96,382,870 into the bank account in respect of gratuity for Members of the County Assembly and other contracted employees. However, the guiding legislation on how the fund will be operated was not availed for audit review. Further, although the amount of Kshs.96,382,870 is indicated as being the balance in bank as at 30 June 2015, the same is not reflected in the financial statements as a transfer to the fund, and the financial statements of the fund together with bank statements were not provided for audit review.

Consequently, the accuracy of the financial statements for the year ended 30 June 2015 together with the safety of the Kshs.96,382,870 held in the gratuity account cannot be confirmed.

Prior Year Unresolved Matter

19.0 General Account of Vote (GAV) Balance

As previously reported, the financial statements for the year ended 30 June 2014 under Note 1 reflected nil GAV balance instead of the calculated GAV balance of Kshs.3,940,352,414.85. Further, the financial statements for the year ended 30 June 2015 under Note 1 show a GAV opening balance of Kshs.7,001,469,746 instead of Kshs.3,940,352,414.85 resulting to a difference of Kshs.3,061,117,331.15 that has not been explained or reconciled. Further, the computed total exchequer under issue for the year under review is Kshs.1,645,800,155 together with cash and cash equivalent figure of Kshs.1,052,910,040 amounting to GAV balance of Kshs.2,698,710,195 for the year ended 30 June 2015 instead of Kshs.9,833,130,444 reflected under Note 1 resulting to an unexplained difference of Kshs.7,134,420,249.

Consequently, the GAV balance of Kshs.9,833,130,444 for the year ended 30 June 2015 could not be confirmed.

20.0 Budget Performance Analysis

During the year under review, the approved budget for the County Government of Turkana was Kshs.13, 535,674,037 out of which Kshs.9,740,507,209 (72%) was for development, while Kshs.3,795,166,828 (28%) was for recurrent expenditure as shown below:

Item	Approved Budget 2014/2015 Kshs.	Actual 2014/2015 Kshs.	Absorption rate %	% of Total Expenditure
Development	9,740,507,209	7,247,580,142	74	70
Recurrent	3,795,166,828	3,167,413,165	83	30
Total	**13,535,674,037**	**10,414,993,307**	**77**	**100**

A review of the budget performance shows that the County Government spent Kshs.7,247,580,142 or approximately 70% of total expenditure on development vote while Kshs.3,167,413,165 or approximately 30% of total expenditure on recurrent expenses.

Consequently, the management complied with Section 107 of the Public Finance Management Act, 2012 which require county governments to allocate a minimum of 30% of their budgets to development expenditure and also complied with the provisions of the County Allocation of Revenue Act, 2015 on county government's budget ceilings on recurrent expenditure.

20.1 Under Expenditure

Expenditure Category	Budget 2014/2015 Kshs.	Actual Expenditure 2014/2015 Kshs.	Under Expenditure Kshs	Under Expenditure as % of Budgeted Amount
Compensation of Employees	1,669,142,770	1,621,687,319	47,455,451	2.8
Use of Goods and Services	1,471,214,708	1,408,639,905	62,574,803	4.3
Other Grants and Transfers	1,354,546,737	1,041,046,018	313,500,719	23.1
Social Security Benefits	38,493,654	32,584,804	5,908,850	15.4
Acquisition of Assets	7,962,401,499	5,535,974,747	2,426,426,752	30.5
Other Payments	123,451,122	104,501,137	18,949,985	15.4
Total	**12,619,250,490**	**9,744,433,930**	**2,874,816,560**	**22.8**

The County Government recorded under expenditure on compensation of employees, use of goods and services, other grants and other transfers, social security benefits, acquisition of assets and other payments amounting to

Kshs.2,874,816,560, being 22.8% of the total final budget of Kshs.12,619,250,490 as reflected above. Consequently, the citizens of Turkana have been denied the services they are entitled to due to the under expenditure of Kshs.2,874,818,560 or the County Government of Turkana may have over budgeted on those specific cost centres hence need to relook at its budgeting process.

20.2 Development Expenditure for 2014/2015

According to the approved budget for 2014/2015, a total of Kshs.6,435,225,715 was allocated to twelve (12) departments to finance five hundred and twenty four (524) projects. As at 30 June 2015, an amount of Kshs.4,614,822,736 or approximately 72% of the budgeted amount of Kshs.6,435,225,715 had been spent on four hundred and twenty three (423) projects as follows:

	No of Budgeted Projects	Budget	Actual Expenditure	No of Projects implemented	% Level of Implementa - tion
		Kshs	Kshs		
Office of the Governor	2	458,528,877	339,142,896	2	74
Finance & Planning	5	473,895,079	378,911,433	4	80
Water Services, Irrigation and Agriculture	252	968,570,000	784,541,700	203	81
Health and Sanitation Services	71	1,048,035,544	892,177,312	71	85
Tourism, Trade and Industrialisation	5	244,450,000	187,536,692	2	77
Education, HRD, Culture and Social Services	66	451,000,000	440,825,165	39	98
Transport ,Roads, Housing & Public Works	69	895,386,276	705,726,841	53	79
Pastoral Economy & Fisheries	29	643,541,560	323,961,363	29	50
Energy, Environment & Natural Resources	15	361,237,417	188,170,880.14	14	52
Lands, Physical Planning & Urban Areas Management	7	405,580,962	168,345,054.00	3	42
Public service, Decentralized Admin &Disaster Management	1	250,000,000	175,000,000.00	1	70
County Assembly	2	235,000,000	30,483,400	2	13
Total	**524**	**6,435,225,715**	**4,614,822,736**	**423**	

Consequently, the County Government failed to implement 101 projects out of a total of 524 projects amounting to Kshs.1,820,402,979 thus denying the citizens of Turkana County the services they are entitled to.

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

15 September 2016