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REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY EXECUTIVE OF KITUI

FOR THE YEAR ENDED 30 JUNE 2016

KENYA NATIONAL AUDIT OFFICE
EMBU SUB
1717

COUNTY GOVERNMENT OF KITUI

REPORTS AND FINANCIAL STATEMENTS

(EXECUTIVE)

FOR THE FINANCIAL YEAR ENDED JUNE 30, 2016

Prepared in accordance with the Cash Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)

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I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The County is constituted as per the constitution of Kenya is headed by the County Governor, who is responsible for the general policy and strategic direction of the County.

(b) Key Management

The County Government of Kitui day-to-day management is under the following key organs:

- Dr Julius M Malombe — Governor;
- Penina Malonza — Deputy Governor;
- Simon N Mundu — CEC Member Finance and Economic Planning
- Charles Muthui Kang'e — CEC Member Agriculture, Water and Irrigation
- Peninah Martha Kilonzi — CEC Member Basic Education, Training and Skills
- Paul Christopher Kimali Kioko — CEC Lands, Infrastructure and Urban Development
- Ruth Koki Mwanzia — CEC Member Health and Sanitation
- James Mwinzi Jonah — CEC Member Trade, Industry, ICT and Cooperatives
- Jane Kanyiva Musembi — CEC Member Culture, Youth, Sports and Social Services
- George Mutuku Mulatya — CEC Member Environment, Energy and Minerals Investment Development
- Peter Gitonga Nkunda — CEC Member Natural Resources and Tourism
- Rev Daniel Safari Kilonzo — CEC Member Administration and Coordination of County Affairs

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2016 and who had direct fiduciary responsibility were:

Title	Name	Qualification	Area of Specialisation	Years of Experience
Chief Officer Finance &Economic Planning	Grace Muimi Kavinya	MA (Econ), BA, Economics	Economic Planning	Over 20 years
Chief Finance Officer/Accounting Officer	June Mawia Munyao	MBA (Strategic Management), B.Com (Finance),CPA(K)	Finance & Accounting	Over 15years
Deputy Chief Finance Officer	Enoch Nguthu	MBA (Finance) B.Com.(Accounting) CPA(K)	Finance & Accounting	Over 20 years
Deputy Director-Budgeting and Economic Planning	Fidhelis Mwaniki	MA (Econ), BA, Economics	Economic Planning	Over 15years
Assistant Director Financial Accounting	Festus Mulu	B Com ,CPA K	Finance & Accounting	Over 10 Years

II. STATEMENT OF MANAGEMENT RESPONSIBILITIES

Sections 163,164 and 165 of the Public Finance Management Act, 2013 requires that, at the end of each financial year, the County Treasury shall prepare financial statements of each County Government entity, receiver of revenue and consolidated financial statements for all County Government entities in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board.

The County Executive Committee (CEC) member for finance of the County Government is responsible for the preparation and presentation of the County Government's financial statements, which give a true and fair view of the state of affairs of the County Government for and as at the end of the financial year ended on June 30, 2016. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the County Government; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the County Government; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The CEC member for finance accepts responsibility for the County Government's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The CEC member for finance is of the opinion that the County Government's financial statements give a true and fair view of the state of the County Government's transactions during the financial year ended June 30, 2016, and of its financial position as at that date. The CEC member for finance further confirms the completeness of the accounting records maintained for the County Government which have been relied upon in the preparation of the its financial statements as well as the adequacy of the systems of internal financial control.

The CEC member for finance confirms that the County Government has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the County Government's funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the CEC member for finance confirms that the County Government's financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the financial statements

The County Government's financial statements were approved and signed by the CEC member for finance on _____ 2016.

County Executive Committee member
Finance and Economic Planning

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF KITUI FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Executive of Kitui set out on pages 6 to 76, which comprise the statement of financial assets as at 30 June 2016, and the statement of receipts and payments, statement of cash flows and 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 35 of the Public Audit Act, 2015.

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 47 of the Public Audit Act, 2015.

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 48 of the Public Audit Act, 2015 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. 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 Executive's internal control. An audit also includes evaluating the appropriateness of the 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 audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

1.0 Accuracies of the Financial Statement

Comparison of balances reflected in the financial statements for the year under review with the balances reflected in the respective supporting schedules revealed understatement and an overstatement of the financial statements by Kshs.27,325,702 and Kshs.6,168,474 on five items and two items respectively, resulting to a net understatement of Kshs.33,494,176 as follows:

Item	Supporting schedules balances (Kshs)	Financial Statement balances (Kshs)	Variance (Kshs)
Purchase of Specialized Plant, Equipment and Machinery	253,124,462	230,173,733	22,950,729
Research, Studies, Project Preparation, Design & Supervision	476,832,004	475,882,005	949,999
Domestic travel and subsistence	177,937,019	175,694,856	2,242,163
Foreign travel and subsistence	20,792,261	20,745,262	46,999
Hospitality supplies and services	72,517,811	71,381,999	1,135,812
Total Understatements	**1,001,203,557**	**973,877,855**	**27,325,702**
Routine Maintenance of other Assets	145,543,496	145,653,947	(110,451)
Domestic Public Non-Financial Enterprises	53,941,977	60,000,000	(6,058,023)
Total Overstatement	**199,485,473**	**205,653,947**	**(6,168,474)**
Net Total (Understatements)			**21,157,228**

Further, a comparison of the opening balances reflected in the financial statements for the year under review with the audited 2014/2015 financial statements closing balances reflected under statements and overstatements of the financial statements by Kshs.393,278,402 and Kshs.205,765,438 on four and two items respectively resulting to a net understatement of Kshs.187,512,964 as follows:

Item Description	Opening Balance 2015/016 (Kshs)	Closing Balances 2014/015 (Kshs)	Variance (Kshs)
Fund balance b/fwd	2,110,691,527	2,007,808,808	102,882,719
Net Financial Position	2,068,225,180	1,965,342,461	102,882,719
Pension and other social security contr.	91,421,508	6,791,263	84,630,245
Transfer Other Govt. Entities	794,322,167	691,439,448	102,882,719
Total Understatements	**5,064,660,382**	**4,671,381,980**	**393,278,402**
Increase in payables	0	102,882,719	(102,882,719)
Cash Flow From Oper. Activities	3,053,893,193	3,156,775,912	(102,882,719)
Total Overstatement			**(205,765,438)**
Net Total Understatements	**3,053,893,193**	**3,259,658,631**	**187,512,964**

In the circumstances, the accuracy of the financial statements as at 30 June 2016 could not be confirmed.

2.0 Cash-and-Cash Equivalents

2.1 Cash Balances

The financial statements reflect a cash-and-cash-equivalents balance of Kshs.1,993,196,056 which includes bank balances of Kshs.1,992,169,471. However, included in the Kshs.1,992,169,471 bank balances is Kshs.80,859,597 and Kshs.55,696,202 in respect of recurrent and development accounts respectively which were bank statement balances instead of the reconciled cash book balances. In the circumstances, the accuracy of the cash-and-cash-equivalent balance of Kshs.1,993,196,056 as at 30 June 2016 cannot be confirmed.

2.2 Bank Accounts

Note 10 A of the Notes to the financial statements show that Kitui County Executive operated seventeen bank accounts out of which, four were at the Central Bank of Kenya, one was an imprest account while the remaining twelve (12) were in Commercial Banks. However, the twelve (12) bank accounts held in commercial banks were opened contrary to Section 82 (1) (b) of the Public Financial Management (County Government) Regulations, 2015 which stipulate that all County Governments bank accounts should be opened at the Central Bank of Kenya except for imprest accounts for petty cash. The twelve bank accounts are as shown below:

Number	Bank	Type of Account	Account Number	Amount Held (Kshs)
1.	KCB	Revenue Collection Account	1140752855	8,341,927
2.	KCB	Kitui District	1141303838201	17,084,923

		Hospital Operations Account		
3.	KCB	Mwingi District Hospital Operations Account	1156709008	(388,313)
4.	Co-op Bank	Tseikuru Sub-District Hospital Operations Account	1156757614	44,559
5.	Co-op Bank	Migwani Sub-District Hospital Operations Account	1156714397	45,516
6.	Co-op Bank	Katulani Sub-District Hospital Operations Account	1156667747	(723,123)
7.	Co-op Bank	Ikanga Sub-District Hospital Operations Account	1156671523	675,179
8.	Co-op Bank	Kanyangi Sub-District Hospital Operations Account	1001036319100	338,064
9.	Co-op Bank	Mutito Sub-District Hospital Operations Account	1156804256	1,276,453
10.	Co-op Bank	Kyuso Sub-District Hospital Operations Account	1156755654	(639,885)
11.	Co-op Bank	Nuu Sub-District Hospital Operations Account	114139953501	76,113
12.	Co-op Bank	Kauwi Sub-District Hospital Operations Account	1141303838301	1,311,234

In the circumstance, the County Executive did not comply with the Public Finance Management (PFM) Act, 2012 during the year ended 30 June 2016.

3.0 Outstanding Imprests

Annex 2 of the annexures to the financial statements indicates that, the County Executive had an outstanding imprest of Kshs.11,785,435 as at 30 June 2016 which balance included a sum of Kshs.4,046,940 which had been outstanding for over eleven (11) months. However, the County Executive has not made any efforts to effect the

recoveries. In the circumstance, recoverability of the outstanding imprests of Kshs.11,785,435 as at 30 June 2016 cannot be confirmed.

4.0 Revenue

4.1 Unsupported Receipts

Included in the cash-and-cash-equivalents balance of Kshs.1,993,196,056 is a sum of Kshs.80,859,597 under Kitui Executive recurrent account which further includes receipts of Kshs.10,736,589 and Kshs.12,080,147 from one law firm both sums totaling to Kshs.22,816,736. However, no supporting documents have been availed to show the nature of the receipts. In the circumstance, the nature and purpose of the receipts of Kshs.22,816,736 as at 30 June 2016 cannot be confirmed.

4.2 Failure to Surrender Accountable Documents

An analysis of accountable documents issued through the counter book receipts register (CRB) between 1 July 2014 to 30 June 2016 revealed that accountable documents worth Kshs. 7,321,200 were issued but never returned resulting to an equivalent possible revenue loss. In the circumstance, the safety and accountability of the accountable documents worth Kshs. 7,321,200 as at 30 June 2016 could not be confirmed

4.3 Uncollected Property Rates

Revenue Collection (LAIFOMS) records indicated that Kitui Executive had outstanding property rates of Kshs. 110,348,569 as at 1 July 2015. However, the rates increased by Kshs. 5,695,322 during the year to close at Kshs.116,043,892 as at 30 June 2016.

The County Executive did not therefore institute effective debt collection mechanisms during the year under review.

Further, the County Government of Kitui collected property rates totaling Kshs.23,772,990 during the year which was 20.5% of the total outstanding property rates as at 30 June 2016. In the circumstance, recoverability of the property rates totaling to Kshs.116,043,892 as at 30 June 2016 cannot be confirmed.

4.4 Accumulated and Undisclosed Arrears

Analysis of properties' data revealed outstanding/uncollected accumulated arrears and penalties on properties totaling Kshs. Kshs.209,952,737 and house rent arrears totaling to Kshs.6,079,775 aggregating to Kshs.216,032,512. However, these arrears are not disclosed in the financial statements for the year under review. In the circumstance, it has not been possible to ascertain that the Executive will recover the Kshs.216,032,512 arrears from property owners.

4.5 Non Reconciling Revenue Collections- Kitui District Hospital

During the year under review, daily collections by cashiers at Kitui District Hospital did not agree with subsequent bankings as recorded in the revenue collection book as a total of Kshs.44,501,145 was recorded as receipts while only Kshs.43,856,444 was recorded as banked leading to an unexplained variance of Kshs.644,701. Further, an audit of the revenue collections and bankings showed that the actual bankings as at 30 June 2016 were Kshs.35,613,216 resulting in a unbanked revenue amounting to Kshs.8,887,929 as at 30 June 2016.

In the circumstances, the security and accuracy of the Kshs. 44,501,145 revenue from Kitui district hospital as at 30 June 2016 could not be confirmed.

5.0 Financial Fraud

Note 15.1 to the financial statements reflects fraudulent transactions totaling to Kshs. 93,487,989 discovered during the year. The fraud was committed through charges made to staff salary account. However, the matter was reported to the police and Kshs.44,737,825 was recovered and a balance of Kshs.19,406,662 was frozen through Court orders in the respective bank accounts where it had been fraudulently transferred to. The balance of Kshs.29,343,501 was withdrawn by the fraudsters. Although the matter is still pending in court, the sum of Kshs.48,750,164 comprised of the Kshs.19,406,662 held in the banks and the Kshs.29,343,501 withdrawn has already been written off from the Executive's books of accounts.

In the circumstance, the probability of recovering the sum of Kshs.29,343,501 withdrawn by the fraudsters cannot be confirmed. Further, there is no confirmation that management have instituted measures to deter such incidences in future.

6.0 Fixed Assets

6.1 Additions to Fixed Assets

Annex 3 of the annexures to the financial statements reflects a decrease of Kshs.409,753,131 in fixed assets during the year from Kshs.3,784,718,599 as at 30 June 2016 to Kshs.3,374,965,468 as at 30 June 2016. However no proceeds from sale of assets were included in the financial statements for the year under review. Further, Note 8 to the financial statements reflects acquisition of assets during the year totaling to Kshs.3,374,965,465.

In the circumstances, the validity and accuracy of the fixed assets additions of Kshs.3,374,965,468 and ownership of assets reportedly bought during the year under review cannot be ascertained.

6.2 Unaccounted for Inherited Assets from the Defunct Local Authorities

Physical verification of the County Executive's assets done in November 2016 revealed that the County Government had in its possession fixed assets inherited from the

defunct local authority. However a detailed fixed assets report, including the register of all the assets already inherited and those awaiting to be inherited from the defunct local authorities, were not availed for audit review. In the circumstance, the accuracy and safety of the fixed assets of undetermined value previously owned by the defunct local authorities could not be confirmed as at 30 June 2016.

6.3 Unsupported Fixed Assets

Annex 3 of the annexes to the financial statements reflects fixed assets totaling Kshs.3,374,965,468 as at 30 June 2016. However, the respective supporting schedules were not availed for audit review.

Further, during the year under review, the County Executive did not maintain a fixed assets register as required by Section 149 of the Public Finance Management Act, 2012.

In the circumstance, the accuracy, existence and security of the fixed assets balance of Kshs. 3,374,965,468 as at 30 June 2016 cannot be confirmed.

6.4 Irregularly Contracted Works

During the year under review, the County Executive under the Ministry of Lands, Infrastructure, Housing and Urban Development awarded works for the construction of drifts to 59 contractors at a total cost of Kshs.1, 397,015,159. However, this expenditure was not included in the acquisition of assets balance of Kshs.3,374,965,468.

Further, review of the contract documents revealed that the contracts were awarded by only three officers who carried out preliminary, technical and financial evaluation including the award of all the contracts within a day through restricted tendering method contrary to the requirements of the Public Procurement and Disposal (PPAD) Act, 2015, Section 102.

Further, there was no market survey, procurement plan, financing plan and user requests as the purchase had not been factored in the budget for 2015/2016. In addition, there was no evidence that the bidding firms were confirmed to be tax compliant and that all the bidders were contacted. In the circumstances, the propriety and value-for-money for the expenditure of Kshs.1,397,015,159 incurred on construction of drifts during the year under review cannot be confirmed.

6.5 Purchase of Parcels of Land

Note 8 to the financial statements reflects expenditure of Kshs.7,496,000 in respect to acquisition of land. However, the schedule detailing the acquisition of land during the year showed that the County Executive procured six (6) parcels of land in different localities at different prices all totaling to Kshs.33,210,341. Therefore, the total value of purchases shown in the schedule varies by Kshs.25,714,341 from the balance of Kshs.7,496,000 shown in the financial statements.

Perusal of documents presented for audit showed that the variance was due to inclusion of an expenditure of Kshs.25,714,341 which was not related to purchase of land thereby overstating the expenditure as follows:

P/Voucher No.	Payee	Amount (Kshs)
10015567	Katungate Contractors Ltd.	12,070,292
10015634	Markwell Services Ltd	4,164,259
10016417	Mantrac Kenya Ltd.	6,460,791
10016612	Avic Shantui Const.Machinery	3,019,000
Total		**25,714,341**

Further, although the schedule for the acquisition of land reflected an expenditure of Kshs 33,210.341, documents made available for audit review reflected an expenditure of Kshs 4,111,000 resulting into an unexplained and unreconciled overstatement of the financial statements by Kshs. 3,385,000.
In addition, the following documents were not availed for audit review to validate land purchases during the year under review:

i. A letter inviting a request for expression of interest for purchase of land;

ii. The tenders/quotations from interested applicants;

iii. The tender evaluation report;

In the circumstances, the propriety and accuracy of the expenditure of Kshs.7,496,000 shown in the financial statements as having been incurred on purchase of land cannot be confirmed.

6.6 Purchase of Specialized Plant, Equipment and Machinery

Included in the acquisition of assets balance of Kshs.3,374,965,468 is the sum of Kshs.230,173,733 reportedly incurred on purchase of specialized plant, equipment and machinery which further include a sum of Kshs.139,974,229 incurred on purchase of road graders. However, the expenditure on grader purchases reflected in the account analysis report is Kshs.161,039,256 thus leading to a understatement of the financial statements by Kshs.21,065,027 which however has not been explained.

In the circumstance, the accuracy of the expenditure of Kshs.3,374,965,468 as at 30 June 2016 could not be confirmed.

Further, records made available for audit showed that Kshs.139,974,229 was spent on procurement of four graders from M/S Mantrac Kenya Ltd. However, no requisition from the user department was presented for audit review. In addition, a G-Pay schedule

presented by the County Executive reflected payments totalling Kshs.124,779,297 made in respect of four graders leading to an unexplained variance of Kshs.15,194,932.

6.7 Procurement of Household & Institutional Equipment

M/S Farnel Agencies Limited of P.O. Box 33589-00600 Nairobi, was paid Kshs. 901,000 on 21/06/2016 vide payment voucher number 15507 for supply and delivery of 265 ECDE Desks. However the Local Purchase Order (No. 2176658 with quotation No. CGOKTI/Q854/2015-2016) was raised on 18 March 2016, 13 days before the supplier accepted the award on 1 April 2016. Further, the tender notification letter to the supplier dated 17 March 2016, explicitly directed the supplier to submit an acceptance letter within 7 days from the notification date but the supplier submitted his acceptance letter on 1 April 2016 – 6 days after due date but his acceptance was irregularly considered and accepted.

In the circumstance, the propriety of the Kshs. 901,000 expenditure incurred on procurement of ECD desks during the year under review cannot be confirmed.

6.8 Street Lighting

Included in the acquisition of assets balance of Kshs. 3,374,965,468 was Kshs.1,571,891,642 incurred on civil works which further included Kshs.24,144,221 for street lighting procured through requests for quotation method.

However, procurement documents including the quotation and tender evaluation reports were not availed for audit review. Further, the use of requests for quotation method was irregular as the tender amount qualified for open tender as per Section 91 of the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, the propriety and value-for-money for the expenditure of Kshs.24,144,221 on street lighting infrastructure during the year under review cannot be confirmed.

6.9 Procurement of Metallic Double Decker Beds

The Kitui County Executive procured double decker beds for Mwingi Central and Mwingi North Primary schools at a cost of Kshs.4,394,803 classified as emergency expenditure. However, it was not proper to classify the expenditure under this category of relief and emergency vote since it was not disaster related. Therefore the classification was contrary to Section 110 (2) of the Public Finance Management Act, 2012.

In the circumstance, the expenditure of Kshs.4,394,803 incurred on purchase of double decker beds during the year under review cannot be confirmed.

6.10 Renovation Works and Fencing of Mutitu Youth Polytechnic

Also during the year under review, the County Executive procured the services of Kyamboo Building Contrators to renovate and fence Mutitu Youth Polytechnic at Kaliku

ward at a contract price of Kshs.3,178,600 through request for quotation method. However, the contractor was not prequalified among suppliers of such services. In the circumstance, the propriety of the expenditure of Kshs.3,178,600 incurred on the contractor cannot be confirmed.

6.11 Repair of Grader

During the year under review, a Grader (Champion) Registration No. KAB 256Q was serviced and repaired by M/S County Side General Merchantile of Box 1204 Kitui vide payment voucher No.3715/34/02 dated 10 February 2016 and Local Service Order (LSO) No.1215109 dated 21 December 2015 for Kshs 503,445. However, there was no pre-inspection and post-inspection reports while the invoice (No.3827) presented by the alleged service provider M/S Countryside General Merchantile invoice (No.3827) was dated 20 December 2015 a day before the LSO was issued. No explanation was provided why the service provider invoiced for services even before he was authorized to commence the works through a Local Service Order.

In the circumstance, the propriety of the expenditure of Kshs.503,445 as at 30 June 2016 cannot be confirmed.

7.0 Other Irregular Procurement

7.1 Direct Procurement of Motor Vehicle Insurance Services

During the year under review, the County Executive contracted Kenya Orient Insurance Limited to provide insurance services for motor vehicles at a contract sum of Kshs.11,509,770. However, the respective procurement documents were not made available for audit review. Further, the firm appeared to have been directly procured contrary to Section 74 of the Public Procurement and Disposal Act, 2005. In the circumstance, the propriety of the expenditure of Kshs.11,509,770 incurred on the insurance services cannot be confirmed.

7.2 Procurement of Air Ticketing Services

Kitui County Executive had prequalified firms for provision of air travel services during the two financial years ending 30 June 2016. However, services from Mara Ways Tours and Travel Ltd were procured directly to provide air ticketing services totaling Kshs.680,103 for the Governor and County Executive Committee Member (CECM) for Health to travel to Dakar Senegal on 24 May 2015 to 28 May 2015 without tendering. Further, Liberty Group was procured directly to provide air ticketing services respectively totaling to Kshs.569,150 for Malasyia trip undertaken by (2) members of the County Public Service Board on 28 June 2015 to 5 July 2015, and trip to Israel by the Deputy Governor on 23 August 2015 to 12 September 2015 at a cost of Kshs.290,000, USA trip by CECM Basic Education at Kshs.879,560 and USA trip by Titus Mutia of Culture, Youth, Sports and Social Services on 11 April 2016 to 23 April 2016 at Kshs.285,000. No tenders were floated for these services.

In addition, Marony Travel Agencies was procured directly to provide air-ticketing services for a trip to Nigeria undertaken by CECM Basic Education for training and skills development course between 17 August 2015 to 22 August 2015 and CECM Culture, sports and social services on 17 August 2015 to 21 August 2015 at a cost of Kshs.384,763 and 405,750 respectively all totaling to Kshs.790,513. No tenders were floated for the services. The payments are as analyzed in the table below:

Date	Firm	Destination	Beneficiary	Amount (Kshs.)
24/5/2015	Mara Ways Tours	Dakar	Governor & CECM Health	680,103
28/6/2015	Liberty Group	Malaysia	2 members of CPSB	569,150
23/8/2015	Liberty Group	Israel	D/Governor	290,000
23/8/2015	Liberty Group	USA	CECM Basic Education	879,560
11/4/2016	Liberty Group	USA	Titus Mutia of CYS& SS	285,000
11/4/ 2016	Marony Travel Agencies	Nigeria	CECM Basic Education	384,763
11/4/2016	Marony Travel Agencies	Nigeria	CECM Culture, Sports & Social	405,750
Total				**3,233,326**

Further, cheque No. 2437 of 18 August 2015 on claims for travel and subsistence on Malasyia trip on 29 May 2015 to 5 July 2015 was paid to Salim B. Shaaban and Samuel Ikima of Kshs.307,526 and Kshs.313,381 respectively. However, the trip was not budgeted for and the source of the funding could not be ascertained.
The propriety of the expenditure of Kshs.3,233,326 as at 30 June 2016 cannot be confirmed.

7.3 Media Coverage for the Kitui Investors Conference Event

Kitui County Executive procured the services of Cynthia Nyamai Communications Limited at a cost of Kshs.2,122,800 for provision of media coverage and communication services during the Kitui Investors Conference event. However, review of the respective payment voucher number 22563 and LSO number 1121998 dated 16 December, 2015 revealed that the tender was not quoted in any of the supporting documents. Further, the firm was not prequalified to offer the services. In addition, the quotations, contract agreement and tender evaluation Minutes were not availed for audit review. In the circumstances, the propriety and value-for-money for the expenditure of Kshs.2,122,800 incurred on the services cannot be confirmed.

8.0 Pending Payables

Notes 15.2 and 15.3 of the financial statements and Annexes 1 and 2 of the annexes to the financial statements reflect pending bills for accounts payables and staff payables of Kshs.892,220,171 and Kshs.1,206,462 respectively all totaling to Kshs.893,426,633.

However, verification of available records revealed that Kshs.4,493,650 incurred on construction of roads was excluded from the accounts payable balance of Kshs.892,220,171. Further, the exact nature of these pending bills was not indicated in annexures 1 and 2.

In the circumstances, the accuracy and existence of the pending payables balance of Kshs.893,426,633 as at 30 June 2016 cannot be confirmed.

9.0 Reallocation of Funds- Foreign Travel, Accommodation and Other Transport

During the year under review, the County Executive reallocated Kshs. 4,484,581 from foreign travel, accommodation and other transportation costs to domestic travel, accommodation and other transportation costs. However, there was no authority or approval for the reallocations in the supplementary budget.
In the circumstance, it has not been possible to confirm the propriety of the expenditure totaling Kshs.4,484,581.

10.0 Voidable Payments of Fines and Penalties to Kenya Revenue Authority (KRA)

Note 9 to the financial statements reflects other expenses of Kshs.156,981,160 which include Kshs.108,230,996 for tax recoveries together with associated fines and penalties by KRA in relation to 2014/2015 tax audit. A demand letter by the KRA dated 14 April 2015 showed that the Executive owed KRA, PAYE and VAT of Kshs.99,410,630 and Kshs. 8,820,366 respectively. However, no supporting schedules were availed for audit review. Further, failure by the County Executive to collect taxes and remit these to the Kenya Revenue Authority in a timely manner was contrary to Section 158 (2) (a) of the PFM Act, 2012.

In addition, the taxes were due fringe benefits in form of cars and therefore the County ended up paying taxes for staff contrary to the Income Tax Act. The Kshs.108,230,996 has no value-for-money and the Executive could have avoided the expenditure if they had paid their tax dues.

In the circumstance, the County Executive breached the law and the expenditure of Kshs.108,230,996 could have been avoided had management been diligent.

11.0 Human Resource Management

11.1 Organization Structure and Staff Establishment.

The County Executive lacks an approved organization structure that depicts various offices, the holders of these offices and their technical and support staff. Therefore lines of authority are not defined clearly. Further, it is not possible to ascertain stations and departments where some officers worked. In addition, the County Executive did not have an approved staff establishment that would show the positions of employment in the Executive, the numbers filled and any under/ over establishments including planning

for the same. As a result, appropriate use of the human capital available cannot be ascertained.

11.2 Recruitment of Excess Staff

During the year under review, the County Executive recruited 199 new employees shown in the standing staff data as at 30 June 2016. The recruited staff included 50 Senior Support Staff and 27 Clinical Officers III. Audit verification revealed that the vacancies advertised for Clinical Officers at Grade H on 07 March, 2016 were for 23 posts. However, 27 clinical officers were appointed. No documents were made available detailing how the additional four clinical officers were recruited.

Further, the 37 Registered Community Nurses at Job group H positions were filled with 38 new recruits instead of 37 leading to an unexplained excess recruitment of one staff.

11.3 Over Commitment of Salaries

Section G. 21 (7) of the Code of Regulations revised 2006 and Section 19 (3) of the Employment Act, 2007 give guidance on the amount an employer is allowed to deduct from an employee's wage or salary. Analysis of July 2015 payroll data however, showed that one hundred and nineteen (119) employees were earning below one third of their respective basic salaries.

11.4 Lack of Segregation of Duties

Analysis of user roles in LAIFOMS revealed that eight (8) staff had conflicting roles with two designated as both "Operators" and "Supervisors" in the receipting and accountable document module. In the circumstance, the conflicting roles compromised the County Executive's Internal Control system.

11.5 Ethnicity

An ethnic analysis of all the employees working directly under the County Executive using the IPPD staff register as at 30 June 2016 revealed that the largest represented ethnic community (Kamba) was at 81% while the lowest was at zero percent. Further the majority of the new recruits were from the same community (Kambas) at 96% contrary to the provision of the County Governments Act, 2012. The analysis is shown in the table below:

Ethnic Name	Number	Percentage
Kamba	1856	81.08%
Kikuyu	173	7.56%
Meru	76	3.32%
Embu	42	1.83%
Luhya	29	1.27%
Luo	27	1.18%
Kisii	22	0.96%

Mbere	16	0.70%
Tharaka	9	0.39%
MijiKenda	7	0.31%
Kalenjin	7	0.31%
Swahili-Shirazi	4	0.17%
Taita	4	0.17%
Pokomo	2	0.09%
Masai	2	0.09%
Somoli-So-State	2	0.09%
Kenyan Asian	2	0.09%
Kenya Arab	2	0.09%
Bajun	1	0.04%
Kuria	1	0.04%
Taveta	1	0.04%
Teso	1	0.04%
Dorobo	1	0.04%
Boran	1	0.04%
Other Kenyan	1	0.04%
	2289	

In view of the foregoing, it has not been possible to ascertain the propriety, value-for-money, and effective utilization of human capital in Kitui County Executive as prescribed in the Constitution and relevant laws.

12.0 Budget and Budgetary Controls

The Kitui County Executive final approved expenditure budget was Kshs.8,202,253,190 being Kshs.3,408,889,903 for recurrent expenditure and Kshs.4,793,363,287 for development expenditure while the actual expenditure was Kshs.7,990,926,452 as reflected in the financial statements leading to under-expenditure of Kshs.211,326,738.

Further, the summary statement of appropriation for recurrent and development combined reflected a final budget of Kshs.10,114,349,365 while the approved budget reflected an amount of Kshs.8,202,253,190 leading to an unexplained variance of Kshs.1,912,096,175. In addition, actual total expenditure as per the financial statements was Kshs.7,990,926,452 while the actual expenditure as per IFMIS was Kshs.7,015,015,493 leading to an unexplained and unreconciled overstatement of the financial statements by Kshs.975,910,959.

Comparison of actual expenditures obtained from the IFMIS recurrent and development vote books and the approved budget revealed the following:

	Approved Budget (Kshs)	Actual Expenditure as per IFMIS (Kshs)	Variance (Kshs)	Absorption %
Recurrent	3,408,889,903	3,458,895,137	50,005,234	101

Development	4,793,363,287	3,556,120,356	1,237,242,931	74
	8,202,253,190	**7,015,015,493**	**1,187,237,697**	**86**

The Kshs.1,237,242,931 under-expenditure in the development vote resulted into non delivery of services promised to, and thus expected by Kitui County residents.

Further, comparison of actual expenditure of Kshs.7,015,015,493 as per IFMIS with the approved budget of Kshs.8,202,253,190 revealed that the County Executive only spent 86% of the total budget. The development component suffered the lowest absorption rate of 74% a clear indication that 26% of the targeted developments did not take place thus denying the County residents of the benefits due from the projects. The summarized recurrent budget analysis per department in comparison with the IFMIS is as shown here under:

Recurrent	Approved Budget Kshs.	Expenditure as per IFMIS Kshs.	Variance Kshs.	Absorption Rate
Office of The Governor	298,415,605	392,207,917	(93,792,312)	131%
Administration & Coordination of County Affairs	361,066,990	414,583,516	(53,516,526)	115%
Agriculture, Water & Irrigation	362,334,484	363,153,534	(819,050)	100%
Basic Education, Training and Skills Development	360,754,193	349,991,301	10,762,892	97%
Lands, Infrastructure, and Urban Development	185,135,092	215,412,375	(30,277,283)	116%
Health & Sanitation	1,471,768,822	1,262,587,997	209,180,825	86%
Trade, Industry, ICT & Co-operatives	58,009,654	55,639,455	2,370,199	96%
Culture, Youth, Sports and Social Services	54,444,901	50,125,453	4,319,448	92%
Environment, Energy & Minerals Investments Development	32,148,510	27,826,614	4,321,896	87%
Tourism & Natural Resources	41,921,615	38,673,069	3,248,546	92%
Finance & Economic Planning	123,968,892	233,351,756	(109,382,864)	188%
County Public Service Board	58,921,145	55,342,150	3,578,995	94%
	3,408,889,903	**3,458,895,137**	**(50,005,234)**	**101%**

Although the overall budget reflected under-expenditure of Kshs.50,005,234 five departments reflected over-expenditure totaling Kshs.287,778,035.

As it were, no supplementary budget was appropriated by the County Assembly for the recurrent over-expenditure of Kshs.93,792,312, Kshs.53,516,526, Kshs.818,050, Kshs.30,277,283 and Kshs.109,382,864 all totaling to Kshs.287,788,035 incurred by the

Office of the Governor, Administration and Coordination of County Affairs, Agriculture, Water and Irrigation, Lands, Infrastructure and Urban Development and Finance and Economic Planning respectively.

The departmental development summary is also as analyzed here under;

Development	Approved Budget Kshs.	Expenditure Kshs.	Variance Kshs.	Absorption Rate
Office of The Governor	1,168,653,048	934,138,987	234,514,061	80%
Administration & Coordination of County Affairs	236,583,598	124,826,559	111,757,039	53%
Agriculture, Water & Irrigation	858,077,245	654,937,460	203,139,785	76%
Basic Education, Training and Skills Development	236,454,640	160,811,022	75,643,618	68%
Lands, Infrastructure, and Urban Development	735,025,052	779,985,156	(44,960,104)	106%
Health & Sanitation	650,768,760	287,100,947	363,667,813	44%
Trade, Industry, ICT & Co-operatives	295,225,622	189,560,525	105,665,097	64%
Culture, Youth, Sports and Social Services	206,946,500	146,079,474	60,867,026	71%
Environment, Energy & Minerals Investments Development	261,928,624	206,441,589	55,487,035	79%
Tourism & Natural Resources	79,673,805	44,184,790	35,489,015	55%
Finance & Economic Planning	64,026,393	28,053,845	35,972,548	44%
	4,793,363,287	**3,556,120,354**	**1,237,242,933**	**74%**

The lowest absorption of the development funds as per IFMIS records was at the Ministry of Finance and Economic Planning with an absorption rate of 44%, Health and Sanitation at 44%, and Administration and Coordination of County Affairs 53%. The highest absorption was at the Lands, Infrastructure, and Urban Development at 106%.The Office of the Governor which had the highest development budget at Kshs.1,168,653,048 attained an absorption rate of 80%.

In addition, Kitui County Executive had targeted to raise Kshs.45,809,370 as land rates for the financial year under review. However, only Kshs.14,829,390 was raised as land rates. It would appear that the Kitui County Executive did not have a revenue collection policy in place to assist in the collection of the long outstanding land rates. In the circumstance, it was not possible to ascertain that the revenue collection target of Kshs.45,809,370 as at 30 June 2016 was realistic.

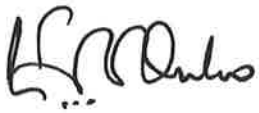
Exchequer Releases

In addition, the County Executive of Kitui made a budgetary projection of exchequer releases and the conditional allocations of Kshs.7,267,273,063 and Kshs.263,520,411 respectively both totaling to Kshs.7,530,793,474. However, only Kshs.7,517,973,074 was received thereby occasioning under-receipt of the conditional allocation due from the national government by Kshs.12,820,400.

In the circumstance, the residents of Kitui County did not receive services equivalent to the revenue short-fall of Kshs.12,820,400 during the year under review.

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

30 August 2017

V. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2015-2016 KShs	2014-2015 KShs
RECEIPTS			
Exchequer releases	1	7,517,973,074	6,375,108,548
Reimbursements and Refunds	2	-	264,290,123
Other Receipts	3	409,709,687	322,409,233
TOTAL RECEIPTS		**7,927,682,761**	**6,961,807,904**
PAYMENTS			
Compensation of Employees	4	2,125,283,589	1,985,037,293
Use of goods and services	5	1,351,277,183	1,070,100,207
Transfers to other County entities	6	820,258,191	691,439,448
Other grants and other payments	7	162,160,861	243,718,432
Acquisition of Assets	8	3,374,965,468	3,000,966,700
Other Payments	9	156,981,160	13,012,171
TOTAL PAYMENTS		**7,990,926,452**	**7,004,274,251**
(DEFICIT) FOR THE YEAR		**(63,243,689)**	**(42,466,347)**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 13/12 2016 and signed by:

Ag.Chief Officer/CFO

Deputy CFO

VI. STATEMENT OF ASSETS

	Note	2015-2016 KShs	2014-2015 KShs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	10A	1,992,169,471	2,056,992,572
Cash Balances	10B	1,026,585	1,246,040
Total Cash and cash equivalent		**1,993,196,056**	**2,058,238,612**
Accounts receivables – Outstanding Imprests	11	11,785,435	9,986,568
TOTAL FINANCIAL ASSETS		**2,004,981,491**	**2,068,225,180**
FINANCIAL LIABILITIES			
NET FINANCIAL ASSETS		**2,004,981,491**	**2,068,225,180**
REPRESENTED BY			
Fund balance b/fwd	14B	2,068,225,180	2,110,691,527
(Deficit) for the year		(63,243,689)	(42,466,347)
NET FINANCIAL POSITION		**2,004,981,491**	**2,068,225,180**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 13/12/16 2016 and signed by:

Ag. Chief Officer/CFO

Deputy CFO

COUNTY GOVERNMENT OF KITUI
Reports and Financial Statements
For the year ended June 30, 2016

VII. STATEMENT OF CASHFLOW

		2015 - 2016 KShs	2014 - 2015 KShs
Receipts for operating income			
Exchequer Releases	1	7,517,973,074	6,375,108,548
Reimbursements and Refunds	2	-	264,290,123
Other Revenues	3	409,709,687	322,409,233
Payments for operating expenses			
Compensation of Employees	4	(2,125,283,589)	(1,985,037,293)
Use of goods and services	5	(1,351,277,183)	(1,070,100,207)
Transfer to other county entities	6	(820,258,191)	(691.439,448
Other grants and other payments	7	(162,160,861)	(243,718,432)
Other payments	9	(156,981,160)	(13,012,171)
Increase in receivables	11	(1,798,867)	(7,489,879)
Net cash flow from operating activities		**3,309,922,910**	**3,053,893,193**
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	8	(3,374,965,468)	(3,000,966,700)
Net cash flows from Investing Activities		**(3,374,965,468)**	**(3,000,966,700)**
NET (DECRESASE)/INCREASE IN CASH AND CASH EQUIVALENT		**(65,042,558)**	**52,926,493**
			-
Cash and cash equivalent at BEGINNING of the year	14A	**2,058,238,612**	**2,005,312,119**
Cash and cash equivalent at END of the year	10	**1,993,196,054**	**2,058,238,612**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 13/12/ 2016 and signed by:

Ag. Chief Officer

Deputy CFO

III. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation
	a	b	c=a+b	d	e=c-d	f=d/c %
RECEIPTS						
Tax Receipts	-	-	-	-	-	-
Social Security Contributions	-	-	-	-	-	-
Proceeds from Domestic and Foreign Grants	283,520,411.00	-	283,520,411.00	250,700,011.00	32,820,400.00	88%
Exchequer releases	7,267,273,063.00	-	7,267,273,063.00	7,267,273,063.00	-	100%
Transfers from Other Government Entities	-	-	-	-	-	-
Proceeds from Sale of Assets	-	-	-	-	-	-
Reimbursements and Refunds	-	-	-	-	-	-
Returns of Equity Holdings	-	-	-	-	-	-
Other Receipts	608,200,000.00	-	608,200,000.00	409,709,687.00	198,490,313.00	67%
Balance B/F	2,066,797,702.00		2,066,797,702.00	2,066,797,702		
	10,225,791,176.00	-	**10,225,791,176.00**	**9,994,480,463**	**231,310,713**	
PAYMENTS						
Compensation of Employees	2,654,727,023	(298,653,000.00)	2,356,074,023	2,125,283,589.15	230,790,433.85	90%
Use of goods and services	1,392,810,861	273,170,144.00	1,665,981,005.00	1,351,277,182.85	314,703,822.15	81%
Subsidies	-	-	-	-	-	
Transfers to Other Government Units	857,800,425	24,850,370	882,650,795	820,258,191.00	62,392,604	93%
Other grants and transfers	231,391,920	16,481,750.00	247,873,670.0	162,160,861	85,712,809	65%
Social Security Benefits	-	-	-	-	-	
Acquisition of Assets	5,089,060,947	(127,291,075.00)	4,961,769,872.00	3,374,965,468.25	1,586,804,404	68%
Finance Costs, including Loan Interest	-	-	-	-	-	
Repayment of principal on Domestic and Foreign borrowing	-	-	-	-	-	
Other Payments	-	-	-	156,981,160	(156,981,160)	Unbudgeted
TOTALS	**10,225,791,176**	**(111,441,811)**	**10,114,349,365**	**7,990,926,452.25**	**2,123,422,912.75**	

The entity financial statements were approved on 13/12/ 2016 and signed by:

Ag. Chief Officer/CFO

Deputy CFO

For the year ended June 30, 2016

IV. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation
	a	b	c=a+b	d	e=c-d	f=d/c %
RECEIPTS						
Tax Receipts	-	-	-	-	-	-
Social Security Contributions	-	-	-	-	-	-
Proceeds from Domestic and Foreign Grants	-	-	-	-	-	-
Exchequer releases	4,182,747,255	-	4,182,747,255	4,182,747,255	-	100%
Transfers from Other Government Entities	-	-	-	-	-	-
Proceeds from Sale of Assets	-	-	-	-	-	-
Reimbursements and Refunds	-	-	-	-	-	-
Returns of Equity Holdings	-	-	-	-	-	-
Other Receipts	608,200,000.00	-	608,200,000.00	409,709,687.00	198,490,313.00	67%
	4,790,947,255	-	**4,790,947,255**	**4,592,456,942**	**198,490,313.00**	
PAYMENTS						
Compensation of Employees	2,574,132,173.00	(298,653,000)	2,285,479,173.00	2,106,840,719.15	168,638,453.85	93%
Use of goods and services	1,232,818,069	130,387,568	1,363,205,637	1,176,568,638.85	186,636,998.15	86%
Subsidies	-	-	-	-	-	-
Transfers to Other Government Units	857,800,425	24,850,370	882,650,795	820,258,191.00	62,392,604	93%
Other grants and transfers	-	-	-			
Social Security Benefits	-	-	-	-	-	-
Acquisition of Assets	126,196,588.00	44,230,000.00	170,426,588.00	174,137,387.25	(3,710,799.25)	102%
Finance Costs, including Loan Interest						
Repayment of principal on Domestic and Foreign borrowing	-	-	-	-	-	-
Other Payments	-	-	-	156,981,160	(156,981,160)	Unbudgeted
TOTALS	**4,790,947,255.00**	**(99,185,062.00)**	**4,691,762,193.00**	**4,434,786,096.25**	**256,976,096.75**	

(a) Reported under other payments is Ksh. 108 million which is an amount deducted by Kenya Revenue Authority in 2014/2015 in relation to outstanding taxes, fines and penalties. Negotiations on the refund of this amount stalled since November 2015 and although in the previous financial year a 60% recovery was anticipated, any recovery is now very unlikely owing to passage of time.

(b) Further, under other payments, Ksh 48,750,164 was expensed. This relates to fraudulent transactions which initially totaled to Ksh. 93,487,989 out of which Ksh 44,737,825 was recovered and returned to the county during the year. This was a criminal matter which is pending before court. Considering the general nature of court matters, the unrecovered balance of Ksh. 48,750,164 has been expensed. Any subsequent recoveries will be treated as receipts in the period of the recovery.

The entity financial statements were approved on 13/12/ 2016 and signed by:

Ag. Chief Officer/CFO

Deputy CFO

V. SUMMARY STATEMENT OF APPROPRIATION: DEVELOPMENT

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation
	a	b	c=a+b	d	e=c-d	f=d/c %
RECEIPTS						
Tax Receipts	-	-	-	-	-	-
Social Security Contributions	-	-	-	-	-	-
Proceeds from Domestic and Foreign Grants	283,520,411.00	-	283,520,411.00	250,700,011.00	32,820,400.00	88%
Exchequer releases	3,084,525,808	-	3,084,525,808	3,084,525,808	-	100%
Transfers from Other Government Entities	-	-	-	-	-	-
Proceeds from Sale of Assets	-	-	-	-	-	-
Reimbursements and Refunds	-	-	-	-	-	-
Returns of Equity Holdings	-	-	-	-	-	-
Other Receipts	2,066,797,702.00	-	2,066,797,702.00	2,066,797,702.00	-	100%
	5,434,843,921.00		**5,434,843,921.00**	**5,402,023,521.00**	**32,820,400.00**	
PAYMENTS						
Compensation of Employees	80,594,850	-	80,594,850	18,442,870.00	62,151,980	23%
Use of goods and services	159,992,792.00	142,782,576	302,775,368	174,708,544.00	128,066,824	58%
Subsidies	-	-	-	-	-	-
Transfers to Other Government Units	-	-	-	-	-	-
Other grants and transfers	231,391,920	16,481,750.00	247,873,670	162,160,861.00	85,712,809	65%
Social Security Benefits	-	-	-	-	-	-
Acquisition of Assets	4,962,864,359	(171,521,075)	4,791,343,284	3,200,828,081.00	1,590,515,203	67%
Finance Costs, including Loan Interest						
Repayment of principal on Domestic and Foreign borrowing	-	-	-	-	-	-
Other Payments	-	-	-	-	-	-
Total	**5,434,843,921**	**(12,256,749)**	**5,422,587,172**	**3,556,140,356.00**	**1,866,446,816**	-

The entity financial statements were approved on 13/12 2016 and signed by:

Ag. Chief Officer/CFO

Deputy CFO

XI. SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

1. Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting and applicable government legislations and regulations. The financial statements comply with and conform to the form of presentation prescribed by the Public Sector Accounting Standards Board of Kenya.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the County Government and all values are rounded to the nearest thousand (Kshs'000). The accounting policies adopted have been consistently applied to all the years presented.

The financial statements have been prepared on the cash basis following the Government's standard chart of accounts.

2. Recognition of revenue and expenses

The County Government recognises all revenues from the various sources when the event occurs and the related cash has actually been received by the *entity*. In addition, the County Government recognises all expenses when the event occurs and the related cash has actually been paid out by the County Government.

3. In-kind contributions

In-kind contributions are donations that are made to the County Government in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the County Government includes such value in the statement of receipts and payments both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

4. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

4 COMPENSATION OF EMPLOYEES

	2015 – 2016 Kshs	2014 - 2015 Kshs
Basic salaries of permanent employees	1,683,805,807	1,607,794,661
Basic wages of temporary employees	335,627,351	278,775,966
Personal allowances paid as part of salary	1,325,620	6,865,157
Pension and other social security contributions	104,524,811	91,421,508
Total	**2,125,283,589**	**1,985,037,293**

5 USE OF GOODS AND SERVICES

	2015 - 2016 Kshs	2014 - 2015 Kshs
Utilities, supplies and services	44,608,565	23,338,278
Communication, supplies and services	19,311,594	18,253,075
Domestic travel and subsistence	175,694,856	132,736,874
Foreign travel and subsistence	20,745,262	40,376,655
Printing, advertising and information supplies & services	154,388,369	114,293,996
Rentals of produced assets	4,692,595	5,301,340
Training expenses	101,718,689	78,257,855
Hospitality supplies and services	71,381,999	60,657,176
Insurance costs	28,286,922	33,796,876
Specialised materials and services	309,138,531	313,295,332
Office and general supplies and services	42,506,168 24,203,501	
Fuel Oil and lubricants	86,645,320 62,606,298	
Other operating expenses	107,727,064	91,917,685
Routine maintenance – vehicles and other transport equipment	38,777,302	28,493,832
Routine maintenance – other assets	145,653,947	42,571,434
Total	**1,351,277,183**	**1,070,100,207**

6 TRANSFER TO OTHER GOVERNMENT ENTITIES

Transfers to Kitui County Assembly	818,604,631	687,982,695
Transfers to County Hospitals/Health Centres	1,653,560	3,456,75[illegible]
	820,258,191	**794,322,167**

XII. ANNEX 1 - ANALYSIS OF PENDING ACCOUNTS PAYABLE

Supplier of goods or services	original amount	date contracted	amount paid to-date	outstanding balance
	a	b	c	d=a-c
Contractors/Suppliers				
CONSTRUCTION OF BUILDINGS				
Mukutuko Enterprises	256,340.00	8/12/2015	-	256,340.00
Jukama General Constructors	267,040.00	8/12/2015	-	267,040.00
Mwangangaa Enterprises	517,725.00	8/12/2015	-	517,725.00
Henmarc Contractors	519,738.00	8/12/2015	-	519,738.00
Jaribuni Supplies And General Traders.	534,510.00	8/12/2015	-	534,510.00
Casevih Builders & General Contractors.	537,120.00	8/12/2015		537,120.00
Uilima Investments	538,207.00	8/12/2015	-	538,207.00
Singia Rock Investors	539,145.20	8/12/2015	-	539,145.20
Wanda Bora Enterprises	543,899.96	8/12/2015	541,890.00	2,009.96
Kindima Investment Ltd	544,678.00	8/12/2015	-	544,678.00
Phomac Contractors And General Supplies	547,960.00	8/12/2015	-	547,960.00
Peleka Investments Company Ltd	550,000.00	8/12/2015	-	550,000.00
Kenurban Services	560,298.60	8/12/2015	-	560,298.60
Young Makavenzi Ltd	561,790.31	8/12/2015	-	561,790.31
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Justim Company Ltd	577,332.00	8/12/2015	-	577,332.00

15. OTHER IMPORTANT DISCLOSURES

15.1 Financial fraud experienced during the year

Fraudulent transactions totaling to Ksh. 93,487,989 were reported during the year. The fraud was perpetuated through a charge to staff salary accounts. The criminal matter was reported to law enforcement agencies through whose support Ksh. 44,737,825 was recovered and returned to county recurrent bank account with the balance of Ksh. 19,406,662 held in various bank accounts it was transferred to after court orders were served to the banks while Ksh. 29,343,501 was withdrawn or transferred out of the receiving banks. The matter is pending before court. For purposes of reporting and considering the general nature of court matters, the unrecovered balance of Ksh. 48,750,164 has been expensed under other expenses. Any subsequent recoveries will be treated as receipts in the period of the recovery.

15.2: PENDING ACCOUNTS PAYABLE (See Annex 1)

	KShs	KShs
Construction of buildings	377,462,474	90,074,666
Construction of civil works	354,505,945	111,222,026
Supply of goods	45,365,042	76,255,404
Supply of services	114,886,709	94,886,363
	892,220,171	**372,438,459**

15.3: PENDING STAFF PAYABLES (See Annex 2)

	Kshs	Kshs
Senior management	49,690	3,619,076
Middle management	473,687	10,969,440
Unionisable employees	683,085	8,050,549
Others (*specify*)	-	-
	1,206,462	**22,639,065**

15.4: OTHER PENDING PAYABLES (See Annex 3)

	Kshs	Kshs
Amounts due to National Government entities	-	-
Amounts due to County Government entities	-	-
Amounts due to third parties	-	-
	-	-

12 DEPOSIT ACCOUNT

	2015 - 2016 Kshs	2014 - 2015 Kshs
Deposit Account	169,172,578	102,882,719
Total	**169,172,578**	**102,882,719**

This account represents third party liabilities set aside as contract retention money held at the Central Bank of Kenya payable on civil and construction works meeting warranty terms and conditions. The amounts are dealt with through regular transfers to a deposit account when invoices are received in Treasury.

13 FUND BALANCE BROUGHT FORWARD

	2015 - 2016 Kshs	2014 - 2015 Kshs
Bank accounts	1,992,169,471	2,056,992,572
Cash in hand	1,026,585	1,246,040
Accounts Receivables	11,785,435	9,986,568
Total	**2,004,981,491**	**2,068,225,180**

14A CASH AND CASH EQUIVALENT

	2015-2016 Ksh	2014-2015 Ksh
Cash and cash equivalent brought forward	2,058,238,612	1,741,268,434
Exchequer Receipts omitted	-	264, 043,685
Adjusted cash and cash equivalent balance c/forward	**2,058,238,612**	**2,005,312,119**

14B FUND BALANCE C/FORWARD

	2015-2016	2014-2015
Fund balance b/forward	2,068,225,180	1,965,342,461
Prior period adjustment	-	102,882,719
Deficit for the year	(63,243,689)	-
Re-stated Fund balance c/forward	**2,004,981,491**	**2,068,225,180**

The adjustment is a result of wrong treatment of funds transferred to a deposit account on account of third party retention monies for completed contracted works but awaiting warranty assessment.

10B: CASH IN HAND

	2015 - 2016 Kshs	2014- 2015 Kshs
Cash in Hand – Held in domestic currency	1,026,585	1,246,040
Total	**1,026,585**	**1,246,040**

Cash in hand is analysed as follows:

	2015 - 2016 Kshs	2014 - 2015 Kshs
At County HQ Receipts cashier - Per cash certificate	1,026,585	1,210,267
At County HQ Paying cashier - Per cash certificate	-	35,773
Total	**1,026,585**	**1,246,040**

11 ACCOUNTS RECEIVABLE - OUTSTANDING IMPRESTS

Description	2015 - 2016 Kshs	2014 - 2015 Kshs
Government Imprests	11,785,435	9,986,568
Total	**11,785,435**	**9,986,568**

Breakdown of the outstanding imprest per annex 3

4 COMPENSATION OF EMPLOYEES

	2015 – 2016 Kshs	2014 - 2015 Kshs
Basic salaries of permanent employees	1,683,805,807	1,607,794,661
Basic wages of temporary employees	335,627,351	278,775,966
Personal allowances paid as part of salary	1,325,620	6,865,157
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Utilities, supplies and services	44,608,565	23,338,278
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Total	**1,351,277,183**	**1,070,100,207**

6 TRANSFER TO OTHER GOVERNMENT ENTITIES

Transfers to Kitui County Assembly	818,604,631 687,982,695	
Transfers to County Hospitals/Health Centres	1,653,560 3,456,75	
	820,258,191	**794,322,167**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 OTHER REVENUES

	2015 - 2016 Kshs	2014 - 2015 Kshs
Rents	2,911,876.00	3,320,185
Other Property Income	23,772,990.00	20,553,675
Receipts from Administrative Fees and Charges	43,284,527.00	48,264,921
Receipts from Incidental Sales by Non-Market Establishments	11,627,230.00	11,555,107
Receipts from Sales by Non-Market Establishments	29,320.00	11,697
Receipts from Sale of Incidental Goods	5,810,619.00	195,109
Fines Penalties and Forfeitures	2,776,910.00	2,514,733
Receipts from Voluntary transfers other than grants		64,820
Business permits	87,375,536	72,810,600
Cess	61,839,474.00	64,550,899
Plot rents	2,161,458.00	1,236,050
Administrative services fees	527,400.00	422,317
Various fees	134,177.00	270,869
Exploitation	-	4,386
Lease / rental of council's	2,655,900.00	2,850,971
Other miscellaneous revenues	33,587,702.00	63,916,529
Vehicle parking fees	21,793,790.00	22,219,585
Social premises use charges	1,022,400.00	880,475
Other education-related	694,729.00	394,279
Other education revenues	-	471,185
Public health services	1,440,141.05	429,745
Public health facilities operations	8,904,339.40	1,011,304
Slaughter houses administration	5,932,275.00	4,322,755
Water supply administration	88,700.00	33,716
Sewerage administration	56,190.00	31,191
Other health & sanitation	91,282,004.40	72,130
	409,709,687	**322,409,233**

XII. NOTES TO THE FINANCIAL STATEMENTS

1 EXCHQUER RELEASES

	2015 - 2016 Kshs	2014 - 2015 Kshs
Total Exchequer Releases for quarter 1	581,381,845	792,562,319
Total Exchequer Releases for quarter 2	1,948,148,361	1,063,487,260
Total Exchequer Releases for quarter 3	1,912,053,246	1,665,834,623
Total Exchequer Releases for quarter 4	3,076,389,622	2,853,224,346
Total	**7,517,973,074**	**6,375,108,548**

2 REIMBURSEMENTS AND REFUNDS

	2015 - 2016 Kshs	2014 - 2015 Kshs
Reimbursement from CBK	-	49,955,923
Reimbursement for salaries	-	214,334,200
Total	**-**	**264,290,123**

The refunds in 2014/2015 financial year were as a result of a delay in settlement by the National government in relation to 2013/2014 events which is not expected in each year.

11. Subsequent events

Events subsequent to submission of the financial year end financial statements to the National Treasury and other stakeholders with a significant impact on the financial statements may be adjusted with the concurrence of National Treasury.

5. Accounts Receivable

For the purpose of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments are recognizes as expenditure when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

6. Accounts Payable

Pending payables are disclosed by way of appendix to the financial statements in keeping with disclosure requirements within cash based accounting.

7. Non-current assets

Non-current assets are expensed at the time of acquisition while disposal proceeds are recognized as receipts at the time of disposal. However, the acquisitions and disposals are reflected in the entity fixed asset register a summary of which is provided as a memorandum to these financial statements.

8. Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they are recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the county at the end of the year. Pending bill form a first charge to the subsequent year budget and when they are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

9. Budget

The budget is developed on the same accounting basis (cash basis), the same accounts classification basis, and for the same period as the financial statements. The county budget was approved as required by Law and as detailed in the Government of Kenya Budget Printed Estimates. A high-level assessment of Kitui county actual performance against the comparable budget for the financial year under review has been included in an annex to these financial statements.

10. Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

XI. SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

1. Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting and applicable government legislations and regulations. The financial statements comply with and conform to the form of presentation prescribed by the Public Sector Accounting Standards Board of Kenya.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the County Government and all values are rounded to the nearest thousand (Kshs'000). The accounting policies adopted have been consistently applied to all the years presented.

The financial statements have been prepared on the cash basis following the Government's standard chart of accounts.

2. Recognition of revenue and expenses

The County Government recognises all revenues from the various sources when the event occurs and the related cash has actually been received by the *entity*. In addition, the County Government recognises all expenses when the event occurs and the related cash has actually been paid out by the County Government.

3. In-kind contributions

In-kind contributions are donations that are made to the County Government in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the County Government includes such value in the statement of receipts and payments both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

4. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

9 OTHER EXPENSES

	2015 - 2016 Kshs	2014 - 2015 Kshs
Other expenses	156,981,160	13,012,171
	156,981,160	**13,012,171**

Included in this expense is a tax recover together with associated fines and penalties by KRA in relation to 2014/2015 tax audit of Ksh.108,230,996 and loss of money through financial fraud of Ksh. 48,750,164.

10 CASH AND BANK

10A: BANK ACCOUNTS

Name of Bank, Account No. & currency	2015 – 2016 Kshs	2014 - 2015 Kshs
Kitui County Recurrent A/C 1000170654	80,859,597	113,894,916
Kitui County- Standing GVT IMPT A/C 1140752995	6.610,701	30,175,727
Kitui County Development A/C 1000170638	55,696,202	3,358
Kitui County Revenue Fund A/C	1,652,387,549	1,810,035,852
Kitui County Revenue Collection A/C 1140752855	8,341,927	6,479,040
Kitui County Deposit Account A/C 1000217127	169,172,578	102,882,719
Kitui District Hosp Operations A/C 1141303838201	17,084,923	-
Mwingi District Hosp Operations A/C 1156709008	-388,313	-
Tseikuru Sub Dist Hosp Operations A/C 1156757614	44,559	-
Migwani Sub Dist Hosp Operations A/C 1156714397	45,516	-
Katulani Sub Dist Hosp Operations A/C 1156667747	-723,123	-
Ikanga Sub Dist Hosp Operations A/C 1156671523	675,179	-
Kanyangi Sub Dist Hosp Operations A/C 1001036319100	338,064	-
Mutito Sub Dist Hosp Operations A/C 1156804256	1,276,453	-
Kyuso Sub Dist Hosp Operations A/C 1156755654	-639,885	-
Nuu Sub Dist Hosp Operations A/C 1141399535301	76,113	-
Kauwi Sub Dist Hosp Operations A/C 1141303838301	1,311,234	-
Total	**1,992,169,471**	**2,056,992,572**

7 OTHER GRANTS AND OTHER PAYMENTS

	2015 – 2016 Kshs	2014 – 2015 Kshs
Scholarships and other educational benefits	149,668,837	117,372,043
Emergency relief and refugee assistance	12,492,024	10,936,923
Subsidies to small businesses, cooperative & self employed	-	34,151,108
Capital grants	-	81,258,358
Total	**162,160,861**	**243,718,432**

Other grants and other payments relate to the county pro-poor programme initiative.

8 ACQUISITION OF ASSETS

Non-Financial Assets	2015 – 2016 Kshs	2014 – 2015 Kshs
Construction of Buildings	534,318,524	300,330,802
Refurbishment of Buildings	64,900,457	11,951,599
Construction of Roads	255,484,889	539,271,392
Construction and Civil Works	1,571,891,642	1,010,879,667
Purchase of Vehicles and Other Transport Equipment	54,970,703	339,692,050
Purchase of Household Furniture and Institutional Equipment	21,330,288	6,211,636
Purchase of Office Furniture and General Equipment	52,089,904	49,852,717
Purchase of Specialized Plant, Equipment and Machinery	230,173,733	224,375,274
Rehabilitation and Renovation of Plant, Machinery & Equip.	5,602,150	1,225,320
Purchase of Certified Seeds, Breeding Stock & Live Animals	12,476,644	110,370,822
Research, Studies, Project Preparation, Design & Supervision	475,882,005	113,513,164
Rehabilitation of Civil Works	28,348,529	179,239,930
Acquisition of Land	7,496,000	54,052,327
Total	**3,314,965,468**	**2,940,966,700**
Financial Assets		
Domestic Public Non-Financial Enterprises	60,000,000	60,000,000
Total	**3,374,965,468**	**3,000,966,700**

Domestic Public Non-Financial Enterprises refer to County Executive Committee Members Car and Mortgage Funds in 2015/2016 and similar scheme for the County Assembly in 2014/2015 financial years respectively.

XII. ANNEX 1 - ANALYSIS OF PENDING ACCOUNTS PAYABLE

Supplier of goods or services	original amount	date contracted	amount paid to-date	outstanding balance
	a	b	c	d=a-c
Contractors/Suppliers				
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The adjustment is a result of wrong treatment of funds transferred to a deposit account on account of third party retention monies for completed contracted works but awaiting warranty assessment.

10B: CASH IN HAND

	2015 - 2016 Kshs	2014- 2015 Kshs
Cash in Hand – Held in domestic currency	1,026,585	1,246,040
Total	**1,026,585**	**1,246,040**

Cash in hand is analysed as follows:

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Hospitality supplies and services	71,381,999	60,657,176
Insurance costs	28,286,922	33,796,876
Specialised materials and services	309,138,531	313,295,332
Office and general supplies and services	42,506,168 24,203,501	
Fuel Oil and lubricants	86,645,320 62,606,298	
Other operating expenses	107,727,064	91,917,685
Routine maintenance – vehicles and other transport equipment	38,777,302	28,493,832
Routine maintenance – other assets	145,653,947	42,571,434
Total	**1,351,277,183**	**1,070,100,207**

6 TRANSFER TO OTHER GOVERNMENT ENTITIES

Transfers to Kitui County Assembly	818,604,631 687,982,695	
Transfers to County Hospitals/Health Centres	1,653,560 3,456,75	
	820,258,191	**794,322,167**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 OTHER REVENUES

	2015 - 2016 Kshs	2014 - 2015 Kshs
Rents	2,911,876.00	3,320,185
Other Property Income	23,772,990.00	20,553,675
Receipts from Administrative Fees and Charges	43,284,527.00	48,264,921
Receipts from Incidental Sales by Non-Market Establishments	11,627,230.00	11,555,107
Receipts from Sales by Non-Market Establishments	29,320.00	11,697
Receipts from Sale of Incidental Goods	5,810,619.00	195,109
Fines Penalties and Forfeitures	2,776,910.00	2,514,733
Receipts from Voluntary transfers other than grants		64,820
Business permits	87,375,536	72,810,600
Cess	61,839,474.00	64,550,899
Plot rents	2,161,458.00	1,236,050
Administrative services fees	527,400.00	422,317
Various fees	134,177.00	270,869
Exploitation	-	4,386
Lease / rental of council's	2,655,900.00	2,850,971
Other miscellaneous revenues	33,587,702.00	63,916,529
Vehicle parking fees	21,793,790.00	22,219,585
Social premises use charges	1,022,400.00	880,475
Other education-related	694,729.00	394,279
Other education revenues	-	471,185
Public health services	1,440,141.05	429,745
Public health facilities operations	8,904,339.40	1,011,304
Slaughter houses administration	5,932,275.00	4,322,755
Water supply administration	88,700.00	33,716
Sewerage administration	56,190.00	31,191
Other health & sanitation	91,282,004.40	72,130
	409,709,687	**322,409,233**

XII. NOTES TO THE FINANCIAL STATEMENTS

1 EXCHQUER RELEASES

	2015 - 2016 Kshs	2014 - 2015 Kshs
Total Exchequer Releases for quarter 1	581,381,845	792,562,319
Total Exchequer Releases for quarter 2	1,948,148,361	1,063,487,260
Total Exchequer Releases for quarter 3	1,912,053,246	1,665,834,623
Total Exchequer Releases for quarter 4	3,076,389,622	2,853,224,346
Total	**7,517,973,074**	**6,375,108,548**

2 REIMBURSEMENTS AND REFUNDS

	2015 - 2016 Kshs	2014 - 2015 Kshs
Reimbursement from CBK	-	49,955,923
Reimbursement for salaries	-	214,334,200
Total	**-**	**264,290,123**

The refunds in 2014/2015 financial year were as a result of a delay in settlement by the National government in relation to 2013/2014 events which is not expected in each year.

11. Subsequent events

Events subsequent to submission of the financial year end financial statements to the National Treasury and other stakeholders with a significant impact on the financial statements may be adjusted with the concurrence of National Treasury.

5. Accounts Receivable

For the purpose of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments are recognizes as expenditure when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

6. Accounts Payable

Pending payables are disclosed by way of appendix to the financial statements in keeping with disclosure requirements within cash based accounting.

7. Non-current assets

Non-current assets are expensed at the time of acquisition while disposal proceeds are recognized as receipts at the time of disposal. However, the acquisitions and disposals are reflected in the entity fixed asset register a summary of which is provided as a memorandum to these financial statements.

8. Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they are recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the county at the end of the year. Pending bill form a first charge to the subsequent year budget and when they are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

9. Budget

The budget is developed on the same accounting basis (cash basis), the same accounts classification basis, and for the same period as the financial statements. The county budget was approved as required by Law and as detailed in the Government of Kenya Budget Printed Estimates. A high-level assessment of Kitui county actual performance against the comparable budget for the financial year under review has been included in an annex to these financial statements.

10. Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

XI. SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

1. Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting and applicable government legislations and regulations. The financial statements comply with and conform to the form of presentation prescribed by the Public Sector Accounting Standards Board of Kenya.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the County Government and all values are rounded to the nearest thousand (Kshs'000). The accounting policies adopted have been consistently applied to all the years presented.

The financial statements have been prepared on the cash basis following the Government's standard chart of accounts.

2. Recognition of revenue and expenses

The County Government recognises all revenues from the various sources when the event occurs and the related cash has actually been received by the *entity*. In addition, the County Government recognises all expenses when the event occurs and the related cash has actually been paid out by the County Government.

3. In-kind contributions

In-kind contributions are donations that are made to the County Government in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the County Government includes such value in the statement of receipts and payments both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

4. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.