REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF LAIKIPIA

FOR THE YEAR ENDED 30 JUNE 2015

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OFFICE OF THE AUDITOR-GENERAL

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

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Laikipia set out on pages 11 to 32, which comprise statement of assets and liabilities as at 30 June 2015, the statement of receipts and payments, statement of cash flows and 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. I have obtained all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

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

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

Basis for Adverse Opinion

1.0 Non-Disclosure of Receivables

The financial reporting template owned by the Public Sector Accounting Standards Board requires the County Government to disclose receivables as at the year end by way of notes to the financial statements. However, the County Government did not disclose receivables balance of Kshs.2,006,990,561 by way of notes to the financial statements during the year under review. In the circumstance, the completeness of the financial statements could not be confirmed.

2.0 Statement of Receipts and Payments

2.1 Unexplained Variances – Receipts

The statement of receipts and payments reflects total receipts amounting to Kshs.3,473,234,896 for the year ended 30 June 2015. Included in this amount was local revenue collection amounting to Kshs.392,245,795 which differed with the figure in the schedule provided for audit of Kshs.454,500,922. The resultant variance of Kshs.62,255,127 was not explained or reconciled. Further, revenue collected in Nyahururu District Hospital during the year under review totaling Kshs.44,207,545 was not included in the financial statements, thus understating revenue by the same amount. In the circumstances, the accuracy of the financial statements figure for receipts of Kshs.3,473,234,896 for the year ended 30 June 2015 could not be confirmed.

2.2 Compensation of Employees

The financial statements reflects basic salaries of permanent employees of Kshs.1,956,430,938 for the year ended 30 June 2015.

However, the ledger maintained shows the total basic salaries amounted to Kshs.1,899,433,811 comprising of the County Executive expenditure of Kshs.1,772,601,996, County Assembly employees and County Assembly members balance Kshs.72,180,886 and Kshs.54,650,929 respectively as at 30 June 2015.

The resultant variance of compensation of employees expenditure of Kshs.56,997,127 has not been explained. Further, there was no ledger to support the two items of salaries

from the County Assembly. In the absence of proper and adequate supporting records, the accuracy of the compensation of employees' balance of Kshs.1,956,430,938 for the year ended 30 June 2015 could not be confirmed.

2.3 Use of Goods and Services

The statement of receipts and payments reflects use of goods and services figure of Kshs.430,824,451 for the year ended 30 June 2015 while the schedule provided for audit reflected a figure of Kshs.335,616,303 resulting to a variance of Kshs.95,208,148 which was not supported or explained. The variance is analyzed as follows:-

Use of goods and Services	**Accounts Figure**	**Schedule Figure**	**Variance**
Item	**Amount (Kshs)**	**Amount (Kshs)**	**Amount (Kshs)**
Utilities, Supplies and Services	10,307,092	8,859,630	1,447,462
Communication and Supplies	9,409,918	9,211,703	198,215
Domestic Travel and Subsistence	109,972,234	63,217,321	46,754,913
Foreign Travel and Subsistence	5,542,169	190,000	5,352,169
Printing and advertising	13,317,109	9,465,639	3,851,470
Training Expenses	3,131,664	1,456,093	1,675,571
Hospitality Supplies and Services	58,775,063	52,907,095	5,867,968
Insurance Costs	14,373,514	4,837,986	9,535,528
Specialized Materials and Services	17,326,036	14,212,530	3,113,506
Office and general supplies	13,597,555	11,144,460	2,453,095
Other Operating Expenses	133,395,838	123,236,423	10,159,415
Routine maintenance-Vehicles	13,638,565	11,417,310	2,221,255
Routine maintenance-Other	4,287,872	4,697,338	(409,466)
Fuel, oils and lubricants	23,749,822	20,762,775	2,987,047
TOTAL	**430,824,451**	**335,616,303**	**95,208,148**

In the circumstances, the accuracy of the goods and services figure of Kshs.430,824,451 for the year ended 30 June 2015 could not be confirmed.

2.4 Other Grants and Transfers

The statement of receipts and payments for the year ended 30 June 2015 includes other grants and transfers figure of Kshs.43,854,775 relating to amounts spent from the Laikipia Bursary Fund as bursaries which agree with Treasury schedules. However, records held by the user Ministry indicate an expenditure of Kshs.44,940,625 on bursaries resulting to a variance of Kshs.1,085,850 which was not explained or reconciled.

In the circumstances, the accuracy of other grants and transfers figure of Kshs.43,854,775 for the year ended 30 June 2015 could not be confirmed.

2.5 Other Payments

The statement of receipts and payments reflects other payments figure of Kshs.521,573, 862 for the year ended 30 June 2015. However, schedules provided for audit indicate an expenditure of Kshs.521,802,962 resulting to a difference of Kshs.229,100 for the year ended 30 June 2015 which was not explained or reconciled. In the circumstances, the accuracy of the financial statements balance for other payments of Kshs.521,573,862.00 shown in the financial statements could not be confirmed.

3.0 Cash and Cash Equivalents

The statement of assets shows a balance of Kshs.351,386,191 in respect of cash and cash equivalents as at 30 June 2015. However, the following anomalies were observed;

3.1 Undisclosed Bank Accounts

Transactions and balances of the following six (6) bank accounts operated by Laikipia County Government were not incorporated in the financial statements:

Acc. Number	Bank	Acc. Name	as at 30/06/2015 (Kshs)
064000063932	Family Bank	Nanyuki Teaching & Referral Hospital	14,775,544.00
023000027937	Family Bank	Rumuruti Sub-County Hospital FIF Account	806,725.00
023000027049	Family Bank	Nyahururu Dist. Hospital FIF Account	17,716,771.00
0160262760192		Laikipia County Emergency Fund	-
01141366378700		Laikipia County Government (Revenue)	5,327,790.75
01141501762300		Laikipia West Collection Account	1,154,000.00

3.2 Unreconciled Bank Balances

The following bank balances were not reconciled:-

Account Name	Financial statement Balance (Kshs)	Annual Bank Statement Balance (Kshs)	Difference (Kshs)
County Revenue Fund A/C 1000171626	297,059,632.90	26,186, 854.90	270,872,778.00
Recurrent Account A/C 1000171208	10,361,700.00	72,793,556.70	(62,431,856.7)
Development Account A/C 1000171162	26,350,353.25	205,073,162.35	(178,722,809.1)

In the circumstances, the cash and bank balances as at 30 June 2015 could not be confirmed.

4.0 Outstanding Temporary Imprests

Laikipia County Government had outstanding temporary imprests amounting to Kshs.4,330,800 as at 30 June, 2015. These amounts ought to have been surrendered or accounted for on or before 30 June, 2015. However, a review of the IFMIS Imprest register revealed that there were cases of officers being issued with multiple imprests while others had long outstanding imprests for unclear reasons.

5.0 Pending Bills

The financial statements under note 26 reflect pending bills of Kshs.422,835,218 as at 30 June 2015, while schedules provided for audit show a balance of Kshs.438,887,354 resulting to unexplained balance of Kshs.16,052,136.

In addition, the pending bills were not categorized into either recurrent or development votes. Further, no documentary evidence was availed to confirm the accuracy of the figures. In addition, the bills of Kshs.438.887,354 been paid, the financial statement would have reflected a deficit of Kshs.388,655,828.

6.0 Review of IFMIS Operations

6.1 Unreconciled Financial Statement with IFMIS

It was noted that the figures reported in the financial statements did not correspond to the figures in IFMIS as tabulated below:-

Details	Per financial statements (Kshs.)	Per IFMIS Kshs.	Variance Kshs.
Receipts	3,778,720,361	-	3,778,720,361
Financial Assets	355,716,991	-	355,716,991
Opening balances	309,505,905	-	309,505,905

Consequently, the county has not fully embraced IFMIS to process transactions.

6.2 Differences between Summary Statement of Appropriation and Budget Execution Report

Some discrepancies were noted between the budget execution report extracted from the IFMIS system and the budget Vs expenditure as per the summary statement of Appropriation presented as tabulated below:-

Development budget	**Budget (Kshs)**	**Actual expenditure (Kshs)**
As per financial statements	1,833,043,037	1,035,747,981
As per extracted report IFMS	1,818,013,048	913,509,008
Variance	**15,029,989**	**122,238,973**
Recurrent budget	**Budget (Kshs)**	**Actual expenditure (Kshs)**
As per financial statements	2,596,942,052	2,387,255,389
As per extracted report from IFMIS	2,505,800,199	2,293,803,772
Variance	**91,141,853**	**93,451,617**

The county did not provide an explanation for the differences.

6.3 Bank Accounts not Configured in IFMIS

Below is a list of twenty four (24) bank accounts which have been disclosed in the financial statements for the period ended 30th June 2015 but have not been configured in IFMIS.

Bank	**Account Name**	**Account number**
Central Bank of Kenya (CBK)	County Revenue Fund (CRF)	1000171262
Equity bank	Ward development	0160263710249
Equity bank	Laikipia West account	0270262755246
Equity bank	Laikipia East account	0160262760325
Equity bank	Laikipia North account	0270262769297
Family bank	Development authority	0640000065824
Family bank	Governors account	0640000064697
Equity bank	Recurrent account	0160263710336
Kenya Commercial Bank(KCB)	Public service account	1158335423
Family bank	Finance account	06000064809

Cooperative bank	Trade account	01141366076400
Kenya Commercial Bank(KCB)	Water account	11583335679
Family bank	Nyahururu account	023000027214
Family bank	Dol dol account	064000064784
Family bank	HSSF account	-
Kenya Commercial Bank (KCB)	Ministry of health account	1158385285
Family bank	Rumuruti account	023000027935
Family bank	Nanyuki account	-
Kenya Commercial Bank (KCB)	Education account	1158334729
Cooperative bank	Agriculture account	01141366076200
Equity bank	Infrastructure account	0270262754475
Cooperative bank	Imprest account	01141366378701
Family bank	Bursary fund account	-
Family bank	County public service board account	0160262760226

No explanation was given for the 24 accounts left out of IFMIS.

7.0 Assets and Liabilities Inherited from Defunct Local Authorities

As previously reported, the County's financial statements do not include the assets and liabilities inherited from the defunct local authorities although the County Government took possession of them. In addition, the Transition Authority is yet to formally hand over the assets and liabilities of the defunct local authorities to the County Government.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of County Government of Laikipia as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the Public Finance Management Act, 2012.

Other Matter

1.0 Budgetary Performance

1.1 Budget Performance Analysis

During the year under review, the final approved budget for Laikipia County Government was Kshs.4,429,985,089 comprising of recurrent expenditure of Kshs.2,596,942,052 (59%) and Development expenditures of Kshs.1,833,043,037 (41%) as follows:-

Item	Final Budget 2014/2015	Actual 2014/2015	Absorption rate %	% of Total Expenditure
Development	1,833,043,037	1,035,747,981	57%	30%
Recurrent	2,596,942,052	2,387,255,389	92%	70%
Total	**4,429,985,089**	**3,423,003,370**	**77%**	**100%**

The absorption rate for development and recurrent expenditure was 57% and 92% respectively as shown above. No reason or explanation was given for the low absorption rate of development vote.

2.0 Overall Budget Performance on Development Projects 2014/2015

During the year under review, the county Government had budgeted to complete 412 development projects.

However, the projects implementation status report for the county as at 30 June 2015 showed a total of 423 projects were completed resulting to a variance of 11 projects over and above the budgeted projects.

	No of Budgeted Projects	Status			Budgeted Cost (Kshs)	Actual Cost (Kshs)	Variance (Kshs)	% Variance
Department		**Completed**	**Ongoing**	**Stalled**				
Water & Environment resources	44	28	16	0	308,924,518	136,330,662	172,593,856	56%
Agriculture, Livestock and Fisheries	41	29	12	0	117,234,778	127,991,385	-10,756,607	-9%
Education, ICT and Social Services	56	36	14	6	97,033,700	81,926,443	15,107,257	16%
Ministry of Health	79	46	33	0	135,633,300	85,716,940	49,916,360	37%
Lands, Housing and Urban Development (Infrastructure)	86	66	20	0	285,471,400	196,084,130	89,387,270	31%
Trade, Tourism, Enterprise and co-operative Development	31	40	2	0	39,814,700	22,888,707	16,925,993	0%
Public Service and County Administration	49	44	5	0	69,182,625	115,834,710	-46,652,085	-67%
Gender, Social Affairs, Children and Sports Development	15	10	5	0	18,541,200	18,955,003	-413,803	-2%
Finance, Planning and	10	7	3	0	54,500,000	356,263,989	301,763,989	-554%

County Development								
County Assembly	1	1	0	0	67,000,000	67,000,000	-	0%
Total	**412**	**307**	**110**	**6**	**1,193,336,221**	**1,208,991,969**	15,655,748	-1%

The County Government did not explain how the additional eleven (11) projects were identified and how they were funded.

Further, a total of Kshs.1,193,336,221 was allocated to ten departments during the year to finance 412 projects in the 2014-2015 budget.

However, the implementation of these projects was behind schedule as at October 2015, while Kshs.1,208.991,968, had been spent on 307 complete projects, 110 ongoing projects and 6 stalled projects which resulted to an over expenditure of Kshs.15,655,747. This over expenditure was not explained. The delay is likely to affect the implementation of the 2015-2016 projects.

It was also observed that the County has not fully embraced the use of IFMIS to process financial transactions in order to comply with the set timelines.

3.0 Revenue Analysis

The County realized a shortfall in revenue collection by Kshs.528,392,886 in 2014/2015 financial year as analyzed below:-

Receipts	2014/2015 Budget Kshs.	2014/2015 Actual Revenue	Under Collection	Actual % of Budget
Exchequer Releases	3,009,697,543	3,009,697,543		100%
Proceed from Domestic &Foreign Grant	261,697,217	9,350,000	252,347,217	36%
Reimbursement and refunds	407,704,128	367,427,023	40,277,105	90%
Other Receipts	628,014,359	392,245,795	235,768,564	63%
Total	**4,307,113,247**	**3,778,720,361**	**528,392,886**	88%

(i) The analysis showed that the county government received actual domestic and foreign grants totaling Kshs.9,350,000 against estimated receipts of Kshs.261,697,217, resulting in under collection of Kshs.252,347,217 or approximately 64% of estimated amount.

(ii) Other receipts for the year ended 30 June 2015, reflects actual local revenue raised of Kshs.392,245,795 against approved budget of Kshs.628,014,359 resulting in an under collection of Kshs.235,768,564 representing approximately

local revenue and grants which accounted for 12% of the county government total estimated revenue for the year.

4.0 Unexplained variances between budget and actual performance

The statement of receipts and payments reflects actual balance of Kshs.392,245,795 as other receipts. However, the schedule provided to support the same shows a balance of kshs.454,500,922 resulting to unexplained difference of kshs.62,255,127.

Further, the county government had budgeted to collect Kshs.628,014,359 from local revenue but collected Kshs.454,500,922.

Revenue Source	Budgeted Amount (Kshs.)	Actual Collection (Kshs.)	Under (Over) Collection (Kshs.)	%Under collection (Kshs.) %
Market fees	17,250,000	6,582,157	10,667,843	62
Bus Park	56,650,000	60,261,027	(3,611,027)	(6)
Tender, Advert. Prom. Sign Post	100,000	71,900	28,100	28
Transfer Fee	2,000,000	1,045,181	954,819	48
Misc.Fee	122,106,000	36,077,868	86,028,132	70
Ground,Kiosk Rents	22,386,000	17,441,592	4,944,408	22
Land Rates	89,289,000.00	79,443,018.00	9,845,982	11
Single Business Permits	60,120,000	60,432,371	(312,371)	(1)
Cess Fee	18,534,000	13,933,744	4,600,256	25
Sand,QuerryCess	21,700,000	14,242,040	7,457,960	34
Burial	100,000	169,000	(69,000)	(169)
Slaughter Fee	9,650,000	6,331,021	3,318,979	34
School Fees	200,000	764,250	(564,250)	(282)
Stall Rent	1,500,000	-	1,500,000	100
Health	50,000	7,966,403	(7,916,403	(15,933)
Land Dept,	33,365,000	17,866,668	15,498,332	46
Sub-Total	**455,000,000**	**322,628,240**		29
HOSPITALS	160,000,000	131,872,682	28,127,318	18
AIA	13,014,359	-	13,014,359	100
TOTAL	**628,014,359**	**454,500,922**	**173,513,437**	28

The county government did not give explanation for the under-collection of revenue.

5.0 Office of the Governor and the Deputy Governor

During the year under review, the Office of the Governor and the Deputy Governor had a budget of Kshs.58,243,075 as shown below:-

Sub Programme	Estimates 2014/2015 (Kshs)
Donations and other subsidies	10,000,000
Current Grants to Other levels of government	35,360,000
Legal dues/fees, arbitration initiative.	12,883,075
Totals	**58,243,075**

However, the expenditure returns availed for the office of the Governor and Deputy Governor showed a total of Kshs.37,868,277 which was spent on different budget items as shown:-

Details	Actual expenditure Amount (Kshs)
Allowances	20,779,063.
Allowances-Travel to USA	484,200.
Governor's Functions	12,003,792.
Newspaper expenses	596,170.
Travel allowances	898,910.
Vehicle expenses and others	2,114,726
Electricity Bill and fuel supply	649,586.
Deputy Governor Expense	35,340
Bank Charges	12,490
Total	**37,868,277**

6.0 Revenue and Receivables

6.1 Failure to Recover Arrears of Revenue

Examination of revenue records maintained by the County Government revealed that as at 30 June 2015, the County had arrears of revenue totaling **Kshs.2,006,990,567** under four (4) categories of revenue as shown in table 4.1 below:-

Description	Amount (Kshs.)
House and Stalls Rent –616	4,766,866
Property Rates – 616	254,130,493
House and Stalls Rent – 331	4,760,000
Property Rates – 331	1,530,588,966
House and Stalls Rent – 596	10,154,195
Property Rates -	202,590,048
Total	
NHIF(County Hospitals)	**Not Produced**
TOTAL	**2,006,990,567**

A substantial amount of the arrears relate to the year 2013/2014 and earlier financial years. However, no effort seems to have been made to collect either a part or all of this revenue which increased in the 2014/2015 financial year.

Some of the arrears might never be recovered such as amount of GOK and CILOR of an estimated value of Kshs.400,000,000 and arrears inherited from defunct councils.

No explanation has been given for the failure by the Nanyuki, Nyahururu and Rumuruti hospitals to avail revenue records on NHIF and other debtors as at 30th June 2015.

6.2 Non-Remission of Cash Collected for Laikipia Investment Conference to the Revenue Fund

During the financial year under review, the County Government of Laikipia engaged Prestige Management Solutions Limited to organize Laikipia Investment Conference at a cost of Kshs.35,160,180.

However, the awarding letter indicated the cost of the conference to be Kshs.35,000,000. Further, according to the agreement made available, the county was to receive the proceeds from this conference. However, the total amount collected from the event was not disclosed since no records were availed for our verification, neither was the cash collected remitted to the County Revenue Fund by 30 June 2015. In the circumstances, it was not possible to establish the total revenue the county received from this conference.

6.3 Under Banking

A reconciliation of revenue collected and bankings for the year revealed an under banking of Kshs.212,400,547 as shown below:-

	Daily Receipts Kshs.	Less Direct Bankings Kshs.	Under Banking Kshs.
Nanyuki Mucipal	191,507,021	68,315,271.00	123,191,750
Laikipia County	8,594,683	-	8,594,683
Nyahururu	105,655,755	41,805,456.00	63,850,299
Unreceipted	16,763,814	-	16,763,819
	322,521,274	**110,120,727.00**	**212,410,547**

The under banking was neither explained nor reconciled. Failure to bank revenue and make reconciliations on time may create opportunities for fraud.

6.4 Accumulated Ground Rent and Land Rates Arrears

Analysis of the properties data maintained by the LAIFOMS system revealed that the county had a net accumulated arrears and penalties on properties totaling Kshs.1,991,607,344.59 as shown below:-

No.	Sub County	No. of Properties	Arrears
1	Nanyuki Municipal	3534	203,013,365.44
2	Laikipia County	10306	1,530,786,215.76
3	Nyahururu	2106	257,807,763.39
	Total		**1,991,607,344.59**

The county Government did not explain what efforts they have put to collect the outstanding rate arrears.

6.5 House Rent Arrears

Analysis of data maintained by LAIFORMS system in relation to house rent revealed the following:

a. As at 30 June 2015, the house rent arrear stood at Kshs.19, 681,060.75 as summarized below:

No.	Sub County	No. of Houses	Arrears
1	Nanyuki Municipal	462	10,154,195.00
2	Laikipia County	55	4,760,000.00
3	Nyahururu	501	4,766,865.75
	Total		**19,681,060.75**

b. Rent was not being charged on forty (40) houses owned by the county for undisclosed reason.

6.6 Donated Funds to Support the Operations of Health Centres

The County Government received a total of Kshs.9,350,000.00 from various donors during the year under review to fund the operations of the health centers and dispensaries.

However, we could not confirm how the donated amount was accounted for since the County Government did not make available for audit verification the payment vouchers, cashbooks, other books of account, bank reconciliation statement for the donor funds and financial reports of the donor funds as at the time of audit. Consequently, accountability of the donor funds was not confirmed.

6.7 Duplicate Receipt Numbers

The receipt numbers generated by LAIFOMS are auto generated number. These numbers are supposed to uniquely identify a transaction and therefore ought not to have duplicates. However, analysis of LAIFOMS data for Nanyuki Municipal Sub County revealed 16763 receipt numbers totaling Kshs.191,445,353 were duplicated. We could not therefore confirm the authenticity of these duplicates.
There is therefore a likelihood that the revenue figures as reflected in the financial statements are overstated.

6.8 Accountable Documents not Returned

Review of LAIFOMS accountable documents issued between 1 July 2013 to 30 June 2015 revealed cases of documents that were issued but not surrendered resulting to total revenue loss of Kshs.8,728,590.00 as summarized below:-

	Subcounty	Revenue Lost
1	Nanyuki Municipal	8,463,450.00
2	Nyahururu	265,140.00
	Total	**8,728,590.00**

Failure to have proper control over accountable documents exposes the county to the risk of revenue loss arising from accountable documents not surrendered.

6.9 Unaccounted for Revenue from Hospitals

During the year under review, an amount of Kshs.111,588,617 was collected from various hospitals in the county as follows:-

Name of hospital	**Amount Kshs.**
Nanyuki Teaching and Referral	66,095,837
Nyahururu District Hospital	44,207,545
Rumuruti Hospital	941,150
Doldol Hospital	344,085
Total	**111,588,617**

The above revenue was collected through the District Treasuries as per the miscellaneous receipts issued despite the National Treasury circular dated 9 July 2014 directing District Treasuries to transfer the county funds to the respective county revenue fund (CRF). However, it could not be confirmed whether the revenue collected from these hospitals was properly banked and accounted for since no cash books, bank statements or bank reconciliation statements were produced for audit verification. There was also no record to show that the collected revenue was transferred to the county revenue fund as required.

Further, it was not confirmed whether the former facility improvement fund (FIF) bank accounts were closed as directed by Treasury. In the circumstances, the accuracy and completeness of the revenue collected from county hospitals could not be confirmed.

7.0 Payments Made Outside IFMIS and G-pay System

The National Treasury has prescribed use of IFMIS and G-pay for financial management in the counties. The County government of Laikipia transferred Kshs.649,546,032.00 to the various department to meet various recurrent expenditure during the 2014/2015 financial year. However, it was noted that the payments made by the respective county ministries did not pass through the IFMIS system as required by regulations. Therefore it was very difficult to have an expenditure audit trail after these cash transfers.

The County Government was therefore in breach of Treasury guidelines on financial management.

8.0 Ward Development Fund

The County through County Assembly Act established a development fund to be managed by the executive county Government the whole and exact amount on projects which included infrastructural projects on roads, livestock production, education, water, co-operatives and trade.

The audit revealed some of the projects were complete and others were ongoing. However, the procurement process and the reporting framework of these projects was not availed for audit verification. Further, the Act did not indicate the process of identifying the projects and their administration as required by the PFM Act Sect. 109. Consequently, accountability of the fund could not be established.

9.0 Unaccounted Fuel Expenses

Analysis of fuel records revealed that fuel worth Kshs.6,934,603 indicated in the fuel register could not be verified due to unavailability of work tickets for the period October 2014 to June 2015. Consequently, the propriety of expenditure of Kshs.6,934,603 could not be ascertained.

10.0 Ministry of Infrastructure and Public Works

10.1 Construction of Roads –Salama Ward

An amount of Kshs.3,000,000 was paid to M/S Laikipia logistics as per LSO 100365 dated 14 May 2014, who were contracted to construct roads at Salama ward in the County. The contract was to gravel and compact 1890m^3 of road in Salama Ward. However, although the road was physically verified, no inspection and acceptance report or completion certificate were made available for audit verification. In the circumstances, it could not be confirmed whether the work paid for was done by the contractor as per agreement.

10.2 The Grading, and Gravelling of Roads at Elloto in Marmanet Ward

Tender for grading and gravelling of roads for Elloto road in Marmanet Ward was awarded to M/S Geoderm East Africa of Nairobi at a contract sum of Kshs.3,920.000. Although the contractor was one of the prequalified suppliers who have yearly contract with the County Government, no Engineer's estimate for this project was availed for audit verification.

Physical verification of the project revealed that although the grading and gravelling was done, it was not possible to establish if it was done as required in the absence of the Engineers estimates and other projects details.

10.3 Roads Grading and Compacting of Murram St. Lucia Njorua Ward

The tender for grading and compacting of the above road was awarded to M/s Kangumu Construction Limited at a contract sum of Kshs.3,562,565. However, no Engineers estimates was provided for audit verification to determine the extent of the work to be

done. In the circumstances, it was not possible to determine the evaluation criteria used to award this contract to M/s Kangumu Construction Ltd.

10.4 Tender for Supply, Delivery, Spread and Compacting of Approved Gravel for Withare –Kijabe Road at Ngobit Ward

The tender for supply, delivery, spread and compacting of gravel for Withare-Kijabe road was awarded to M/S Oritere Builders at a contract sum of Kshs.1,800,000. During the audit, it was not explained how the contractor was identified to carry out the above road works since no quotations were sent out to bidders. Further, the engineers estimates was not provided to show the extent of works to be done. In the circumstances, we could not confirm whether due process in the procurement was followed while awarding this tender and whether value for money was achieved in this project.

11.0 Ministry of Health

11.1 Breach of Laws on Hiring of Casuals in the County Government Hospitals

A total of Kshs.1,844,345.00 was paid to 35 (thirty five) unskilled casual workers and 12 (twelve) contracted and skilled casual workers during the year in Nyahururu District Hospital.

A further Kshs.3,031,409.00 was paid as wages to other 73 casual workers and Kshs.514,000.00 as allowances for an aesthetic duties in Nanyuki District Hospital. However, the following observations were made:-

- The casuals' employees had worked for more than three months continuously without a written contract contrary to labour laws.
- It was also noted that the hospitals have not been obtaining authority from the accounting officer to hire casuals. The criteria used to hire the casuals was not established.
- The hospitals did not submit returns in the required format indicating the name of the casual, ID number, work station, duties, amount paid and length of service as required.
- It was also noted that the hospitals have been engaging casuals to collect revenue.

In the circumstances, the propriety of the above expenditures could not be confirmed.

12.0 Ministry of Education

12.1 Bursary Disbursements

The County Government disbursed a total of Kshs.45,000,000 to the Bursary Fund by 30 June 2015. The amount was disbursed to 15 Wards. Included in this amount is Kshs.43,854,775 that bank statements indicate was delivered to schools. However, acknowledgement documents from the recipients was not availed for audit verification.

Further, it was noted that a total of Kshs.719,500 worth of bursaries was disbursed to private learning institutions. However, this was against Section 3 of the Laikipia County Education Bursary Fund Act, 2014 which specifies the beneficiaries of the fund.

In addition, the annual report for the fund was not produced to confirm the performance of the fund, overview of the academic performance of students supported under the Act among other objectives as stipulated in the Act.

The County Government was, therefore, in breach of the bursary fund regulations.

13.0 Ministry of Water

13.1 Rehabilitation of IDP Dam

During the year under review, the County Government budgeted to construct an IDP Earth dam at Wiyumiririe ward. A total of Kshs.4,182,439 was paid to M/s Leneka 2004 Mega vide PV no.168 dated 22/6/2015 for project.

A physical verification of the project revealed the following:-

- The billboard did not have all the details as specified thus incomplete
- The spillway was blocked by rocks that were not completely removed from the site.
- Fencing was not done
- When complete the dam should form a trapezium shape but the walls were not complete to the intended standard.
- There were no supervision reports from the authorized department to monitor the implementation of the project.
- Due to the undone works, the County government did not get value of money for fencing the Dam and construction of billboard at a BQ cost of Kshs.100,000 and Kshs.50,000 respectively.
- Although the County Water Director issued a completion certificate for this project, the work appears incomplete. No explanation was given as to why the certificate was issued prematurely.

13.2 Construction of 135m^3 Masonry Water Tank at Kiandege

The county Government budgeted for construction of 135m^3 masonry water tank at Kiandege Water Project. This project was to be implemented during 2014/2015 financial year. A total of Kshs.1,846,552.00 was paid to Alwil Holdings Ltd, who was awarded the tender. A physical verification of the project showed that the project was complete.

However, the project seems to have been constructed on a land whose ownership is uncertain. This was because it was not confirmed whether the land belongs to the community or to the County Government since no ownership documents were availed for audit.

Further, it was observed that the County had not procured pipes or built an intake for supply of water to the tank. As it is, the tank may remain unused and therefore result to waste of public funds.

13.3 Rehabilitation of Bleached Ilmotiok Earth Dam and Drilling of Naitore Borehole

The tender for the above works was awarded to M/s Siambu Enterprises Ltd and Hadys General Merchant respectively. The bill of quantities of the Engineers estimates for this project which was for the rehabilitation of bleached Ilmotiok Earth dam at Kshs.3,951,783 and Drilling of Naitore borehole at Kshs.3,757,820 was not provided. Further, the criteria of selecting Siambu Enterprises Ltd and Hadys General Merchants respectively as the contractors who were said to be within the Engineers BQ estimate could not be established. In addition, it was noted that the projects were not included in the annual work plan and the procurement plan of the County/ministry during the financial year under review.

During audit, it was established that the contractors were paid full contract amount of Kshs.3,951,783 and Kshs.3,757,820 respectively, although no completion certificates were availed in support.

13.4 Missing Payment Vouchers

The Water Department did not provide payment vouchers totaling Kshs.17,657,532.00 out of Kshs.42,433,958.73 paid out from the Ministry's development vote for the financial year ended 30 June 2015. The propriety of these payments as a correct charge to the public funds could not therefore be ascertained.

13.5 Purchase of Water Tanks

During the financial year under review, the County Government of Laikipia purchased and distributed Water Tanks worth Kshs.2,277,000.00 and paid vide payment voucher no.10341 dated 30/06/2015. However, the recipient groups did not append their signatures to confirm receipt and did not provide address and their locations for audit verifications. The criteria of identifying these groups was also not clear.

14.0 Ministry of Agriculture

14.1 Expenditure on Construction of Livestock and Agriculture Dams

The County Government of Laikipia during the year under review planned to construct various dams in Laikipia North and in Laikipia West for the irrigation purposes at a cost of Kshs.26,865,464.

An examination of Bills of Quantities (BQ) for these dams availed for audit verification revealed that no specific BQs were prepared for each dam. The BQs produced were duplicates of other different dams in different topographical areas which could have different cost estimates. These duplicates BQs were also not authenticated by the Water Engineer.

Further, the construction of these dams were not included in the 2014/2015 annual procurement plan as required. In addition, the technical aspects of these dams were not carried out as the following information was omitted: topographical survey, environmental impact assessment, hydrological survey, basement structures size and the catchment area of each dam. The basis of design of these dams could not be established without technical specification.

Physical verification of the dams revealed that most of them were completely dry and others had very little water hardly enough for irrigation. Therefore, the value for money may not have been obtained especially when the dams remains dry.

14.2 Planting of Seedlings Projects

The County Government came up with the project of planting seedling during the year under review. The project was meant to be a green movement to promote the youth in the County. It entailed purchase and planting of trees and fruit seedlings in churches, secondary schools and primary schools.

The contract was awarded to the lowest bidders among the youth, women groups and clubs at total cost of Kshs.3,403,500.

A physical verification in various churches, schools etc showed that all seedlings planted in the months of May/June 2014 had dried up. This resulted to the project not achieving its intended purpose of making the environment green. In the circumstances, the County Government did not obtain value for money in this project and public funds appear to have been wasteful.

14.3 Un-operational and Incomplete Projects for Milk Processing Plants

The County Government during the year under review, invited bidders through open tender for the installation of milk cooling plants at Muhotetu, Witeithie and Ngarua within the County. The tender also included the supply of 3 piece milk cooling tanks of 10,000 litres and 3 generators.

Eight (8) bidders responded to the advertisement and the lowest bidders, Ms Mimix and M/s Promaco quoted Kshs.16,037,796 and Kshs.15,032,556 respectively. However, the two were eliminated on the basis of not meeting the technical specifications as per the tender documents. The tender was however awarded to M/s Finken Holdings at a sum of Kshs.23,674,027 for conforming to the contract requirement and fair prices. The contractor was paid Kshs.18,437,632 being 80% of the total contract sum after supplying the cooling plants at Ngarua, Witeithie and Muhotetu dairies.

The coolers were supplied in October 2014. However, at the time of audit in October 2015, the three dairies were not operational. Further, apart from Ngarua dairy, Muhotetu and Witeithie were not connected with sewerage system as indicated in the tender documents.

The County Government may therefore not have obtained good value of public funds and effective service delivery.

14.4 Irregular Procurement of Construction of Wamura Dam

During the year under review, the County Government of Laikipia contracted Fairhead Construction and Water Company to rehabilitate Wamura Dam at cost of Kshs. 5,453,500.00 through request for quotation method. It was however noted that the County Government did not use Open tender method to source for the supplier despite the contract value exceeding Kshs.4,000,000.00 as stipulated by the Public Procurement and Disposal (Amendment) Regulations, 2013. The County Government was therefore in breach of the procurement laws.

15.0 Expenditure on Developing Electrification Master Plan

The County Government during the year under review, contracted Elijah and Company Associates to offer consultancy services on developing a master plan for county electrification plan for 2014-2018 at contract sum of Kshs.2,266,456. Records made available showed that Elijah and Company Associates were paid total contract price of Kshs.2,266,456 vide voucher no. 114 of 24 March 2015, LPO No. 1000010 and invoice No.10679 of 28 July 2014. However, no contract documents for this consultancy was made available for audit verification. Further, although the consultant was paid the full contract amount, it was not explained whether the services were rendered. In addition, we could not establish how the consultant was identified in the absence of tender documents.

Electrification of the rural areas is done by Kenya Power through Rural Electrification, However, though the County purports to have developed an Electrification Master Plan the County has not installed any project related to electricity. In the circumstances, it was not possible to confirm whether the County Government got value for money in this contract.

16.0 Outstanding Legal Fee

Records maintained by the Laikipia County Government revealed that Kshs.19,979,198.70 was outstanding as legal fee for the court files analyzed as at 30 June 2015. Further, the legal cases files made available were not properly updated with the current information and most files had very scanty information on the cases involved. In addition, there were some cases which were terminated or dismissed more than four (4) years ago but up to 30 June 2015 the bills of taxation had not been prepared.

No reason was provided for failure to clear these outstanding legal fee. Failure to clear the outstanding claims may result to further legal litigations and loss of public funds.

17.0 Human Resource Matters

17.1 Irregular Appointments

In fulfilling its mandate, the Salaries and Remuneration Commission (SRC) through circular Ref.No. SRC/TS/CGOVT/3/16 dated 29 July 2013 on remuneration and benefits for staff servicing in the county governments set the salary structure for county governments. The salary structure was to take effect from 1 May 2013 and any other structure that existed before ceased to apply. The salary structure also stated that the new officers were to join the salary scales at the minimum point on the date of appointment and progress annually to the maximum level.
It was however noted that:-

(a) The Laikipia County Assembly Service Board (CASB) in contravention of the SRC circulars employed 15 staff and placed then at a point higher than the minimum points resulting in overpayments amounting to Kshs.509,328 during the year.

(b) The County Assembly Service Board also appointed staff and indicated their appointment letters that those from the defunct local authorities will continue to draw their previous salaries in contravention to SRC circular which require the officers concerned should only be paid a remunerative package approved for the position irrespective of how much they were earning before. There is therefore risk of financial loss arising from irregular employment of staff contrary to SRC directives.

17.2 Ambiguous Contract Document

The County Assembly Service Board appointed a Personal Assistant to the Speaker of the County Assembly with effect from 7 August 2013 without any specific employment contract. Therefore, the terms of service for this officer could not be confirmed. There is possibility of financial loss arising from litigation that might arise due to the ambiguity of employment terms.

17.3 Over Commitment of Salary

Audit of payroll for the month of June 2015 revealed that one hundred and ninety four (194) members of staff had over committed their salary. This is against the provisions of Section 19 (3) of the Employment Act 2007 and Section G. 21 of the Code of Regulation (COR), which requires employees to commit to a maximum of two thirds of their total salary.

18.0 Lack of a Fixed Asset Register and Assets Management System

The County Government of Laikipia has various assets including land, buildings, motor vehicles, office equipment, furniture etc. However, it was noted that the County Government had not collected and consolidated all the necessary information about all the assets in its possession, some which were acquired from the defunct local authorities as well as assets it has purchased since March 2013. Further, the County Government did not maintain a fixed assets register to record all the assets owned by the County

during the year. In the absence of a properly maintained assets register, we could not confirm the existence of all the county assets.

19.0 Policy Issues

19.1 Lack of Policies

The County Government of Laikipia has no official IT policy, no operational plan, lacks risk management policy and does not have a disaster recovery plan. These policies guide the County Government on how to integrate information technology in improving delivery of services to the public and guide employees of the county in use of information and communication technology.

19.2 Lack of Audit Committee

The County Government of Laikipia has no audit committee contrary to Section 155(5) of the Public Finance Management Act, 2012. As at the time of audit the internal audit committee had not been constituted at the county. There are risk identification and risk management structures at the County Government of Laikipia.

My opinion is not qualified in respect of these matters.

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

Nairobi

20 September 2016