REPUBLIC OF KENYA

# OFFICE OF THE AUDITOR-GENERAL

# REPORT

# OF

# THE AUDITOR-GENERAL

# ON

# THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF TAITA TAVETA

# FOR THE YEAR ENDED 30 JUNE 2015

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# OFFICE OF THE AUDITOR-GENERAL

## REPORT OF THE AUDITOR-GENERAL ON THE COUNTY GOVERNMENT OF TAITA TAVETA FOR THE YEAR ENDED 30 JUNE 2015

### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Taita Taveta set out on pages 8 to 73, which comprise the statement of assets as at 30 June 2015, and the statement of receipts and payments, statement of cash flows, statement of appropriation: recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229(4) of the Constitution of Kenya and Section 8 of the Public Audit Act, 2003.

### Management's Responsibility for the Financial Statements

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

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

### Auditor-General's Responsibility

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

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

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

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

**Basis for Disclaimer of Opinion**

**1.0 Presentation of the Financial Statements**

The financial statements availed for audit review reflected the following anomalies:

a) The financial statements failed to indicate the accounting policies contrary to International Public Sector Accounting Standard 1 which states that 'a complete set of financial statements comprises relevant financial statements and a summary of significant accounting policies and other explanatory notes'.

b) The statement of receipts and payments does not reflect the accounting period.

c) The pages of the financial statements are not numbered sequentially.

d) Notes to the financial statements is not included as header in the respective pages and the notes to the financial statements in respect of outstanding imprests and pending bills are not disclosed.

e) Reporting currency is included on top of pages 1, 2,3,4,5 and 6 in Kshs.'000' whereas the figures were not rounded.

Consequently, the financial statements do not comply with the requirements of International Public Sector Accounting Standards as prescribed by the Public Sector Accounting Standards Board.

**2.0 Inaccuracies in the Financial Statements**

The financial statements availed for audit review had the following inaccuracies:

2.1 The statement of assets as at 30 June 2015 disclose fund balance brought forward of Kshs.407,479,712. However, the balance is at variance with the balance carried forward from 2013/2014 of Kshs.418,766,216. The difference of Kshs.11,286,504 between the two figures has not been explained nor reconciled. Further, the financial statement also reflected differences between opening balances and audited financial statements of 2013/2014 totalling Kshs.1,010,925,966 as shown below:

| Item | Balance as per Financial Statements for 2014/2015 (Kshs) | Balance as per Certified Financial Statements for 2013/2014 (Kshs.) | Difference (Kshs.) |
|---|---|---|---|
| **Statement of Receipts and Payments** | | | |
| Exchequer Releases | 2,420,630,003 | 2,202,773,302 | 217,856,701 |
| Other Receipts | 150,111,327 | 17,000,000 | 133,111,327 |
| Compensation of Employees | 1,207,464,863 | 1,197,150,397 | 10,314,466 |
| Use of Goods and Services | 533,819,966 | 539,912,450 | (6,092,484) |
| Other Grants and Transfers | 116,839,735 | 120,273,335 | (3,433,600) |
| Acquisition of Assets | 404,556,298 | 402,929,960 | 1,626,338 |
| Other Payments | 0 | 120,480 | (120,480) |
| **Statement of Assets and Liabilities** | | | |
| Bank Balance | 407,479,713 | 176,678,551 | 230,801,162 |
| Outstanding Imprests | 33,154,807 | 33,175,790 | (20,983) |
| Fund Balance B/F | 110,705,748 | 119,629,590 | (8,923,842) |
| Surplus for the year | 308,060,468 | 90,224,751 | 217,835,717 |
| **Statement of Cash Flows** | | | |
| Exchequer Releases | 2,420,629,394 | 2,202,773,302 | 217,856,092 |
| Other Receipts | 150,111,327 | 147,717,191 | 2,394,136 |
| Compensation of employees | 1,207,464,863 | 1,197,150,397 | 10,314,466 |
| Use of Goods & Services | 540,247,718 | 539,912,050 | 335,668 |
| Other Grants & Transfers | 116,839,735 | 120,273,335 | (3,433,600) |
| Acquisition of Assets and | 393,434,842 | 402,929,960 | (9,495,118) |
| **Total** | **10,521,550,807** | **9,510,624,841** | **1,010,925,966** |

## 2.2 Difference Between Financial Statements and IFMIS

The financial statements availed for audit review were at variance with the IFMIS figures as summarized below:

| **Recurrent Budget** | **Budget (Kshs)** | **Actual Expenditure (Kshs)** |
|---|---|---|
| As per financial statements | 2,647,942,981 | 2,599,631,716 |
| As per Report extracted from IFMIS | 2,651,419,632 | - |
| **Variance** | **3,476,651** | **2,599,631,716** |
| **Development Budget** | **Budget (Kshs.)** | **Actual expenditure (Kshs)** |
| As per financial statements | 1,677,336,596 | 947,813,231 |
| As per extracted report from IFMIS | 1,495,969,954 | 885,816,648 |
| **Variance** | **181,366,642** | **61,996,583** |

## 2.3 Unsupported Adjustments

The statement of receipts and payments reflected adjustments totalling Kshs.16,204,008 on seven accounts as detailed below:

| **item** | **Original Balance (Kshs.)** | **Revised Balance (Kshs.)** | **Adjustment (Kshs.)** |
|---|---|---|---|
| Compensation of Employees | 1,527,261,844 | 1,505,875,729 | 21,386,115 |
| Use of Goods and Services | 741,486,572 | 810,665,345 | (69,178,773) |
| Transfers to Other Government Units | 173,458,712 | 174,658,712 | (1,200,000) |
| Other Grants and Transfers | 91,899,953 | 100,899,953 | (9,000,000) |
| Social Security Benefits | 16,484,559 | 21,816,574 | (5,332,015) |
| Acquisition of assets | 891,873,544 | 885,669,505 | 6,204,039 |
| Other Payments | 49,040,076 | 8,123,450 | 40,916,626 |
| **Total** | **3,491,505,260** | **3,507,709,268** | **(16,204,008)** |

## 2.4 Compensation of Employees

The statement of receipts and payments for the year ended 30 June 2015 disclose compensation of employees figure of Kshs.1,527,261,844, whereas Integrated Personnel Payroll Database (IPPD) indicates a figure of Kshs.1,238,078,843, resulting in a variance of Kshs.289,183,001 which has neither been explained nor reconciled.

## 2.5 Variances Between Financial Statements and Supporting Schedules

The financial statements availed for audit review reflected variances between the financial statements and supporting schedules amounting to Kshs.24,235,102 as shown below:

| Item | Financial Statements Balance (Kshs.) | Schedule Balance (Kshs.) | Variance (Kshs.) |
|---|---|---|---|
| **Other Receipts** | **253,972,089** | **217,882,766** | **36,089,323** |
| **Use of Goods and Services** | | | |
| Training expenses | 37,101,747 | 36,525,056 | 576,691 |
| Specialised materials and services | 117,587,540 | 117,857,881 | (270,341) |
| Other operating expenses | 49,315,857 | 25,387,105 | 23,928,752 |
| **Other Grants and Transfers** | | | |
| Scholarships and Other Educational benefits | 89,289,003 | 85,289,003 | 4,000,000 |
| Emergency Relief and Refugee Assistance | 11,610,950 | 15,610,950 | (4,000,000) |
| **Total** | **304,905,097** | **280,669,995** | **24,235,102** |

As a result of the above differences and non-compliance with the recommended accounting framework, the accuracy, validity and completeness of the County Government's financial statements for the year ended 30 June 2015 could not be confirmed.

## 3. Unsupported Proceeds from Foreign Borrowings

The statement of receipts and payments for the year ended 30 June 2015 disclose proceeds from foreign borrowings of Kshs.12,430,000 of which the supporting schedules were not provided for audit verification. In addition, Section 107(2) of the Public Finance Management Act, 2012 allows a County Government to borrow for development purposes only with approval of the County Assembly. However, details of this loan including the purpose and approval by Taita Taveta County Assembly were not availed for audit review.

Consequently, the validity, accuracy and propriety of the proceeds from foreign borrowings balance of Kshs.12,430,000 for the year ended 30 June 2015 could not be confirmed.

## 4. Exchequer Releases

The statement of receipts and payments for the year ended 30 June 2015 disclose exchequer releases of Kshs.2,887,455,925 while the report of the Controller of Budget as at the same time has a figure of Kshs.3,540,050,000, comprising recurrent exchequer of

Kshs.2,275,760,000 and development exchequer of Kshs.1,264,290,000, resulting in unexplained variance of Kshs.652,594,075.

Consequently, the accuracy and completeness of the exchequer releases of Kshs.2,887,455,925 in the statement of receipt and payments for the year ended 30 June 2015 could not be confirmed.

## 5. 0 Cash and Bank Balances

### 5.1 Bank Reconciliation

Audit review of the County Government's bank reconciliations and related records revealed unreconciled and unexplained variances totaling Kshs.48,979,659.01 between figures indicated in the statement of assets and bank reconciliations for development and recurrent bank accounts as shown below:

| Bank A/C No. | Balance as per Financial Statements (Kshs.) | Bank Balance as per Reconciliation (Kshs.) | Difference (Kshs.) |
|---|---|---|---|
| Recurrent A/C No.1000170263 | 20,847,581.50 | (18,086,528.17) | 38,934,109.67 |
| Development A/C No. 100170228 | 14,183,406.45 | 4,137,857.11 | 10,045,549.34 |
| **Total** | **35,030,987.95** | **(13,948,671.06)** | **48,979,659.01** |

### 5.2 Recurrent A/C No.1000170263

The bank reconciliation statement as at 30 June 2015 for recurrent bank account reflects receipts in bank statement not yet recorded in cash book of Kshs.72,308,495.45, out of which receipts totaling Kshs.1,734,706 relate to the period between 02/12/13 and 27/6/14. The reconciliation statement also indicates payments in bank statement not yet recorded in cash book of Kshs.112,495,222.22, out of which Kshs.71,426,842.65 has been outstanding for between six months and two years and payments in cash book not in bank statement of Kshs.209,050,838.44 which includes cheques of Kshs.40,141,626.07 which are stale. It has not been explained why the receipts have not been entered in the cash book and the stale cheques reversed in the cash book. Further, dates when the reconciling items were subsequently cleared were not provided for audit review.

### 5.3 Development A/C No.1000170228

The bank reconciliation statement as at 30 June 2015 for development A/C No.1000170228 disclose a cash book balance of Kshs.4,137,857.11, and the cash book reflects a balance of Kshs.15,582,344.79, resulting in a difference of Kshs.11,444,487.68 which has not been explained nor reconciled. In addition, the reconciliation indicates payments in cash book not in bank statement of Kshs.154,508,199.94 which includes cheques totaling Kshs.139,027,388.14 whose dates have not been provided for audit review and stale cheques of Kshs.9,501,250.90 which were not reversed. The reconciliation also indicates payments in bank statement not in cash book of Kshs.6,609,908.55 of which Kshs.1,155,356.60 relates to the period between 03/07/2014 and 24/12/2014.

No explanation was given as to why the receipts have not been entered in the cash book and the stale cheques reversed in the cash book. Further, dates when the reconciling items were subsequently cleared were not provided for audit review.

### 5.4 Central Bank of Kenya Revenue Fund A/C

Included in the bank balance of Kshs.45,292,173.20 shown in the statement of assets as at 30 June 2015 is Revenue Fund balance of Kshs.7,927,497.10 of which the supporting bank reconciliation statement as at that date were not provided for audit verification.

### 5.5 Kenya Commercial Bank A/C No.1140754017

Included in the bank balance of Kshs.45,292,173.20 shown in statement of financial assets as at 30 June 2015 is Revenue Collection Account balance of Kshs.2,333,688.15 of which the bank reconciliation and certificate of bank balance were not availed for audit verification. The management has not explained why the long outstanding receipts in cash books not in bank statements of Kshs.1,734,706, payments in bank statements not in cash books of Kshs.72,582,199.25 and stale cheques of Kshs.49,642,876.97 have not been cleared or reversed. Further, the cause of the difference of Kshs.48,979,659.01 has not been explained nor reasons given for the failure to avail the reconciliation and certificate of bank balance for audit verification.

As a result, the accuracy, validity, and completeness of the bank balance of Kshs.45,292,173 in the statement of assets as at 30 June 2015 could not be confirmed.

### 6.0 Cash Balance

The statement of assets as at 30 June 2015 reflects cash balance of Kshs.2,017,112 while the balance as per board of survey report on cash indicates a balance of Kshs.440,168, resulting in a difference of Kshs.1,576,944 which has not been explained nor reconciled.

Consequently, the accuracy and completeness of the cash balance of Kshs.2,017,112 as at 30 June 2015 could not be confirmed.

## 7.0 Outstanding Imprests

The statement of assets as at 30 June 2015, disclose outstanding imprests of Kshs.6,319,172 all of which were overdue as at end of the financial year under review. Further, the outstanding imprests include Kshs.2,050,273.60 in respect of multiple imprests issued to seven employees of the County Government contrary to Section 5.6.6 of the Government Financial Regulations and Procedures which requires officers to surrender or account for previous imprest before being issued with another one and that imprests should be accounted for within 48 hours after performing the duty for which the imprest was issued.

Consequently, the propriety of the imprests balance of Kshs.6,319,172 in the statement of assets as at 30 June 2015 could not be confirmed.

## 8.0 Assets and Liabilities from the Defunct Local Authorities

As reported in the previous year, the financial statements presented for audit review do not have disclosures on assets handed over from the defunct local authorities. Further, no handing over report of the assets and liabilities was availed for audit verification.

Consequently, the validity and completeness of the assets and liabilities of the County Government as at 30 June 2015 could not be confirmed.

## 9.0 Social Security Benefits

The statement of receipts and payments for the year ended 30 June 2015 indicates social security benefits balance of Kshs.21,816,574 of which the supporting schedule was not provided for audit verification.

Consequently, the accuracy and completeness of the social security benefits balance of Kshs.21,816,574 for the year ended 30 June 2015 could not be confirmed.

## 10.0 Other Payments

The statement of receipts and payments for the year ended 30 June 2015 reflects other payments figure of Kshs.8,123,450 of which the supporting schedule was not provided for audit verification.

Consequently, the accuracy and completeness of the other payments in the statement of receipts and payments of Kshs.8,12,450 for the year ended 30 June 2015 could not be confirmed.

## 11.0 Use of Goods and Services

Note 13 to the financial statements reflects Kshs.810,665,345 as use of goods and services. Although contracted guards and cleaning services and legal dues/fees, arbitration and compensation are indicated as nil balances, payment vouchers availed for audit examination indicated that the County Government spent a total of Kshs.4,770,050.60 on contracted

guards and cleaning services and Kshs.2,935,420 on legal dues/fees, arbitration and compensation all totalling Kshs.7,705,470.60 during the year under review. Further, excluded from the training expenses of Kshs.37,101,747 disclosed under note 13 to the financial statements, is Kshs.60,194,099.70 relating to training expenses incurred at the National Assembly.

Consequently, the accuracy and completeness of the use of goods and services figure of Kshs.810,665,345 in the statement of receipts and payments for the year ended 30 June 2015 could not be confirmed.

## 12.0 Revenue

### 12.1 Other Receipts

Note 11 to the financial statements disclose Kshs.253,972,089 relating to revenue from rents, business permits, cess, plot rents and public health facilities operations of which monthly schedules and daily receipts were not availed for audit verification. Further, cash book and revenue control sheets and records of banking/bank statements indicates banking of receipts were not availed for audit review and as such it could not be confirmed whether all revenue was collected and banked promptly.

### 12.2 Revenue Receipt Books Not Accounted For

Records availed for audit review indicated that a total of 4,315 miscellaneous receipt books were issued to the Sub County Offices, out of which only 4,165 were accounted for leaving 150 receipt books unaccounted for. Further, the Counterfoil Receipt Book Register (CRBR) does not have the names of the suppliers, number of receipt books supplied, date of supply and delivery note numbers.

As a result, revenue receipt books delivered may not have been recorded and as such income collected through these receipts books may have been misappropriated.

### 12.3 Revenue from Sub-County Health Facilities

A scrutiny of the bank statements and deposit slips availed for audit from the Sub County Hospitals and other health facilities under the County Government indicated that a total Kshs.73, 803,304.50 was banked in various health facilities bank accounts during the year under review. However, cash book and revenue collection control sheets were not availed for audit verification and as such it was not possible to confirm whether all the revenue due was collected, recorded and banked.

Failure to maintain proper, verifiable and complete revenue records may create loop holes for misappropriation of revenue.

## 13.0 Transfer of Funds from Development Account to Recurrent Account

During the year under review, development funds totalling Kshs.438,000,000 were transferred from development cash book to recurrent cash book. This is contrary to Section 154(b) of Public Finance Management Act, 2012 which prohibits an accounting officer from authorizing transfer of an amount appropriated for capital expenditure, except to defray other capital expenditure. Further, out of the total amount transferred, Kshs.298,000,000 had not been refunded to recurrent cash book as at 30 June 2015.

Consequently, the inter-account funds transfer is irregular and may lead to delay or failure to implement development projects envisaged for the year. Tracing the funds for accountability may also be difficult.

## 14.0 Development Projects Implementation

The following are the observations regarding development projects:

### 14.1 Other Roads and Civil Works

The overhaul and refurbishment of Construction and Civil Works figure of Kshs.55,136,724 indicated in Note 18 to the financial statements for the year ended 30 June 2015 includes Kshs.3,750,000 in respect of a transfer of development funds to recurrent account to cater for recurrent expenditure. However, evidence that the transfer was duly approved and of reimbursement of the funds to development vote were not availed for audit verification.

Consequently, the propriety of expenditure totaling Kshs.3,750,000 for the year ended 30 June 2015 could not be confirmed.

### 14.2 Overhaul of Roads, Bridges and Other Infrastructure and Civil Works

The overhaul and refurbishment of Construction and Civil Works figure Kshs.55,136,174 disclosed under note 18 to the financial statements for the year ended 30 June 2015 includes Kshs.16,514,860 in respect of roads infrastructure and civil works of which tender documents were not provided for audit review nor sections of the roads done specified.

Consequently, the propriety of expenditure totaling Kshs.16,514,860 for the year ended 30 June 2015 could not be confirmed.

### 14.3 Construction of Buildings

Included in the construction of buildings balance of Kshs.279,691,079 in note 18 to the financial statement for the year ended 30 June 2015 is an amount of Kshs.43,744,270 paid to contractors. However, tender advertisements were not availed for audit verification and as a consequence, it could not be confirmed if the contracts were awarded competitively and value for money obtained. Further, the following observations were made in respect to procurement of the construction of buildings contracts:

**a) Construction of Fresh Produce Wholesale Market at Voi Town**

Included in the acquisition of assets balance of Kshs.885,669,505 disclosed in the statement of receipts and payments for the year ended 30 June 2015 is Kshs.2,933,580 paid to a construction company during the year under review to construct the Fresh Produce Wholesale market at Voi Town at a contract sum of Kshs.9,785,940. However, Bills of Quantities, contract agreement and valuation of work done and paid for were not availed for audit review.

**b) Construction of Early Childhood Development Education (ECDE) Facilities**

Included in the acquisition of assets balance of Kshs.885,669,505 disclosed in the statement of receipts and payments for the year ended 30 June 2015 is an amount of Kshs.67,621,990 transferred to various Boards of Management of various schools in the County for construction and renovation of ECDE facilities. However, no expenditure returns/project files explaining how the disbursements were utilized were availed for audit review.

Consequently, it could not be confirmed whether Kshs.43,744,270 spent on construction of buildings was economical and represented value for money and that the County Government complied with the provisions of the Public Procurement and Disposal Act, 2005.

**14.4 Equalization Projects**

Included in the acquisition of assets figure of Kshs.885,669,505 disclosed in the statement of receipts and payments for the year ended 30 June 2015 is Kshs.35,678,183 spent on construction of equalization projects during the year under review. However, requisitions for the construction works were not done by the user departments nor quotations availed for audit review. As such, how the contractors were identified and awarded the contracts and whether value for money was obtained for Kshs.35,678,183 spent on equalization projects during the year 2014/2015 could not be confirmed.

**14.5 Water Projects**

**14.5.1 Mata-Jipe Water Project**

During the period under review the County Government of Taita Taveta budgeted Kshs.13,640,497 for Mata-Jipe Water Project against expenditure of Kshs.10,125,897, resulting in under expenditure of Kshs.3,514,600(26%). The records also indicate that the contract was awarded to a construction firm at a contract price of Kshs.9,640,497, resulting in overpayment of Kshs.485,400 to the contractor. Further, the contractor was not prequalified for the work while the project feasibility study report, project design/ layout, the bill of quantities, tender advertisement, quotations, tender committee minutes and evaluation report were not availed for audit review.

### 14.5.2 Rong'e Nyika Water Project.

Records availed for audit review indicated that a total of Kshs.11,535,515 was budgeted for Rong'e Nyika Water Project and a contract of Kshs.8,314,495 was awarded to a contractor for rehabilitation of Rong'e Nyika water project. During the financial year 2014/2015 only Kshs.5,248,772 was paid leaving a balance of Kshs.6,286,743(54% of the budget) unspent. Further, it was noted that the Local Service Order (LSO) No. 0990625 for this project was raised on 27 June 2015 after the interim certificate had been issued on 30 April 2015. Management did not provide explanation for this discrepancy.

### 14.5.3 Mbololo Water Project

A total of Kshs.15,301,000 was budgeted for construction of Mbololo Water Project in the financial year 2014-2015 by the County government of Taita Taveta. The contract was awarded to a construction company at a contract sum of Kshs.15,301,000, out of which Kshs.12,444,671.70 had been paid as at 30 June 2015. However, it was noted that the amount was paid through three payment vouchers supported with the same interim certificate of Kshs.4,148,223.90. As a consequence, payment totalling Kshs.8,296,447.80 to the contractor is unsupported, hence not a proper charge to public funds.

### 14.5.4 Kimwa Water Project

During the year under review, a total of Kshs.21,386,821 was budgeted for Kimwa Water Project and the contract awarded on 19 December 2014 to a construction firm at a contract sum of Kshs.21,564,279.610, out of which Kshs.15,094,998.48 had been paid as at 30 June 2015. However, the project feasibility study report, project layout/route plan and engineer's estimate were not availed for audit verification.

Consequently, the propriety and value for money for Kshs.15,094,998.48 spent on the projects for the year ended 30 June 2015 could not be confirmed.

## 15.0 Expenditure on Casuals

Included in the compensation of employees balance of Kshs.1,505,875,729 disclosed in the statement of receipts and payments for the year ended 30 June 2015 is Kshs.84,373,597 in respect of wages paid to casuals during the year under review. Human resource records availed for audit review indicated that the County Government has 1415 casuals. However the County Public Service Board approval of these appointments was not availed for audit review. Consequently, it could not be confirmed whether the casuals were competitively appointed and that expenditure totalling Kshs.84,373,597 is a proper charge to public funds.

## 16.0 Routine Maintenance – Motor Vehicles and Other Transport Equipment

Included in the use of goods and services balance of Kshs.810,665,345 disclosed in the statement of receipts and payments for the year ended 30 June 2015 is Kshs.8,354,401 spent on maintenance-motor vehicles and other transport equipment during the year under

review, out of which Kshs.2,386,990 was in respect of expenditure of which no entries of repair services were made in motor vehicle log books and work tickets nor engineer's pre and post mechanical inspection reports and report of inspection and acceptance committee availed for audit verification.

As a result, the propriety of expenditure of Kshs.2,386,990 on routine maintenance of motor vehicles and other transport equipment for the year ended 30 June 2015 could not be confirmed.

### 17.0 Purchase of Motor Vehicles and Other Transport Equipment

Included in the acquisition of assets figure of Kshs.885,669,505 disclosed in the statement of receipts and payments for the year ended 30 June 2015 is Kshs.93,097,037.95, being cost of motor vehicles purchased from two firms which included eight (8) Subaru Forester vehicles valued at Kshs.40,866,400.25 and other vehicles costing Kshs.52,230,637.70. However, the Subaru Forester motor vehicles were not in the County Government's annual procurement plan for the year 2014/2015 nor were the user requisitions, quotations, no contract agreements and inspection and acceptance committee report for the vehicles purchased availed for audit review.

As a result of the above, the propriety and value for money could not be confirmed for Kshs.93,097,037.95 spent on motor vehicles for the year ended 30 June 2015.

### 18.0 Procurement of Goods and Services

### 18.1 Unaccounted for Fuel

Included in the use of goods and services balance of Kshs.810,665,345 disclosed in the statement of receipts and payments for the year ended 30 June 2015 is expenditure on fuel of Kshs.36,927,083, of which the fuel register and motor vehicle daily work tickets indicating fuel purchased and drawn were not availed for audit review. In consequence, the propriety of expenditure totalling Kshs.36,927,083 on fuel purchased during the year ended 30 June 2015 could not be confirmed.

### 18.2 Purchase of Office Furniture, Fittings and Other General Equipment

Included in the acquisition of assets balance of Kshs.885,669,505 disclosed in the statement of receipts and payments for the year ended 30 June 2015 is Kshs.6,727,840 spent on purchase of office furniture, fittings and other general equipment during the year under review of which the purchase requisitions, tender committee minutes, Local Purchase Orders and stores ledger indicating the receipt and recording of these goods were not availed for audit review.

As a result, the propriety and value for money for purchase of office furniture, fittings and other general equipment costing Kshs.6,727,840 for the year ended 30 June 2015 could not be confirmed.

### 18.3 Unsupported Hospitality, Supplies and Services Expenses

Included in the use of goods and services and as disclosed in Note 13 to the financial statements is expenditure on hospitality, supplies and services of Kshs.57,419,316 out of which Kshs.13,737,705 incurred on boards, committees, conferences, seminars and catering services was not supported with service requisitions, quotations, Local Service Orders, lists of those served and meetings attendance registers. Consequently, the propriety of expenditure totaling Kshs.13,737,705 for the year ended 30 June 2015 could not be confirmed.

### 18.4 Printing, Publishing, Advertising and Publicity Awareness Campaigns

Included in the use of goods and services balance of Kshs.810,665,345 disclosed in the statement of receipts and payments for the year ended 30 June 2015 is Kshs.16,735,400 spent on printing, publishing, advertising and publicity awareness campaigns during the year under review of which purchase requisitions and quotations were not availed for audit review. Consequently, the propriety of expenditure totaling Kshs.16,735,400 on printing, publishing, advertising and publicity awareness campaigns for the year ended 30 June 2015 could not be confirmed.

### 18.5 Insurance Costs

Included in the use of goods and services balance of Kshs.810,665,345 disclosed in the statement of receipts and payments for the year ended 30 June 2015 is expenditure totalling Kshs.40,311,079 incurred during the year on insurance services comprising group personal insurance of 14,998,258 and motor vehicle insurance of Kshs.25,312,821 of which invitation to tender or tender advertisement, quotations, tender committee minutes awarding the contracts and the contract documents were not availed for audit review. Further, the motor vehicle valuation report was not availed for audit review.
Consequently, the propriety of insurance services costing Kshs.40,311,079 for the year ended 30 June 2015 could not be confirmed.

### 18.6 Medical Supplies

Included in the use of goods and services balance of Kshs.810,665,345 disclosed in the statement of receipts and payments for the year ended 30 June 2015 is expenditure of Kshs.75,258,931 on medical supplies which entailed supply and delivery of pharmaceutical and non-pharmaceutical supplies to various health facilities within the County of which reports of the inspection and acceptance committee were not availed for audit verification. Further, examination of medical records maintained at Moi Sub-County Hospital in Voi town revealed that the responsibilities for receiving, recording and issuing of stores are performed by one officer only, hence the principle of segregation of duties in stores management was not observed. The records also indicated that Kshs.4,276,468.65 was paid to various suppliers of medical supplies to the County of which quotations and inspection and acceptance committee reports were not availed for audit verification.

As a result, it could not be confirmed whether medical supplies costing Kshs.75,258,931 were procured at the most economical costs. The reliability of stores records also remains doubtful in the absence of segregation of stores management duties.

### 18.7 Contracted Guards and Cleaning Services

Included in the use of goods and services balance of Kshs.810,665,345 disclosed in the statement of receipts and payments for the year ended 30 June 2015 is Kshs.4,770,050.60 paid during the year under review to three security firms and one transport company for rendering security services at the Governor's official residence and for transport services for the Governor, the First Lady and the Deputy Governor. However, quotations raised were not availed for audit verification and as a consequence it could not be confirmed whether the firms were hired competitively and that value for money was obtained.

### 18.8 Legal Dues/Fees, Arbitration and Compensation

The use of goods and services balance of Kshs.810,665,345 disclosed in the statement of receipts and payments for the year ended 30 June 2015 includes Kshs.2,634,200 paid to three law firms for legal representation of the County Government in court cases filed against the County Government and the defunct local authorities within the County. However, copies of court summons were not availed for audit verification. Further, court summons of 4 April 2014, Case No. SPMCC 174 of 2013 indicates that the court case filed was between an individual and a welfare society. It was not clear how and why the County Government got involved.

Under the circumstances, the propriety of Kshs.2,634,200 spent on legal dues/fees, arbitration and compensation for the year ended 30 June 2015 could not be confirmed.

### 18.9 Purchase of Specialized Plant, Equipment and Materials

The acquisition of assets balance of 885,669,505 disclosed in the statement of receipts and payments for the year ended 30 June 2015 includes Kshs.175,703,904 paid to various traders for supply of specialized plant, equipment and materials to the County Government. However, purchase requisitions, quotations and inspection and acceptance committee reports confirming that the desired quantity and quality of the goods and supplies were delivered were not availed for audit review.

## 19 Unsupported Domestic Travel Allowance

Included in the use of goods and services figure of Kshs.810, 665,345 and as disclosed in note 13 to the financial statements is domestic travel allowance of Kshs.126,068,133, out of which Kshs.14,191,900 was not supported with work tickets, bus tickets, meetings, attendance registers, minutes of meetings attended, and reports of the meetings.

As a result, the propriety of expenditure totaling Kshs.14,191,400 on domestic travel allowance for the year ended 30 June 2015 could not be confirmed.

## 20 Unsupported Foreign Travel Allowance

Included under use of goods and services figure of Kshs.810,665,345 in the statement of receipts and payments is Kshs.44,083,496 relating to expenditure on foreign travel and subsistence allowances, out of which Kshs.4,916,413 was paid to two firms for provision of air ticket services. However, quotations were not provided for audit verification hence how the firm was identified and awarded the contract could not be confirmed. Further, boarding passes and reports of the foreign trips were not availed for audit review.

As a result, the propriety of expenditure totaling Kshs.4,916,413 on domestic travel allowance for the year ended 30 June 2015 could not be confirmed.

## 21 Unsupported Cash Payments

Audit examination of the County Executive operations cash book revealed that Kshs.37,889,412 was paid in cash during the year under review to Members of County Assembly and some staff. However, payment vouchers were not provided in support of this expenditure. As such it was not possible to confirm the propriety of expenditure totalling Kshs.37,889,412 for the year ended30 June 2015.

## 22 Bursary Scheme Fund

Records availed for audit verification indicated that Taita Taveta County Government established a bursary scheme through a standing imprest of Kshs.21,306,100 to cater for bursary, scholarships and loans. However, management did not avail bursary applications, award minutes, list of beneficiaries and acknowledgement letters from the respective institutions of learning to support Kshs.21,306,101 spent on bursaries for audit review. Further, contrary to Section 116(7) of the Public Finance Management Act, 2012 which requires the administrator of a public fund to prepare accounts of the fund for each financial year, no separate financial statements were prepared for the Fund.

Consequently, the propriety, justification for, and completeness of bursaries totalling Kshs.21,306,101 paid during the year under review could not be confirmed.

## 23 Datu Sawazisha Fund

Included in the other grants and transfers balance of Kshs.174,658,712 disclosed in the statement of receipts and payments for the year ended 30 June 2015 is Kshs.60,000,000 in respect of transfer to Datu Sawazisha Fund established by Taita Taveta County Assembly through legislation for women, youth and persons with disability with initial capital of Kshs.60,000,000 and allocating 10% of the initial capital for administrative costs. Further, the records availed for audit indicated that Kshs.58,742,005 was disbursed to the Fund during the year under review, hence a maximum of Kshs.5,874,201 was to be allocated to administrative costs. However, it was noted that administrative costs totalled Kshs.13,881,872 leading to excess and unauthorized expenditure of Kshs.8,007,671. This means that funds earmarked for loans to the beneficiaries were diverted to administrative

costs, thereby denying needy and deserving loan applicants the opportunity of receiving loans from the Fund. Further, although Section 116(7) of the Public Finance Management Act, 2012 requires the administrator of a public fund to prepare accounts of the fund for each financial year, separate financial statements for the Fund were not availed for audit. As such, how funds totaling Kshs.60,000,000 allocated to the Fund during the year under review were utilized could not be confirmed.

## 24 Emergency Funds

The Taita Taveta County Government allocated Kshs.22,000,000 during the year under review for emergencies. However, approval of the County Assembly and details on usage were not provided for audit review. Further, Section 116(7) of the Public Finance Management Act, 2012 requires the administrator of a public fund to prepare accounts of the fund for each financial year. However, separate financial statements of the Fund were not availed for audit. As such, the propriety of Kshs.22, 000,000 allocated to Emergency funds for the year ended 30 June 2015 could not be confirmed.

## 25 Pending Bills

Included in the appendices to the financial statements are recurrent pending bills of Kshs.121,520,933 and development pending bills of Kshs.123,959,755.38 as at 30 June 2015. However, these pending bills are as a result of non-adherence to the Government Financial Regulations and Procedures Section 5.2.1 which provides that no expenditure for which there is no budgetary provision may be incurred. Further, it is apparent that the management did not confirm availability of funds before signing supply contracts with the third parties. Had the bills been paid, the deficit of Kshs.353,851,255 in the statement of receipts and payments for the year ended 30 June 2015 would have been Kshs.599,331,943.38. The financial statements, therefore, do not present a true a fair view of the financial position of the County Government for the year ended 30 June 2015.

## 26.0. Budgetary Control and Performance

### 26.1. Budget Absorption

During the year under review, Taita Taveta County Government had a total budget of Kshs.4,428,391,264 comprising development budget of Kshs.1,677,336,596 and recurrent budget of Kshs.2,751,054,668. Further, the total budget reflected overall under absorption of Kshs.910,682,096 or 21% as summarized below:

| Item | Approved Budget for 2014/2015 (Kshs.) | Actual Expenditure for 2014/2015 (Kshs.) | Under Absorption (Kshs.) | Under Absorption (%) |
|---|---|---|---|---|
| Development Vote | 1,667,336,596 | 947,813,231 | 719,523,365 | 43 |
| Recurrent Vote | 2,751,054,668 | 2,559,895,937 | 191,158,731 | 7 |
| **Total** | **4,418,391,264** | **3,507,709,168** | **910,682,096** | **21** |

The under absorption of approved budget is an indication of activities and projects in the annual work plan not implemented by the County Government which is likely to have negative effect on goods and service delivery to the residents of the Taita Taveta County. Further, the County Government had a revenue budget of Kshs.483,884,111 for the year under review and managed to collect a total Kshs.253,972,089, resulting in under-collection of Kshs.229,912,022 or 47.5%. Under collection of revenue impacts negatively on expenditure budget leading to non-delivery or delivery of poor quality services and goods to the residents of the County. It is also a pointer to ineffective or inadequate revenue collection controls by management.

### 26.2. Development Budget

During the year under review, Taita Taveta County Government allocated Kshs.1,667,336,596 for development projects and spent Kshs.947,813,231, resulting in under expenditure of Kshs.719,523,365 or 43% of budget. The under expenditure was mainly on the following items with total under expenditure of Kshs.511,415,888 (59%):

| Development Item | Budget | Actual Expenditure as per Financial Statements | Under absorprion | Under |
|---|---|---|---|---|
| | (Kshs.) | Kshs | (Kshs) | (%) |
| Construction of Buildings | 419,610,037 | 279,691,079 | 139,918,958 | 33 |
| Refurbishment of Buildings | 17,370,000 | 17,103,550 | 266,450 | 2 |
| Construction and Civil Works | 307,688,017 | 19,691,105 | 287,996,912 | 94 |
| Construction of Roads | 25,750,000 | 313,821 | 25,436,179 | 99 |
| Overhaul & Rehabilitation of Construction & Civil Works | 92,934,113 | 35,136,724 | 57,797,389 | 62 |
| **Total** | **863,352,167** | **351,936,279** | **511,415,888** | **59** |

From the above table, it is clear that the County Government did not utilize Kshs.511,415,888 (59%) of the funds allocated for construction of buildings, roads, civil works and rehabilitation of civil works, which means the County Government did not implement or complete some projects as planned, and hence the intended objectives may not have been achieved. Further, a total of Kshs.1,495,969,954 was allocated to twenty-eight (28) County departments during the year under review to finance 515 development projects. However, out of the total budget of Kshs.1,495,969,954, data analysis for Kshs.770,805,685(51%) allocated to 420 development projects were availed for audit verification, leaving a balance of Kshs.725,164,269(49%) for 95 projects unanalyzed and unsupported. Further, out of

Kshs.770,805,685 allocated to the projects, a total of Kshs.678,488,647(88%) had been spent as at 30 June 2015.

## 27. Governor's Budget

The Office of the Governor was allocated a total of Kshs.53,419,339 for development during the year under review, out of which Kshs.49,392,639 was for construction of proposed County headquarters office block at Mgeno. Available records however indicate that the project was abandoned after a court ruling against the proposed site with Kshs.3,920,800(8%) already spent on fencing. The balance of Kshs.45,471,840(92%) budgeted for was not spent. Due to the court case, the project implementation has stalled and its budgetary allocation remains largely unutilized.

The County Government of Taita Taveta budgeted Kshs.71,580,600 for the Governor's recurrent expenditure for the year 2014/2015, which was mainly for the following items with a total budget of Kshs.68,394,600(96%):

| Code | Item | Budget (Kshs.) | % of the Budget |
|---|---|---|---|
| 2210300 | Domestic Travel and Subsistence, and Other Transportation Costs | 17,200,000 | 24 |
| 2210400 | Foreign Travel and Subsistence, and other transportation costs | 5,250,000 | 7 |
| 2210500 | Printing , Advertising and Information Supplies and Services | 6,682,600 | 9 |
| 2210800 | Hospitality Supplies and Services | 6,042,000 | 8 |
| 2211300 | Other Operating Expenses | 14,720,000 | 21 |
| 2640200 | Emergency Relief | 4,000,000 | 6 |
| 2640402 | Donations | 4,000,000 | 6 |
| 3110700 | Purchase of Vehicles and Other Transport Equipment | 10,500,000 | 15 |
| | **Total** | **68,394,600** | **96** |

However, the utilization of these funds could not be ascertained as no separate expenditure schedules were availed for audit verification.

## 28. Recurrent Budget

During the year under review, Taita Taveta County Government allocated Kshs.70,358,332 for recurrent expenditure on two accounts while spending a total of Kshs.119,873,978,

resulting in net excess expenditure of Kshs.49,515,646 or 70%. Further, the management allocated Kshs.41,537,672 for recurrent expenditure on three accounts. However, an amount totalling Kshs.20,966,819 was not utilized. The anomalies are as summarised below:

| Component | Amount Budgeted (Kshs.) | Actual Expenditure as per Financial Statements (Kshs.) | Over (Kshs.) | Under (Kshs.) | % |
|---|---|---|---|---|---|
| **Payments** | | | | | |
| Training Expenses | 23,786,731 | 37,101,747 | (13,315,016) | - | 56 |
| Foreign Travel & Subsistence Allowance | 46,571,601 | 82,772,231 | (36,200,630) | - | 78 |
| **Sub-Total** | **70,358,332** | **119,873,978,** | **49,515,646** | - | **70** |
| Contracted Guards and Cleaning Services | 7,020,000 | 0 | - | 7,020,000 | 100 |
| Legal Dues/Fees, Arbitration & Compensation | 4,800,000 | 0 | - | 4,800,000 | 100 |
| Motor Vehicles and Other Transport equipment | 29,717,672 | 20,570,853 | - | 9,146,819 | 31 |
| **Sub-Total** | **41,537,672** | **20,570,853** | **-** | **20,966,819** | **50** |
| **Total** | **118,896,004** | **140,444,831** | **49,515,646** | **20,966,819** | **26** |

The management has not provided satisfactory explanation for excess expenditure and the failure to utilize all approved budgetary provisions. Underutilization of budget results in non-implementation of planned development projects negatively affecting service delivery to the public.

## 29. Revenue Budget

Revenue records availed for audit review indicated that the County Government collected Kshs.217,882,765 against a budget of Kshs.483,884,111, resulting in a shortfall of Kshs.266,001,346(55%) and a performance level of 45% as at 30 June 2015. The management did not provided satisfactory explanation for the huge revenue shortfall. The under collection indicates possible weaknesses in collection and recording of revenue and

enforcement of revenue control systems. This may negatively affect service delivery and planned programs.

### 30. Under-Funded Projects

Records availed for audit review indicated that the following seven projects were allocated a total of Kshs.11,500,000 against estimated costs of Kshs.50,266,129, resulting in unexplained under funding by Kshs.38,766,129(337%) for the year under review:

| | Project Name | Cost (Kshs.) | Allocation (Kshs.) | Balance (Kshs.) |
|---|---|---|---|---|
| 1 | Construction of Kachero Dispensary | 8,178,127 | 1,000,000 | 7,178,127 |
| 2 | Construction of Staff Houses at Rekeke Health Center | 5,948,183 | 1,000,000 | 4,948,183 |
| 3 | Construction of Lumi Dispensary | 8,768,298 | 1,500,000 | 7,268,298 |
| 4 | Construction of Kirumbi Dispensary | 5,515,486 | 1,500,000 | 4,015,486 |
| 5 | Construction of Bamako Dispensary | 5,031,801 | 1,500,000 | 3,531,801 |
| 6 | Construction of Gimba Dispensary | 8,299,858 | 3,000,000 | 5,299,858 |
| 7 | Construction of Mwangea Dispensary | 8,524,376 | 2,000,000 | 6,524,376 |
| | **TOTALS** | **50,266,129** | **11,500,000** | **38,766,129** |

The management has not provided explanation for starting projects for which there are inadequate budgetary provisions. Failure to fund the projects every year to completion means that the purpose for which these projects were intended will not be achieved.

### 31.0 Human Resource Records

### 31.1 Discrepancies Between County Government Records and Integrated Payroll and Personnel Database (IPPD)

Records availed for audit review indicated that the County Government of Taita Taveta had a total of 1,399 employees comprising 1,154 permanent staff and 245 serving on contract as at 30 June 2015. However, the Integrated Payroll and Personnel Database (IPPD) system indicates a total of 1,311, resulting in unexplained nor reconciled variance of 88 employees between the two records.

The discrepancy casts doubts about the reliability and completeness of the human resource records at the County Government offices.

### 31.2 Recruitment of Staff

Human resource records availed for audit verification indicated that during the year under review, the County Government recruited Chief Officer Community Affairs, Trade, Commerce and Tourism despite being ranked fifth in the interview. Although it was explained that the Governor has the prerogative of forwarding the name of any candidate to the County Assembly for vetting before appointment, no regulation or provision of the law conferring such powers were availed for audit review. Consequently, the appointment appears irregular as it has no basis.

### 32. Fixed Assets Register

The County Government of Taita Taveta did not avail for audit review a fixed assets Register contrary to Section 149 (2) of the Public Finance Management Act, 2012 which requires the County to maintain a system of tracking the assets owned by the County. Non-maintenance of the Fixed Assets Register means that the ownership and the requisite tracking details of all the fixed assets in its possession as at 30 June 2015 could not be confirmed.

### 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**

**5 September 2016**