REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COUNTY GOVERNMENT OF TRANS NZOIA

FOR THE YEAR ENDED 30 JUNE 2015

REPUBLIC OF KENYA

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

P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

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

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Trans Nzoia set out on pages 5 to 44, which comprise the statement of assets and liabilities 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 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 7 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 Public Audit Act, 2003 and submit the audit report in compliance with Article 229 (7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County 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 Car and Mortgage Loan Financial Statements

The statement of assets reflects bank balance of Kshs 343,276,434.84 out of which a nil balance relates to the Assembly Car and Loan Mortgage. However, the County Assembly did not submit for audit financial statements for the mortgage and car loan fund for the year ended 30 June 2015 contrary to Section 164 (1) (4) of Public Finance Management Act 2012 which requires the Accounting Officer for a County Government entity to prepare and submit financial statements in respect of the entity to the Auditor-General. Examination of records availed indicated that the County Assembly hired a commercial bank to manage its car and mortgage loan fund. The records further indicated that fund transfers totalling Kshs.219, 500,000 were made to a local bank between 26 March 2014 to 26 March 2015 out of which Kshs.196,500,000 was subsequently disbursed to the members. The loan repayments as at 30 June 2015 was Kshs 72,987,552 yet this has not been incorporated in the County financial statements via the cash and bank balances. Further, bank statements, cash books and bank reconciliation statements were not provided for audit review.

Consequently, the propriety of the loan transfer of Kshs.219,500,000 could not be confirmed.

2.0 Variances between IFMIS Budget Execution Report and the Financial Statements

Review of records availed reflected discrepancies between the budget execution reports extracted from IFMIS and the summary statement of appropriation presented in these financial statements. On development expenditure budget, the budgeted amount as per the financial statement reflects Kshs.1,846,025,918 whereas the figure as per IFMIS extracts is Kshs.1,830,392,252 resulting in unreconciled or explained variance of Kshs.15,633,666. Further, the recurrent expenditure budget as per the financial statement reflects Kshs 2,624,495,679.50

whereas the extract reports from IFMIS has a figure of Kshs.2,934,032,359 resulting in a negative variance of Kshs.309,536,679.50.
In the circumstances, the accuracy and completeness of the financial statement figures could not be confirmed for the year ended 30 June 2015.

3.0 Pending Accounts Payable

Annex 1 to the financial statements revealed that the County Government had accumulated pending bills amounting to Kshs.232,007,056 as at 30 June 2015 contrary to Treasury Circular Ref: AG3/101/ (7S) which require accounting officers to institute stringent financial controls and maintain financial discipline in order to achieve efficient utilization of resources and ensure strict adherence to financial regulation and procedures to curb accumulation of pending bills. In addition, the pending bill schedule provided did not indicate the ageing analysis and therefore could not ascertain how long they had been outstanding. The supporting documents such as invoices, demand notices or suppliers' statements were also not availed for audit verification.

Consequently, propriety of the pending bills figure of Kshs.232,007,056.40 as at 30 June 2015 could not be confirmed.

4.0 Acquisition of Assets

Note 18 to the financial statements reflects acquisition of assets of Kshs.1,470,988,328 which is at variance with balances in the summary of fixed asset register of Kshs 800,996,786 as detailed under Annex 4 of the financial statements resulting to unexplained variance of Kshs.669,991,542. Further, acquisition of assets during the year under review totalling Kshs.14,211,723 were not included in the summary of fixed asset register figure of Kshs.800,996,786.

Consequently, the completeness, existence and accuracy of the acquisition of assets figure of Kshs.1, 470,988,328 as at 30 June 2015 could not be confirmed.

5.0 Handing Over of Assets and Liabilities from Defunct Local Authorities

Annex 4 to the financial statements reflect value of assets amounting to Kshs.800,996,786 as at 30 June 2015. However, details of assets from former local Authorities such as land, buildings, motor vehicles, computers and other equipment were not included in the County's fixed assets register.

Consequently, the existence and accuracy of the assets figure of Kshs.800,996,786 as at 30 June 2015 could not be confirmed.

6.0 Summary Statement of Provisioning

The summary statement of provisioning has not been disclosed in the financial statement in compliance with the requirement of Section 8 (8.1.6) and 11.18(XI) of the County Financial Accounting and Reporting Manual which requires the

disclosure of an exchequer and general accounts on vote to monitor the issues from the exchequer so as to determine any under issue from exchequer or excess refund to exchequer at the end of the accounting period. Consequently, the exchequer under issue of Kshs.400,489,326 for the year ended 30 June 2015 could not be confirmed.

7.0 Elimu Bursary Fund

Included in other grants and transfer figure of Kshs.157,570,360 is an amount of Kshs.68,000, 000 allocated in the approved budget for the year ended 30 June 2015 to Elimu Bursary Fund whereby Kshs 70,500,000 was equitably disbursed among the twenty five (25) wards vide payment voucher(PV) No. 002 for Kshs.43,000,000, PV No.20 Kshs.2,000,000 and PV No.01 for Kshs.25,500,000 thereby exceeding the budget by Kshs.2,500,000.

In addition, the ward bursary committees did not set aside funds to cater for persons with disabilities and students in the Vocational Colleges in contravention of the provisions of Part II Section 9 and Part IV Section 15 (1) of Elimu Bursary Fund Act, 2014 which stipulates that for each disbursement, the Board shall set aside a sum of a least five (5) per cent of the total allocation to cater for the physically challenged and Section 10 of the Act which states that for each disbursement the Board shall set aside a sum of at least thirty (30) percent of the total allocation to cater for students in the Vocational Colleges.

Consequently, the propriety of excess expenditure of Kshs.2,500,000 could not be confirmed.

8.0 Procurement of Ambulances

Included in the acquisition of asset figure of Kshs.1,470,988,328 is an amount of Kshs.116,510,359 for the purchase of vehicles and other transport equipment out of which an amount of Kshs.44,543,743 is in respect of purchase of four (4) motor vehicle ambulances in the financial year ended 30 June 2015. However, a copy of the advert, tender opening and evaluation minutes and tender award minutes were not availed for audit verification.

Further, certificates of inspection and acceptance committee for the motor vehicles were also not availed for verification contrary to Part II Section 17(3) (b), (4) (b) and (4) (d) of the Procurement and Disposal Act, 2005 and 2006 regulations which states that, the inspection and acceptance committee shall inspect and review the goods, works or services in order to ensure compliance with the terms and specifications of the contract, ensure that goods, works or services meet technical standards defined in the contract and issue interim or completion certificates or goods received notes as appropriate and in accordance with the contract.

Consequently, it has not been possible to confirm the validity of the contract and propriety of the amount of Kshs.44,543,743 expended on the purchase of ambulances for the year ended 30 June 2015.

9.0 Procurement of Printing Services

Included in the use of goods and services figure of Kshs.754,654,809 is an amount of Kshs.4,010,000 paid to a Media Company in respect of publishing and printing of County Governor's 20 edition magazine. However, no procurement supporting documents were provided for audit review. Consequently, the propriety of Kshs.4,010,000 paid to the supplier could not be confirmed for the year ended 30 June 2015

10.0 County Electricity Accounts

Included in the use of goods and services figure of Kshs.754,654,809 is an amount of Kshs.1,645,000 paid to Kenya Power and Lighting Company for change of names of various County Electricity accounts vide P.V No. 164. However, no supporting documents such as receipts, account numbers and breakdown of the amount paid were provided to confirm the propriety of the expense contrary to Section 5.5.14(d) of the Government Financial Regulations and Procedures that require the payment voucher to be complete in all aspects and all payment procedures have been complied with.

In the absence of the supporting documents, the propriety of the expenditure of Kshs.1,645,000 could not be confirmed for the year ended 30 June 2015.

11.0 Installation of Street Lights in Kitale

Included in the use of goods and services figure of Kshs.754,654,809 is part payment of Kshs.8,000,000 to Kenya Power and Lighting Company for being awarded a contract to carry out street lighting in Kitale town at a contract price of Kshs.30,643,460. Although the tender committee highlighted that the procurement method used was direct procurement, there was no contract agreement between the County Government and the contractor. It was therefore not possible to obtain details on how the project was to be implemented and maintained.

The propriety of the expenditure of Kshs.8,000,000 for the year ended 30 June 2015 could therefore not be confirmed in the absence of the contract agreement.

12.0 Construction of Culverts

Included in the acquisition of asset figure of Kshs.1,470,988,328 is an amount of Kshs.37,058,896 spent on road construction out of which Kshs.2,518,833 was spent on the construction of culverts. However, it could not be established how the contractors were identified given that the procurement documents such as quotation register, quotation opening and evaluation minutes and quotation award minutes were not availed for audit verification. Further, completion certificates and inspection and acceptance committee reports were also not availed for audit review.

Consequently, the propriety of the amount of Kshs.2,518,833 spent on the construction of culverts could not be confirmed for the year ended 30 June 2015.

13.0 Compensation to the Estate of a Deceased Person Due to Negligence of a Medical Staff

Included in the use of goods and services figure of Kshs.754,654,809 is a payment of court award of Kshs.3,000,000 to the estate of a deceased person and lawyers' fees of Kshs.129,600. A review of County Government records revealed that the Chief Magistrate's Court in Kitale awarded compensation of Kshs.3,000,000 to the estate of a deceased patient (Civil Case No.175 of 2014) due to negligence of the medical staff leading to the death of a patient (Letter Ref. DIM/KDH/50/14 dated 2 December, 2014 and enquiry report of Medical and Dentists Practitioners Board dated 4 March, 2014). It was however noted that, the management of the County did not take any disciplinary action against the negligent medical staff and the same be recovered from the officer.

Consequently, the amount of Kshs.3,129,600 paid by the County Government could not be confirmed to be proper charge of public funds.

14.0 Stalled Water Projects

14.1 Stalled Chepkoiyo Water Project

Included in the acquisition of asset figure of Kshs.1,470,988,328 is part payment of Kshs.2,144,245 paid to a contractor for the construction of a masonry tank ($50m^3$), two water kiosks and laying of water pipes at a cost of Kshs.3,493,925 in July, 2014. It was not possible to establish how the contractor was identified given that the procurement documents such as quotation register, quotation opening and evaluation minutes and quotation award minutes were not availed for audit verification. During the audit inspection of the project in October, 2015, water pipes were laid for about ¾ of the agreed distance and the project had stalled. In addition, the contract agreement, sale or lease agreement for the land on which the tank and Kiosks were built are not availed for audit verification.

14.2 Stalled Amagoro Water Project

Included in the acquisition of asset figure of Kshs.1,470,988,328 is part payment of Kshs.3,360,775 paid to a contractor for the construction of a masonry tank ($50m^3$), two water kiosks, valve chamber and laying of water pipes at a cost of Kshs.4,828,700 in November, 2014. It could not be established how the contractor was identified given that the procurement documents such as quotation register, quotation opening and evaluation minutes and quotation award minutes were not availed for audit verification. During the audit inspection of the project in October, 2015, it was noted that, the valve chamber was not built, laying of water pipes was about 70% complete, one kiosk stalled at the lintel while the other one was not

built. Further, the contract agreement, sale or lease agreement for the land on which the tank and Kiosks are built were not availed for audit verification.

14.3 Stalled Machewa Water Project

Included in the acquisition of asset figure of Kshs.1,470,988,328 is part payment of Kshs.4,243,425 paid to a contractor for the construction of a masonry tank ($50m^3$), water intake and two water kiosks at a cost of Kshs 4,877,500 in December 2014. It could not be established how the contractor was identified given that the procurement documents such as quotation register, quotation opening and evaluation minutes, and quotation award minutes were not availed for audit verification. During an audit inspection of the project carried out in October 2015, it was noted that, the water intake and the tank were complete, pipes were haphazardly and shallowly laid and several pipes were trampled upon by cattle and broken, some pipes were vandalized and water was not flowing. The two water kiosks were built but finishing and plumbing works had not been done. In addition, the contract agreement, sale or lease agreement for the land on which the tank and kiosks are built were not availed for audit verification. Further, the project had stalled.

14.4 Stalled Matisi Water Project

Included in the acquisition of asset figure of Kshs.1,470,988,328 was part payment of Kshs.1,492,424 paid to a contractor for the construction of a masonry tank ($50m^3$), one water kiosks and lay water pipes at a cost of Kshs.2,859,050 in November, 2014. It could not be established how the contractor was identified given that the procurement documents such as quotation register, quotation opening and evaluation minutes and quotation award minutes were not availed for audit verification. During an audit inspection of the project carried in October 2015, it was observed that, the water tank was not built, laying of water pipes was about 70% complete and the water kiosk was not complete and no plumbing work had been done. In addition, the contract agreement, sale or lease agreement for the land on which the tank and kiosk are built were not availed for verification.

14.5 Stalled Kabolet Tee Water Project

Included in the acquisition of asset figure of Kshs.1,470,988,328 was payment of Kshs.4,888,725 paid to a contractor for the construction of a masonry tank ($50m^3$) and a water pipeline at a cost of Kshs.4,888,725 in November 2014. It could not be established how the contractor was identified given that the procurement documents such as quotation register, quotation opening and evaluation minutes and quotation award minutes were not availed for audit verification. During an audit inspection of the project carried out in October 2015, it was observed that, masonry tank and the pipeline were completed a year ago but the project had not been commissioned. Management did not indicate any reason why the projected had not been commissioned. In addition, the contract agreement, sale or lease

agreement for the land on which the tank and kiosk are built are not availed for audit verification.

Consequently, it has not been possible to ascertain the propriety of expenditure totalling Kshs.16,129,594 expended on the stalled projects for the year ended 30 June 2015.

15.0 Compensation of Employees

The compensation of employees cost as per the statement of receipts and payments is Kshs.1,600,093,591 which is 36.70% of the total revenue of Kshs.4,359,609,198 thereby exceeding the recommended percentage of 35% stipulated in Section 25(1b) of the Public Finance Management (County Governments) Regulations, 2015. The management is therefore in breach of the law.

16.0 Outstanding Imprest

The statement of assets and the records examined revealed that the County Government outstanding imprest for the year ended 30 June 2015 is Kshs.76,077,228. The management also granted imprest to officers who had not surrendered previous imprests issued totaling Kshs.42,969,876 contrary to Chapter 5.6.6 of the Government Financial Regulations and Procedures which require that no second imprest should be issued to any officer before the first imprest is surrendered or recovered in full from his/her salary. Consequently, the management is in breach of the law and the propriety of the imprest amounting to Kshs.42,969,876 as at 30 June 2015 could not be ascertained.

17.0 Governor's Office

Records made available reveal that out of a total approved estimate of Kshs.2,270,827,111, the Governor's office budgeted figure amounted to Kshs.191,982,053 against an actual expenditure of Kshs.193,796,214 leading to an excess expenditure of Kshs.1,814,161. The excess expenditure is contrary to Section 15.12 of Government Financial Regulation and Procedures which require expenditures on voted services to be limited and no expenditure for which no provision has been included therein may be incurred and that accounting officers must ensure that requirements of services are planned in such a scale that the existing provision for expenditure shall not be exceeded. Consequently, the properity of the excess expenditure of Kshs.1,814,161 on Governor's office could not be ascertained for the year ended 30 June 2015.

18.0 Budget Performance Analysis

18.1 Budget Allocations

Records examined indicated that the approved final and supplementary budget for County Government was Kshs.5,272,494,566 consisting of Kshs.3,001,667,455

allocated to the recurrent expenditure and Kshs.2,270,827,111 to development expenditure as follows:-

Item	Actual 2014/2015	Budgeted Allocation 2014/2015	Absorption rate %	% of Total Expenditure
Development Expenditure for 2015	1,846,025,918	2,270,827,111	81.29%	41.29%
Recurrent Expenditure for 2015	2,624,495,679.50	3,001,667,455	87.43%	58.71%
Total	**4,470,521,598**	**5,272,494,566**		

Examination of the budget performance reveals that the County spent Kshs.1,846,025,918 on development expenditure which is 41.29% of total expenditure. This is in line with Section 107 (2) b of PFM Act, 2012 which requires that over the medium term, a minimum of thirty (30) percent of the County Government's budget shall be allocated to development expenditure.

18.2 Under/Over Expenditure Analysis

The specific analysis of the County Government expenditure is as shown below:

Item	Budget 2014-2015	Actuals 2014-2015	Over Expenditure	Under Expenditure
Compensation of employees	1,748,455,545	1,600,093,591	-	148,361,954
Use of goods and services	792,167,924	754,654,809	-	37,513,115
Other grants and transfers	174,000,000	157,570,360	-	16,429,640
Social security benefits	68,506,159	57,122,258	-	11,383,901
Acquisition of assets	1,670,518,901	1,470,988,328	-	199,530,573
Finance costs, including loan interest	5,000,000	8,541,017	3,541,017	-
Other payments	813,846,037	421,551,234.50	-	392,294,802.50
Total	**5,272,494,566**	**4,470,521,598**	**3,541,017**	**805,513,985.50**

The analysis reflect that the County Government under spent on most expenditure heads by Kshs.805,513,985 as shown above. Consequently, the under absorption of funds may impact negatively on service delivery to the citizens of Trans Nzoia County.

18.3 Development Expenditure

A total of Kshs.2,270,827,111 was allocated to eleven (11) departments during the year to finance various projects in the financial year ended 30 June 2015.

However, the implementation of these projects were behind schedule and by 30 June 2015, only Kshs 1,830,392,252 had been spent on the projects which represent only 81% of the funds allocated as shown below:-

	Title and details	Approved Estimates	Total Payments	Variance	% Variance
1	Trans Nzoia - Agriculture, Livestock, Fisheries and Cooperative Development	142,411,514.00	97,608,079.00	44,803,435.00	31.50
2	Trans Nzoia - Economic Planning, Commerce and Industry	148,006,830.00	80,495,500.00	67,511,330.00	45.60
3	Trans Nzoia - Environment, Water and Natural Resources	295,957,928	281,018,174.00	14,939,754.00	5.05
4	Trans Nzoia - Public Works, Transport and Infrastructure	447,004,163.00	284,484,816.00	162,519,347.00	36.40
5	Trans Nzoia - Health	398,500,000.00	343,801,569.00	54,698,431.00	13.70
6	Trans Nzoia - Lands, Housing and Physical Planning	138,654,176.00	104,880,600.00	33,773,576.00	24.40
7	Trans Nzoia - Gender, Youth, Sports, Culture and Tourism	139,470,447.00	124,271,756.00	15,198,691.00	10.90
8	Trans Nzoia - Governance and Public Service Management	191,982,053.00	193,796,214.00	- 1,814,161.00	-0.90
9	Trans Nzoia - Education, ECDE and Vocational Training	228,440,000.00	228,777,191.00	- 337,191.00	-0.10
10	Trans Nzoia – Finance	34,000,000.00	19,258,352.00	4,741,648.00	43.40
11	Trans Nzoia - County Assembly	106,400,000.00	72,000,000	34,400,000.00	32.30
	Total	**2,270,827,111.00**	**1,830,392,251.00**	**440,434,860.00**	**19.4**

The delay is likely to affect the implementation of the 2015/2016 projects and its not clear how the funds for development amounting to Kshs.440,434,860 were utilized. These projects were not implemented in the budget period but were posted to the IFMIS vote book as outstanding commitments. Delay in implementation of projects will impact negatively on provision of adequate facilities to improve the standards of living for citizens of Trans Nzoia County.

18.4 Revenue Analysis

The County Government realized a shortfall in revenue collection against the budget by Kshs.83,732,895 on revenue streams from other receipts. The County Government received exchequer releases by a shortfall of Kshs.400,489,328 against the budget as shown below:-

Item	Budget 2014-2015	Actuals 2014-2015	Over	Under
Proceeds from Domestic and Foreign Grants	8,950,000	8,950,000	-	-
Exchequer releases	4,980,147,483	4,579,658,155	-	400,489,328
Other receipts	385,000,000	301,267,105		83,732,895
Total Receipts	**5,374,097,483**	**4,889,875,260**	-	**484,222,223**

In the circumstances, the delayed exchequer releases may deny the citizens of Trans Nzoia County essential goods and services.

18.5 Failure to Achieve Revenue Collection Target

During the financial year 2014/2015, the County Government had budgeted to collect a total revenue of Kshs.385,000,000 from the local sources. However, a total of Kshs.301,267,105 was collected thereby resulting to a defict of Kshs.83,732,895 as shown below:-

Revenue Source	Collection	Budget	Variance	%(Under) /over collection
Other Receipts				
Rents	17,651,526	143,656,716	126,005,190	(88)
Other property income	5,292,250	2,298,507	2,993,743	130
Receipts from administrative fees and charges	12,393,298	5,746,269	6,647,029	116
Receipts from administrative fees and charges-Collected as AIA	978,588	0	978,588	0
Business permits	55,503,180	32,753,731	22,749,449	69
Cesses	33,939,562	25,858,209	8,081,353	31
Poll rates	16,821,107	45,970,149	(29,149,042)	(63)
Plot rents	7,706,542	5,746,269	1,960,273	34
Market/Trade centre fee	21,549,500	40,223,881	(18,674,381)	(46)
Vehicle parking fees	25,599,766	35,052,239	(9,452,473)	(27)
Social premises use charges	70,300	1,149,254	(1,078,954)	(94)
Environment and conservancy	1,845,210	2,298,507	(453,297)	(20)
Administration	2,449,015	1,723,881	725,134	42
Slaughter houses administration	1,394,676	1,149,254	245,422	21
Other health and sanitation	98,072,585	41,373,134	56,699,451	137
Total	**301,267,105**	**385,000,000**	**(83,732,895)**	

The County Government did not achieve its revenue targets and this may impact negatively on service delivery to the citizens of Trans Nzoia County.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

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

Nairobi

15 September 2016