

# AUDIT REPORT OF THE AUDITOR-GENERAL ON ISIOLO COUNTY EXECUTIVE FOR THE YEAR ENDED 30 JUNE 2017

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## REPORT ON THE FINANCIAL STATEMENTS

### Adverse Opinion

I have audited the accompanying financial statements of Isiolo County Executive set out on pages 1 to 43, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows, summary statement of appropriation for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. 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.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Isiolo County Executive as at 30 June 2017, 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 County Government Act, 2012 and the Public Finance Management Act, 2012.

In addition, and as required by Article 229 (6) of the Constitution, based on the procedures performed, I confirm that public money has not been applied lawfully and in an effective way.

### Basis for Adverse Opinion

#### 1.0 Unsupported Recurrent Expenditure

The total approved recurrent expenditure for the year was Kshs.1,939,041,806 while the total actual recurrent expenditure amounted to Kshs.1,811,839,500 resulting to an under-expenditure of Kshs127,202,306 and an absorption rate of (93%) as analyzed here under;

Head	Approved Budget (Kshs)	Actual Expenditure (Kshs)	Variation (Kshs)	Absorption rate (%)
Office of the Governor	288,260,647	272,005,810	16,254,837	94%
Agriculture	137,441,315	129,546,556	7,894,759	94%
Cohesion Intergovernmental	15,500,000	15,347,521	152,479	99%
Education & Vocational Training	159,305,913	151,114,095	8,191,818	95%
Finance Planning &				94%

Vision 2030	335,017,304	314,285,810	20,731,494	
Health Services	691,963,000	669,775,787	22,187,213	97%
Land & Urban Planning	56,746,000	51,446,572	5,299,428	91%
Public Service Management & ICT	76,385,000	39,986,291	36,398,709	52%
Tourism Culture & Social Services	52,310,000	51,421,204	888,796	98%
Town Administration	9,711,600	7,851,185	1,860,415	81%
Trade Industrial Co-op	24,613,483	21,112,944	3,500,539	86%
Water & Irrigation	91,787,544	87,945,725	3,841,819	96%
<b>Total</b>	<b>1,939,041,806</b>	<b>1,811,839,500</b>	<b>127,202,306</b>	<b>93%</b>

Further, the summary statement of appropriation–recurrent, reflected an expenditure of Kshs.1,818,034,716 whereas the financial statements, supporting schedules and other supporting documents reflected actual recurrent expenditure of Kshs1,811,839,500 thus resulting to an unexplained and unreconciled variance of Kshs.6,195,216. As result, the County Executive incurred unsupported expenditure of Kshs.6,195,216.

#### **b) Development Expenditure**

The total approved development expenditure for the year under review amounted to Kshs.1,221,730,510 while the total expenditure amounted to Kshs.1,152,679,568 leading to an under-expenditure of Kshs.69,050,942 as analyzed here under;

<b>Head</b>	<b>Approved Budget (Kshs)</b>	<b>Actual Expenditure (Kshs)</b>	<b>Variation (Kshs)</b>	<b>Absorption rate (%)</b>
Office of the Governor	161,415,148	158,741,000	2,674,148	98%
Agriculture	124,000,000	118,159,059	5,840,941	95%
Education & Vocational Training	110,848,903	104,432,448	6,416,455	94%
Finance Planning & Vision 2030	137,856,277	131,196,113	6,660,164	95%
Health Services	140,883,724	108,642,849	32,240,875	77%
Land & Urban Planning	232,556,458	247,026,631	14,470,173	106%
Public Service Management & ICT	40,000,000	37,376,517	2,623,483	93%
Tourism Culture & Social Services	44,000,000	26,852,991	17,147,009	61%
Trade Industrial Co-op	16,970,000	17,464,000	-494,000	103%

Town Administration	12,000,000	11,999,454	546	100%
Water & Irrigation	201,200,000	190,788,506	10,411,494	95%
<b>Total</b>	<b>1,221,730,510</b>	<b>1,152,679,568</b>	<b>69,050,942</b>	<b>94%</b>

Further, the summary statement of appropriation-development, reflected actual development expenditure of Kshs.1,119,383,882 whereas the supporting schedules and documents reflected actual development expenditure of Kshs.1,152,679,568 resulting into an unexplained and unreconciled variance of Kshs.33,295,686.

In the circumstances, the County Executive did not adhere to the approved budget and consequently, the residents of Isiolo County did not enjoy promised and expected services equivalent in value to the under-expenditure of Kshs.69,050,942 incurred under development vote and the unexplained amount of Kshs.33,295,686.

## 2.0 Cash and Cash Equivalents Balances

2.1 The Statement of financial assets and liabilities as at 30 June 2017 reflected cash and cash equivalents balance of Kshs.19,694,894 held in the Executive's nine bank accounts as follows;

Bank	Account No.	Amount (Kshs)	Purpose
County Revenue Fund-CBK	1000171715	1,590,193	Exchequer
County Recurrent -CBK	1000171405	167,616	Operations
County Development -CBK	1000171367	349,775	Development
County Health Services-CBK	1000270721	2,710,857	Donor funds
County Fuel Levy-CBK	1000293427	794,494	Fuel levy projects
Revenue -Consolidated Bank	10111203000081	647,404	Revenue
Revenue US\$ -Consolidated bank	10112200000004	7,482,899	Revenue – US\$
Imprest Account-KCB	1140761072	1,616	Imprest
Bursary Fund Account -KCB	1182179509	5,950,040	Bursary Fund
		<b>19,694,894</b>	

2.2 Further , the County operated twenty-six other bank accounts apart from the disclosed bank accounts for the twenty six health facilities. However, bank account balances totaling Kshs.5,403,030 as at 30 June 2017 were not included in the financial statements.

2.3. The Executive operated a dollar account at the Consolidated Bank contrary to the provisions of the Section 76 (2) of the Public Finance Management (County

Government) Regulations 2015, which require all foreign currency designated bank accounts to be held at the Central Bank of Kenya

**2.4** During the financial year under review, the County Executive received grants totaling to Kshs..26,232,373 from World bank and Danida out of which Kshs.16,377,597 were disbursed to the health facilities resulting in undisbursed balance of Kshs.9,854,776. However, a review of County Health Services bank account revealed that Kshs.2,710,857 was being held at the bank instead of Kshs.9,854,776 resulting in unexplained and unreconciled difference of Kshs.7,143,919.

**2.5** Further, no expenditure returns showing how grants totaling Kshs.16,377,597 disbursed to the health facilities were spent were provided for audit review. Also, bank statement for County Health Management Committee Team (CHMCT) and Oldonyiro Dispensary were not provided for audit review.

**2.6** An analysis of revenue report generated by revenue collection system 'ORIEMS' revealed that Kshs.4,360,087 was collected as market fees. However, review of the banking details showed that only Kshs.892,520 was banked resulting to an unexplained and unreconciled under banking of Kshs.3,463,567 as at 30 June 2017.

In view of the foregoing circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.19,694,894 as at 30 June 2017 could not be confirmed.

### **3.0 Un-surrendered and Unaccounted for Imprests**

**3.1** The statement of financial assets and liabilities reflects accounts receivable of Kshs.24,563,500 as at 30 June 2017. However, review of the ledger for Research, studies and Project Preparation design and supervision reflected payments totaling to Kshs.21,938,500 paid out to individuals as imprest. Further, no documents were made available to show whether the imprest had been surrendered or recorded as at 30 June 2017. In addition, despite IFMIS being used to process transaction, imprest issuing and processing was not being done through IFMIS. In addition, officers were issued with additional imprest before surrendering previous ones.

**3.2** , Included in the imprest surrender documents was a payment voucher of Kshs.2,625,000 being imprest issued to an officer to pay 250 people who attended the budget public participation. However, the respective advertisement, minutes and reports were not made available for audit review and the signatures of different participants also appeared similar.

**3.3** Further, included in the imprest surrender documents was a payment voucher of Kshs.5,295,000 being imprest paid to an officer to pay participants who attended entrepreneurship conference and entrepreneur's training conference and also pay for facilitation. The participants were paid Kshs.5,012,000 and Kshs.283,000 was used as facilitation being hire of tents, chairs, public address system and mineral water. However, invitation letters and back to office reports, quotations, evaluation

committee minutes, local service order and delivery notes were not provided for audit review. In addition, the signatures of different participants appeared similar

In the circumstances, the propriety of the Kshs.24,563,500 imprest could not be confirmed as at 30 June 2017

#### **4.0 Outstanding Accounts Receivables**

Annexure III to the financial statements show account receivable (debtors) balance of Kshs.72,440,139 which included Kshs.12,884,285 due to the County Executive from two clients. A review of the documents provided showed that the defunct County Council of Isiolo signed a lease agreement with Joy's Camp and Ashnil Samburu Camp for Thirty-Three (33) years from the year 2005 to 2038. However, the amount of Kshs.12,884,285 due to the County Executive by the two clients had not been collected. No explanation was provided why the Executive had not collected the money.

In the circumstances, it was not possible to ascertain the accuracy, completeness and recoverability of the Kshs.72,440,139 owed to the County Executive by the two long term debtors.

#### **5.0 Pending Bills**

Annexure IV to the financial statements reflect pending bills totaling Kshs.983,333,725 as at 30 June 2017 made up of Kshs.108,047,308 from the defunct local authorities and Kshs.875,286,417 from the County Executive. However, included in the pending bills was Kshs.201,669,500 in respect to supply of relief food to different recipients whose signatures and fingerprints appeared similar. Further, the pending bills also included Kshs.11,092,000 in respect to construction of drainage system, desilting of a dry river bed, opening of a drainage and gabion installation on various locations. However, physical audit verification revealed that no work was done. Further, the County Executive did not maintain creditor's records including creditor's ledger, registers and schedules to support the pending bills.

In the circumstances, it has not been possible to confirm the existence, completeness, validity and accuracy of the pending bills balance of Kshs.983,333,725 as at 30 June 2017.

#### **6.0 Non-Current Assets**

**6.1** As similarly reported in the previous year, the Isiolo County Executive had not taken over assets and liabilities amounting to Kshs.14,155,106,914 and Kshs.158,259,036 from the defunct Councils in Isiolo County as at 30 June 2017. However, annexure IV to the financial statement reflects non-current assets of

Kshs.17,605,700,827 as at 30 June 2017. Further, the County Executive did not maintain an updated fixed assets register. In addition, the County Executive is yet to implement policies and procedures on assets management as required by the County Government Financial regulations 2015 and, that the assets are not coded or tagged for ease of identification.

**6.2** Also, ownership documents for land with a stated historical value of Kshs.13,904,747,490 as at 30 June 2017 but whose acreage was undisclosed were not made available for audit review.

**6.3** Further, assets acquired during the year costing Kshs.2,243,840 were expensed instead of being capitalized and included in the assets register.

**6.4** Two vehicles that were said to have been taken for repairs were not found in the garage while eight vehicles that were in the garages were found to be in poor state since body parts such as engine, tyres, gear box, head lamps, clutch, dashboard and mudguard were missing from the vehicles. No explanation was given for this anomaly.

In the circumstance, the valuation, ownership, existence, completeness, location and security of the non-current assets balance of Kshs.17,605,700,827 as at 30 June 2017 could not be confirmed.

## **7.0 Human Resources Management**

### **7.1 Compensation of Employees**

During the year under review, the County Executive spent Kshs.1,240,928,126 in respect to compensation of employees. Included in this figure was an amount of Kshs.137,577,274 paid to officers without being processed through the Integrated Payroll and Personnel Database (IPPD). However, it was not possible to ascertain whether the officers were drawing salaries from other government institutions. No explanation was provided why the officers could not be paid through the IPPD.

In the circumstances it was not possible to ascertain the propriety of the compensation of employees balance of Kshs.137,577,274 as at 30 June 2017.

### **7.2 Casuals**

During the year under review, Kshs.70,046,655 was paid to casual workers. However, records on how they were engaged and the terms of service of their engagement by the County Executive were not made available for audit review. The nature and evidence of work done was not provided for scrutiny. Consequently, the propriety of the casual labour expenditure of Kshs.70,046,655 as at 30 June 2017 could not be confirmed.

### **7.3 Irregular Payment after Termination of Contracts**

### **7.3.1 Kenya Police Reservists Irregular Payment**

The Executive employed 28 Kenya Police Reservists (KPR) on contract from 1 July 2016 to 31 December, 2016. However, the Executive continued paying the Kenya Police Reserves even after the expiry of the contract period without renewing the contract and as at 30 June 2017, a total of Kshs.5,742,000 had been paid to the KPR irregularly.

### **7.3.2 Irregular Payment to 119 Nutrition and Community Health Workers**

Further, the County Executive engaged Nutrition and Community Health Workers on contract from 1 January 2015 to 30 June 2016. Documents provided showed the contract ended as per the stipulated guideline and notice of termination of the contract issued. However, the Executive, paid Kshs.19,550,000 to 119 Nutrition and Community Health Workers as salary arrears for five months from July to November 2016. Documents showing reasons for payment of the salary arrears and approval from the County Public Service Board were not made available for audit review. No explanation was given as to why the Executive paid workers whose terms of service had already lapsed and were not rendering services to the County Executive. In consequence, the County Executive incurred an irregular expenditure Kshs.25,292,000.

### **7.4 Doubtful Job Cadre**

The County Public Service Board promoted several officers with effect from 1 January 2016 to different job cadres. Review of personal files showed that two officers, Sally Gacheri Ndubi and Faith Gacheri Baariu were promoted from Job group J to Job group K. However, analysis of the payroll revealed that the two officers were placed in Job group L. Also Roba Buke Fugicha was employed on a four-year contract as a Driver JG. "F". However, the payroll indicated that the officer was placed in Jg. "G" and has been earning higher salary and other fringe benefits over and above his entitlement

Documents and authority showing how the officers were placed at higher job groups were not provided for audit review.

### **7.5 Irregular Payment of Salary to a Former Staff**

A review of the documents provided showed that Mr. Wario Galgalo Arballe was employed as Nursing Officer III job group "H" vide letter Ref: ICPSB/APPT/Vol.1/170 dated 1 April 2015 at a gross monthly salary of Kshs.57,523. As per the letter Ref: ICPSB/2260398 dated 31 July 2015, the officer deserted duty and later admitted that he was an employee of another County (Marsabit County Government) vide his letter dated 4 August 2017. A review of the manual payroll showed that the officer continued to earn salary from the County Executive even though he was purported to have resigned from the County Executive as per his letter dated 14 August 2015. As at 30 June 2017, Kshs.1,553,121 had been irregularly paid to the officer as salary. No explanation

was provided as to why the Executive continued paying salaries to an officer who did not offer any services.

In consequence, the Executive incurred ghost payment of salary of Kshs.1,553,121 as at 30 June 2017.

## **7.6 Discrepancies in Total Monthly Payment of Salaries**

Analysis of monthly salaries and allowances processed through Integrated Payroll and Personnel Database (IPPD) during the financial year under review showed that the payments fluctuated between Kshs.161,463,941 as at 1 July 2016 and Kshs.75,699,672 as at 30 June 2017. No explanation was provided for the abnormal huge increases and decreases in the monthly payroll payments. No new recruitments and or separations were disclosed for audit review.

In the circumstances, it was not possible to ascertain the accuracy, completeness and validity of the compensation of employees expenditure of Kshs.1,240,928,126 as at 30 June 2017 and whether the County Executive got value for money in the payments.

## **7.7 Payment of Salaries to a Dismissed Officer**

Review of documents provided for audit showed that Mr. Isaya Kobia- P/No. 19920008957 was appointed by the County Secretary as interim head of supply chain management on 5 February 2015 vide letter Ref: ISL/CG/GEN/Vol.II/1/135. On 17 October 2016, the County Public Service Board vide letter Ref: ICPSB/HR/DISC/Vol.1/22 requested Kenya National Examination Council (KNEC) and Kenya Institute of Supplies Management (KISM) to confirm the authenticity of the officer's 1984 KCSE examination results, certificate and transcripts. KNEC and KISM confirmed that the certificates were not genuine vide letters Ref: KNEC/CONF/R&QA/ARCH/22/16/519 of 25 October 2016 and KIM/CERTVERTIF/16 of 18 October 2016 respectively. Further, KISM advertised the withdrawal of the officer's credentials in the Sunday Nation newspaper of 12 February 2017 and again in the Daily Nation newspaper of 30 June 2017.

The officer was summoned to the Board's disciplinary committee on 25 October 2016 vide letter ICSPB/HR/DISC/Vol.1/23 and summarily dismissed from the public service with effect from 23 December 2016 vide letter Ref: 19920008957/09. However, despite the summary dismissal, the officer continued to be in office and had been paid gross salary of Kshs.745,724 as at 30 June 2017 .

No reason has been given for failure to prevent and or recover the irregular payment of Kshs.745,724 as at 30 June 2017.

## **7.8 Suspension of Officers**

Review of documents provided for audit showed that Mr. Giro Liban P/No.-1988075233, Mr. David Kathuraku - P/No 20020003801 and Hussein Boru Guyo



P/No.- 2014/01/016 were issued with letters referenced ICPSB/HR/PAYROLL/Vol 1/21 by Isiolo County Public Service Board seeking explanation on illegal and un-procedural payment to Community health assistants and nutrition officers whose contract had expired on 30 June 2016, authorizing payments of unauthorized salary arrears for staff selectively and payment of salaries to casual workers. However, the Boards' letters were not responded to by the officers.

The officers were suspended on 20 February 2017 with a condition that they would not receive salary but would be paid other allowances subject to clearance and handing over of County property under their custody and should stay away from office unless required to do so. However, despite the suspension, the officers continued to be in office and were paid gross salary totaling Kshs.2,040,112 as at 30 June 2017 as follows;

<b>Month</b>	<b>Mr. Giro Liban (Amt in Kshs.)</b>	<b>Mr. David Kathuraku (Amt in Kshs.)</b>	<b>Hussein Boru Guyo (Amt in Kshs.)</b>	<b>Total (Kshs.)</b>
Apr-17	355,111	173,361	130,945	659,417
May-17	343,508	258,169	130,945	732,622
Jun-17	343,508	173,620	130,945	648,073
<b>Total</b>	<b>1,042,127</b>	<b>605,150</b>	<b>392,835</b>	<b>2,040,112</b>

In view of the foregoing, the expenditure of Kshs.2,040,112 as at 30 June 2017 was irregular and voidable. No effort has been put in place to recover the amount.

## **8.0 Doubtful Expenditure**

### **8.1 Provision of Consultancy Services**

**8.1.1** The County Executive paid Kshs.42,532,440 to several consultants for different consultancy services. However, the Executive did not place any advertisements in either the Government tender portal, County's website or at least one (1) daily Newspaper inviting interested persons to submit expression of interest as required by Section 119 (4) of the Public Procurement and Asset Disposal Act, 2015. Further, expression of interest, minutes of evaluation, notification of results of the Expression of Interest to all the bidders and submission of proposal to the winning bidders were not provided for audit review. In addition, a review of the notification of award and the date when the contract was signed revealed that they were signed before fourteen days elapsed contrary to the requirements of Section 119 (3) of the Public Procurement and Assets Disposal Act, 2015.

**8.1.2** Further, included in the payment of Kshs.42,532,440 was Kshs.2,200,000 paid to Friends of the Nomad Limited for consultancy services on Isiolo County situational analysis . However, a review of the consultancy firm's contract

documents revealed that the contract was signed on 16 December 2016 at a contract sum of Kshs.4,524,000 but the evaluation minutes dated 8 December 2016 showed that the firm was evaluated at Kshs.1,960,400 resulting in unexplained variance of Kshs.2,563,600.

Further, approval of the draft and the final report, and adoption of the report by the Executive were not provided for audit review.

**8.1.3** Again, included in the amount of Kshs.42,532,440 expenditure was Kshs.4,943,954 paid for cadastral survey of several parcels of public land in Isiolo town whose report was not provided for audit review.

In the circumstances, it was not possible to ascertain the propriety and value for money for the consultancy services expenditure of Kshs.42,532,440 as at 30 June 2017.

## **8.2 Foreign Travel and Subsistence**

During the year under review, the County Executive paid Kshs.5,645,800 for a trip by the governor, four chief officers, driver, two security officers, ten rangers and thirteen council of elders to Ethiopia on peace and reconciliation mission of Borana by council of elders to enhance cross border peace, conflict resolution and harmony among pastoralist communities.

Further, Kshs.1,796,668 was paid for workshop on stakeholder's forum on urban development and planning and environmentally degraded lands held at Yaballo Ethiopia and benchmarking workshop on livestock management workshop and excursion in Gaborone, Botswana.

However, invitation letter, evidence of travel, minutes of the meetings and the resolutions, back to office report, stamped copies of passports, programme of activities indicating venue and date of the meeting were not provided for audit review. Further, the delegation to Ethiopia comprised of thirty-one delegates contrary to office of the president circular Ref No OP/CAB.1/7A of 26 January, 2015 which requires Government entities to take not more than seven (7) delegates to a foreign country.

In the circumstances, the propriety, validity and value for money for the two foreign travel to Ethiopia and Botswana totaling to Kshs.7,442,468 as at 30 June 2017 could not be ascertained.

## **8.3 Un-vouched Expenditure**

Included in the County's total expenditure of Kshs.3,536,287,647 were payments totaling to Kshs.32,178,672 in respect of works, goods and services. However, payment vouchers containing full details, clear narrations and particulars of the items to which they related and the supporting documents and appropriate authority was not provided for audit review contrary to Sections 99 (3), 104(1) and

117(3) of the Public Finance Management (County Governments) Regulations, 2015.

As a result, the authenticity, accuracy, completeness and value for money of the expenditure could not be ascertained as at 30 June 2017.

#### **8.4 Rentals of Produced Assets**

During the financial year ended 30 June 2017, the Executive spent Kshs.26,989,000 towards rentals of produced assets which included Kshs.8,325,000 spent on hire of transport through request for quotations instead of open tender. Further, the supporting documents including contracts, logbooks, insurance certificates, driving licenses and temporary work tickets were not made available for audit review. In addition, a Motor vehicles report as at 31 October,2017 indicated that the Executive had one hundred and one (101) motor vehicles out of which twenty-six (26) were in good condition which could have been used.

No explanation was provided why the Executive hired vehicles yet there were vehicles that could have been used for the said official duties. Under the circumstances, the propriety of the Kshs.8,325,000 transport cost as at 30 June 2017 could not be ascertained.

#### **8.5 Training Expenses**

Note 6 of the notes to the financial statements shows a balance of Kshs.15,352,402 for training expenses which includes Kshs.3,988,020 paid to officers as tuition fees. However, approved training plan, training needs analysis to identify and recommend relevance of the courses undertaken and appointment letters for members of training committee were not provided for audit review. Consequently, it was not possible to ascertain the propriety and value for money for the training expenditure totaling Kshs.3,988,020 .

#### **8.6 Other Operating Expenses**

Note 6 to the financial statement reflects a balance of Kshs.52,210,921 in respect to operating expenses which included Kshs.14,100,000 paid as legal fees for four court cases as follows;

<b>PV. No</b>	<b>Payee</b>	<b>Date</b>	<b>Amount (Kshs)</b>
31837	Ahmednasir Abdikadir and Co Advocates	18-Nov-16	3,000,000
31836	Kithi And Company Advocates	18-Nov-16	4,000,000
34940	Charles Kariuki and Kiome Ass Advocate	19-May-17	1,200,000

33679	Okubasu and Munene Advocates	27-Feb-17	<u>5,900,000</u>
<b>Total</b>			<b><u>14,100,000</u></b>

However, court attendance records, status of the cases and the judgement for completed cases were not provided for audit review.

In the circumstances, it has not been possible to ascertain the propriety and value for money for the legal fee expenditure of Kshs.14,100,000.

### **8.7 Domestic Travel and Subsistence**

Note 6 to the financial statements indicates a figure of Kshs.77,652,346 for domestic travel and subsistence which includes Kshs.7,342,928 paid for travelling and accommodation while on official duties. However, invitation letters, work tickets, boarding passes, air tickets, details of official duties taken by the officers to show that the officers actually travelled on official duties were not provided for audit verification.

As a result, it has not been possible to ascertain the propriety and value for money for the domestic travel and subsistence expenditure of Kshs.7,342,928.

### **8.8 Irregular Payment of Expenses**

During the year under review, the County Executive spent Kshs.6,109,840, Kshs.5,780,840 and Kshs.4,986,700 in respect to office general supplies and services, printing advertisement and information supply services and office general supply and services respectively all totaling to Kshs.16,877,380. However, stores records showing how the goods procured were recorded in the stores ledger, to whom they were issued and balance remaining in the store were not provided for audit review. Further, delivery notes, requisitions from the user, quotation opening minutes, evaluation of the quotations and award of the same was not provided for audit review.

In addition, included in the expenditure of Kshs.5,780,840 was Kshs.906,000 paid for supply of goods and services from suppliers who were not in the list of registered suppliers.

In consequence, the propriety and validity of the expenditure Kshs.16,877,380 could not be ascertained.

### **8.9 Irregular Repair of Motor Vehicles and Car Hire**

During the financial year under review, the Executive paid Kshs.1,741,700 for repair of motor vehicles and purchase of tyres. However, review of the payments revealed that the amount was spent by the Ministry of finance for repair of three (3) vehicles belonging to the Ministry of Water as follows;

<b>Date</b>	<b>Payee</b>	<b>Vehicle No</b>	<b>Amount</b>
17/10/16	A. A. Mahad	KBJ 740U	681,650
17/10/16	A.A. Mahad	KUL 357	847,550
25/1/16	Incoe Auto Spares	KBY 127C	<u>212,500</u>
<b>Total</b>			<b><u>1,741,700</u></b>

However, no documents were made available to show that the Kshs.1,741,700 was reallocated from the Ministry of Finance to the Ministry of Water and no explanation was given as to why the Ministry of Finance repaired the vehicle which belonged to another Ministry.

Further analysis of payment of Kshs.212,500 for purchase of tyres revealed that the transport officer requested for the tyres vide an internal memo, participated in the inspection and acceptance committee and received the tyres vide counter receipt compromising on internal control checks contrary to Section 45(4) of public procurement and disposal Act 2015.

In the circumstances, the motor vehicles repair expenditure of Kshs.1,741,700 as at 30 June 2017 was irregular.

#### **8.10 Other Current Transfers, Grant & Subsidiaries**

During the financial year under review, Kshs.15,000,000 was spent on other current transfers, grant & subsidiaries which included Kshs.6,076,000 and Kshs.670,000 for supply of emergency food and materials and on acquisition of furniture respectively both totaling to Kshs.6,746,000. However, no documents were made available to show how the suppliers were sourced and whether the procurement process was adhered to. Further, no asset register was made available to ascertain that the assets were taken on charge.

In the circumstances, it was not possible to ascertain that the Executive got value for money in the Kshs.6,746,000 expenditure as at 30 June 2017.

#### **8.11 Fuel, Oils and Lubricants**

During the financial year under review, the County Executive spent Kshs.44,435,289 on fuel oil and lubricants which included Kshs.6,490,010 spent by all sectors on fuel. However, records such as detail orders, fuel registers and work tickets to account for fuel consumed were not provided for audit verification.

Consequently, the propriety of the expenditure of Kshs.6,490,010 incurred on purchase of fuel could not be confirmed.

### **9.0 Irregular Reallocation of Funds**

Note 6 to the financial statements reflects a figure of Kshs.25,899,404 for the overhaul and refurbishment of construction and civil works, which included Kshs.13,989,954 incurred on water tracking and repair of water bowser which is

not related to overhaul and refurbishment of construction and civil works. No documents authorizing the reallocation as required by the Public Finance Management Act 2012, were made available for audit review.

In the circumstances, the Executive was in breach of the Public Finance Management Act, 2012 casting doubt on the validity of the expenditure of Kshs.13,989,954.

## **10.0 Project Implementation and Management**

### **10.1 Construction and Civil Works**

**10.1.1** Note 9 of the financial statements reflect a balance of Kshs.430,062,965 for construction and civil works as at 30 June 2017. However, records made available for audit revealed that the County Executive spent Kshs.137,088,978 to undertake projects on construction and civil works during the year under review resulting into an unexplained and unreconciled variance of Kshs.292,973,978. Further, review of the procurement of the construction services revealed that quotation method of procurement was used even in cases where the value of works and goods and services were above Kshs.4,000,000 and Kshs.2,000,000 thresholds allowed by legal notice no. 106 of 18 June 2013.

In the circumstances, the propriety of the expenditure of Kshs.137,088,978 spent on the projects during the year could not be confirmed.

**10.1.2** In addition, review of documents made available for audit review showed that the County Executive paid Kshs.6,987,200 for drilling and equipping of boreholes at Goda Bulesa and Modogashe. However, during physical verification the boreholes could not be traced. No explanation was provided for payment of works which had not been done or supplied. In the circumstance, the propriety and value for money for the expenditure of Kshs.6,987,200 could not be confirmed

### **10.2 Construction of Buildings**

**10.2.1** Note 6 of the financial statements shows that the Executive paid Kshs.125,656,075 for construction of buildings. Review of documents made available for audit scrutiny showed that the County Executive paid Kshs.2,589,892 for construction of ECD classes in Goda and Gubatu primary schools, however, windows of the class in Goda was made of timber instead of metal and the classroom was not branded.

**10.2.2** Further, the County Executive paid Kshs.6,113,432 for construction of dispensaries at Ngaremara and Kiwanjani AP camp. However, physical verification revealed incomplete works and the contractors were not on site. Therefore, the project had stalled.

**10.2.3** Included in the amount of Kshs.6,113,432 was Kshs.4,098,245 paid for construction of Goda Dispensary. However, several works such as placenta pit, storage tank, drainage works, plumbing works, painting and electrical works valued at Kshs.344,900 though included in the payment were not completed. In the circumstances, the propriety of the Kshs.8,703,324 could not be confirmed.

#### **10.2.4 Purchase of Certified Seeds**

During the year under review, the County Executive spent Kshs.3,500,000 on purchase of certified seeds. However, stores records showing issuance of the seeds were not provided for audit verification. Further, no report was presented showing whether the responsible department conducted tests to ascertain viability and quality of the seeds suitability for the soils before procurement was done.

In consequence, the propriety and value for money for the expenditure of Kshs.3,500,000 could not be confirmed.

#### **10.2.5 Emergency Relief and Refugee Assistance**

Note 8 to the financial statements reflects an Emergency Relief and Refugee Assistance expenditure of Kshs.113,829,611 as at 30 June 2017. However, review of the records made available showed that payment for distribution of food amounting to Kshs.37,565,000 were not supported and the list of recipient signatures and their finger prints appeared to be similar.

In the circumstances, it has not been possible to ascertain that the relief food worth Kshs.37,565,000 reached the intended recipients.

### **10.3 Governor's Construction Projects**

During the financial year under review, the Office of the Governor spent Kshs.16,704,795 for purchase of assets, renovation of Governor's private office and supply of emergency materials. However, although records showed that assets worth Kshs.1,980,000 and emergency building material worth Kshs.6,500,000 were procured, records showing how they were procured, receipted and issued out were not made available for audit review.

Further, Kshs.1,750,000 was spent on renovation of Governors private offices in Isiolo. However, the expenditure could not be justified as the Governor had an official office at the County Assembly building. Further, it was not explained why the County Executive decided to use public funds to refurbish a private office for the Governor.

In addition, the Executive spent Kshs.3,024,795 on construction of tyres store. However, quotations and evaluation committee minutes were not provided for audit verification. Further, during physical verification, the tyre store could not be identified or seen.

In the circumstances, the propriety of the expenditure of Kshs.16,704,795 spent on the projects under the office of the Governor could not be confirmed.

## **Other Matter**

### **1.0 Budgetary Control and Performance**

The County Government had a total approved budget of Kshs.3,746,421,481 comprising of Kshs.2,316,966,387 and Kshs1,429,455,094 for recurrent and development expenditure respectively.

However, this budget included Kshs.377,924,581 and Kshs.207,724,584 for the Assembly recurrent and development expenditure respectively both totaling to Kshs.585,649,165 which were accounted for separately in the County Assembly's financial statements as at 30 June 2017.

The balance of Kshs.3,160,772,316 was the County Executive's budget which comprised of Kshs.1,939,041,806(61%) for the recurrent vote and Kshs.1,221,730,510 (39%) for development vote. The spending units were the Office of the Governor and eleven Executive departments.

### **2.0 Revenue**

The revenue estimates presented for audit indicated that the County Executive targeted to collect Kshs.250,000,000 from the Local revenue sources in the financial year under review to supplement the national share of revenue of Kshs.3,298,073,210. However, only Kshs.89,160,478 was collected which was 36 per cent of the targeted annual local revenue resulting to a short fall of Kshs.160,839,522.00.

The Executive therefore, appeared not to have instituted proper revenue collection mechanisms and the revenue short fall of Kshs.160,839,522.00 translates to denial of an equivalent value of promised and expected services to the residents of Isiolo County.

Further, included in the Kshs.3,298,073,210 exchequer receipts as at 30 June 2017 were receipts totaling Kshs.527,691,712 or 16% of the budget which were received between 30 May and 14 June 2017 and which could not have been utilized before the close of the financial year on 30 June 2017 considering the lengthy public procurement procedures applicable.

In addition, analytical review of revenue collection by the Isiolo County Executive since inception revealed a declining trend in revenue collected by the Executive as follows:

<b>Financial Year</b>	<b>Revenue Collected (Kshs)</b>	<b>Previous Years Collection</b>	<b>Amount Declined (Kshs)</b>	<b>Percentage of Revenue Declined (%)</b>



		(Kshs)		
2013/2014	147,409,300	Base Year	-	-
2014/2015	132,211,591	147,409,300	15,197,709	10.3
2015/2016	116,026,800	132,211,591	16,184,791	12.2
2016/2017	89,160,478	116,026,800	26,866,322	23.2

Continuous decline in revenue collection could result in the County not being able to meet the approved County Integrated Development Plan and fully meet budget targets for effective delivery of services to residents of Isiolo County.

Further, the County Executive operated a Consolidated Bank account number 10111203000081 for Revenue (Kenya Shilling). An analysis of the account revealed that Kshs.34,383,869 was paid directly from the revenue account to different companies due to court orders against the County Executive contrary to Section 63 (4), (7) and 80 of the Public Finance Management (County Government) Regulations 2015 which require that no money should be paid or used before banking to County Exchequer Account. The payments were made as follows;

	Civil Suit No.	Applicant	Order Date	Amount Awarded	Payments Date	Amount Paid (Kshs.)
1	2 of 2016	Omina Building Contractors Ltd	19-08-16	14,643,869	07-02-17	14,643,869
2	7 of 2017	Isiolo Mwangaza Construction Co.	18-05-16	21,538,616	Various	18,740,000
3		C/O Kiautha Arithi Advocates			22-05-17	1,000,000
		<b>Total</b>		<b>36,182,616</b>		<b>34,383,869</b>

A review of revenue report made available for audit review showed that the Executive did not collect any revenue from liquor license during the year under review. It was explained that the Liquor Licensing Board did not meet during the year to approve liquor licenses. Review of the budget for the year under review showed that the Executive budgeted to collect Kshs.3,000,000. Therefore, the Executive may have lost Kshs.3,000,000 due to non collection of liquor license. No explanation was provided on failure by the Board to meet and approve licenses during the year.

### 1.1 Failure to Comply with Public Finance Management Act 2012

During the financial year, the County Executive did not prepare, publish and publicize quarterly cash flows reports that were supported by approved procurement plan as required by Section 43 (3),(4),(6) of the Public Finance Management Act 2012. In the circumstance the County Executive contravened provisions of Section 43 (3),(4),(6) of the Public Finance Management Act 2012.

### **1.2 Failure to Comply with Public Procurement and Assets Disposal Act 2015**

During the financial year, the County Executive did not prepare, publish and publicize all contract awards and submit them to Public Procurement Regulatory Authority. Further, monthly progress report of all procurement contracts prepared and submitted to the accounting officer were not provided for audit review. In addition, a report to Public Procurement Regulatory Authority on preferences and reservations indicating compliance with Section 157 of the Public Procurement and Assets Disposal Act 2015 containing disintegrated data indicating the number of youth, women and persons with disability whose goods and services have been procured by the Executive was also not availed for audit review.

### **1.3 Non Establishment of Audit Committees**

As at 30 June 2017, the County Executive had not established an audit committee as required by Section 42(1) (e) of Public Finance Management (County Government) Regulation 2015 and guidelines required by gazette notice number 2690 of 15 April, 2016 on audit committee, guidelines for County Government.

In the circumstances, the County Executive contravened provisions of Section 42(1) (e) of Public Finance Management (County Government) Regulation 2015. Also, it was not possible to confirm that the Executive had established effective internal control mechanism.

### **1.4 IT Systems**

Review of the Executive's ICT environment revealed that there was no formal approved ICT policy in place as at 30 June 2017. The policy would have included data security and disaster recovery plans. Further, the ICT organization structure was not provided for audit review.

In the circumstances, the security and reliability of the County Executive's data including the management information system could not be confirmed.

## **5.0 Unresolved Prior Year Audit Matters**

A number of prior year audit matters (2015/2016 Audit Report) have not been resolved as at 30 June 2017.

### **Key Audit Matters**

Key audit matters are those matters that in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Adverse Opinion and Other Matter sections, I have determined that there are no other Key Audit Matters to communicate in our report.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Isiolo County Executive in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

### **Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the County Executive's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to cease operations.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the County Executive's financial reporting process.

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the County Executive's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Executive ability to continue offering services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Executive to cease to continue offering services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all

relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

**Nairobi**

**16 July 2018**